

Stockbrokers MONTHLY

MEMBERSHIP • iLEARNING • EVENTS • EDUCATION • POLICY & REGULATORY ISSUES



**Matt Barrie
tells
The Freelancer Story**



Stockbrokers
Association of Australia.



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Stockbrokers
Association of Australia.

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COVER PHOTO: At the SAA Industry Lunch in Sydney on 22nd October 2015 to hear Matt Barrie tell The Freelancer Story.

L-R, Andrew Green, CEO Stockbrokers Association, Eddie Grieve, Senior Manager, Listing's Business Development - ASX, Matt Barrie, Founder & CEO of Freelancer.com & Max Cunningham, General Manager, Listings - ASX.

Welcome to Evans & Partners

On behalf of the board, I extend a special welcome to Evans & Partners as Principal Members of the Association. Evans & Partners is an independently owned Australian investment house providing comprehensive wealth management solutions for private clients, institutions and corporations.

Launch of SAA Women in Stockbroking Working Group

On Tuesday 20th October, Justin Greiner, CEO of JBWere hosted a lunch meeting to launch the SAA Women in Stockbroking Working Group.

One of the aims of the Working Group is to develop gender equality guidelines that are adopted by member firms.

Speakers at the lunch included Lily Elliott from CBA and Elmer Funke Kupper, CEO of the ASX, who is a Male Champion of Change.

Luise McCulloch, General Manager in Treasury spoke about work championed in Treasury by the then Secretary, Martin Parkinson. One of things they found when they conducted surveys on gender equality in Treasury was an unconscious bias of staff.

One of the initiatives that Treasury implemented was inclusive workplace committees. Surveys now show that one of the things staff value most in Treasury is the progress towards gender equality.

Our 2016 Annual Conference in Melbourne on June 1st & 2nd will have a panel session on diversity in the industry.

If you would like to be involved in the SAA Women in Stockbroking Working Group initiative, please contact Gillian Gilmore (GGilmore@stockbrokers.org.au)

Proposed Industry Funding Model for ASIC

On October 9th, we lodged our submission with Treasury on the Government's Proposed Industry Funding Model for ASIC. The submission, prepared by the Association's Peter Stepek, is available on our website. If you don't have time to read the whole submission, I commend the one page Executive Summary.

A major grievance is that unless the government pays 50% of the cost of running ASIC, there will be no incentive for ASIC to minimise its expenditure.

Government response to FSI

On Tuesday 20th October, the government released its response to the Financial System Inquiry (FSI).

The response, inter alia, calls for a review of stockbroker commissions.

We reject the need for any review. Whether a client pays the broker a commission on a share trade or a fee based on funds under advice should not be a matter with which the government is concerned. The government should let the parties negotiate a fee arrangement that best suits the parties.

It should also be remembered that brokerage, while traditional, is the most visible way of paying for advice. As for the suggestion that brokerage encourages churning, clients instruct all trades and get all contract notes, so they can see instantaneously how much they pay.

Portfolio Construction Course a winner

We have had a great response to the launch of our Portfolio Construction Program. One of the students actually owns a Financial Planning business, and has done a number of courses with the SAA. He said that in his view the courses offered by the Stockbrokers Association are head



Andrew Green

and shoulders above everyone else in the financial services industry!

The course comprises 10 x 3 hour sessions. It runs for 10 weeks every Wednesday morning from 9am-12noon in the Stockbrokers Conference Room in Pitt Street. The course can also be delivered in house at a time to suit. The course is being delivered by Western Sydney University in conjunction with Morningstar.

Matt Barrie Industry Lunch 22nd October

We had a great Industry Lunch with Matt Barrie, Founder of Freelancer.com, on Thursday 22nd October. We are indebted to ASX for Sponsorship of the Industry Lunch Series. We are also indebted to Max Cunningham, General Manager of Listings at the ASX, for securing Matt as a speaker.

The lunch was great because Matt Barrie really engaged with the audience. The icing on the cake was when he fielded a random question from the audience as to *why he chose to attend Stanford University and what he thought about Stanford*. His answer is worth reading and appears on page 9.

Our next Industry Lunch is in Perth on 19th November. Our speaker on that day will be Senator The Hon. Mathias Cormann, Minister for Finance. ■

Financial System Inquiry – Government Releases Response to FSI Recommendations

ON 20 OCTOBER 2015, the Government released its much anticipated response to the Final Report of the Financial System Inquiry (FSI), chaired by David Murray.

The Government has largely agreed to the bulk of the FSI Recommendations.

Most of the public attention has been focused on the financial system-wide aspects of the FSI Report, including:

- Enhancing the stability of the banking system, including capital requirements, risk weighting and crisis intervention powers
- Regulation of credit card fees
- Changes to the Superannuation system
- Support for the Asian Funds passport for managed funds.

Some of the Response has a more direct bearing on the financial services sector, including stockbroking. These include:

Requesting ASIC to conduct a review of stockbroking and mortgage broking remuneration. The SAA is perplexed as to why stockbroking remuneration was considered an issue by the FSI, or why the Government has agreed by requesting that ASIC conduct a review. We are not aware of any issues that have arisen relating to the stockbroker commission structure.

