

# Stockbrokers

## And Financial Advisers MONTHLY

NOVEMBER 2018  
[www.stockbrokers.org.au](http://www.stockbrokers.org.au)

MEMBERSHIP  
EVENTS  
EDUCATION  
POLICY &  
REGULATORY ISSUES



Stockbrokers  
And Financial Advisers  
Association Limited

## Fairer Retirement Summit

FULL REPORT INSIDE...



## Inside...

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**Alliance members at the Fairer Retirement Summit**

l-r: Wayne Strandquist – Association of Independent Retirees, The Hon, Stuart Robert MP – Assistant Treasurer, Judith Fox – Australian Shareholders' Association, Professor Deborah Ralston – Chair, SMSF Association & Alliance Spokesperson, Andrew Green – Stockbrokers And Financial Advisers Association

*See page 5 for coverage of the Fairer Retirement Summit*



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## ASIC Code Compliance Scheme

We have joined other industry Associations to develop an industry-wide Code Compliance Scheme. While still early days, we are hopeful that the collegiate approach will succeed.

By way of background, on September 28, ASIC released [Regulatory Guide 269](#).

The Guide prescribes in detail the requirements to become a Code Compliance Scheme.

Under the model we are developing with other Associations, individual members of all participating Associations will be charged the same code monitoring price.

As a fallback position, if efforts to create an industry scheme are not successful, on 31st October, we lodged with ASIC our own Expression of Interest in becoming a Code Monitoring Scheme.

ASIC requires draft applications for operators of a Compliance Scheme to be submitted by December 31st, and final applications by June 30, 2019.

On the current timeline, advisers must notify ASIC of the Compliance Scheme to which they belong by 15 November 2019.

## Fairer Retirement Summit

The Alliance for a Fairer Retirement staged its inaugural Fairer Retirement Summit in Sydney on October 30th. Speakers included:

- Hon Stuart Robert, MP, Assistant Treasurer
- Hon Tim Wilson, MP, Chair – House of Reps Economics Committee
- Mr Geoff Wilson, Chair – Wilson Asset Management

Numerous invitations were sent to Labor MPs to attend, but none was available.

There is full coverage of the Summit on the following pages.

The Summit received wide media coverage.

SAFAA is a founding member of the Alliance.

The Alliance is focused on:

- Fairness
- Adequacy
- Certainty
- Sustainability

The Alliance was formed in response to Labor's proposal to withhold the tax refunds on franked dividends for members of super funds that were not paying tax.

Investors most impacted will be those in SMSFs, as many of them are not paying tax.

Labor's proposal is unfair as it treats two individuals differently based on where their super is managed.

Members of SMSFs that don't pay tax will not get their tax refund. Members of large tax paying industry funds will however get their tax refunds! This is not fair on any measure.

The Alliance has lodged a [fantastic submission](#) with the House of Reps Standing Committee on Economics. There is also a very [powerful fact sheet](#) that we urge you to send your clients. We need to get the message out.

## Membership renewals

I extend my thanks to members for renewing their memberships online. I acknowledge and apologise for some teething issues. Some renewal emails ran into firewalls, and we also had a server outage over the weekend of 13th October.

The renewal process gave members an opportunity to view their Member Portal.

The Member Portal stores details of CPD and subscription preferences and is a very useful record of professional training.

## Membership value proposition

On receipt of their renewal invitation, a few Practitioner Members called and asked what they were getting for their membership.

It's a fair question and one that keeps us very focused.

The answer to the question is twofold.



Andrew Green

In the first instance, we advocate for our Principal Members who deal in listed securities via exchanges and underwrite and place equity capital for Australian businesses. Equity capital provides the lifeblood for Australian Companies. Complex regulations govern the operation of Principal Members. As necessary, we provide feedback to exchanges, regulators and government on issues that impact the integrity and operational efficiency of listed markets.

Our second role, which is symbiotic to the first, is to advocate for Practitioner Members, most of whom are employees of Principal Members. Our advocacy for Practitioner Members focuses on professional development, such as the new FASEA requirements.

FASEA requires 5 things:

- Tertiary education
- National Exam
- Professional Year for new advisers
- CPD
- Membership of a Code Compliance Scheme

Ultimately, our advocacy is based on a distillation of issues from our members, both Principal and Practitioner.

We distil issues through our committees and working groups.

On the Practitioner front, since April 2015 we have been deeply engaged on the development and implementation of FASEA. It's interesting to re-read our [submission of May 2015](#).

