SEPTEMBER 2018
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Stockbrokers
And Financial Advisers MONTHLY

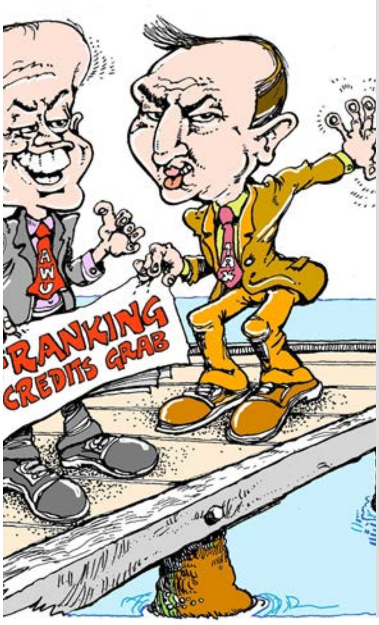
MEMBERSHIP
EVENTS
EDUCATION
POLICY &
REGULATORY ISSUES

Stockbrokers
And Financial Advisers
Association Limited

Removing the cash rebate on franking credits

THE ALLIANCE FOR A FAIRER RETIREMENT SYSTEM

Inside...



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SAFAA 2019

CONFERENCE UPDATE

Anyone for ethics

I am delighted to advise that Professor Hayden Ramsay, Professor of Philosophy at ACU will speak on Ethics at SAFAA 2019 on May 22nd & 23rd at Hilton Sydney.

I have yet to have a discussion with Professor Ramsay about his precise topic, but the mind boggles at the scope. It will be something around *Ethical issues in the Financial Services Industry*.

In researching the topic, I came across an article by Anne Federwisch at SCU. She quotes Ronald F Duska who proposes five reasons for ethical lapses in the financial services industry.

1. Self-interest sometimes morphs into greed and selfishness
2. Some people suffer from stunted moral development
3. Some people equate moral behaviour with legal behaviour
4. Professional duty can conflict with company demands
5. Individual responsibility can wither under the demands of the client

We are going to have a fascinating discussion.

Are ETFs the beginning of the end

If you want to know the answer to this question, you will need to attend SAFAA 2019 as there will be a blockbuster debate between ETF providers such as Vanguard and investors such as David Dredge, CIO Convex Strategies, and Michael Cori from Phillip Capital.

The argument goes that Algos and ETFs have fundamentally changed market dynamics and transparency. Cast your mind back to the liquidity crunch on Wall Street in February that saw the market decline by 10%. Was the February Liquidity crunch a foretaste of things to come? Is Volmageddon a possibility?

David Dredge will also deliver a plenary address about *Why and how investors should protect their long positions*.

New dawn for FASEA

We are optimistic that the arrival of Stephen Glenfield as the new CEO of FASEA will usher in a more realistic timetable for the implementation of reforms to the financial services industry.

We have invited Stephen Glenfield to speak at our annual conference at Hilton Sydney on May 22nd & 23rd 2019 and are hopeful he will have the time to do so.

As an Association, we support the aspiration of the government to raise standards across the financial services industry. We take issue however with the proposed implementation. The schedule is far too tight, the proposed processes are too bureaucratic (costly) and will cause avoidable harm to both financial advisers and their clients.

Details of our objections to the government's implementation of the FASEA reforms are contained in the numerous submissions to government this year. These can be viewed in the Advocacy section of our website.

Josh Frydenberg brings a ray of hope

We are delighted with the appointment of Josh Frydenberg as Treasurer.

Three years ago, in his capacity as Financial Services Minister, Josh launched consultation for what was then known as the PJC reforms. We met with him at a round table in April

Andrew Green

SAFAA 2019

Australian Money Market
ASX
Broadridge
chi-x
DDH Graham Limited
Startup Fintech Barn
iress
Leveraged — The professional's choice
Morningstar
the answer company™ Thomson Reuters
SGSM Sydney Graduate School of Management

2015 and dutifully lodged a submission with Treasury in May 2015.

Since then, we have consistently advocated for a regime that achieves the aims of the policy without unintended consequences.

Each day, we stay on message and continue to advocate for the implementation of a reform that achieves the policy objective as efficiently as possible, in a reasonable timeframe and without unintended consequences.

Just to give you an idea of the minutiae in which we are now involved, it is worth including a piece from a submission that we lodged with FASEA last week on CPD. Here is just one question posed by FASEA, and our answer.

Consultation Question
Do you agree with the proposed requirement for 50 hours of CPD per year, 70% of which should be approved by the licensee? If not, why not?

SAFAA does not support the requirement for 50 hours of CPD each year. This is an excessive figure and does not reflect the CPD requirements in any other industry of which we are aware.

There has been a requirement under the ASX Market Integrity Rules (which became the ASIC Market Integrity Rules in 2010) for employees of a Market Participant to complete 20 hours CPD per year, of which 8 hours was required to be in Compliance. This standard has been followed for many years and has worked well.

There is little evidence, to our knowledge, of any lack of technical competence or of ethical conduct in the stockbroking industry in the last decades. This is reflected in the low and falling level of complaints lodged with the Financial Ombudsman Service in respect of stockbrokers in recent years.