The SAA has drawn attention to the low and falling levels of complaints to FOS relating to stockbrokers; to the product neutral nature of brokerage; and to the benefits to industry of a flexible remuneration structure involving low fixed costs. We also note that both ASIC and Treasury were sufficiently comfortable with



stockbroker commissions to grant the FOFA carve-outs that the SAA was able to achieve not long ago. If there is to be an ASIC review, then we are confident that it will not highlight any concerns.

Support for crowd funding legislation. The government has indicated a commitment to joining the global push to introduce crowd sourced equity funding. The SAA cautiously acknowledges the growth of these avenues of funding, and the need to fill an existing gap in access to funding for start-up ventures and innovators.

The SAA remains concerned that adequate investor protection not be abandoned in the rush to embrace new technology. It could easily be envisaged that up to half of ASX listed entities could be eligible to raise capital through crowd funding as opposed to existing capital-raising avenues. It is critical in our view that the right regulatory settings be in place so that the high reputation of Australia's capital markets not be lost.

Support for simple corporate bonds. The Government has expressed support for legislation to facilitate the issue of simple corporate bonds to the retail market. This is a welcome statement, however some demonstrable progress towards this objective is what is now needed.

Raising the Competency of advisers. The Government has agreed with some changes to the requirements for financial advisers, in a move which pre-empts its response to the Parliamentary Joint Committee (PJC) model on professional, ethical and training standards for retail financial advisers.

Members will recall the consultation process that the Government has undertaken on the PJC Model. The Government indicated it would be making an announcement on the PJC consultation by 30 June, however this has not eventuated.

In its FSI response, the Government has now agreed that financial advisers must hold a degree, pass an exam, undertake continuous professional development, subscribe to a code of ethics and undertake a professional year. The response also states that the 'new standards' would be set by an independent, industry funded body recognised in the legislation.

These were all elements of the PJC Model. What the Government's FSI response does not include is any detail of what is involved in each of these new requirements, or any indication as to the Government's response to the rest of the matters in the PJC Consultation. ■

ASIC – Proposals for Full Recovery of ASIC Budget

MEMBERS WILL be aware that Treasury commenced Consultation in August 2015 on a framework for cost recovery of the full ASIC budget. This stemmed from Government policy on cost recovery and from one of the recommendations of the Financial System Inquiry (FSI) Final Report.

work in the Consultation Paper include:

- A new fixed levy component for all market participants of \$15,500 p.a. (currently, \$1950 per quarter)
- A variable fee based on a market participant's percentage of message count
- An annual fee per AFSL of \$250

for Managed Discretionary Advice Providers (\$2400).

The biggest increases are likely to be faced by firms who employ significant numbers of retail advisers.

Following a process of member consultation, the Stockbrokers Association lodged a written submission with Treasury on 9 October 2015. The Submission stressed a number of points:

- Cost recovery should not be a given. There were many sound reasons why the Government should not walk away from a commitment to adequately fund the proper regulation of Australia's markets, and some contribution from public revenue to ASIC should continue
- The \$ impact of the likely cost recovery regime will be difficult for the market to bear
- The proposal does nothing to address the structural problems with the existing ASIC cost recovery levy, most of which is paid for by stockbrokers who find it impossible to pass through to customers due to competition factors.

The full text of the SAA Submission is available to members on the SAA website. ■

...it is to be expected that many stockbroking firms will experience a significant increase in the regulatory fees that they will be liable to pay to ASIC.

The new framework involves a raft of new cost recovery charges that will be levied for a whole variety of interactions with ASIC. Entities will be subject to a range of charges according to a whole series of touch points that they have with ASIC.

For this reason, it is to be expected that many stockbroking firms will experience a significant increase in the regulatory fees that they will be liable to pay to ASIC.

Some key features of the frame-

per license plus \$250 per each license authorisation

- An annual levy of \$470 for each adviser on the ASIC Adviser Register
- An annual levy for being a Securities Dealer (\$1600)
- An annual levy for listed entities.

There are also a range of other fees, including a levy for listed and unlisted public companies; levies for providing Tier 1 advice, General Advice and Wholesale Advice; a levy for being a Margin Lender; and a levy

PJC Proposals for Professional Ethical and Educational Standards in Retail Financial Advice

AS WE MENTIONED above in the item on the Government Response to the Financial System Inquiry, there has not yet been an

announcement from the Government regarding the consultation on the PJC Model for regulating standards applying to financial advisers. Some

of the aspects of the PJC Model are however touched on in the Government response to the FSI Recommendations. ■

Capability Review of ASIC

MEMBERS WILL recall from last Month's edition that Treasury has commenced a "Capability Review" of ASIC.

The review is intended as an assessment of ASIC's ability to meet future regulatory challenges and be equipped with the capabilities – the leadership, strategy, people and processes – to deliver objectives that benefit consumers, investors and creditors.

The capability review stems from a recommendation in the recent Financial System Inquiry (Murray Inquiry) that ASIC be the first of Australia's financial regulators to undergo a pe-

riodic capability review to ensure it is fit for purpose to undertake its role effectively and has the capability to address future regulatory challenges.

