OCTOBER 2018
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Stockbrokers
And Financial Advisers MONTHLY

MEMBERSHIP
EVENTS
EDUCATION
POLICY &
REGULATORY ISSUES

PLUS

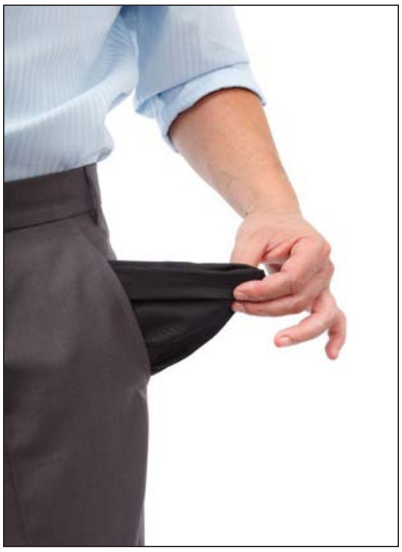
The tide is going out

How to participate in and manage risk at the late stage of the investment cycle

DAVID DREDGE

Stockbrokers
And Financial Advisers
Association Limited

Brokers vs Advisers: Investment Trends



Inside...

Stockbrokers And Financial Advisers Association Limited

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Elizabeth Bryan to speak at SAFAA 2019

Elizabeth Bryan, Chairman of Virgin Australia and Chairman of IAG, will speak at SAFAA 2019 on May 22 & 23. Her topic – *The changing world of Corporate Governance.*

Elizabeth was the first woman to run a large financial institution in Australia when she was appointed to manage the NSW Super and Investment Management Corporation in 1992.

In 1996, Elizabeth was appointed Managing Director of Axiom Funds Management, where she oversaw an increase in returns before the company was sold to Deutsche Bank, after which she became CEO of Deutsche Asset Management. Elizabeth subsequently led a significant transformation in the operations and performance of Caltex while chairman. She has also served as a director of Westpac Banking Corporation and many other Australian public, private and government-owned companies.

Elizabeth is also a member of the Takeovers Panel, ASIC's External Advisory Panel, and the Board of Governors for the Committee for Economic Development of Australia.

Active Managers to shine in next decade

According to a report in the AFR on 21 September quoting UBS Asia Pac Head of Quant, Paul Winter, Active Managers are set to flourish over the next decade as ageing Western populations create a drag on stock market returns and increase volatility.

One Active Manager to watch is Mary Manning who is the Portfolio Manager for Ellerston Asian Investments (EAI).

Mary's thesis is simple. "Asia is the best structural growth story in the world. We seek out high quality, large cap companies that provide sustainable growth that compounds over time."

The good news for delegates to SAFAA 2019 is that Mary Manning will be presenting at the conference on *The case for Asia*.

When Advice Only trumps vertically integrated model

There is an interesting article in Money Management quoting Mike Chisholm, the CEO of Crestone, about the advice versus vertically integrated model.

One thing is for sure – change is coming for vertically integrated businesses.

This will be a subject that is keenly discussed at SAFAA 2019.

Sign up to Geoff Wilson's petition on Franking Credits

Geoff Wilson, the founder of WAM, has locked horns with Labor on their proposed changes to franking credits.

Labor's proposal discriminates against SMSFs and will directly impact member firms whose clients include SMSFs.

Geoff is hoping to get 100,000 people to sign-up to a petition asking Labor to re-think their policy.

You can sign the petition here.

Geoff has agreed to speak at SAFAA 2019 on May 22 & 23 at Hilton Sydney.

Hopefully, Labor will have changed its policy by then.

If not, Geoff will continue to express his views in a forthright manner.

There are many flaws in Labor's attack on franking credits. The one that is most galling is that members of large, tax-paying APRA funds, such as industry funds, will get to keep their tax credits because the test is at a fund level.

Andrew Green

Our democracy provides us with a very valuable gift – the right to express a view. Now is your chance to spend 5 minutes online and tell the Economics Committee how you feel about the proposal to remove refundable franking credits.

This will encourage members to move their super from SMSFs into the large, tax-paying industry funds.

On any measure, this is unfair.

Our Equity Capital Markets saved Australia from the GFC

There has been a lot of media coverage following the 10-year anniversary of the collapse of Lehman Brothers that triggered the GFC.

I haven't seen any acknowledgement of the role played by members of this Association in underwriting rights issues for listed Australian public companies!

The ability of Market Participants to underwrite and place equity capital is without doubt one of the most important things that was done to help Australia sail through the GFC unscathed.

Just for the record, immediately following the GFC, our Equity Capital Markets raised from institutions and private clients across Australia about $90 billion. Of the $90 billion equity raised, approximately $70 billion was used by banks and other large companies to pay down debt.

It is very easy for regulators to forget the vital role our members play in providing equity capital to businesses!

Women are top interns

A large wealth management firm recently filled two intern positions.

The short list had five people on it.

"Three of the names on the shortlist were men, but there was unanimous agreement across the firm that the two best candidates were women. So we selected them."