Given the highly technical nature of stock market analysis, we believe that the record of stockbrokers in looking after their clients' affairs is a good indication that the existing CPD requirements under the Market Integrity Rules have been set at the right level.

SAFAA is not in a position to comment on the CPD requirements in other sectors, such as financial planning or insurance, or on the adequacy of such standards as might exist. If there is a need for additional hours of CPD in other areas, then FASEA should deal with the matter on a sector by sector basis. There is no reason why there needs to be a single standard applied across all financial advice sectors.

The approach to ongoing CPD in the field of ethics should be addressed in the way which we suggest in the comments under 4.5 below.

As a practical matter, a Licensee will need to satisfy its over-riding obligation to comply with the license condition to ensure that its employees (whether retail or not) are suitably trained and qualified. This will necessitate each Licensee having regard to the CPD that is undertaken by employees and representatives.

This obligation can be satisfied in more flexible ways, such as setting out categories of training.

Requiring an approval process, however, is a layer of administrative red tape that does not add anything other than cost.

Membership Renewals – dawn of a new era

As mentioned in my column last month, for the 2019 Membership Year, we will be moving to electronic membership renewals.

The process will work as follows.

Around 1st October, each member will receive an email inviting them to renew their membership for the year from 1st October 2018 to 30th September 2019.

Members will be asked to login to our website and go to their My Account area.

In the members My Account will be a shopping basket with a membership invoice.

One of the other features in My Account is a CPD scorecard. So for example, if you have attended courses or our annual conference, our CRM will automatically show your CPD in your My Account area. The system will give you a pie chart identifying types of CPD. Members can also search for different time periods, and they can store CPD from third parties. All very clever and designed to make managing CPD as effortless as possible.

Of course, Members don't have to wait until October to view their preferences in their My Account area. They can login now and enjoy one of the many benefits of membership. Please email me if you have any questions or suggestions.

TASA Survey

I extend thanks to all those who have completed their TASA Survey.

Completion of the TASA Survey is a condition of membership for all our Registered Tax (Financial) Advisers.

FASEA Code Monitoring

Just a reminder that from November 2019, all retail advisers must be covered by an approved Code Monitoring Scheme.

No Schemes have yet been approved.

Our intention is to apply to ASIC to become a Code Monitoring Scheme for the purposes of FASEA.

Franking credits – hands off the Future Fund

It was interesting to read Peter Costello's exhortation to Politicians to keep their hands off the Future Fund.

....continued on page 5

....continued from page 4

As reported in the AFR on 30th August, Mr Costello said it was important that a commitment to exclude the Future Fund from any changes to franking credits be maintained.

"The Future Fund is entitled to the refund of franking credits, as are superannuation funds," he said.

"This is a very valuable thing for the Future Fund and for superannuation funds generally. It is one of the reasons why you would hold Australian stocks."

Touché Mr Costello!

If it's good enough for the Future Fund to be given a refund for overpaid tax, why isn't it good enough for all SMSFs?

SAFAA is a member of the Alliance for a Fairer Retirement System.

The ALP's stated policy to remove the cash rebates on franking credits for those who pay no tax will impact directly on many retirees on modest incomes and discourages saving for retirement. It infringes on the principles held by the Alliance for a Fairer Retirement System of **adequacy**, **sustainability**, **certainty** and **fairness**.

Fairness requires that the retirement system treats people in the same circumstances equally. The move to refund franking credits to all shareholders was undertaken with the intention that shareholders should be taxed at their marginal rate. **Failure to refund credits to those who pay no tax means that their investment income would be taxed at the corporate rate of 30%.**

Further, exempting those receiving social security benefits means that retirees on the same income will be taxed at very different rates.

I have included further information on the impact of Labor's proposed changes to franking credits, and the response of the Alliance for a Fairer Retirement System on pages 7 & 8.

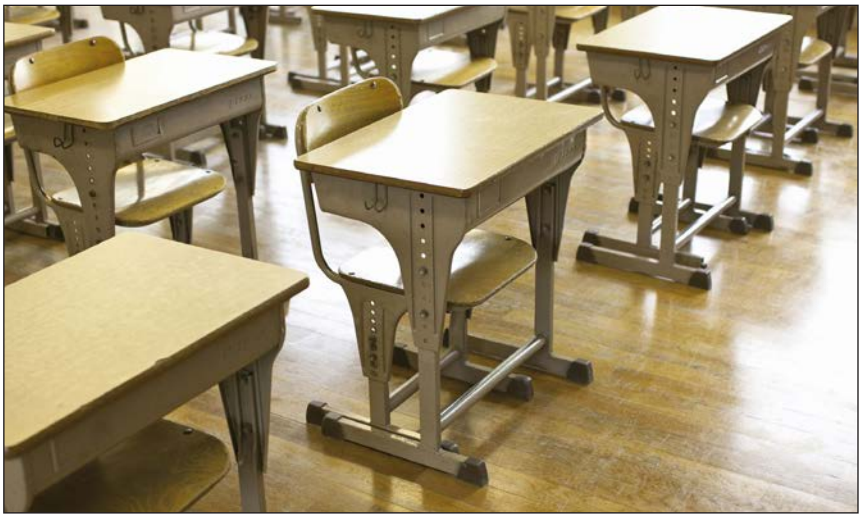
How you can help us win the Franking Credits debate

The Alliance for a Fairer Retirement System is looking for Case Studies.

