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Stockbrokers MONTHLY

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

Stockbrokers Association of Australia®

INTERNATIONAL EQUITIES
Go Global for 'Quality Income'

Inside...

Stockbrokers Association of Australia®

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SAA 2017

We are pleased to advise that Hamish Douglass from Magellan Funds Management will be one of the Plenary Speakers at SAA 2017 to be staged at the Hilton Sydney on May 24th & 25th.

Also speaking will be the new CEO of the ASX, Dominic Stevens. He will be followed by the CEO of Digital Asset Holdings, Blythe Masters. Digital Asset Holdings is working with the ASX on Distributed Ledger Technology.

At next year's conference, we will also have a panel on threats faced by traditional financial institutions from Fintech start-ups. The panel will be chaired by Ben Heap, a Founding Partner of H2 Ventures.

Sponsors and exhibitors who have already signed up include: AMG Super, Australian Moneymarket, Broadridge, Chi-X Australia, Complii, DDH Graham, Dion Global, IRESS, LAB Group, Leveraged, Magellan Asset Management, Morningstar and Nomura Research Institute.

Public Blockchain versus ASX Permissioned Ledger

My colleague Peter Stepek and I met recently with the team at the ASX working on its private permissioned blockchain. The team includes Cliff Richards, Tim Hogben and Rodd Kingham.

We discussed cybersecurity and media stories highlighting Bitcoin exchange thefts and Ethereum DAO hacks. What became immediately apparent is that public blockchains like Bitcoin and Ethereum are vulnerable in ways that private, permissioned blockchains are not. ASX will operate a secure private, permissioned blockchain which has a different software architecture and therefore superior security characteristics. This will be explained by the ASX as part of a comprehensive stakeholder engagement exercise.

SAA Mentoring Program

We are well advanced in planning for the SAA's Mentoring Program.

The initiative had its genesis in our Young Members Working Group, and is being developed by a small group under the leadership of Karishma Mohini from UBS.

The objective of the SAA Mentoring Program is to facilitate mentoring relationships so that experienced mentors can assist in the career development of mentees through the provision of support, insights and practical advice to enhance SAA members with career development and personal growth.

The program will not be restricted to DA's and will be open to advisers who may be late starters or are rebuilding their careers after a time away from the industry.

The program will be delivered by SAA accredited mentors and be restricted to individual members of the SAA.

The pilot SAA Mentoring Program will run for 6 months and comprise 6 sessions, each of 1 ½ hours.

Mentees will be matched with mentors who have the skills sought by the mentee.

A mentoring curriculum is being put together to map out the skills mentees should have.

There will be a contract between the mentor and mentee, and the mentee will be required to make a payment.

Andrew Green

The program will be launched nationally on 7th March 2017 via a video conference facilitated by Morgans Financial.

The pilot program will have one mentee per mentor. The aim is to have three mentors in each of Brisbane, Sydney, Melbourne, Adelaide and Perth.

I thank the following for their contribution to the development of the program: Karishma Mohini – UBS, Jacques Rousset – GCP Capital, Jon Cousins – Ord Minnett, Ken Howard– Morgans Financial, Andrew Wilkie – Morgans Financial, John Polinelli – Morgans, Jake Taylor – Morgans Financial and Simon Power – Baillieu Holst.

If you are interested in being either a mentor or mentee, please contact Diem Tran.

Engagement with universities

Our *Young Members Working Group* will be exploring linkages with careers expos at universities. If you are interested in helping plan this initiative, please contact Diem Tran.

DA Masterclass

Another initiative flowing from our Young Members Working Group is a DA Masterclass. Our Head of Education, Gillian Gilmore, has put together a Pilot DA Masterclass Course, to be delivered by Doug Clark at our Sydney office on 13th September from 2-5pm. The Pilot Course will help us refine course content and go to market with a DA Masterclass Course that addresses the precise needs of DA's / interns. ■

ASIC Releases Report 486 – Sell Side Research and Corporate Advisory: Confidential information and Conflicts

ASIC HAS RELEASED its foreshadowed Report REP 486 *Sell-side research and corporate advisory: Confidential information and conflicts*.

The Report canvasses many of the risk areas that arise in relation to the interaction between research analysts and other parts of the firm, particularly corporate finance. It also sets out some findings from reviews of a number of transactions which ASIC carried out.

Many of the issues in the Report are not new, and have been previously dealt with in depth in ASIC Regulatory Guides RG 79 and RG 181. These include:

- Selective releases of material non-public price sensitive information ("MNPI")
- Management of confidential information within firms
- Involvement of analysts in corporate transactions
- Supervision, management, funding and remuneration of analysts to ensure objectivity of research
- Issuance of research, including decisions to initiate or cease coverage and changes of recommendation
- Disclosure of material interests in research
- Compliance arrangements to manage and monitor risk.

ASIC found that there was a divergence of practices within firms, and that there were areas of concern to ASIC in some mid-size firms.