What a simple yet powerful message that sends.

That action demonstrates our Gender Diversity Guidelines, the first one of which says:

1. Step up as Leaders

1.1 Create leadership teams that embrace and implement gender diversity – lead by example.

1.2 Publicly advocate and support change.

1.3 Actively develop, promote and advance inclusive leaders across your organisation by:

- Publicly talking about the importance of gender diversity
- Creating opportunities to discuss gender diversity
- Talking about the community expectation that at least half of your advisers should be women

House of Reps inquiry into removal of refundable franking credits

We are delighted that the House of Reps Standing Committee on Economics is holding an Inquiry into the implications of removing refundable franking credits.

Submissions can be made online or by emailing economics.reps@aph.gov.au by November 2nd.

This issue was covered extensively in the September edition of the *Stockbrokers Monthly*.

Our democracy provides us with a very valuable gift – the right to express a view.

Now is your chance to spend 5 minutes online and tell the Economics Committee how you feel about the proposal to remove refundable franking credits.

F3 Future Females in Finance

Gillian Gilmore, our Head of Education, and I met recently with Camilla Love, the Founder of F3.

F3 was established to foster the next generation of females in finance.

We have offered F3 several tickets for undergraduates to attend SAFAA 2019.

David Dredge – CIO – Convex Strategies

One of the speakers at SAFAA 2019 will be David Dredge, the CIO of Convex Strategies in Hong Kong.

David has contributed an article for inclusion in this edition of the Monthly as a curtain raiser to his discussion at the conference where he will be speaking about *Why and how investors should protect long positions*.

His article can be viewed on page 12.

Stockbroking disputes received by FOS

It's very interesting to look at the number of stockbroking disputes received by FOS for the year ended June 2018.

What makes them interesting is to consider the figures in the context of the overall financial services industry.

FOS received 43,684 disputes across the whole financial services sector.

Of these, only 155 related to the stockbroking sector.

A breakdown of the FOS complaints about the stockbroking sector appears on page 5.

Stockbroking disputes 2017-18

Stockbroking disputes 2017-18	Issue Count*	Dispute Count	%	Stockbroking disputes 2016-17	Issue Count*	Dispute Count	%	Variance
Number of disputes received		160				131		+22%
Number of disputes accepted		108				94		+15%
Number of disputes closed (Incl. Registration disputes)		155				132		+17%
Top 3 products for the disputes accepted				**Top 3 products for the disputes accepted**				
Shares	77		63%	Shares	67		64%	
Self-Managed Fund/s	12		10%	Mixed Asset Fund/s	8		8%	
Mixed Asset Fund/s	8		7%	Self-Managed Funds	5		5%	
Top 3 issue types for the disputes accepted				**Top 3 issue types for the disputes accepted**				
Instructions	35		28%	Advice	23		22%	
Advice	28		23%	Instructions	20		19%	
Transactions	18		15%	Service	18		17%	

Top 3 issues for the disputes accepted				**Top 3 issues for the disputes accepted**				
Failure to follow instructions/agreement	24		20%	Inappropriate advice	15		14%	
Inappropriate advice	16		13%	Failure to act in client's best interests	11		10%	
Unauthorised transactions	15		12%	Failure to follow instructions/agreement	9		9%	
Outcomes for closed disputes (Incl. Registration disputes)				**Outcomes for closed disputes (Incl. Registration disputes)**				
Resolved by FSP		62	40%	Resolved by FSP		44	33%	
Discontinued		20	13%	Outside Terms of Reference		30	23%	
Outside Terms of Reference		19	12%	Discontinued		14	11%	
Decision in Favour of FSP		13	8%	Negotiation		11	8%	
Preliminary View in Favour of FSP		9	6%	Decision in Favour of FSP		9	7%	
Negotiation		9	6%	Preliminary View in Favour of FSP		8	6%	
Preliminary View in Favour of Applicant		8	5%	Decision in Favour of Applicant		7	5%	
Conciliation		7	5%	Assessment		4	3%	
Decision in Favour of Applicant		5	3%	Conciliation		4	3%	
Assessment		3	2%	Preliminary View in Favour of Applicant		1	1%	
Grand Total		**155**		**Grand Total**		**132**		

*Note: A dispute can have multiple products/issues (issue count).

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 Approves AFCA Rules

THE AUSTRALIAN Financial Complaints Authority (AFCA) has announced that ASIC has approved its proposed Rules. The AFCA Rules commence operation on 1 November 2018. From that date, all new client claims will be received by AFCA and dealt with under the new Rules.

The AFCA Rules embody the new framework for external dispute resolution established under recent legislation (replacing the FOS framework). This includes the increased $ amount thresholds for claims which can be lodged (namely, $1 million, in relation to financial advice).