We want people such as Arthur Smith profiled in our July Monthly to tell us their story.

If you have clients who are prepared to have their story told, please contact me. This is a debate that self-funded retirees can't afford to lose.

FASEA Update Pt 1 - Continuing Professional Development (CPD)



SAFAA HAS LODGED a Submission with FASEA in relation to its Consultation Paper on its proposed requirements for Continuing Professional Development (CPD).

To recap, last month we summarized FASEA's proposals as follows:

- A financial adviser must complete 50 hours of CPD in each CPD year
- 70% of this amount must be approved by the Licensee
- the adviser must keep continuous, up to date records of their CPD for 6 years after the end of the CPD Year

CPD must be undertaken in the areas listed in the table below.

FASEA is not proposing to accredit CPD Courses. It will be up to Licensees to self-assess CPD, in accordance with FASEA Guidance.

In our Submission, SAFAA argued that 50 hours of CPD per annum might be appropriate for some financial advice sectors. However, in relation to stockbroking, we drew attention to the long-standing CPD standard under the Market Integrity Rules, namely, 20 hours CPD per annum, of which 8 hours was required to be in the area of compliance. These standards had been in place for well over 20 years, and that there is no evidence in our industry sector of lack of technical expertise or professionalism such as to justify the conclusion that this standard was inadequate.

SAFAA therefore argued that the existing CPD standards under the MIRs should remain in relation to the stockbroking sector.

If there is to be a CPD obligation in relation to ethics, having regard to the weight being attached to this subject in the current public debate in the finance industry generally, then a requirement for 10 hours CPD per year for that subject is excessive. We questioned whether there would be enough CPD available in this subject area that would enable advisers to complete this amount of CPD without repeating the same, or substantially similar, courses multiple times. SAFAA proposed that a better approach was the one adopted by the Legal Profession to address issues in relation to Workplace and OHS, demonstrate completion of 5 hours CPD once in every rolling three-year period.

SAFAA also drew attention to the highly financial planning flavor of the FASEA proposals, and that CPD in the area of stockbroking should include the types of sessions that are specific to our industry, including company presentations, analyst presentations and morning meetings.

The requirement for retail financial advisers to complete FASEA-prescribed CPD comes into force on 1 January 2019. ■

	CPD CATEGORY	MINIMUM HOURS PER YEAR	MINIMUM APPROVED HOURS PER YEAR
1	Technical Competence	5 CPD hours minimum	3 CPD hours minimum
2	Client Care and Practice	5 CPD hours minimum	3 CPD hours minimum
3	Regulatory Compliance and Consumer Protection	10 CPD hours minimum	10 CPD hours minimum
4	Professionalism and Ethics	10 CPD hours minimum	10 CPD hours minimum
5	Other Advisers/Licensee selected CPD	20 CPD hours minimum	4 CPD hours minimum

FASEA Update Pt 2 – Professional Year (PY)

SAFAA HAS LODGED a Submission with FASEA in relation to its Consultation Paper on the requirement for the Professional Year (PY), to be completed by all New Advisers from 1 January 2019.

As members will be aware, anyone who is not an existing adviser as at 31 December 2018 will be a New Adviser. They will not be able to be authorized as a financial adviser until they have completed a Professional Year, which is one year of supervised work and training. During that period, they will be known as a "provisional financial adviser".

We reported on the FASEA PY proposals in last month's edition of the SAFAA Monthly. In particular, FASEA is proposing that the Professional Year must be the equivalent of 1800 hours, consisting of:

- 800 hours of education and training;
- 1000 hours of work and supervised experience.

In order to be a Supervisor, a person must have at least 2 years' experience as a relevant provider.

In the SAFAA Submission, we highlighted that the PY proposal was, in our view, over-engineered, and required a high level of administration and paper work that made the framework a high cost one. One result that was likely was that only the large institutions could carry the cost of advisers undertaking a PY in the form that was being proposed. This begs the question as to whether the Government wants the bulk of new advisers trained within large institutions? Is that the outcome that the Government had in mind in introducing these reforms?

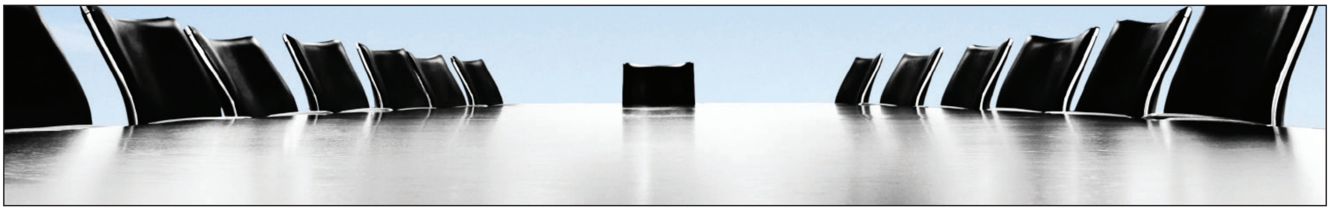
SAFAA questioned how the 1800 hours could be attained in a 48 hour week, and allow for the New Adviser to do much else. In relation to the 800 hours training, given that a person cannot commence their PY unless they have completed the approved Bachelor's Degree, we questioned what would comprise such a substantial amount of training.