One area which the Report canvasses at length is the area of allocations in IPO's and the extent to which allocation practices, both to staff and to external investors, could generate conflicts of interest.

The Report does not come out with any prescriptive Guidelines, but rather flags issues to which firms should give careful consideration. However, ASIC flags that it is proposing to follow up the Report with some industry Guidance later in the year.

There is a distinct advantage in SAA's view in adopting a flexible approach, and not being too prescriptive. There are many ways in which a firm can structure arrangements that are appropriate to manage risk, having regard to the particular size, scale and nature of their businesses and which work satisfactorily. Over-prescriptive requirements could be difficult for smaller and mid-tier firms to meet in resource terms, and could have an anti-competitive effect.

The SAA welcomes feedback on REP 486. It may be helpful for ASIC to receive feedback at this stage before it prepares any draft Guidance for consultation later in the year. ■

The Report does not come out with any prescriptive Guidelines, but rather flags issues to which firms should give careful consideration. However, ASIC flags that it is proposing to follow up the Report with some industry Guidance later in the year.

ASIC Letter to Firms

AS FORESHADOWED previously, ASIC has written to each Market Participant setting out its regulatory priorities for the coming year. A copy of ASIC's Market Supervision Regulatory Priorities letter was also posted on the ASIC website on 27 July 2016.

In the letter, ASIC sets out its key regulatory priorities for 2016-17 as:

- Cyber resilience and technology disruption
- Firm Culture and Conduct
- Handling confidential information and managing conflicts of interest in research and corporate advisory.

The letter sets out some more detailed areas of focus in respect of these three areas.

In addition to these priorities, ASIC also noted some additional areas in which it will focus:

- ensuring client money is appropriately handled
- ensuring financial stability and capital review for market participants
- ensuring supervisory frameworks, risk management and controls are in place
- suspicious activity reporting. ■

ASIC Report 487 – Review of Australian equity "market cleanliness"

ASIC HAS PUBLISHED Report 487 setting out its review of the "market cleanliness" of Australia's equity markets. The ASIC findings are based on mathematical analysis of market data according to two separate models, one being a measure used by offshore regulators, such as the Financial Conduct Authority (UK), and one being a model devised by ASIC itself.

The former methodology measures abnormal pre-announcement price movements ahead of market price-sensitive announcements ("MPSA"). The latter methodology examines the percentage of accounts that traded prior to a MPSA and which demonstrated anomalous trading patterns, and the volumes traded by those accounts.

ASIC's conclusions reached in Report 487 are that there has been an improvement in market cleanliness in the 5 year period since ASIC took over market supervision from ASX in 2010, compared to the 5 year period prior to 2010. ASIC concludes that its analysis shows that there has been a general decline in anomalous trading behavior leading up to MPSAs.

ASIC also concluded that the two different measures of market cleanliness which were used correlate with and support each other.

ASIC's Report 487 appears from its approach to be an analysis of market cleanliness from the point of view of information asymmetry, and does not expressly seem to deal with manipulative or disorderly market uncleanliness. ■

ASX Proposals to Increase Minimum Core Clearing Capital

THE ASX PUBLISHED a set of proposals in its Consultation Paper of 30 June 2016 regarding increasing *Minimum Core Capital Requirements (MCCR)* for ASX Clearing Participants.

In summary, the ASX is consulting on the following proposed changes to MCCR:

- Core Capital requirement of $5 million to remain unchanged for participants who engage in *none* of the *specified additional activities* (see below).
- *Existing* additional capital requirements ($5 million, $10 million and $15 million) depending on the number of market participants for which the Clearing Participant clears, also to remain *unchanged*
- An additional $2.5 million capital requirement for CP's with client short ETO positions, rising to $5 million for CP's with *material* client short ETO positions (material meaning >$60 million average Initial Margin aggregated for the CP's clients over a 3 month period)
- An additional $2.5 million capital requirement for CP's undertaking *any own account activity* in any financial products, rising to $5 million for CP's with a material amount of own account business (ASX Clear will determine what is material)
- An additional $2.5 million capital requirement for CP's undertaking any activity *additional to* ASX-related execution, clearing and settlement within the legal entity for which losses may be incurred by the CP, rising to $5 million for *material amounts* of non-ASX activity. Non-ASX activity includes corporate finance, stock and margin lending, debt, FX, execution and clearing of international stocks and derivatives.

These proposals would obviously impact on Clearing Participants. ASX states on page 8 that its own analysis indicates that 29 out of 36 Clearing Participants would face an increase in MCCR (the majority in the range of $2.5-$7.5 million), but all but 3 of those CP's hold sufficient capital to meet this.

SAA sought feedback from members on the proposals. Overall, members commented that they understood the rationale for the proposals, and were comfortable with them. There were some areas of clarification sought, and some reservations were expressed as to the two tiers of additional capital proposed. There were views that the additional capital required could be better finessed by a methodology that reflected increase in risk, and that additional requirements could be more tiered, rather than the two levels that have been proposed.