The Association has participated in initial discussions with the Capability Review team, and put forward a number of issues that we believed should come within the scope of the review.

On 12 October, the SAA participated in an industry round table meeting with the Capability Review Panel involving a broad range of market representative bodies. There were the usual range of views expressed about how ASIC needs to perform better at the range of functions in its mandate.

It will be interesting to see what concrete suggestions emerge from this process. The SAA has concerns that the Review could lead to a push for an even bigger ASIC budget and even more ASIC powers, which in the context of the move to place the obligation to fund ASIC's entire budget onto industry, will only generate more costs.

The SAA has expressed the view that ASIC already has a very broad range of powers and enough funding. The focus should be on working better, including improving responses to areas of risk. ■

The Association has participated in initial discussions with the Capability Review team, and put forward a number of issues that we believed should come within the scope of the review.

Cyber attacks on broking firms

IN PREVIOUS EDITIONS of the Stockbrokers Monthly, we have reported on the increasing instances of cyber attacks on stockbrokers businesses in Australia.

The Stockbrokers Association has started putting together a Case Studies Compilation that we will make available to members. We are inviting members to send us information describing instances of cyber fraud they have encountered, minus identification information, that can illustrate different scenarios of cyber fraud. These case studies may prove helpful to firms in reviewing their processes and risk management framework.

Our attention has been drawn to



cases where stockbroking firms have been subjected to "DD4BC attacks". These involve denial of service attacks on broking firms, whose systems were hacked and frozen. Demands were then received for

payment of ransoms in bitcoins in exchange for freeing up the frozen systems.

The US Securities and Exchange Commission has published a guide for clients of stockbroking firms on tips for protecting on-line brokerage accounts from fraud. Below is the web address for this guide:

<http://investor.gov/news-alerts/investor-bulletins/investor-bulletin-protecting-your-online-brokerage-accounts-fraud>

Much of the guide is common sense, but firms might find it a useful resource for communications with clients to assist in protecting against cyber fraud. ■

ATO – Further Update on Broker Reporting of Client Data

A BILL TO ESTABLISH the regime for stockbroker reporting of client data was introduced into Parliament on 15 October 2015. This relates to the obligations to be imposed on stockbrokers (and other industry sectors) to report data about transactions by Australian taxpayers across a range of asset classes, including shares and managed investments, in order to target under-reporting of capital gains.

Whilst stockbrokers will be re-

quired to provide this information to ATO initially on an annual basis prior to 31 July each year, ATO has indicated that it will look to obtain this information on a more frequent basis at a future time.

The ATO has advised the Association that changes to the draft Bill made at the final stages have led to:

- The start date for listed entities, brokers, fund managers and trustees being deferred to 1 July 2017
- The data that brokers are required

to report has been limited to identity information

- The scope of the law has been narrowed from reportable securities to shares and units
- The law prevents the Commissioner from altering the frequency of the reporting obligation until after 2020.

The Bill and Explanatory Memorandum can be accessed on the Parliament of Australia website. ■

SUBMISSIONS | Members can view submissions at www.stockbrokers.org.au

POLICY ENQUIRIES | Peter Stepek MESAA, Policy Executive, pstepek@stockbrokers.org.au

Introducing Share Builders

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May suit SMSF.

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Committee News

Recent and upcoming meetings of Stockbrokers Association Committees, Working Groups and Advisory Panels, and major issues discussed:

Nominations Committee Meeting, Wednesday 14 October 2015

Chair: Andrew Green in place of Karl Morris

Audit Committee Meeting, Tuesday 20 October 2015

Chair: Brian Sheahan MSAA, Morgans Financial Ltd

Institutional Broking Committee Meeting, Tuesday 27 October 2015

Chair: Andrew Farran MSAA, Credit-Suisse Equities (Australia) Ltd

Profession Committee Meeting, Wednesday 28 October 2015

Chair: Murray McGill MSAA, Patersons Securities Ltd

Management Committee Meeting, Thursday 29 October 2015

Chair: Andrew Green, Stockbrokers Association

Derivatives sub-Committee Meeting, Friday 30 October 2015

Chair: Peter Tardent MSAA, Commonwealth Securities Ltd

New Individual Practitioner Master (MSAA) Membership application approved:

- Kevin Massey

New Individual Practitioner Member (MESAA) Membership applications approved:

- | | | |
|----------------------|-----------------|---------------------|
| • John Christodoulou | • Ian Edgar | • Christopher Flynn |
| • Blair Hannon | • Craig Jones | • William Kenny |
| • Nektarios Kritikos | • Ross Love | • Tejay Lovelock |
| • Philip Madsen | • Julian Norris | • Marc Paul |
| • Julian Reeves | • Yousra Touni | • Gregory Tripis |
| • George Tsarouhas | • Antony Vida | • Monica Villacorta |
| • Robert Watts | • Justin Wynne | • Kostas Zanos |

New Individual Affiliate Member (AFSAA) Membership application approved:

- Cameron Walters
- Gary O'Brien

Matt Barrie inspiring stockbroker industry lunch

YOU CAN'T HELP but admire the contribution to mankind made by Matt Barrie and the company he founded, Freelancer.com

Freelancer empowers people around the globe to quote on jobs. It banishes the tyranny of distance, and transcends ethnic, religious and cultural divides.