As with the CPD Proposals reported on above, SAFAA highlighted that the nature of what a stockbroker does is considerably different to a financial planner. The type of work, and the type of supervision, envisaged by FASEA in Q1-Q4 of the PY, does not at all reflect reality in stockbroking.

SAFAA has offered to work with FASEA to develop supervisory standards that more accurately reflect the stockbroking industry.

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

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



Committee News

Recent and upcoming meetings of the Stockbrokers And Financial Advisers Association - Committees, Working Groups and Advisory Panels:

Master Practitioner Member MSAFAA applications approved:

- Andrew Blunt, Bell Potter Securities
- Peter Evans, Bell Potter Securities
- Matthew Wilson, Shaw and Partners

Practitioner Member MeSAFAA application approved

- Douglas Tognolini, IQ Money Management

Master of Stockbroking and Financial Advising

Developed jointly by the Stockbrokers And Financial Advisers Association and Western Sydney University's highly regarded Sydney Graduate School of Management (SGSM), the Master of Stockbroking and Financial Advising is set to become the benchmark qualification that employers, regulators, and clients expect from practitioners who work in the stockbroking and financial advisory industry.

SAFAA ACCELERATOR PROGRAM

You can get the qualifications you need, without having to pause your career with the SAFAA Accelerator Program. SGSM is offering experienced advisers the opportunity to absent themselves from the unit course work and undertake an assessment in two program units.

The program also involves the candidates sitting a Challenge Exam. Interested candidates attend a two hour information session on what is involved in sitting the Challenge Exam.

Challenge Exams are typically three hours in duration and will be held on published day/times in approved venues.

To find out more about the **SAFAA Accelerator Program** and our **Master of Stockbroking and Financial Advising** contact **education@stockbrokers.org.au** or call **02 8080 3200.**

SGSM
SYDNEY GRADUATE SCHOOL OF MANAGEMENT

Stockbrokers And Financial Advisers Association Limited

ASIC's Market Integrity Group's priorities for 2018–19

ASIC's priorities and activities for market intermediaries address the changing market dynamics and emerging risks that, if not properly addressed, could undermine ASIC's vision for a fair, strong and efficient financial system for all Australians.

In 2018–19, the Market Integrity Group's (MIG) priorities are:

1. **Conduct**
2. **Technology risk and resilience**
3. **Effective capital markets**

ASIC encourages you to plan for the year ahead by assessing your firm's risk management framework against these priorities.

STRATEGIC PRIORITY 1:

Conduct

Culture and conduct directly affect a firm's ability to put the client first. Good culture and conduct should be embedded in your organisation.

ASIC is changing its approach to overseeing the highest risk firms in our market, with a greater focus on governance, and the systems and controls that prevent poor conduct.

ASIC expects all firms to have a professional and robust approach to conduct – to operate with integrity and to act in the best interest of their clients. This includes:

- proactively identifying conduct risks
- encouraging accountability for conduct across all areas of the firm
- supporting staff to improve conduct
- board and executive oversight of conduct and a focus on the conduct implications of the decisions that they make.

ASIC will periodically test these themes and expects firms to demonstrate how they've addressed them.

ASIC's work will focus on:

- **wholesale over-the-counter (OTC) markets** – primarily fixed income, currencies (FX) and commodities (FICC markets) and equity derivatives, and will incorporate testing your practices, overseeing the bank bill swap rate (BBSW) set and trade reporting.
- **retail investor protection** – retail OTC derivatives, cryptocurrencies, fraud prevention, quality of advice and client money.

STRATEGIC PRIORITY 2:

Technology risk and resilience

ASIC's focus is to support the opportunities and economic benefits of innovation in financial markets, while managing the risks.

Market intermediaries rely heavily on technology to deliver their services. Robust **technology governance and operational risk** management is central to their effectiveness.

This is particularly important in an increasingly automated environment, and with growth in artificial intelligence and machine learning. It's important that these tools are carefully scoped, implemented and monitored. ASIC expects compliance personnel to have sufficient understanding of the technologies used in their firms so they can meaningfully challenge practices and activities, and test the adequacy of controls.

Cyber security continues to be a key priority. Increased reliance on data, digital connectivity, outsourcing of key services to third parties and sophistication of cyber criminals creates an increased risk of a cyber-attack. Information technology disruption or incidents at intermediaries may have broader systemic implications. Intermediaries need to be vigilant in protecting their systems against unauthorised intrusions and disruptions, and in protecting investor data.

Additionally, ASIC will continue to focus on technology-enabled offending this year, with a focus on proactive surveillance to identify computer hacking, related market activity and potential interference.