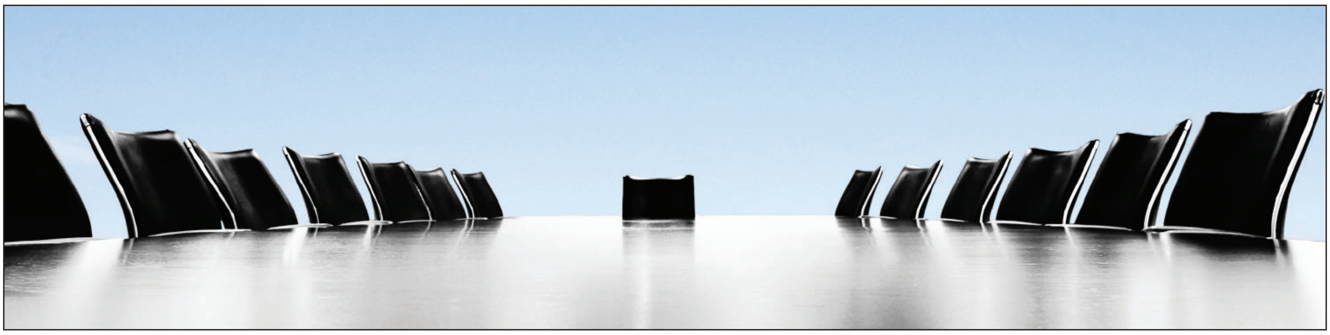
The AFCA Rules are largely based on the existing FOS Rules, other than for the changes introduced by the new laws. SAFAA had lodged a Submission with AFCA urging it not to incorporate the rules which enabled claims from Wholesale clients to be eligible for consideration. This had been introduced by FOS, and AFCA was intending to carry this forward under its Rules.

SAFAA argued that membership of an external dispute scheme was a license condition imposed under the Corporations Act on licensees who provided a financial service to retail clients. To extend the scheme to clients who were not retail was contrary to the intentions underlying the Act.

Under the final version of the AFCA Rules, Wholesale clients remain eligible to lodge a claim against a licensee. AFCA has a discretion to decline to receive a claim from a wholesale client, although the Rules also state that this discretion to decline a claim should only be exercised where it is compelling to do so. ■

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:

Audit Committee Meeting, Thursday 4 October 2018

Chair: Brian Sheahan MSAFAA, Morgans Financial

Management Committee Meeting, Tuesday 9 October 2018

Chair: Andrew Green, Stockbrokers And Financial Advisers Association

Nominations Committee Meeting, Tuesday 16 October 2018

Chair: Karl Morris MSAFAA, Ord Minnett

Profession Committee Meeting, Wednesday 31 October 2018

Chair: Andrew Fleming MSAFAA, Tynan Partners

Applicants for Membership

The following have applied for membership. If you know of any reason why any of these people should not be admitted as a member, please contact me either via email or by phone 02 8080 3208.

Individual Membership applications for approval

Applicant's Name	Membership Type Sought	Job description	Name of AFSL
Richard Burns	Master Member	Managing Director	CommSec
Yanhua Chen	Affiliate Member	Managing Director	61 Financial Information Technology Pty Ltd
Samuel Croll	Master Member	Adviser	Bell Potter Securities
Hugo Dein	Master Member	Client Adviser	Bell Potter Securities
Andrew Gladman	Master Member	Adviser	Bell Potter Securities
Sally Keyes	Master Member	Senior Private Client Adviser	Ord Minnett
Nicole Neale	Practitioner Member	Dealers Assistant	Bell Potter Securities
Marco Pandini	Practitioner Member	Assistant Adviser	RI Advice Group
Darrell Seeto	Master Member	Senior Investment Adviser	Shaw and Partners
Nicola Younger	Practitioner Member	Financial Adviser	Macquarie Equities Limited

Are ETPs meeting retail investors' expectations?

ASIC
Australian Securities & Investments Commission

Our recent review of the exchange traded products (ETP) market in Australia has found that while the market is generally performing well, several risks require monitoring by issuers and oversight by market operators.

We released our findings about the steadily growing ETP market in Report 583 *Review of exchange traded products*, following our review which examined whether the market is meeting the expectations of retail investors.

What we found

We found that ETPs are generally meeting the relatively low-cost and liquidity expectations of investors, with trading liquid, bid/offer spreads narrow, and secondary market prices close to the net asset value (NAV). However, this doesn't always apply to all products.

Our recommendations

We recommend that ETP issuers frequently publish and make available an indicative net asset value (iNAV) that enables investors and financial advisers to make more informed decisions.

We also encourage issuers to monitor market making. A significant concern identified was the potential for the bid/offer spread to temporarily widen in some circumstances for ETPs, which undermines their relatively low-cost proposition.

Issuers should continue educating investors and financial advisers about the ETP market, for example regarding liquidity, order type, and the need to exercise caution when trading during market volatility.

More information

Read Report 583, *Review of exchange traded products* for a complete list of our findings and recommendations.

Brokers vs Advisers: Investment Trends

Leveraged is known as *The Professional's Choice* when it comes to margin lending – but do you know why?

Leveraged
The professional's choice

IN ORDER TO retain its edge as the best in the business, from time to time Leveraged looks at how it is delivering for its financial advisers and brokers by benchmarking itself against its competitors.