There are many things in the FASEA legislation about which members are uncomfortable. We are consulting



with government and regulators on these. As with life, consultation is a never-ending journey.

We understand the angst that Practitioner Members feel about FASEA, and we continue to advocate for a regime that introduces new standards but doesn't do so at the expense of driving experienced advisers out of the industry.

We are hopeful that some progress will be made towards accommodation of experienced advisers. We may not get everything, but something will be better than nothing. And that is what we do for our members.

### Annual conference – accelerator program

At our 2019 annual conference on May 22 & 23 at Hilton Sydney, Western Sydney University (WSU) will be conducting a Workshop outlining course material to be covered in two units comprising the Masters of Stockbroking & Financial Advising.

The units to be covered will be Financial Products & Markets and Financial Adviser Communication Skills. These units are compulsory for the Masters, Graduate Diploma and Graduate Certificate programs.

After the Workshop, students will have a good idea as to whether they will be able to pass the subject by undertaking an assignment.

The assignment will be marked by WSU.

If the student passes the assignment, WSU will grant the student a credit for that subject.

Universities have the right to grant up to 50% credit for students.

So with the Grad Dip, which is 8 units, students could get a credit of up to 4 units.

The Grad Dip is currently the minimum requirement that will meet FASEA's requirements.

Open this link for further information about the [SAFAA / WSU Masters Program](#). ■

## SAFAA 2019

### STOCKBROKERS AND FINANCIAL ADVISERS CONFERENCE

22 & 23 MAY 2019 | HILTON SYDNEY

[www.stockbrokers.org.au/conference](http://www.stockbrokers.org.au/conference) | #2019SAFAA

*Adapting to Change*



# Fairer Retirement Summit highlights unfairness and poor design of proposed ALP franking credit refund policy

Labor's proposal to deny franking credits refunds was labelled grossly "unfair" by the Assistant Treasurer, Stuart Robert, at the Alliance for a Fairer Retirement System Inaugural Summit held in Sydney on October 30th.



The Alliance  
for a Fairer  
Retirement  
System

**A**DDRESSING THE more than 130 people who attended the Summit, Robert said: "The critical point is that more than 45 per cent of the 900,000 people affected are 65 years or older.

"Any changes will overwhelmingly hit low and middle-income earners, with 84 per cent of the individuals impacted on taxable incomes of less than \$37,000, and 96 per cent of the individuals impacted on taxable incomes below \$87,000."

Tim Wilson, Chair of the House of Representatives Standing Committee on Economics, encouraged everyone who could be affected by Labor's proposal to lodge a submission with his Committee so that their voices could be heard, adding that "the proposed changes will have a profound impact on the tax system overall".

Geoff Wilson, Chairman, Wilson Asset Management, stressed the linkages with the financial system: "We believe dividend imputation has significantly benefitted Australia's financial system and contributed to the fact that Australia has not experienced a recession in 26 years.

"The removal or adjustment of dividend imputation would be enormously detrimental to the Australian financial system." He added that they "have also received almost 2,000 individual stories about how people will be impacted by these changes."



The Hon, Stuart Robert MP – Assistant Treasurer

Veteran journalist and commentator Robert Gottliebsen illustrated some of the striking examples of unfairness caused by the proposal: "By all means let's have a debate about dividend imputation; there are certainly two sides to every argument.

"However, this intended policy completely undermines the values around equity and fairness that Australians hold dear. For example, three different retirees with the same retirement savings in three different vehicles - an industry super fund, an SMSF and a self-funded retiree - would be taxed at different rates. This is the thin edge of the wedge. Once this is accepted it could occur in all sorts of policy."

Dr Don Hamson, Managing Director, Plato Investment Management, focussed on "those who can least

afford it would be the most affected. People with incomes of \$20,000 to \$40,000 will bear the brunt of the policy should it be implemented."

Associate Professor Geoff Warren of ANU demonstrated that not only would cumulative retirement savings fall by 8-9%, on average, for those affected, but the proposal would increase uncertainty with respect to age pension eligibility if the policy were to be implemented.

The Summit emphasised that Labor's proposal to deny people their full tax refund would reduce the adequacy of incomes in retirement, would be unfair in terms of taxing different individuals on the same income at different rates, increased the uncertainty surrounding retirement incomes, and was a threat to

the sustainability of the retirement income system by encouraging self-funded retirees to throw in the towel and move to the age pension.