Speaking at the Stockbrokers Industry Lunch in Sydney on 22nd October, Matt said that there are now 17 million register users, 21,000 freelancers and almost 9 million projects launched. In some cases jobs posted online can be quoted in as little as 30 seconds!

In a delightfully ironic tale of savvy Indian entrepreneurship, Matt told the story about an Indian firm who won a contract to develop a new website for a US company. The Indian firm then promptly sub-contracted the job back to a firm in the US!

Matt's story is also inspiring from another angle.

A guest at the lunch asked Matt Barrie what seemed at the time to be a really random question.

"Could you please tell us why you selected Stanford, and how would you describe your experience there?"

Matt then explained how after he graduated in computer science, physics and engineering from The University of Sydney, he headed off to the US in search of a role in academia. Unable to secure a role that interested him, Matt ended up by default at Stanford University where he studied for his Masters in Electrical Engineering. One of the subjects that he took included a course on new venture creation.

As you might expect from a University with Stanford's reputation, this was no ordinary course. Instead, the class of 40 students was split into groups of four, with each group given the opportunity to create a viable new venture and pitch it to venture capitalists.



EVENT
SPONSOR



Matt's class of '97-98 went on to create companies with a combined capitalisation of \$100 billion.

As Matt explained, "Everyone in Silicon Valley wanted to get into that class and know what was happening.

"Stanford gave me the confidence, the encouragement, the resources and the network to go and do it. If you go there, they assume you are going to start a company." ■

In a delightfully ironic tale of savvy Indian entrepreneurship, Matt told the story about an Indian firm who won a contract to develop a new website for a US company. The Indian firm then promptly sub-contracted the job back to a firm in the US!



Unbundling and Research Execution Workshop

Increasing technology and regulatory requirements continue to impact traditional sell side business models in an environment where lower volume and decreasing margins are struggling to keep pace with higher fixed costs.

Senior management globally are now seeking unique solutions to position their businesses in a market undergoing significant structural change.

The Stockbrokers Association has partnered with Instinet and developed the 'Unbundling and Research Execution Workshops'. These workshops will focus on the impact of technology in the execution process and the potential impacts to revenue.

Stuart Knowing and Matthew Moore lead an interactive discussion of their own experiences and those of other global brokers looking to reduce cost and improve profitability.

www.stockbrokers.org.au

Workshop Details

Melbourne

Tuesday 10 November 2015
12.30pm – 1.30pm
Canaccord Genuity (Australia)
Limited
Level 4, 60 Collins Street,
Melbourne

Sydney

Thursday 12 November 2015
12.30pm – 1.30pm
Stockbrokers Association of
Australia
Level 6, 56 Pitt Street, Sydney

Cost: \$49.00

CPD: 1 hour

Gearing Essentials PART I

THE KEY BENEFITS of borrowing to invest are well understood. Borrowing means a larger amount to invest resulting in larger returns if the investment performs well. Whether borrowing to invest (gearing) or not, sustainable success depends primarily on managing risks. When gearing, there are three essential techniques;

1. setting a suitable gap between the amount the investor borrows and the maximum the bank will lend (the gearing gap);
2. applying a suitable rebalancing rule; and
3. diversification.

These techniques are interrelated. Diversification in part determines the degree of variability in the portfolio's value (portfolio volatility). Effective diversification aims to lower portfolio volatility without sacrificing returns. Choosing an appropriate gearing gap depends in part on expected portfolio volatility – a larger gap (i.e. lower borrowing) may be appropriate if the portfolio is expected to be volatile for example.

A rebalancing rule has two roles. Firstly, it seeks to maintain the desired degree of diversification as the value of assets change over time. While essential, diversification alone is not sufficient. The benefits of mixing investments tends to evaporate during significant market events. An effective rebalancing rule can help preserve a minimum of investor capital in the event of a sustained market correction.

Investors tend to prefer domestic investments; they are familiar with the underlying brands and businesses and don't have to worry about off-shore accounts, currencies and withholding tax. For Australian investors who hold a portfolio that broadly tracks the S&P/ASX 200 index this bias can skew their exposure to different industries.

For example, an Australia-only investor will tend to have close to half of their portfolio concentrated in the financial industry (47% based on S&P/ASX 200 index as at 30 September 2015). Compare this to just over 20% of a portfolio broadly invested in shares from 25 developed markets (based on S&P Developed BMI index as at 30 September 2015).

Relative to a broader international portfolio, the Australia-only investor tends to be underweight in both information technology (0.8% versus 13.9% for the above indices respectively) and healthcare (6.4% versus 12.7% for the above indices respectively) for example. The performance of these two industries typically has a low correlation with each other and telecommunications for example.

Diversification is achieved by mixing investments that respond differently to economic events and industry factors; in other words are lowly correlated. This highlights the potential benefits of adding industries such as information technology and health care to a core Australian share portfolio. Investors with exposure to international shares may also benefit from unhedged currency exposure depending on their view about the Australian Dollar relative to other currencies.