STRATEGIC PRIORITY 3:

Effective capital markets

ASIC's vision is to protect the integrity and success of the Australian financial system.

Effective **governance and controls** focuses on the quality, independence and reliability of the internal processes to manage a firm and the firm's risk and compliance with the law. It includes the responsibilities and functioning of the board, and the adequacy of the internal structures, operational controls, and procedures to manage risk and compliance throughout the firm. As part of ASIC's reviews it may test whether firms are adequately fostering a risk and compliance management culture.

ASIC is conducting a review of allocation practices in **capital raising** transactions, including conflicted business models. Allocations in keenly sought-after transactions have value, which may incentivise intermediaries to allocate securities to parties that can further their business or personal interests. ASIC is engaging with a range of stakeholders and reviewing a selection of capital market transactions to understand how allocations are being conducted and the disclosure that is provided to investors.

ASIC has commenced the process of consolidating and reviewing its **market integrity** rules. ASIC is proposing to simplify and improve the rules, including consolidating the capital rules into a single rule book. ASIC will continue to monitor market participants' compliance with their suspicious activity reporting, particularly those who have submitted few, if any, reports. ASIC intends to re-test the cleanliness of our listing markets.

ASIC's **approach to supervision** will change to be more future-focused and proactive, with firms considered a higher risk to expect a more intensive level of supervision, including a greater on-site presence.

For more information about MIG's 2018–19 priorities, please visit the ASIC website. ■

THE ALLIANCE FOR A FAIRER RETIREMENT SYSTEM

Removing the cash rebate on franking credits

The Alliance for a Fairer Retirement System

AN IMPORTANT objective for government is to encourage older Australians to save for retirement and to support the majority of retirees (58%) who take pride in being either fully or partly self-funded in retirement. This majority includes many self-funded retirees and almost half of the current 1.1 million SMSF trustees who are either in the pension phase, or who will move into that phase shortly.

The ALP's stated policy to remove the cash rebates on franking credits for those who pay no tax will impact directly on many retirees on modest incomes and discourages saving for retirement. It infringes on the principles held by the Alliance for a Fairer Retirement System of **adequacy**, **sustainability**, **certainty** and **fairness**.

Adequacy measures the degree to which the retirement system enables people to achieve a sufficient standard of living in retirement relative either to the standard they enjoyed while working, or as compared to an objective budget standard for retirees. No single retirement income target will be appropriate for all groups. **Denying the tax rebate on franking credits will have an immediate impact on many retirees and substantially reduce retirement incomes, threatening income adequacy.**

EXAMPLE 1: an SMSF in pension mode with no age pension and $1m of savings invested in Australian shares will see a 30% drop in income.

- Current system - dividends $42,000 + franking credits $18,000 = total income $60,000,

- Proposed policy without franking credits – total income $42,000

EXAMPLE 2: a retiree couple with no age pension, $800,000 in shares and $75,000 on deposit in the bank.

- Investment income $36,000 plus franking credit $15,400 = total income $51,400
- Without franking credits total income for the couple is $36,000

Sustainability requires that government expenditure on the retirement income system through the age pension and superannuation tax concessions must be affordable over the long term. Changes to retirement income policy must contribute to fiscal sustainability by encouraging self-sufficiency. The potential loss of income under the ALP policy may encourage retirees to sell down assets and seek income support through the age pension. This is especially true in example 2 above, given that the full age pension for a couple with less than $375,000 in assets is $35,573. Upsizing to a more expensive home, for example, could ensure they receive a very similar income and preserve their assets. **Discouraging saving for retirement is not good policy** as it threatens the sustainability of the system.

Older Australians require certainty to plan for retirement with confidence, and should have sufficient time to alter their arrangements in response to proposed policy changes. The ALP's intention to legislate for the removal of cash refunds on franking credits, if and when they gain office, leaves little opportunity for those in retirement to alter their savings plan. Such short-term thinking completely **contravenes the need for policy certainty in retirement planning and creates undue anxiety**.

Fairness requires that the retirement system treats people in the same circumstances equally. The move to refund franking credits to all shareholders was undertaken with the intention that shareholders should be taxed at their marginal rate. **Failure to refund credits to those who pay no tax means that their investment income would be taxed at the corporate rate of 30%.** Further, exempting those receiving social security benefits means that retirees on the same income will be taxed at very different rates.

Denying the tax rebate on franking credits will have an immediate impact on many retirees and substantially reduce retirement incomes, threatening income adequacy.

EXAMPLE 3: A Couple on the full age pension and with $300,000 in APRA regulated superannuation

- Age pension income of $35,573 + $18,000 in dividends and franking credits = total income of $53,573 – no change under the new policy

Compare Example 3 with Example 1. **The couple who worked hard to save for retirement, and who have no age pension, but $1m in their SMSF are worse off than those who have only saved $300,000. This is not fair! It discourages saving for retirement and will threaten the sustainability of the retirement system.** ■

The Alliance for a Fairer Retirement System

The Alliance for a Fairer Retirement System

ALLIANCE FACT SHEET

Franking Credit Refunds

Who will be affected by the denial of cash franking credit refunds?