Clarification was also sought on the question of what constituted "non-ASX business", and whether that extended to execution on competing Australian exchanges. ■

ASIC Consultation Paper CP 260 on "Regulatory Sandbox Exemption"

ASIC'S CONSULTATION Paper CP 260 – *Further Measures to Facilitate Innovation in Financial Services* was released for comment on 8 June 2016.

CP 260 outlines proposals for what ASIC calls a "regulatory sandbox exemption" relating to AFS Licensing requirements applicable to Fintech start-ups. The CP seeks feedback on whether the regulatory exemption should extend to areas such as:

- additional flexibility to ASIC in determining the skills and experience requirement for assessing license competency for Fintech start-up businesses, including the ability to rely on third parties
- possible class-wide licensing waiver to allow entities to conduct early stage tests and trials
- a 6 month window for entities to test certain financial services without the need for a license
- specification on the types of financial services that can be offered in the testing window
- permission for services to be provided during the testing window to sophisticated clients; to retail clients subject to a numeric limit and $ exposure limit
- modified conduct and disclosure obligations that will apply during the testing window
- consumer protections including dispute resolution and compensation mechanisms to apply to testing businesses.

ASIC has said that these proposals, and the establishment of its Innovation Hub, are part of ASIC's efforts to promote Fintech businesses, innovation and market efficiencies.

The SAA sought feedback from members, and lodged a short submission.

The SAA's submission stressed the importance of investor protection and preserving the high reputation for integrity of Australia's markets. SAA cautiously supported moves to embrace opportunities to innovate in financial services offered by new technology, provided that market integrity and investor protection did not suffer damage.

SAA also sought for the benefits that are being proposed for start-up entities to be extended to incumbent market participants as well, so that a level playing field be maintained between existing and start-up ventures. We also asked that lessons learned from experience with the "sandbox exemption" be made available to the market generally.

Professional, Ethical and Educational Standards for Retail Financial Advisers – Proposed Legislation

THERE HAVE BEEN no developments on the proposed legislation restructuring the framework for professional, ethical and educational requirements for retail financial advisers, in view of the Government having been in caretaker mode for the lengthy period of time since the calling of the Federal election.

It can be expected now that the Government, having been re-elected, will move quickly to progress the draft Legislation that was in circulation prior to the calling of the election.

It can be expected now that the Government, having been re-elected, will move quickly to progress the draft Legislation that was in circulation prior to the calling of the election. The announcement that Minister Kelly O'Dwyer will continue with the Financial Services portfolio should ensure that there are no delays with this.

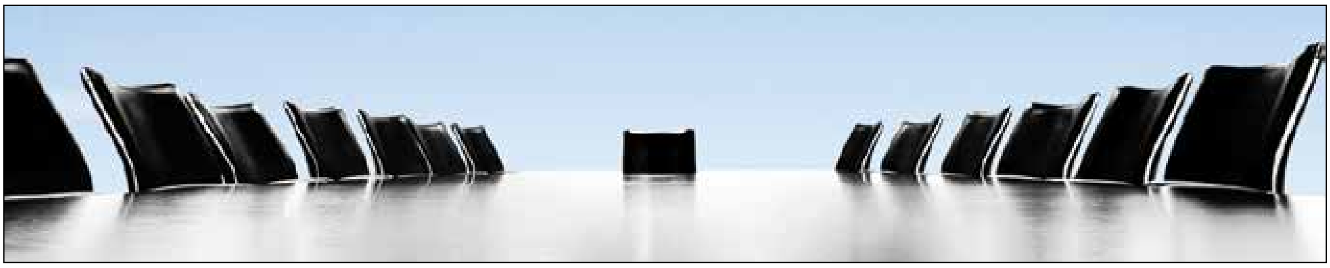
There is, however, the question of what impact the state of the new Senate may have on key proposals in the legislation, or the speed of its passage. There are also some issues that were not fully resolved in the previous draft of the legislation, including:

- whether there will be any further variations of the bachelor's degree requirement to take into account experienced advisers in the later stages of their career;
- how the new supervision standards to be set by the Standard Setting Body will interact with ASIC's supervision requirements under AFS Licensing.
- how investigation of Code breaches will interact with a concurrent ASIC investigation.

Prior to the election, the Government had outlined an aggressive timetable that would see legislation enacted before 30 June 2016, with the new standard to come into effect on 1 July 2019 and a 5 year transitional period before being fully in place by 30 June 2024. The introduction of the legislation will clearly now not meet this timetable, but it remains to be seen how the remainder of the timetable will be affected by this delay.