It is now easier for Australian investors to achieve the benefits that

come from investing in international shares. An expanding list of exchange traded products, including exchange traded funds and managed funds, are available through the ASX. These products offer exposure to most international shares, indices and asset classes, both on a currency hedged and unhedged basis. More effective diversification can be achieved with a single transaction. ■

Julie McKay, Senior Manager
Technical and Research, Leveraged
October 2015

IMPORTANT INFORMATION

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Principal trading and facilitation



ASIC

Australian Securities & Investments Commission

If you engage in principal trading and facilitation, you should ensure that:

- principal and facilitation traders are restricted from accessing the client order book (except information specific to a client order that is necessary to complete a trade)
- situations where staff hold dual roles (such as DTR and institutional sales) are avoided
- additional controls are put in place if active facilitation is undertaken
- remuneration arrangements for staff engaged in principal trading and facilitation do not create incentives for inappropriate behaviour, and
- internal compliance and supervision arrangements are adequate.

For more information about ASIC's expectations, read REP 452: High frequency trading and dark liquidity.

IN OCTOBER 2015, ASIC released Report 452: *Review of high-frequency trading and dark liquidity* (REP 452). Among other topics, REP 452 examines principal trading and facilitation. This is a high risk area for conflicts of interest, inappropriate handling of confidential information, insider trading and market manipulation. ASIC wants to ensure that market participants appreciate these risks and take steps to manage them.

ASIC's 2012 dark liquidity taskforce identified differences in participants' approaches to principal trading and facilitation. Consequently, we decided to re-visit this issue in our 2015 review. In doing so, we consulted with a range of parties who provide or use principal trading and facilitation, including:

- participants actively engaged in providing facilitation services, and
- buy-side institutional investors who are regularly offered (or make use of) facilitation services.

We observed that many buy-side firms value the execution certainty,

liquidity and reduced signalling risk that facilitation may provide. While some buy-side firms provide consent for facilitation traders to have access to some of their unexecuted order information in order to provide improved risk pricing, they also raised concerns about the use of active facilitation and non-genuine indications of interest.

Participants use a range of physical and technological segregation or separation to protect confidential information. Some participants provide their facilitation traders (both passive and active) with access to unexecuted order information and sit them in close proximity to the sales desk. Some facilitation traders also perform other roles that provide them with access to the order book, such as designated trading representatives (DTR) or institutional sales. We refer to these as 'dual roles'. However, other participants have dedicated facilitation traders who are technologically segregated and sit at a separate desk to the sales traders and DTRs.

To manage the inherent conflict of interest involved in principal trading and facilitation, ASIC considers that all principal and facilitation traders should be restricted from accessing confidential information in the unexecuted client order book. An exception may be made for information specific to a client order that is necessary to complete an individual trade following a request from the desk or a client. It is also appropriate to have restrictions in place for access to internal meetings where client orders or trading intentions may be discussed.

In ASIC's view, the conflict of interest facing staff with dual roles (that provide them with access to unexecuted order information) is too great to be managed through traditional methods, such as disclosure or controls. This is particularly the case for active facilitation. In these circumstances, additional controls (including physical separation) should be put in place to manage the conflicts and conduct risk.

Participants must be particularly mindful of the potential for insider trading and market manipulation when in receipt of confidential information regarding client orders or trading intentions, and must ensure this information is effectively protected.

ASIC expects all participants to have appropriate compliance and supervision arrangements in place for their facilitation activities which cover:

- managing conflicts of interest, staff trading, insider trading and market manipulation, information barriers, allocation policies, trader mandates and employee remuneration
- periodic reviews of facilitation activities to test that the policies and procedures are being ad-

hered to and to identify areas for improvement

- periodic training to reinforce the requirements of the policies
- post-trade monitoring of facilitation trading to test for matters such as potential front running, wash trades, profitability of trading, market manipulation and insider trading
- clear responsibilities for responsible executives and management about the supervision of facilitation activities, including the conduct and culture of the trading desk and how to escalate issues that arise, and
- conflicts of interest and wall crossing registers, and maintenance of restricted lists.

Participants should review the appropriateness of their remuneration structures for staff engaged in principal trading and facilitation, and ensure that they do not incentivise inappropriate behaviour: see RG 181.38 in Regulatory Guide 181 Licensing: Managing conflicts of interest. They should consider adopting a 'balanced scorecard' approach that includes a range of criteria and provides material weight to factors such as client satisfaction and acceptable compliance behaviours.

ASIC expects participants to review their existing practices for principal trading and facilitation and implement any necessary changes by 30 June 2016. ■



VANGUARD INVESTMENTS AND THE STOCKBROKERS ASSOCIATION OF AUSTRALIA PRESENT

2015 Leaders Forums

REGISTER NOW!

The 2015 Leaders Forum in Brisbane, to be held on Wednesday 18 November, is designed for senior executives and leaders in the Stockbroking and Wealth Management industry to come together to hear about and discuss the 'hot' topics facing our industry.