To do this, Leveraged enlists the help of specialist international research organisation Investment Trends – providers of new business insights for many of the world's leading financial services organisations.

The most recent Investment Trends survey reports reveal some interesting views and behaviour shifts – for both investors and advisers in the world of margin lending.

What is particularly interesting, is that brokers have overtaken financial advisers as the leading facilitators of margin lending – following an increased concentration of high net worth investors turning to margin loans as the preferred line of credit*.

Is margin lending solely the province of the high net worth investor?

The reports highlighted that there has been an increase in the number of financial advisers advising on margin lending in the last 12 months. Gearing into shares is being incorporated into investment strategies – and not just for the high net worth clients.

Starting a $100,000 share portfolio requires far less financial commitment than a $700,000 mortgage. And a drop in the number of residential properties going to auction combined with an increase in negotiated sales in Sydney and Melbourne is a pretty good sign of less heat in the property market.

Leveraged has also seen that first home buyers are back with a vengeance, so looking for investment opportunities elsewhere may well be a logical response to the widely held view that the property market is cooling off, and that both yields and capital gains in this asset class will be harder to come by for a while.

Who's advising who?

Another interesting finding is that an increasing share of the debt written by advisers was instigated by the adviser – rather than the client.

On the other hand, brokers, who are now the leading facilitators of margin lending, say that in just over 60% of the margin loans they organised the loan was instigated by the client*.

This may suggest that higher net worth clients are positioning themselves with a line of credit to take advantage of opportunities as they arise during periods of share market volatility, and that advisers are urging clients to think outside of the 'property square'.

For advisers, tax effectiveness and accelerating the wealth creation process are the leading reasons they recommend margin lending, whereas brokers are in the box seat when it comes to spotting opportunities.

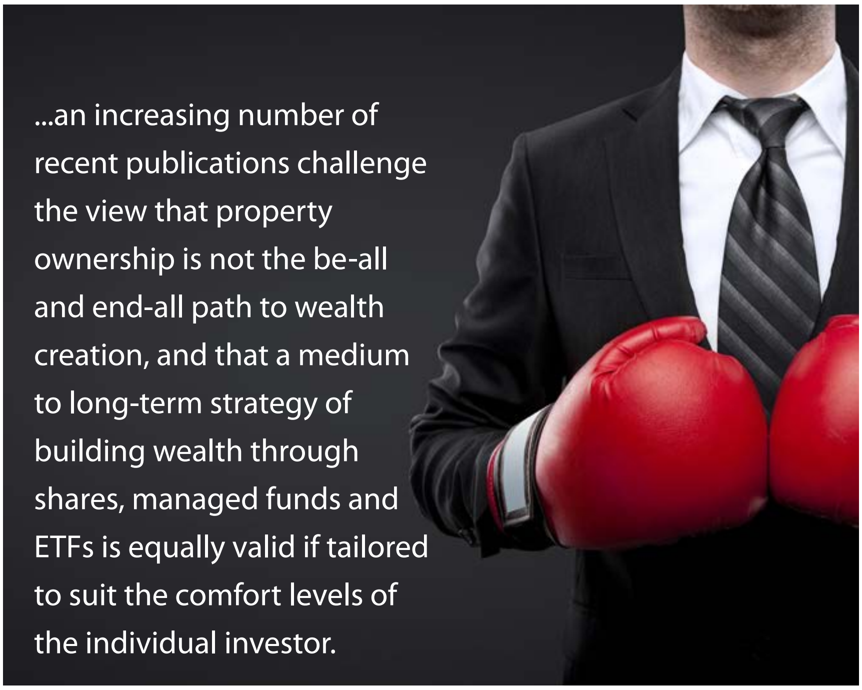
Either way, an increasing number of recent publications challenge the view that property ownership is not the be-all and end-all path to wealth creation, and that a medium to long-term strategy of building wealth through shares, managed funds and ETFs is equally valid if tailored to suit the comfort levels of the individual investor.

The professional's choice

Since the last Investment Trends adviser and broker report, Leveraged is now even more highly regarded by brokers as specialists in their field, good communicators and excellent at providing high levels of customer service. Brokers particularly value the relationships they have with Leveraged's BDMs, its competitive rates and low fees.

Leveraged proudly holds a primary relationship as margin lender of choice for 60% of brokers advising on margin lending.