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

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



Committee News

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

SAA Cybercrime Working Group Meeting Sydney, Tuesday 9 August 2016

Chair: Melissa Nolan MSAA, Baillieu Holst

SAA Profession Committee Meeting Sydney, Wednesday 10 August 2016

Chair: Murray McGill MSAA, Patersons Securities

SAA Derivatives Sub-Committee Meeting Sydney, Thursday 11 August 2016

Chair: Peter Tardent MSAA, Commonwealth Securities

SAA Women in Stockbroking Working Group Meeting Sydney, Wednesday 17 August 2016

Chair: Morana Hunter

SAA Institutional Broking Committee Meeting Sydney, Tuesday 23 August 2016

Chair: Conor Foley MSAA, UBS

SAA Board of Directors Meeting Sydney, Wednesday 31 August 2016

Chair: Karl Morris MSAA, Ord Minnett

New Individual Practitioner Master (MSAA) Membership applications approved:

- Andrew Gartrell
- Robert Hussey
- Anne Johnston
- Albert Taylor
- Sandra Tuddenham

New Individual Practitioner Member (MESAA) Membership application approved:

- Jacob Taylor

New Individual Affiliate (AFSAA) Membership applications approved:

- Jan Drienko
- Louise Henderson
- Robert Inglis
- Arley Moulton
- Jack Perren-Leveridge
- Viney Ramesh
- Jacques Rousset
- Minsoo Tyrell

ASIC Update

ASIC recently released two reports relevant to SAA members:

- Report 486 ***Sell-side research and corporate advisory: Confidential information and conflicts of interest***, and
- Report 487 ***Review of Australian equity market cleanliness***.

This work provides a positive picture of the overall cleanliness of the Australian equity market, which has improved over the past decade. However, we also identify some areas where continued review and improvement is required in the handling of confidential information and the management of conflicts of interest.

Confidential information and conflicts

Report 486 involved a review of risks related to the handling of confidential information and conflicts of interests, particularly in the provision of sell-side research and corporate advisory services. We found that most firms have policies and procedures in place to deal with these risks. However, there remain instances of poor and inconsistent practice in their application.

We reviewed policies, procedures and practices of a range of investment banks and brokers active in the Australian market and a sample of transactions, including initial public offerings (IPOs) and secondary offerings.

Whilst most firms have policies and procedures in place, we found considerable variation in how these are applied. For example, we found variation in:

- **Identification and handling of confidential information:** Some organisations do not have appropriate arrangements to handle situations where staff members come into possession of confidential information. This includes the inadequate use or supervision of information barriers and restricted trading lists. This can result in material, non-public information being handled inappropriately, including by being passed to the sales desks or to preferred clients.
- **Management of conflicts of interest:** There is an inconsistency in how conflicts of interest are managed. This includes the structure and funding of research, insufficient separation of research and corporate advisory activities (particularly the involvement of research in soliciting business during the IPO process), decisions about share allocations in capital raisings, and mixed practices in relation to the disclosure of conflicts of interest. This can affect the independence and quality of research and increase the risk of undue influence from corporate issuers, their advisers, or the firm's own corporate advisory team.
- **Staff and principal trading:** There is also considerable variation in the strength of controls to manage staff trading, including trading by corporate advisory and research staff. In mid-sized firms, it is more common for staff to participate in capital raising transactions that the firm is managing. We have concerns that staff trading can lead to personal interests taking precedence over client interests, which can result in poor advice and poor outcomes for clients. This risk is heightened around the release of research and capital raising transactions.

All firms should review this report and consider whether their controls, including policies, procedures, training and monitoring are appropriate and meet legal and regulatory requirements. Firms should give careful consideration to the handling of material, non-public information and conflicts to ensure they are adequately managing the risk of insider trading.

ASIC will consult with industry over the next six months on current regulatory guidance for sell-side research and assess whether further guidance is required.

Market cleanliness

Report 487 has found an overall improvement in the cleanliness of the Australian listed equity market over the past decade.

The review looked at possible insider trading and information leakage ahead of material, price-sensitive announcements by looking at price movements or shifts in trading behaviour before these announcements.

The results suggest that insider information and the loss of confidentiality ahead of material announcements has declined over the decade.

This is consistent with independent international research that ranks Australia favourably among a number of major development markets.

The review used an established measure of market cleanliness and a new measure developed by ASIC. The new measure compares the trading behaviour of individual accounts to their historical trading behaviour and the trading of others in the market, using advanced surveillance system capabilities.

Based on the new measure, 95% of material announcements exhibited no (or negligible) anomalous trading patterns ahead of an announcement in the period 1 November 2014 to 31 October 2015.

Commenting on the report, ASIC Commissioner Cathie Armour said 'We have seen a gradual improvement in market cleanliness indicators over time and across different segments of Australia's listed equities market. ASIC will continue to monitor macro-level market cleanliness and enhance our surveillance and enforcement capabilities against market misconduct.' ■

International Equities – Go Global for 'Quality Income'