PRESENTERS INCLUDE:

Corey McHattan, Ashurst
 Alan Bardwell, ASX
 Matthew Lumsden, Vanguard Investments
 Andrew Green, Stockbrokers Association

CPD

Attendees will receive 1.5 hours of CPD (Compliance)

VENUE

Ashurst
 Level 38, 123 Eagle Street, Brisbane

TIME

12.00pm for 12.30pm – 2.00pm

REGISTRATION FEE

Individual Members	\$105.00
Employees of	
Organisational Members	\$120.00
Non Members	\$140.00

EDUCATION PARTNERS



HOSTED BY





**2016
Course
Dates**

Portfolio Construction Program

About the Program

The **Portfolio Construction Program** runs over 10 weeks at the offices of the Stockbrokers Association of Australia in Sydney. Each session runs from 9am to 12noon.

The **Portfolio Construction Program** utilises content from the Western Sydney University's material currently used in their Master of Commerce (Financial Planning) and Master of Applied Finance courses.

Candidates completing the **Portfolio Construction Program**, will upon successful completion of an assessment, receive advanced standing (a complete unit of study) in one of these qualifications.

Assumed Knowledge

An understanding of concepts covered in a typical introductory financial management course and basic MS Excel skills.

Learning Methodology

Designed as small group face-to-face workshops, each session of the **Portfolio Construction Program** involves a mix of presentation

and case-study based discussion. There will be some group activities and there will be Industry experts presenting through the 10 week program.

Learning Outcomes

On successful completion of the **Portfolio Construction Program** candidates will be able to:

- Understand investor preferences and concepts of risk-return trade-off in constructing portfolios
- Undertake valuation of stocks based on quantitative and qualitative analysis
- Construct portfolios to match risk aversion levels of investors
- Evaluate benefits of international diversification
- Apply approaches to select securities
- Evaluate performance of portfolios

CPD

Thirty (30) Continuing Professional Development (CPD) points will be allocated to candidates upon successful completion.

Cost

Individual Member: \$1,799
(includes GST)

Organisational Member; \$1,999
(includes GST)

Non-Member: \$2,199

Date & Time

Start Date: 3 February 2016

Finish Date: 6 April 2016

Time: 9.00am – 12noon

Venue

Stockbrokers Association
Level 6, 56 Pitt St, Sydney

To Register

call 02 8080 3200 or email
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MORNINGSTAR™

New conversations for a new world of advice

Exchange traded funds can help brokers transition to a fee-for-service advice model

AT VANGUARD WE'RE having an increasing number of discussions with stockbrokers about moving from a value proposition focused on generating revenue by placing trades in Australian equities to a value proposition based on a fee-for-service model focussed on multi asset class investment portfolios.

Many brokers are keen to differentiate themselves from competitors by asking, 'Am I offering any more value than the broker in the firm down the street if I'm simply trying to pick all the best stocks on the ASX?'

Further driving a need for change is the lower daily turnover on the ASX. In 2007, the ASX turned over on average just over \$6 billion a day. The GFC has had a lasting effect on trading levels and now the average daily turnover on the ASX is just above \$4.5 billion.

So in a lower transactional environment, it's even more important to build additional revenue by moving to a value proposition based more on advice and service rather than just brokerage.

Brokers who are moving away

from performance discussions to managing risk are finding it easier to explain their value proposition to their clients.

They are moving towards a concept we at Vanguard call 'Adviser's Alpha'—the value a broker can bring to the advice relationship over and above what the client could achieve on their own.

From performance to diversification

We're finding that exchange traded funds (ETFs) are well suited to these discussions as brokers look at layering asset classes like international equities and fixed income into their value propositions.

A diversified portfolio is no longer 20 local stocks on the ASX. Through ETFs, a diversified portfolio can now be many thousands of individual stocks and bonds across more than 40 developed and emerging market economies.

And it doesn't take long to diversify client portfolios using ETFs. In just seven ASX trades, you can layer in over 10,300 stocks. International



Vanguard®

equity and fixed income ETF trades can potentially help you increase diversification, lower portfolio risk and keep the same return forecasts.

Taking clients on the journey

We're not seeing brokers move from single stock picking one day to multi-asset-class portfolios the next. Many brokers are starting the conversation with international equities before moving to fixed income and then to more of a holistic discussion about strategic asset allocation—all the time retaining their existing value proposition in Australian equities.

It's an educational journey for clients as much as a change in focus for brokers. But it can be difficult to take the portfolio construction theory

Vanguard's ETF portfolio strategies – asset allocation

	ETF/APIR	Conservative	Balanced	Growth	High growth
Income					
Australian fixed interest	VAF	24%	20%	12%	4%
International fixed interest	VAN0103AU ¹	23%	19%	12%	4%
International credit securities	VAN0106AU ¹	13%	11%	6%	2%
Australian cash	VAN0102AU ¹	10%	0%	0%	0%
Total income		70%	50%	30%	10%
Growth					
Australian shares	VAS	13%	22%	31%	40%
International equity	VTS	7%	12%	17%	22%
	VEU	8%	13%	18%	23%
Australian listed property	VAP	2%	3%	4%	5%
Total growth		30%	50%	70%	90%
Portfolio weighted management expense ratio p.a.		0.22%	0.19%	0.17%	0.14%

¹ These Vanguard Wholesale Funds have been used to achieve exposure to international fixed interest and short-term money market securities to complement ETF asset allocations.

Note: This is an example portfolio and is not intended as a recommendation.

out of the text books and into a customised client conversation.