To find out more about Leveraged's range of margin loans to help your clients build wealth and achieve their financial goals, please contact your Relationship Manager or call Leveraged on 1300 307 807. ■



Leveraged
The professional's choice

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*2017 Investment Trends Margin Lending Planning report, 2017 Investment Trends Margin Lending Broker report

The tide is going out

"That sucking sound is the irresistible lure of 2.5% on $ cash – risk-free – pulling money from your asset class" Matt King, Credit Strategist for Citibank, London

By David Dredge, Chief Investment Officer – Convex Strategies, City Financial Investment Company

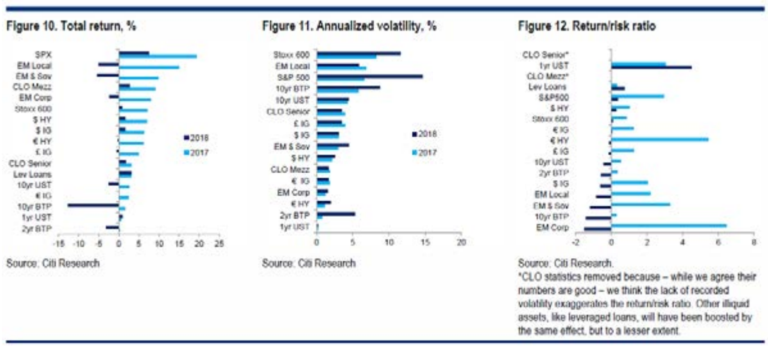
IN OTHER WORDS, "The Tide is Going Out". (In reference to Warren Buffet's analogy about swimmers wearing / not wearing swimming trunks and investors potential level of distress when financial cycles turn.)

In the same report that contained the opening quote, Mr King provided a nice visual, and one that gets pretty much to the point of most of our risk management discussions with institutional investment managers and asset allocators, i.e. how defensive are your Defensive Strategies? By some margin, US dollar cash is the top performing return/risk strategy this year, and one of the best from 2017. Cash does what it says on the tin, makes almost nothing in good and bad times, and has low volatility and low correlation (We will not digress about the appropriateness of his use of volatility as a risk measure). On the other hand, the whole list of modern day defensive alternatives, from various fixed income to IG Credit and EM Sovereigns, are all loss making. In footballing terms, they neither score goals, nor play defense, they are over-priced defensive midfielders who fail to go "box to box". Nevertheless, investment portfolios maintain almost unprecedented weightings in exactly these, supposedly, Defensive Strategies. See Figure 1

Two further examples from Marko Kolanovic of J.P. Morgan, can be seen in Figures 2 & 3.

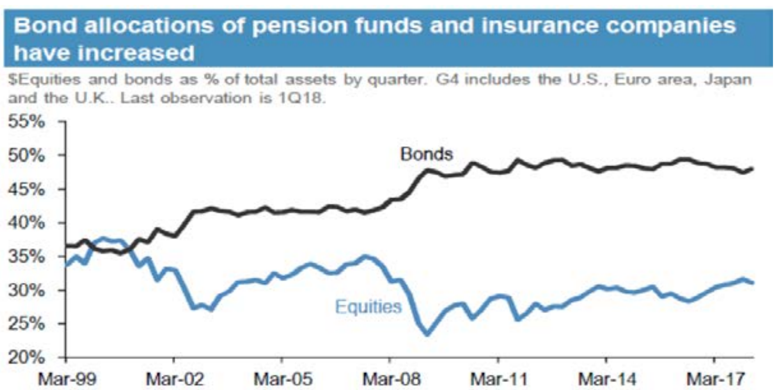
We hear day after day, how fiduciary asset managers have increased their Defensive Strategies and so reduced their growth/equity weight-

FIGURE 1: Performance by asset class 2017/2018



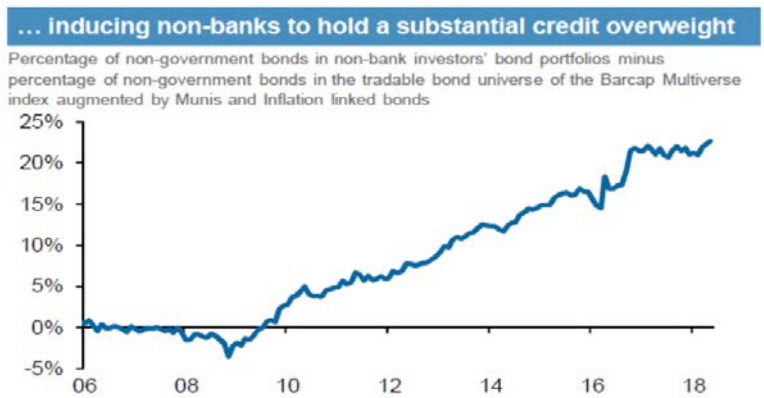
Source: Citi Research

FIGURE 2: Bond vs equity weights



Source: J.P. Morgan, ECB, BoJ, BoE, Federal Reserve flow of funds

FIGURE 3: Credit weight within bond holdings



Source: Bloomberg, J.P. Morgan

FIGURE 4: Comparative risk mitigation strategies

Source: Bloomberg

ings, because they have so little confidence in the actual defensiveness of their chosen strategies. The good old days of a nice high running yield, and the promise of negative correlation, in an equity sell-off, of long duration fixed income assets, are simply no more. As rates approach zero, obviously, fixed income assets provide neither yield, nor the chance for significant capital gains on the back of Central Bank policy rate cuts. We have noticed two outcomes from this increasingly common approach to risk/return. Firstly, diversified portfolio after diversified portfolio are underperforming their benchmarks as they are simply not "participating" sufficiently in rising markets due to reduced weightings in equity beta. Secondly, there seems to be more concern about the foregone yield than about the muted risk mitigating dynamics (in part connected of course to the lower returns from their 'risk seeking' allocations). Almost inevitably this conundrum has been met with the decision to add leverage ('Risk Purgatory' as we have renamed Risk Parity), and to diversify into higher yielding defensive strategies, e.g. corporate credit. Eventually, this very build-up of levered, yield seeking, faux-defensive strategies becomes, in and of itself, the risk. For perspective, go back up and look at the performance this year of, what are commonly considered, Defensives.