- Amongst the Australian population of around 25 million, 17% or around 3.6 million retirees in Australia over the age of 45 as at December 2017. Just over one third (34%) are self-funding and one half are over 70.[1]
- It is estimated by the Parliamentary Budget Office (PBO) that over 1.2m Australian taxpayers will be impacted by the ALP policy.
- Retail investors make up 92% to 99% of shareholders on the register of companies such as Telstra, AMP, IAG, BHP and the major banks. They own 53% of Commonwealth Bank shares and 34% of BHP Billiton shares.
- Around 70% of taxpayers over the age of 75 receive franking credits, with an average value of $6,347. Many of these retirees would have a 30% drop in dividend income under the ALP policy.
- Those likely to be worse off include not only self-funded retirees, but also taxpayers earning less than $65,000, 18-65-year-olds running their own business, single parents, and non-working spouses.
- Most retirees in an SMSF will be adversely affected. The median franking credit rebate for SMSFs is $5,100. The vast majority of those with APRA-regulated institutional superannuation, on the other hand, will not be impacted.
- Consequently a retiree on a full age pension with $300,000 in retirement savings will receive a significantly greater income than a retiree with an SMSF who has saved $1m for retirement.
- Another group that is not included in the above figures is small business owners who derive their retirement income from dividends and franking credits on the equity they invested in their unlisted companies. There are around 500,000 incorporated SMEs, although we do not know how many will be affected.

Australian Retail Shareholders[2]

With the introduction of dividend imputation in 1987 and the removal of the double taxation of dividend, Australian Shares have been a preferred savings vehicle for many. Shares have often been acquired as a result of the large-scale demutualisations and privatisations that have occurred over the past 25 years. Well know names such as Telstra, AMP, IAG, BHP and the major banks have been preferred stocks for retail investors who constitute between 92% to 99% of shareholdings on the registers of the these companies. (See Table 1 on page 14)

This has been especially true for older Australians who have received little benefit from the Superannuation Guarantee introduced in 1992. For this cohort, share ownership has been a critical part of retirement planning over past decades. As a consequence, the impact on older Australians is greater. Around 70% of tax-payers over the age of 75 receive franking credits, with an average value of $6,347. (see Table 2 on page 14)

Taxpayers Affected[3]

It is estimated that over 1.2m Australian taxpayers will be impacted by the ALP policy. The Listed Investment Companies Association of Australia has highlighted the increased tax burden on individuals with low marginal tax rates and those who do not access a government pension.

Depending on an individual's income level and mix, the policy may reduce a low-income earner's after-tax income by up to 30 per cent. Those likely to be worse off include not only fully or part self-funded retirees, but also taxpayers earning less than $65,000, 18-65-year-olds running their own business, single parents, and non-working spouses.

Figures on Table 3 (page 13) on the number affected come from the Parliamentary Budget Office. ■

TABLE 1

Company Name	Retail Shareholding % register by value	Retail Shareholding % register by number	No. of Retail Shareholders up to 10,000 shares	Record Date
Commonwealth Bank	53%	99%	797,272	31/03/2018
ANZ Bank	42%	97%	505,781	31/03/2018
National Australia Bank	47%	97%	552,245	31/03/2018
Westpac	46%	96%	591,161	31/03/2018
Telstra	20%	92%	1,284,818	2016
Insurance Australia Group	34%	99%	690,297	2017
BHP Billiton	22%	97%	540,248	2017
AMP	27%	99%	740,887	2018

TABLE 2

Age	Number of taxpayers	Number receiving franking credits	% receiving credits	Total value of franking credits	Average value of franking credits
Under 18	117,448	6594	5.6	2,418,853	367
18-24	1,554,458	50049	3.2	31,794,715	635
25-29	1,478,576	88,656	6.0	62,889,801	709
30-34	1,468,114	137,228	9.3	166,459,288	1213
35-39	1,304,319	181,259	13.9	313,909,136	1732
40-44	1,366,974	249,274	18.2	604,043,154	2423
45-49	1,281,344	291,315	22.7	879,100,713	3018
50-54	1,268,198	346,531	27.3	1,092,348,645	3152
55-59	1,125,540	361,702	32.1	1,191,686,074	3295
60-64	885,803	337,779	38.1	1,166,176,413	3452
65-69	591,108	283,199	47.9	1,127,091,830	3980
70-74	316,936	167,963	53.0	803,112,142	4781
> 75	454,996	318,256	69.9	2,048,484,147	6437

TABLE 3

Individual taxpayers:*

Australian government pension and allowance recipients[4] 320,000
Not an Australian government pension and allowance recipient 840,000

Superannuation funds directly affected:*

SMSFs in receipt of an Australian government pensions or allowance 20,000
SMSFS[5] not receiving Australian government pension or allowance 210,000
APRA-regulated super fund members 2,300

Total number of citizens affected by removal of imputation credit refunds:

Member of SMSFs not in receipt of age pension or allowances 420,000
APRA-regulated fund members 2,300
Individual tax-payers not in receipt of age pension of allowances 840,000
TOTAL 1,262,300

[1] ABS December 2017, 6238.0 - Retirement and Retirement Intentions
[2] Source Australian Shareholders Association 2018, 6 July
[3] Figures derived from Parliamentary Budget Office 4 May 2018.
[4] Retirees in receipt of Australian government pensions and allowances as at 28 March 2018 would be exempt from this policy – referred to as the Pensioner Guarantee.
[5] Given that there is an average of two members in each SMSF, the number of SMSF members affected is approx. 420,000.