That's where we can help. At Vanguard we can supply you with analytical tools to create a robust discussion on the level of risk in your client's current investment portfolio.

We can provide you with access to Portfolio Builder, a resource that allows you to load up your client's existing investments and analyse their portfolio risk relative to indices such as the ASX 300. You can then

see how that risk changes as you add proposed investments.

Future world of broking

There is a ground swell of change in the industry and the first movers are gaining an advantage through more diverse client conversations.

We're finding that some of the most successful brokers in the Australian market are moving away from a primary focus of making investment decisions in single stocks. Instead, by using a portfolio management team to drive investment returns via strategic asset allocation, they are freeing up their time to service their existing clients more effectively and develop new client relationships. ■

Tim Sparks, Senior Key Account Manager
— Broking and Wealth Management,
Vanguard Investments Australia

www.vanguard.com.au
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VGS
0.18% p.a.

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International Shares ETF

Hedged

VGAD
0.21% p.a.

Vanguard® MSCI Index
International Shares (Hedged) ETF

Vanguard ETFs provide you with even more ways to tailor your clients' international shares allocation. Offering diversified exposure to over 20 developed countries outside of Australia, while also allowing you to choose from either hedged or unhedged depending on your clients' needs.

Our expanding product range means you can select from twelve different ETFs to diversify your clients' investments across Australian equities, international equities and property securities – all while taking advantage of Vanguard's low cost, diversified approach to investing.

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The role of auditors

By Peter Grace

EVERY SUPERANNUATION fund has to lodge an audited annual return either to APRA or, for SMSFs, to the ATO.

SMSFs are significantly different because there are two audits – one where the auditor must form an opinion on the financial statements and one confirming that the fund complies with SIS. In addition, an SMSF auditor could examine every transaction for the financial year whereas that is not feasible for a large APRA regulated fund.

The fund trustees must appoint an auditor at least 45 days before the annual return is due and the audit must be completed and lodged with the annual return. The trustees must provide all information required and respond to auditor's enquiries within 14 days. Auditors will provide a 'management letter' to the trustees explaining the outcome of the audit and in some cases make recommendations on how the management of the fund can be improved.

There can be three possible outcomes from the audit:

- An unqualified report where management of the SMSF is satisfactory
- A qualified report which identifies issues for attention but not significant enough to be reported to the ATO.
- A qualified report and an Auditor Contravention Report (ACR). The ATO provides a checklist of issues which must be reported on an ACR. An auditor will be looking for breaches which are material, repetitive, fraudulent or unrectified from a previous year.

The trustees should promptly act on any issues identified by the auditor and certainly by the time the next audit is due.



An SMSF auditor must meet qualification standards and in mid 2015 there were about 6,600 SMSF auditors on the ASIC register. The ATO monitors the performance of auditors and will report problems to ASIC. Key concerns for the ATO are:

- Lack of independence such as where there is a personal or business relationship between the auditor and the trustees or their service providers.
- Poor quality auditing where unreported breaches come to light after the audit is signed off.
- Cut price audits where the quoted price is well below the industry norm of \$500 to \$1,000 per audit.

The ATO focuses on auditors who audit very few SMSFs and those

who audit many funds to ensure the quality of their work. They also use risk based analysis techniques such as identifying high risk SMSFs where few ACRs are lodged.

The ATO cannot possibly examine every one of the 534,000 SMSFs and the annual audit is a key plank in their supervision of the sector. ■

Our RG146 Superannuation course is an elective in our Professional Stockbroker's Program. It provides the necessary qualifications for anyone who advises on securities in self managed or other superannuation funds. Each month we publish a short article covering a current superannuation topic written by Peter Grace the author of the course. Peter can be contacted at wordsandtraining@bigpond.com

ACCREDITATION & TRAINING November & December

Responsible Executive (RE) Series Workshops

RE REFRESHER – 4 CPD (COMPLIANCE)

This workshop provides a refresher on the requirements applicable to REs and reviews some of the main topics in The ASIC Market Integrity Rules (ASX Markets) 2010 and/or The ASX Clear Operating Rules (Clearing & Settlement) Responsible Executive Examination. Intended as a refresher course for existing REs who have already passed the Exam(s), this workshop could also be of interest to potential REs. Topics include RE Management & Supervision Requirements (& ASIC RM comparisons); Capital Adequacy, Records, Trust; Dealing & Client relations rules; Disciplinary Processes; Corporations Act requirements.

SYD: Fri 4 Dec | 9am – 1pm

RE EXAM PREPARATION COURSE – 10 CPD (COMPLIANCE)

This 2 x 3-hour intensive workshop (conducted over 2 days) covers the ASIC/ASX Markets & ASX Clear (Clearing & Settlement) RE exam syllabus in detail, ensuring that candidates are well prepared for the exam(s) and know what to expect on the day, with sample questions and a practice exam.

MELB: Mon 23 & Tues 24 Nov | 9:30am – 12:30pm

RE EXAM PREPARATION 'SHORT COURSE' – 4 CPD (COMPLIANCE)

This 4-hour intensive workshop is a condensed version of the Stockbrokers Association 2-day RE Exam Preparation Workshop. It covers The ASIC Market Integrity Rules (ASX Markets) 2010 and/or The ASX Clear Operating Rules (Clearing & Settlement) Responsible Executive exam syllabuses in detail, with 7 subject areas and 2 assessments during class time.