The House of Representatives Standing Committee on Economics inquiry into the implications of removing refundable franking credits would provide an important platform to highlight how this proposal will financially hurt millions of Australians, said the Alliance spokesperson, Professor Deborah Ralston. Those concerned are encouraged to lodge a submission as soon as possible: [https://www.aph.gov.au/Parliamentary\\_Business/Committees/House/Economics/FrankingCredits](https://www.aph.gov.au/Parliamentary_Business/Committees/House/Economics/FrankingCredits) ■

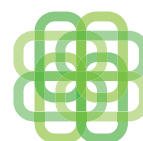
#### ABOUT THE ALLIANCE:

The Alliance for a Fairer Retirement System is a group formed to represent millions of senior Australians, shareholders, self-funded retirees and those planning a sustainable retirement, including over one million members of self-managed super funds. The Alliance was formed in response to Labor's proposal to disallow refunds of excess franking credits for a range of retirees and shareholders. The Alliance's focus is to explore options to fix problems with the existing superannuation taxation, Age Pension means testing and broader retirement income systems.

The organisations that form the Alliance include:

- Association of Financial Advisers
- Association of Independent Retirees
- Australian Investors Association

- Australian Listed Investment Companies Association
- Australian Shareholders' Association
- Gold Coast Retirees Inc.
- National Seniors Australia
- Self-managed Independent Superannuation Funds Association
- SMSF Association
- Stockbrokers & Financial Advisers Association
- WA Self Funded Retirees



The Alliance  
for a Fairer  
Retirement  
System



l-r: John Maroney – SMSF Association, Professor Deborah Ralston – Alliance Spokesperson, Judith Fox – Australian Shareholders' Association



The Hon, Stuart Robert MP – Assistant Treasurer



Fairer Retirement Summit



Fairer Retirement Summit



## KEYNOTE ADDRESS

### Geoff Wilson, Chairman, Wilson Asset Management

**T**HANK YOU ALL for giving me this opportunity to discuss a very real threat to the livelihood of hundreds of thousands of Australians. I would like to thank Deborah Ralston and everyone involved in The Alliance for a Fairer Retirement System for all of their work on this issue.

In markets and in politics, retail investors are often overlooked, and their voices are rarely heard. At Wilson Asset Management, we are responsible for the financial assets of almost 80,000 retail investors. We are also passionate about giving them a voice and fighting on their behalf.

Bill Shorten's claim that Labor's policy will only impact wealthy self-managed superannuation funds is a lie.

Throughout our campaign we have heard thousands of individual stories about how Labor's planned changes to the dividend imputation system will devastate people's lives.

Before I share some of those stories with you, I would like to talk about the benefits of the current dividend imputation system and highlight why it should be protected.

Dividend imputation was established in 1987 by the Hawke Government to eliminate double taxation of company profits at the corporate and shareholder level. In 2001, the Howard Government improved the system by ensuring that individuals who were subject to a tax rate below the 30% company tax rate were compensated for the tax they had paid at the higher rate. Labor leadership at the time claimed it was also part of their policy.

The current system is fair and equitable and it encourages the effective allocation of capital and efficient distribution of profits. We believe it enables:

- robust capital formation in Australia;



Geoff Wilson speaking at the Fairer Retirement Summit on 30<sup>th</sup> October.  
Dividend Imputation has significantly benefitted Australia's financial system.

- efficient capital distribution; and
- a more stable economy with reduced cyclical.

Dividend imputation leads to efficient capital allocation by directing capital towards Australian companies. Dividend imputation encourages Australian companies to invest in Australian projects as franking credits are not earned on foreign income. Increased local investment is a boon for Australian workers, the Australian Tax Office and Australian shareholders.

Academic literature has shown that companies with high dividend payout ratios outperform those with lower payout ratios. Research undertaken by academics Arnott and Asness found companies with higher payout ratios generated the best earnings growth over a 30-year sample period. Dividend imputation incentivises Australian companies to distribute a significant portion of their tax-paid earnings. A review of company data between 1995 and 2009 found firms distributing franking credits had a

higher dividend payout ratio than non-franking credit firms.

In lowering the costs of equity relative to debt, dividend imputation limits the imperative for companies to gear. As a result, Australian companies have relatively low levels of gearing compared to other countries.

Goldman Sachs Investment Research found that Australia has the lowest level of gearing when adjusted for its sector mix. Leverage exacerbates the cyclical nature of financial markets as it drives companies' performance during bull markets and exaggerates companies' losses during financial downturns. Leverage was a key factor in the magnitude of the global financial crisis. As a result, the capital discipline that dividend imputation has driven in Australia has provided a crucial defence against extreme cyclical and debt-related systemic risk.