Stephen Thornber, Fund Manager – Global Equity Income

The case for global equity income investing in a low-yield world

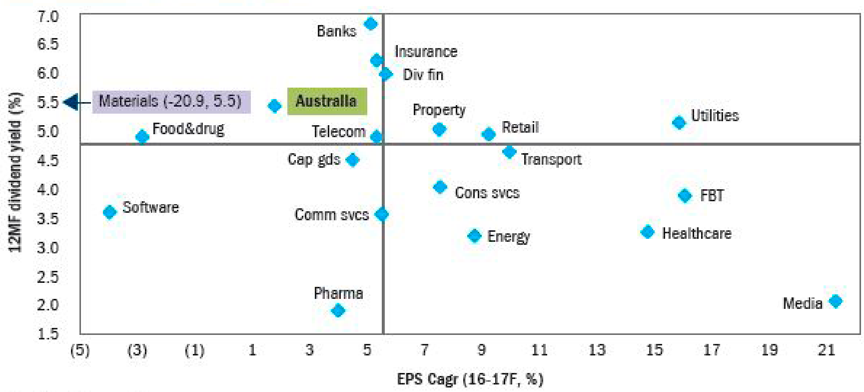
- **International equities are traditionally seen as a growth asset, but they are also a great source of income, if you look in the right places, and can complement your domestic investments**
- **Australian companies offer attractive dividends, but how sustainable are these?**
- **A high dividend does not equal high dividend growth. You need dividend growth to help offset inflation, and we believe Global equities are well positioned for this**
- **Going global not only widens the opportunity set, but it also provides access to some of the fastest growing sectors and companies that offer attractive growing dividends**
- **In the accumulation stage, global equity income complements domestic portfolios, thanks to the effects of compounding.**

DESPITE THE RISING popularity of this product category, many investors and their professional advisers have lingering questions about the open-ended liquidity that is one of the hallmarks of ETFs, allowing ETF pools to expand and contract on-demand.

The search for yield has never been more pressing for investors. Income is hard to find in the current market environment, with low interest rates, bond yields tending towards flat or negative and dividends under pressure. But by widening the search and seeking high-quality income stocks globally, it is possible to build portfolios that generate a high and growing income. It's important to have a growing income, especially in drawdown, to help keep up with inflation.

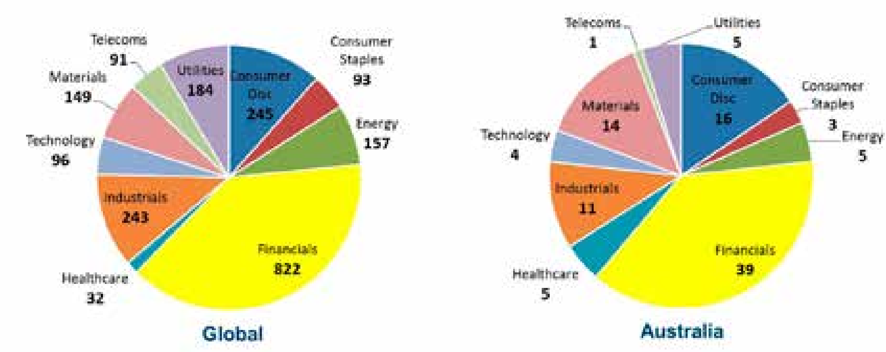
Global equity income investing can provide a relatively high income yield for retirees and other investors, as well as steady capital gains. It gives fund managers the flexibility to pick the best income stocks globally, rather than being limited to a single market.

FIG 1: MSCI Australia – yield versus growth



Source: Factset, Datastream, CLSA

FIG 2: All companies, market Cap > $1 billion and dividend yield > 3%



The key is a truly global approach, an uncompromising search for well-run companies which pay a steady stream of dividends, and eschewing complex derivative-based strategies in favour of simplicity. When these principles are applied effectively, global equity income strategies can play an integral role throughout Australian savers' lifespans, from the growth phase all the way into retirement.

Australia boasts a strong dividend culture and a history of delivering good growth. However, much of these dividend yields have come from the financials and materials sectors, with little diversification further afield. Australian yields may be reasonable today, but given the narrowness of their sources, it is questionable whether they will continue to deliver in all market environments. Australian companies boast the highest dividend yields anywhere in the world.

Going global

Why go global? A global approach provides the opportunity to access the world's most promising high dividend stocks. This means a better diversified portfolio, offering a degree of downside protection if a particular country or sector underperforms. Investors benefit from a larger pool of prospective companies and industries than they would get by looking purely within Australia.

Global equity income funds have come to the fore in the wake of the financial crisis, which highlighted the need to diversify. Since then, other market events, such as the sharp fall in oil prices, have demonstrated the importance of not being overly reliant on one sector.

The pie charts to the left illustrate that going global provides investors with a far larger investment pool than they would be able to access domestically. For example, Columbia Threadneedle selects its high-dividend stocks from a universe with a market capitalisation of more than $1 billion and a dividend yield exceeding 3%. To highlight a few sectors, going global gives it access to 822 financial stocks rather than 39; 245 consumer discretionary stocks rather than 16; 96 technology stocks rather than just four.

A badge of investment quality

Having so many stocks to choose from gives access to more well-run companies which pay consistently high dividends.