SYD: Thurs 3 Dec | 9am – 1pm

Professional Development Workshops

MARKET MANIPULATION AND OTHER PROHIBITED CONDUCT – 4 CPD (COMPLIANCE)

This workshop covers an in-depth examination of what constitutes market manipulation and other prohibited market conduct. Involving a mix of presentation and scenario-based discussion, it is designed to suit market professionals, both front and back office, including: Sales staff/client representatives; Proprietary Traders; DTRs; Investment banking; Settlement staff; and Compliance & Legal.

MELB: Thurs 10 Dec | 1:30pm – 4:30pm

INSIDER TRADING – 4 CPD (COMPLIANCE)

This workshop provides a thorough analysis of Insider Trading. Topics include: elements of insider trading; statutory defences; insider trading and continuous disclosure; front running; dealing with rumours; management of confidential information; how to protect yourself, including Chinese walls, internal processes; and consequences of insider trading breaches. The Workshop is designed for sales staff/client representatives; proprietary traders; research analysts; investment banking; compliance and legal; and regulatory staff.

MELB: Thurs 12 Nov | 1:30pm – 4:30pm
SYD: Tues 1 Dec | 9am – 12pm

A DAY IN THE LIFE OF A TRADE – 2 CPD (COMPLIANCE)

This 2.5 hour short 'course in operations' focuses on the evolution of share and derivative trades from order placement through to execution to settlement (and later exercise/expiry where relevant) and reporting requirements. Designed for new or unfamiliar starters in the Industry or Markets, this workshop provides a comprehensive overview of the market and operational process. It provides an excellent foundation for retail desk assistants and would suit as a refresher for experienced staff as well as those staff in auxiliary and rotating roles: legal, IT, HR and other supporting roles associated with stockbroking. There is no assumed knowledge for participants of this workshop.

SYD: Tues 10 Nov | 9am – 11:30am
MELB: Tues 17 Nov | 2pm – 4:30pm



BIG DATA FOR STOCKBROKERS – 1 CPD

This 1 hour seminar focuses on how BIG Data and BIG Data technologies could be used to provide better insight into clients and the market. Being able to collect data from multiple sources, internal and external to organizations (e.g. CRM systems, social media), different types of data (log files, phone calls, emails, transactional data, market research, websites/blogs) and being able to analyse the data fast opens up a lot of opportunities for firms. The power of BIG Data is being able to not only analyse traditional datasets, but import data from other sources and analyse your existing data in new and different ways to provide targeted or enriched answers to questions.

SYD: Tues 24 Nov | 12:30pm – 1:30pm
MELB: Wed 25 Nov | 12:30pm – 1:30pm

Introductory Series Workshops

UNDERSTANDING DERIVATIVES: OPTIONS AND WARRANTS – 4 CPD

Derivatives are an established and essential component of global financial markets. Focusing on options and warrants, this workshop discusses how and why derivatives are used for leverage and/or manage risk. Key concepts are explained through worked examples, under the guidance of an experienced practitioner. This half day workshop is also ideal preparation for **Accredited Derivatives Adviser Level 1 - ADA1 candidates**.

MELB: Tues 1 Dec | 9am – 1:30pm

THE BUSINESS OF STOCKBROKING IN AUSTRALIA – 2.5 CPD

This workshop provides an overview of Australia's financial markets and the critical role that stockbrokers play in both retail and institutional markets. A short history of broking in Australia sets the scene for explanation of the current market structure, operations and regulation.

MELB: Thurs 19 Nov | 9:30am – 12:30pm

UNDERSTANDING WARRANTS: TYPES, DIFFERENCES AND RISKS – 2 CPD

This 2 hour workshop covers the main types of warrants traded on the ASX with a particular focus on equity trading warrants and instalments. Basic warrant pricing will be discussed, and the role of the warrant issuer will be explained. Ideal for those who wish to acquire fundamental knowledge about the Australian warrants market.

SYD: Fri 20 Nov | 9am – 11am

INTRODUCTION TO CONTRACTS FOR DIFFERENCE (CFD) – 3 CPD

This workshop focuses on the class of derivatives known as Contracts for Difference (CFDs). This workshop covers the different types of CFDs, their uses, risks and potential rewards.

SYD: Tues 8 Dec | 9am – 12pm

For further information visit www.stockbrokers.org.au



EVENT SPONSOR

**INDUSTRY LUNCH:****Lunch with the Finance Minister**

Please join us for Lunch with the Finance Minister, Senator The Hon Mathias Cormann.

Senator Cormann will present an 'Update on the Budget and State of the Economy'.

EVENT DETAILS

Thursday 19 November
Hyatt Regency
99 Adelaide Terrace, Perth
12pm for 12.30pm – 2.00pm

PRICES

\$120.00	Members
\$1150.00	Member Table (10)
\$140.00	Non Members
\$1350.00	Non Member Table (10)



**SENATOR THE HON
MATHIAS CORMANN**
Minister for Finance

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