Returning to our football analogy, we keep stressing to managers that they should hire a good goal keeper, put more goal scorers on the pitch and stop wasting money on poor quality defensive midfielders, who often prove to be ineffective in front of goal, and are on the wrong part of the pitch when the counter-attack begins! The simple visualisation that we use in presentations shows the performance of a 50/50 basket of SPX Index and the CBOE Eurekahedge Long Volatility Index compared to such common Defensives such as cash, fixed income, and absolute return hedge funds. If compounding through time is your objective, it is pretty clear what makes a superior risk mitigation strategy.

Is risk free, US dollar cash, sucking money from your asset class? Is the tide going out? Will Defensives, that do not actually play defense, be susceptible to the withdrawal of funds? To a great extent, we believe that that depends on the Federal Reserve, who, as of now, are continuing on the path of rate hikes and balance sheet un-wind. August is the traditional month for the big Fed & Co. gathering in Jackson Hole. We did not find many of the speeches and discussions particularly interesting this year, but Fed Chair Jay Powell's speech is worth a read[1].

It is yet another disappointing reframing of history that spins the myth that the Fed never did anything that led to the build-up of systemic risk, but then did everything right to mitigate the after-effects of each crises. There is, however, one little sliver worthy of mention. Something so obvious that it is depressing that they need to raise it as some sort of revelation, but in the world of 'Central Bank Speak' it is indeed relevant. Chair Jay Powell, in his section on Risk Management, states:

*"Whatever the cause, in the run-up to the past two recessions, **destabilizing excesses appeared mainly in financial markets rather than in inflation**. Thus, risk management suggests looking beyond inflation for signs of excesses."* (bold type is our emphasis)

This is obvious to everyone living outside the immediate halls of Keynesian craziness: asset prices matter. Inflation is inflation, wherever it chooses to show itself, and it was not divergence from 2% CPI that was relevant in any previous crises. Of course, we all know that they know that, but it is indeed rare for them to say so formally. So now we have both their official macro-measures of inflation and employment through their targets, and you also have a stated recognition that financial excesses warrant concern. Throw that all in the wash and we think you end up with something akin to the tide going out.

If indeed we are nearer the end of this cycle, we think global markets look a lot more like '97/'98. For those following equity markets in particular, it would be hard to have missed the many recent broker reports highlighting the relative outperformance of US markets over Emerging Markets, and generally strong recommendations to load up on underperforming EM to take advantage of the unprecedented divergence. The visualisation of this recent development is shown in Figure 5 (on page 13).

A slightly longer perspective creates a potentially different picture. We have seen a fair bit worse outperformance if you extend the time scale back to capture what happened from the 1994 Fed rate hike to the end of the EM Crisis in 1998, and on to the end of the DotCom bubble. There may be more to current performance

1 https://www.federalreserve.gov/newsevents/speech/powell20180824a.htm

than just assuming short-term mean reversion.

These charts (Figures 5 and 6) also jive well with one of our other favourite, semi tongue in cheek, thoughts, namely "The S&P is never going down". We say that all the time because we are well aware that virtually every investor, from the biggest institution to individual retail clients, who has decided to allocate something to hedging strategies, has put circa 100% of it into S&P/VIX related strategies. Whether in Australia or Asia, Singapore or Switzerland, pension fund or private banking client, to the extent that they are hedged, investors are solely hedged in S&P/VIX related products. One would already be suspicious of this simply from looking at the ongoing high cost of carrying such volatility strategies on the S&P market, but there is nothing quite like hearing about it, over and over again. When we challenge people, people who regularly raise basis risk as a major concern and who manage broadly diversified global multi-asset portfolios, as to their concerns about the efficacy of such a singularly concentrated hedging strategy, we get the same answer every time. "It is easy". Keep that in mind when you think about the impact that supply and demand has on value in volatility and convexity.

We have had our suspicions about some of the more obvious swimmers without trunks on, e.g. Argentina, Turkey, Pakistan, and have been keeping a look out for suspicious characters such as Indonesia. Towards the end of August, some of those concerns started to manifest themselves as the slightest hint of IDR implied volatility repricing higher. Figure 7 below, however, shows that it is, potentially, only just starting, and there are plenty of other implied volatilities, that have been highly correlated in the past, that have continued their long grind lower.