Dividends are an under-appreciated sign of investment quality. There are a number of reasons why companies which pay consistent dividends are appealing. Businesses which prioritise paying a steady stream of income to their shareholders are typically effectively managed, with a strong degree of cashflow certainty. They are usually established, profitable companies.

Empirical research by Robert Arnott and Clifford Asness showed that high dividend pay outs indicate a company is confident about the future. They concluded that company management confident of sustainable future earnings growth tend to pay out a large share of earnings in the form of dividends, unlike those that are more pessimistic who pay out a lower share – perhaps so that they can be confident of maintaining the dividend payouts.

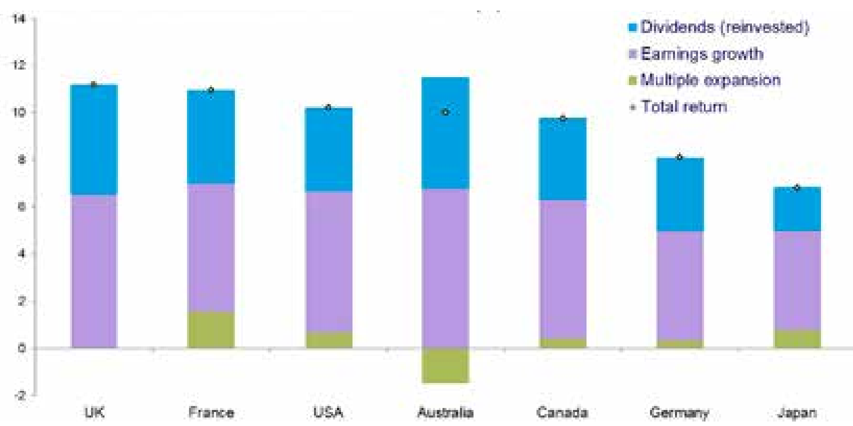
Paying out a decent dividend is, therefore, a good indicator of a well-run company which is confident in its future earnings ability[1].

It is possible to split the universe of high dividend stocks into several

FIG 3: Combining high dividends and attractive growth

- We believe dividends are an underappreciated signal of investment quality
- Our focus is companies with a high dividend yield, growth, and a robust balance sheet
- When dividend investing, a balanced and diversified portfolio is important to control risk

FIG 4: Contribution to annualised total return since 1970 (%)



groups. The best opportunities lie within the group of companies that deliver a steady flow of dividends but are looking to grow their earnings. That ideal combination of income with a growth tilt, when correctly identified, generates steady dividends which will grow over time. Specific examples of stocks in our portfolio which fall into this category include: Cisco Systems, global exchange group CME Group, UK wealth manager St James' Place, and US theme park company Six Flags.

Such well-managed companies tend to have a high dividend yield, earnings growth and robust balance sheets. Furthermore, as the table above shows, reinvested dividends compounding over time make a powerful contribution to capital growth. As a result, these companies offer the ideal combination of high income and potential capital growth.

Another group is the yield traps, companies with high dividend yields because their share price is depressed reflecting the market's concerns over future profitability. At the moment, these are typically oil and commodities companies. Yet they have less prospect for growth.

Next, there are the bond proxies: typically, large, well-established companies that often boast steady incomes and steady dividends, with a degree of security but, again, often have limited growth prospects.

How best to invest in such opportunities? Simplicity is the answer.

At Columbia Threadneedle, we purely look for companies that offer a high yield, rather than seeking a blend of low and high yielding stocks.

We don't use derivative-based enhancement strategies to boost income. This simple, clear focus is both a hallmark and a differentiator. We seek stocks that yield more than 3%. This narrows the global investment universe significantly. The fund aims to produce a 4%-5%p.a portfolio yield for investors[2].

The role of global income

Global Equity Income is suitable for investors needing:

- Regular income to supplement their salary / superannuation
- A growing dividend / income stream to help offset inflation (especially through retirement)
- Diversify their income source away from Australian equities / property.

Global income strategies can play a key role in giving investors a retirement income. Australian savers are moving away from taking their superannuation pension savings as lump sums and, instead, are adopting strategies which allow them to gradually draw income in retirement. Global equities are well positioned for this due to their growing dividend pay-outs.

The latest data from the Australian Bureau of Statistics suggest that barely half (53%) of Australian retirees expect their main source of personal income in retirement to be superannuation, an annuity or allocated income.

Yet like many people all over the world, Australians are concerned about funding their retirement, and their future financial security in general. Data from a white paper by IPSOS/MLC Australia, look at lifestyle, financial security and retirement in Australia, found that a third of Australians believe their children will not be able to afford the same quality of life that they have enjoyed.

Almost three in five Australians were concerned they would be unable to fund their current lifestyle over the next decade, with people aged 50-70 marginally more concerned than other age groups.

Across the globe, it is possible to identify companies which prioritise delivering solid dividends, while pursuing long-term growth. These companies represent an attractive proposition for Australian investors, wherever they are on their savings journey.