Rebooting cyber security

By Robyn Adcock

As legislation at home and abroad continues to develop, it is key that all businesses understand the cyber exposures they face and how best to mitigate against the threat of breaches, which could be costly from both a financial and reputational perspective. Happily there are signs that this message is starting to skin in at boardroom level in Australia. But is enough being done?

BARELY A DAY goes by without some form of cyber breach making the news. In fact, since mandatory data breach notification legislation was launched in Australia in February, the Office of the Australian Information Commissioner (OAIC), has received notifications of 242 breaches up to 30 June 2018.

In May 2018, HR company PageUp, which counts Coles, Australia Post, Telstra and others among its clients, experienced the largest data breach since the roll-out of the Notifiable Data Breach scheme.

The firm, which has more than 2 million active users spread across 190 countries, saw "unusual activity" on its IT systems, and notified the relevant regulators both in Australia and around the world following the breach. This highlights that while cyber breaches and attacks are becoming more understood, the threat is certainly not diminishing.

EU joins the legislation game

With many Australian businesses now subject to mandatory breach notification at home, regulators in the European Union have released some of the most onerous cyber legislation in history: the *General Data Protection Regulation (GDPR)*.

Legislation in Europe applies to any Australian business with ties to the region. In practice this means that if your business has a presence in the EU, offers goods and services in the EU, or monitors the behaviour of individuals in the EU, it is likely to fall under the remit of GDPR.

OAIC has said that it is committed to internationally co-ordinated approaches to privacy, such as GDPR, and is therefore likely to work with EU regulators to enforce GDPR in Australia where necessary.

Attacks continue to rise, but so do security measures

Conversations around cyber insurance have picked up markedly in the last 12 months following new legislation and a series of major global ransomware attacks in 2017. These regulatory changes are in addition to the rise in number of breaches both reported and unreported.

Spending on cyber security has also surged over the past 12 months.

A report published by Australia's Cyber Emergency Response Team (AusCERT) and advisory firm BDO found that 58% of businesses in Australia and New Zealand had increased their cyber security spending over the course of 2017. This increased spending led to a lower incidence of cyber breaches, as companies that spent more on security reported 52% fewer malware and Trojan infections, and 37% fewer ransomware attacks.

How can insurance help?

Fines and penalties related to GDPR are headline grabbing thanks to their size and scope. Businesses that fall foul of the legislation, and fail to protect data, may be subject to fines of up to €20 million or 4% of annual global turnover, whichever is greater. For comparison, fines for serious and repeat interference with privacy within Australia can reach up to $420,000 for an individual, and $2 million for a business.*

Some jurisdictions have said that fines and penalties related to GDPR will not be covered by insurance but, as the legislation is new, it remains to be seen how this will play out.

These fines are complicated areas and until they are actually levied against companies, it will be impossible to affirm whether they can be covered within the scope of a cyber policy. However these policies are still a vital tool for absorbing costs caused by other areas of complying with, defending or appealing the consequences of a breach.

Cyber is no longer silent. With GDPR and mandatory breach notifications now a reality, cyber breaches are part of the public sphere, which brings with it challenges for all businesses.

From a compliance perspective, it is better to be safe than sorry. If you think you fall under the regulations, a framework you put in place will only benefit your business from a security and trust standpoint.

* *All fines current to August 2018*

The state of cyber security in Australia

The 2017/2018 Cyber Security Survey found that Australian businesses are spending more on their cyber security and are more confident in their cyber security defences.

58% of organisations surveyed in Australia and New Zealand are spending more on cyber security – a 35% increase since 2017

87% of respondents feel more confident in their ability to be able to respond to a cyber incident

$1.2 billion – estimated cost related to Petya/Not Petya, 2017's biggest cyber attack

230,000 – number of computers around the world infected by Wannacry cyber attack of 2017

Top three cyber security incidents impacting Australian/New Zealand businesses:

1) Phishing (19.3%)
2) Malware (17.9%)
3) Ransomware (17.8%)

Source: AusCERT/BDO

ABOUT THE AUTHOR

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Robyn's commentary was included in the latest Gallagher Market Overview Report, Trust & Data: Into the Breach, which was published in August, and which provides commentary on a range of issues impacting consumer trust in national institutions.

Download the full report here.

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What is the SFLU?

By Peter Grace

SFLU IS THE SUPER Fund Lookup system maintained by the ATO. It is a public register of all superannuation funds. It is used predominately by other super funds and employers to check whether they can make rollovers or contributions to a SMSF.

The register shows details about the fund such as its ABN, contact details and its status. The SFLU status will change as the SMSF passes through its first year of operation.