Even as we have plenty of signs that justify concerns as to the potential of a receding tide, the still consensus market behaviour is that those things are merely idiosyncratic and it is still perfectly safe to take risk,

FIGURE 5: Relative performance SPX vs MSCI Asia ex Japan

Source: Bloomberg

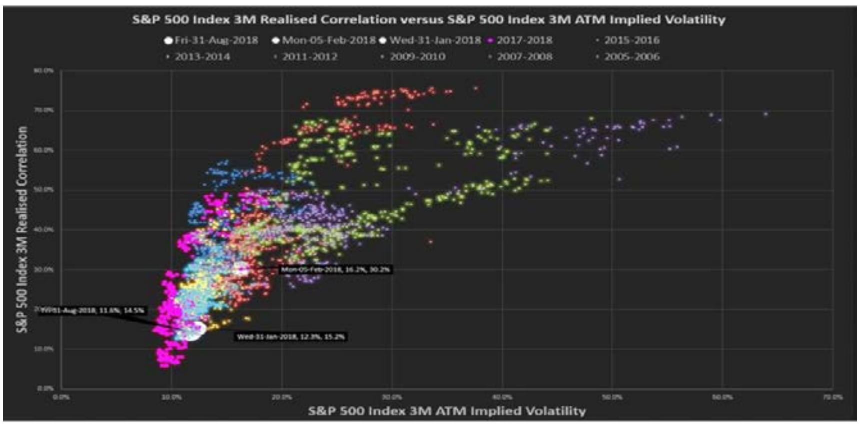
FIGURE 6: Relative performance SPX vs MSCI Asia ex Japan

Source: Bloomberg

FIGURE 7: 1- year implied volatility IDR, PHP, AUD/SGD, XAU

Source: Bloomberg

FIGURE 8: SPX correlation/Vol comet



Source: City Financial, data from J.P. Morgan even levered risk, in not yet identified naked swimmers. Our 'Comet' (Figure 8) is telling us much the same, at least in S&P land. Correlation and volatility in that market have come right back down to levels only exceeded by the most extreme that we saw around the turn of the year.

A good goalkeeper and more goal scorers is our strongly held conviction that allows investors to continue to participate in risk taking, but which provides reliable, efficient, negatively correlating returns to dissipate risk in a correlated downturn. More and more we are confused by the logic that reduces investment in equities because of fears of a market crash, only to be replaced by increased weightings in fixed income. These actions not only reduce returns if the view proves to be wrong and equities continue to rise, but also leaves investors exposed to the likely failure of fixed income this cycle as a risk mitigant, in the face of rising interest rates.

Given the still very low cost of owning volatility globally, constructing effective long equity/long put risk managed solutions seems to us to be the optimal way to continue to both participate in and dissipate risk at what is generally agreed to be the late stage of this investment cycle. ■

Board evaluations: avoiding governance failures

By Guy Griffin, Senior Lawyer, GRC Solutionst

solutions

Many boards are not aware of how effective (or ineffective) they are, until a crisis arises. The need for effective board evaluation was one of the hard lessons learned from the recent governance crisis at wealth giant AMP[1] . Now, board evaluation is widely established in international companies.

BOARD EVALUATION is a relatively new idea for boards of many public companies, including customer-owned ADIs, in Australia. In the past there may have been nominal efforts by some Australian listed public companies to evaluate the performance of the board as a whole[2]; however effective board evaluation is difficult, not the least because the link between a company's performance and its board is complex.

Nonetheless, an effective board evaluation can assist to identify and resolve problems before they evolve into crises. For this reason and because among others, Australian boards are increasingly turning to evaluations as a way to assess their own performance.

What is a board evaluation?

A board evaluation is not a personal performance review of your directors; it is an assessment of the performance of the board as a whole. Some alternative ways a board evaluation may be undertaken are:

- self-evaluation, conducted wholly internally,
- by a committee of the board or by senior management, or
- by an external party such as a consultant.

For reasons of independence and objectivity it is better to delegate the evaluation to a non-executive, independent director, a board committee, or an external consultant rather than to senior management.

An external consultant engaged to carry out the evaluation will usually be perceived as more independent than a reviewer with an existing relationship with the organisation, such as senior management, a lawyer or auditor.

The methods employed for a board evaluation may be:

- qualitative e.g. interviews of directors individually or as a group, observation, document analysis
- quantitative e.g. survey by phone, person to person, email

- a combination of qualitative and quantitative methods e.g. combining a questionnaire with interviews. This will seek to avoid a 'tick-the-box' approach that an over-reliance on quantitative assessment may encourage.

Setting standards

The essential step before starting an evaluation procedure is to set standards for:

1. Selection procedure for directors. This should be documented in a policy.
2. Duties of directors. These should be set out in a job description.
3. Performance of directors. Most company constitutions now contain provisions relating to board attendance. Other performance requirements for directors should be included in a job description.

Evaluation tool

The evaluation tool should be a list of questions on which the board wants to be evaluated. The questions often focus on topics like the efficiency and effectiveness of board meetings, the board's relationship to committees, or the board's relationship with the CEO or general manager.

Survey tool

The board may then develop a survey tool. It is up to each individual board to choose the questions on which they want to be evaluated. The board should then pass a motion to approve the survey instrument and how the survey process will be conducted.