As investment products grow more sophisticated to meet the needs of retirees who no longer want to simply take a lump sum at retirement, global equity income strategies can play an integral role in meeting their needs. This style of investment gives investors a good yield, with the potential for growth over time. Having a growing dividend can help keep up with inflation, especially through retirement.

Income is much more than just a bond proxy. Across the globe, it is possible to identify companies which prioritise delivering solid dividends, while pursuing long-term growth. These companies represent an attractive proposition for Australian investors, wherever they are on their savings journey. The effect of compounding reinvested dividends adds to the attractiveness of this style of investing for younger savers, whilst their ability to grow dividend payouts can help to potentially offset inflation. ■

[1] *Surprise! Higher Dividends = Higher Earnings Growth*, Robert D. Arnott and Clifford S. Asness, Financial

2 This is a target portfolio yield and may not always be achieved

Regulation in practice

By Peter Grace

A RECENT SPEECH by the ATO Deputy Commissioner for Superannuation addressed the way the ATO is handling the regulation of SMSFs. There are now over 600,000 SMSFs and over a million members. In the last year, about 2,500 new funds were set up a month.

Approach

The ATO has modified its approach to regulation to utilise the new powers it has to issue education and rectification directives and fine to SMSF trustees.

It prefers a collaborative approach especially with minor contraventions or if it is the first time the fund has had a problem. For more serious breaches or where the trustees have deliberately or persistently breached the law, the ATO uses enforceable undertakings and rectification directions. If the trustees do not comply the ATO will get tougher and may fine the trustees, disqualify them or make the fund non-complying.

In a recent case, a trustee who had regularly taken money out of the fund for personal use was fined $40,000 and disqualified as a trustee. Another fund was frozen and the trustees disqualified after assets were withdrawn and moved overseas.

To assist advisers the ATO will be issuing Law Companion Guidelines whenever new legislation is introduced. Like the Regulatory Guides issued by ASIC, these will explain how the law applies in practice.

SMSF auditors

Auditors fulfill a critical role in protecting the integrity of the SMSF market segment. All funds must be audited each year for financial and compliance purposes. Auditors must lodge contravention reports with the ATO where problems are identified.

Since 2014 SMSF auditors must meet competency standards and be registered with ASIC. The ATO monitors their performance and refers non-complying auditors to ASIC. In the last year 17 auditors have been deregistered based on these referrals.

SMSF auditing has become a specialist field and there are now 6,700 registered auditors – down from the 11,500 who were active when the regime started.

Two current areas of concern for the ATO are auditor independence and low cost auditing. An auditor should not audit their own SMSF or those of relatives or associates. They should not be involved in preparing financial statements or lodging tax returns for a fund they audit.

Target areas

In 2016-17 the ATO will target specific areas including:

- A review of audit quality particularly low cost or fast turnaround audits
- Dividend stripping – where a private company with accumulated profits channels dividends to a SMSF rather than to the shareholders
- Diversion of Personal Services Income to a SMSF
- Non or late lodgment of SMSF annual returns.

Advisers need to stay on top of these issues to properly advise their SMSF clients. ■

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 September, October & November

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: Mon 12 Sep | 9:00am – 1:00pm
MELB: Wed 12 Oct | 9:30am – 1:30pm

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.

SYD: Mon 24 & Tues 25 Oct | 9:00am – 12:00pm
MELB: Mon 21 & Tues 22 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: Tues 13 Sep | 9:00am – 1:00pm
MELB: Tues 11 Oct | 9:30am – 1:30pm

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.

SYD: Wed 26 Oct | 9:00am – 12:00pm
MELB: Wed 30 Nov | 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.

SYD: Tues 29 Nov | 9:00am – 12:00pm

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: Mon 31 Oct | 9:00am – 11:30am
MELB: Wed 9 Nov|2:00pm – 4:30pm

Introductory Series Workshops

Workshop	Date
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**.	SYD: Wed 14 Sep | 9:00am – 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: Wed 16 Nov |9:30am – 12:30pm
UNDERSTANDING OPTIONS: FEATURES, BENEFITS AND RISKS – 2 CPD This workshop focuses on equity options traded on the Australian Securities Exchange (ASX). Equity options offer investors an efficient means of managing the risks of adverse price movements in the share market. In addition, they give traders a vehicle by which to gain leveraged exposure to individual shares and selected indices. This workshop covers options pricing, basic strategies and the mechanics of trading options on the ASX.	MELB: Thurs 6 Oct | 9:30am – 11:30am
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.	MELB: Thurs 10 Nov | 9:00am – 11:00am
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.	MELB: Wed 26 Oct | 9:00am – 12:00pm SYD: Tues 8 Nov | 9:00am – 12:00pm

For further information visit **www.stockbrokers.org.au**

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- Evaluate benefits of international diversification
- Apply approaches to select securities
- Evaluate performance of portfolios

PROGRAM DETAILS

Running over 4 weeks with one class per week every Thursday.