The ATO is now much more rigorous in checking applications to set up a SMSF. It uses analytical risk models to assess:

- whether the fund may be being set up to facilitate illegal early access,
- if the members, trustees and advisers involved with the SMSF are of suitable 'character', and
- the viability of the SMSF where it is being used to purchase a geared property.

The ATO will examine the financial history and past behaviour of the members, trustees and professionals associated with the SMSF. This would include administrators, agents, accountants, lawyers, financial advisers, stockbrokers and SMSF auditors. A review of the SMSF may be triggered where any of these individuals has been bankrupt, has debts owing to the ATO, has outstanding lodgements, has a poor lodgement or payment history or if the individual has been linked to other SMSFs of concern.

The status of a SMSF will initially be 'Election to be regulated being processed'. This means an application has been received but the fund has not yet been registered. The SMSF cannot receive rollovers or contributions.

If the SMSF is not considered a risk, the SFLU status will be updated to 'Registered – status not determined'. This means it can accept rollovers and contributions but that it has not yet been declared a 'complying' fund.

Where risks are identified, the SFLU status will be set to 'Registration details withheld' whilst investigations continue. The trustees can appeal against this decision and must address the concerns raised by the ATO in the registration checks.

After the first year of operation, the fund must lodge an SMSF annual return (SAR) by 31 October. Lodging a satisfactory, audited SAR provides assurance the fund is complying and on track and demonstrates that the trustees can run their SMSF properly. The SFLU status will be updated to 'complying'.

If the SMSF fails to lodge their first SAR, their SFLU status will be changed to 'Regulation details removed'.

Further details of the SFLU can be found at **https://superfundlookup.gov.au/**

Research has shown that most SMSFs are set up at the suggestion of a financial professional. To prevent delays, advisers should ensure members and trustees follow the SMSF establishment process set out on the ATO website. It would be prudent to tell clients about the SFLU and the checks made by the ATO in the registration process. ■

Our RG146 Superannuation course is highly recommended for anyone who advises on securities in self managed or other superannuation funds. For details of SAFAA's Superannuation course, please contact SAFAA's Head of Education, Gillian Gilmore.

Continuing Professional Development September – December 2018

SEPTEMBER

14	Fri	9:00am to 11:00am	Sydney	Conduct Risk Workshop 2CPD (Compliance)
19	Wed	10:00am to 2:00pm	Sydney	Introduction to Derivatives Workshop 4CPD
26	Wed	8:00am to 9:00am	Sydney	Conduct Risk Refresher 1CPD (Compliance)

OCTOBER

4	Thurs	1:00pm to 4:00pm	Perth	A Day in the Life of a Trade Workshop 3CPD (Compliance)
5	Fri	9:00am to 12:00pm	Perth	A Day in the Life of a Trade Workshop 3CPD (Compliance)
17	Wed	9:00am to 1:00pm	Melbourne	Introduction to Derivatives Workshop 4CPD
17	Wed	9.30am to 12.30pm	Sydney	Introduction to Stockbroking & Financial Advising Workshop 3CPD
23	Tues	8:00am to 9:00am	Sydney	Insider Trading Refresher 1CPD (Compliance)
24	Wed	9:00am to 1:00pm	Sydney	Introduction to Derivatives Workshop 4CPD
30	Tues	9:00am to 12:00pm	Sydney	Market Manipulation & Other Prohibited Conduct Workshop 4CPD (Compliance)
30	Tues	9:00am to 11:00am	Melbourne	Introduction to Exchange Traded Options Workshop 2CPD

NOVEMBER

1	Thurs	9:00am to 11:00am	Sydney	Introduction to Exchange Traded Options Workshop 2CPD
8	Thurs	9:00am to 12:00pm	Sydney	Insider Trading Workshop 4CPD (Compliance)
14	Wed	1.30pm to 4.30pm	Melbourne	Introduction to Stockbroking & Financial Advising Workshop 3CPD
15	Thurs	9:00am to 11:00am	Sydney	Review & Remediation Workshop 2CPD (Compliance)
21	Wed	9:00am to 12:00pm	Sydney	A Day in the Life of a Trade Workshop 3CPD (Compliance)
22	Thurs	11:00am to 1:00pm	Melbourne	Review & Remediation Workshop 2CPD (Compliance)
26	Mon	9:00am to 11:00am	Sydney	Introduction to Warrants Workshop 2CPD
27	Tues	9:00am to 11:00am	Melbourne	Introduction to Warrants Workshop 2CPD
28	Wed	2:00pm to 5:00pm	Melbourne	A Day in the Life of a Trade Workshop 3CPD (Compliance)
29	Thurs	1.30pm to 4.30pm	Melbourne	Market Manipulation & Other Prohibited Conduct Workshop 4CPD (Compliance)

DECEMBER

5	Wed	8:00am to 9:00am	Sydney	Review & Remediation Refresher 1CPD (Compliance)

For further information visit the CPD Calendar

www.stockbrokers.org.au/education

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- ✓ SAFAA's solutions for FASEA Education, exams, & CPD
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- ✓ How AI can help firms and advisers improve efficiency
- ✓ Adapting to the changing geopolitical landscape
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ANY SUGGESTIONS?

PLEASE EMAIL Andrew Green,
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