When to conduct the evaluation

The evaluation may be conducted outside working hours, perhaps during a formal board retreat. The board may employ an outside professional, a trusted person, to administer the retreat and the evaluation.

Post-evaluation implementation

It is important that any agreed outcomes of the board evaluation are implemented quickly. As Keil and Nicholson[3] note, some results may be 'quick wins' such as a revised agenda for board meetings or restructured board papers. Others may be longer-term outcomes requiring a board paper analysis, such as a restructuring of remuneration policy. ■

GRC solutions

1 Yeates, Clancy "AMP's new chairman declares the company is in crisis" Sydney Morning Herald 12 May 2018

2 The ASX Corporate Governance Principles and Recommendations Principle 2.6 requires listed companies to develop and implement a process for evaluating the performance of the board. By contrast, the UK Corporate Governance Code requires the evaluation of the board to be externally facilitated at least every three years; the New York Stock Exchange requires listed company boards to conduct evaluations annually.

3 See Kiel, G. C; Nicholson G; Directors at Work: A Practical Guide for Boards (Thomson Reuters 2016) p 556. See also Kiel, G.C; Nicholson G: Barclay MA; Board, Director and CEO Evaluation (McGraw-Hill 2004)

I'm broke, can I get my super?

By Peter Grace

Superannuation is for retirement and there are limited opportunities to access it earlier. The ATO is vigilant in unearthing and prosecuting people who promote early release schemes or members who take money from their SMSF before retirement.

However, there are special rules for people in financial hardship and for people whose circumstances warrant a more compassionate approach.

Financial hardship

The rules defining financial hardship are very specific. Firstly, you must have been receiving government income support payments (such as NewStart allowance) continuously for at least 26 weeks. Secondly, you must provide evidence that you cannot meet reasonable and immediate family living expenses (such as rent and utility bills).

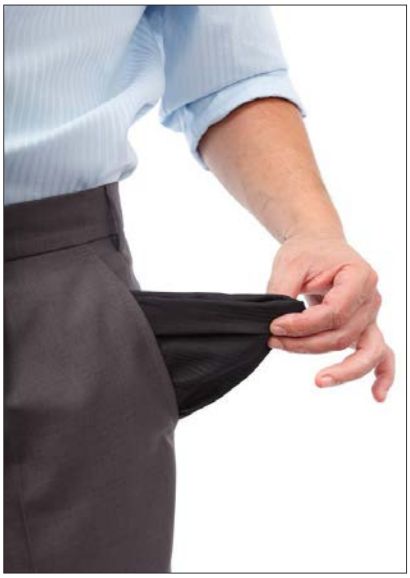
The maximum you can receive is $10,000 and it will be taxed as a superannuation lump sum. You can only make a claim for a financial hardship payment once in any 12 month period.

Your super fund will assess your eligibility to receive the payment.

Compassionate grounds

The Government recognises that some people get into financial distress for reasons outside of their control. You may be able to access your super to meet unpaid expenses on the following grounds:

- paying for medical treatment or medical transport for yourself or a dependent.



- paying for palliative care for you or a dependent.
- paying for modifications to your home or vehicle or buying disability aids for you or a dependent because of a severe disability.
- paying for expenses on the death of a dependent (such as a funeral or burial).

The maximum you can receive is what is reasonable needed based on the evidence you provide. From 1 July 2018, your eligibility to receive a payment from your super will be assessed by the ATO through the MyGov website. Previously, applications were assessed by the Department of Human Services.

Home owners may also be able to access their super if there is a risk their home may be repossessed. You could apply to access your super to meet:

- unpaid arrears on a mortgage. The maximum you can receive is 3 months repayments plus 12 months of interest payments.
- unpaid council rates.

The super fund will deduct superannuation lump sum tax but you will receive the amount you are assessed as needing. The tax is usually between 17% and 22% if you are less than age 60. If you are over age 60, no tax is deducted.

Super is for retirement so these concessions to the normal rules are closely monitored by super funds, APRA and the ATO. ■

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 October – December 2018

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)
10	Wed	9:00am to 11:00am	Sydney	Conduct Risk Workshop 2CPD (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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- ✓ Why & how investors should protect long positions
- ✓ Decline in the use of derivatives exposes portfolios to unnecessary risk
- ✓ Sovereignty of Data: ownership, governance & usage
- ✓ Code Monitoring Schemes
- ✓ Royal Commission related topics including:
  - ✓ Will the regulatory pendulum swing too far and damage the international competitiveness of the Australian Financial Services Sector?
  - ✓ Should NEDs be required to be more deeply involved in the operations and governance of companies of which they are a director?
  - ✓ How to improve transparency in financial services.
- ✓ Reducing the costs of providing financial advice

ANY SUGGESTIONS?

PLEASE EMAIL Andrew Green,
Chair, SAFAA 2019 Steering Committee

SAVE THE DATE...

SAFAA 2019

22 & 23 May 2019

For further information visit

www.stockbrokers.org.au/conference

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Please email dtran@stockbrokers.org.au