Dates

Start: Thursday 13 October 2016
Finish: Thursday 03 November 2016

Venue

Stockbrokers Association of Australia
Level 6, 56 Pitt Street
Sydney

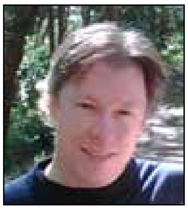
Cost

Individual Member	$1799.00
Organisation Member	$1999.00
Non Member	$2199.00

CPD

30 hours of CPD will be allocated to candidates upon successful completion.

Facilitators



Robert Wixted

Robert started his career as a legislative aide to William Ratchford 5th in Connecticut in the US House of Representatives in Washington DC. His financial career began with Morgan Stanley Dean Witter and later Barclays Bank and Tullet and Tokyo. Robert currently consults to several hedge funds and various financial institutions as well as lecturing at Western Sydney University (WSU), University of Sydney, UTS and UNSW in post graduate finance subjects. Robert has a BA/MA in Economics from The American University Washington DC as well as a MComm.

Dr Walid Bakry

A highly-qualified academic who has been teaching Portfolio Construction and Management at the post graduate level since 2008. He has been coordinating banking and finance units at WSU since 2002. Walid holds a PhD in Finance from WSU, a Master of Science in Finance from Louisiana State University and an MBA from Alexandria University.

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Cybercrime Working Group

Melissa Nolan, Chair of the Working Group

CYBERCRIME IS an issue that is in the media every day and relates to crimes that are directed at computers and other devices or where computers and other devices are integral to the commission of a crime. Examples include hacking, identity theft, online scams and fraud, and attacks on systems (such as *Distributed Denial of Service* (DDOS) attacks). The Australian Criminal Intelligence Commission estimates that cybercrime costs Australians over $1.1 billion each year, but that this is considered an underestimate[1].

Governments and regulators have cybercrime high on their list of priorities. ASIC has stated that cyber resilience and technology disruption is one of their priority issues for 2016/2017 and have issued reports on cyber resilience[2].

The SAA recently held its inaugural Cybercrime Working Group, on the day that the Australian Census was being conducted. The Census was effectively shut down due to a number of DDOS attacks. The Census fallout highlighted some of the issues that are relevant to all businesses when dealing with cybercrime. First, the risk of cybercrime is not a matter of if but when. A clear strategy is needed to identify those risks and how they can be mitigated. Second, it highlighted the need to have a clear communication strategy when an event occurs. Cybercrime is not an I.T. issue: it requires a whole-of-organisation approach, proper reporting of issues and a co-ordinated response to communicate with customers about what has happened and what is being done to rectify the issue.

The aims of the SAA Cybercrime Working Group are to address cybercrime, cyber resilience and best practice.

The aims of the SAA Cybercrime Working Group are to address cybercrime, cyber resilience and best practice. We aim to focus on priority issues for the industry, and have sought feedback from the working group members on key issues of concern. We acknowledged that sharing information and collaborating with other members is important to ensure we are aware of emerging threats and that we can deal with them appropriately. We also aim to work with regulators to identify key risks and to communicate those to members.

The SAA is currently developing a Cybercrime workshop, with further details to come, and we encourage members to participate.

If you wish to participate on the Cybercrime Working Group, or if you wish to notify the working group of any issues of concern, please contact Diem Tran.

[1] Refer: https://www.acic.gov.au/australian-national-security-and-public-safety-summit

2 Refer ASIC Report 468 *Cyber resilience assessment report: ASX Group and Chi-X Australia Pty Ltd* available at:
http://www.asic.gov.au/media/3563866/rep-468-published-7-march-2016.pdf?utm_source=report-468&utm_medium=landing-page&utm_campaign=pdfdownload;
and ASIC Report 429 *Cyber resilience: Health Check*, available at:
http://download.asic.gov.au/media/3062900/rep429-published-19-march-2015-1.pdf

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Brisbane
12.00pm* – 2.00pm Monday 12 September 2016
Ashurst, Level 38, 123 Eagle Street

Sydney
12.00pm* – 2.00pm Wednesday 16 November 2016
Ashurst, Level 11, 5 Martin Place, Sydney

* *registrations from 12.00pm for a 12.30pm start*

CPD

1.5 hours (Compliance)

REGISTRATION FEE

Individual Members	$105.00
Organisational Members	$120.00
Non Members	$140.00

CLICK HERE FOR FURTHER INFORMATION

Stockbrokers Association of Australia

SAA Conduct Risk Seminars

In this lunchtime seminar hear from a Conduct Risk specialist on what it is; where Conduct Risk might go wrong; and where it belongs in the risk world. More importantly, learn how it will affect you.

SEMINAR DETAILS

Sydney
12:30pm – 1:30pm Wednesday 14 September 2016
Stockbrokers Association, Level 6, 56 Pitt Street

Melbourne
12:30pm – 1:30pm Wednesday 21 September 2016
Venue TBA

CPD

1 hour (Compliance)

REGISTRATION FEE

Individual Members	$85.00
Organisational Members	$95.00
Non Members	$105.00

CLICK HERE FOR FURTHER INFORMATION

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