We believe dividend imputation has significantly benefitted Australia's financial system and contributed to the fact that Australia has not experienced a recession in 26 years. The

removal or adjustment of dividend imputation would be enormously detrimental to the Australian financial system.

The economic case for protecting Australia's current dividend imputation system is clear. What concerns me most is the impact to the household budgets of financially vulnerable Australians. We have received more than 25,000 signatures on our [petition](#) to stop Labor's changes. Our poll of signatories found:

- approximately 70% earn \$90,000 or less per annum;
- each year, almost 85% would lose up to \$30,000 year and nearly 15% would lose more than \$30,000.
- more than half would be forced to reduce their family's living standard and quality of life;
- almost a third plan to spend their financial assets to receive the Age Pension.

We have also received almost 2,000 individual stories about how people will be impacted by these changes. Let me share three stories with you.

1. *"I am eligible for a disability support pension and would qualify if our funds were held in superannuation. Instead we have chosen to support ourselves by rolling over to an account based pensions. If the refund of imputation is no longer allowed we will roll back to superannuation and apply for disability support pensions as that would then be the most beneficial financial strategy for us – unfortunately the taxpayer will be worse off as a result."*
2. *My husband and I have voted Labor all our lives. He was a welder for 42 years and I had three jobs. I only recently retired after 37 years of working and now help care for my grandchild as childcare is too expensive for my daughter to afford. I still work part time to earn some extra pocket money for my granddaughter, but this means I don't qualify for the Age Pension. Due to these changes I will now be worse off working. I will have to stop work-*

As you have heard, this retiree tax will cause misery and suffering to low-income earners and modest retirees who have worked, saved and invested under a fair system that should be respected and safeguarded by all sides of politics.



*ing to qualify for the Age Pension so my husband and I don't have our franking credits tax return taken from us. This is so unfair, my daughter is a single mother so I help earn a bit more money to ensure my granddaughter does not go without and look less well than her class mates at school. And now I'm told I face being taxed for my share income twice!!*

3. *I am 68, divorced, and support a dependent adult child. I rent, don't own property, and still work full time. I have sacrificed and "gone without" for many years in an endeavour to be self-sufficient and independent in my retirement – however long that might be. Most of my assets are in blue chip Australian equities in an SMSF, which I have carefully built up over the years. Having access to cash franking credits was an integral part of my plan to be independent. I currently receive approx. \$25,000 in franking credits – which pays my rent. I will lose this under Labor's proposal.*

*To help my dependent daughter, over the years I have purchased a small portfolio of blue chips for her. She receives about \$800 per annum in franking credits,*

*but because she can only work 1 or 2 days a week in a casual job, her income is below the tax-free threshold. Under Labor, she too will lose this cash refund of franking credits.*

*I honestly don't think politicians can imagine what it's like to go without and to struggle to look after yourself in your older years. As soon as you get ahead a bit and your plans start to come to fruition, they change the rules and move the goal posts. I have been determined to not have to depend on the aged pension but believe I will now have no choice.*

*I understand they may want to "make 'the wealthy' pay their fair share" – but they don't seem to notice that they only hurt ordinary people trying to do their best. The "wealthy" have the means to deal with these sort of changes; ordinary folk do not.*

*It is cruel and morally wrong to impose such change on people who are already retired and can't do anything to offset it. At the very least, it should be grandfathered, or people's actual circumstances should be taken into account.*

*At 68, I simply don't have time to change direction to counteract this sort of loss.*



As you have heard, this retiree tax will cause misery and suffering to low-income earners and modest retirees who have worked, saved and invested under a fair system that should be respected and safeguarded by all sides of politics.

If Labor is not stopped now, I believe they would continue to erode the current system to the detriment of all Australians. Independent MP Kerryn Phelps has introduced the very sound idea of a moratorium on changes to the superannuation system, given people need certainty to plan for their retirement and future. I believe that a large part of Phelps' success in Wentworth was driven by her overt support for the current dividend imputation system.

The parallels between Labor's agenda in 2012 and today are interesting. With their eyes on the revenues flowing to Australian mining companies during the mining boom, the Rudd Government tried to introduce the Minerals Resource Rent Tax. Of course, the commod-

ity bull market was in its dying days and the policy was both flawed and poorly timed.

Similarly, Labor's attack on the equity market comes in the final stages of a record-breaking bull run. The recent stock market rout has wiped out the 2018 calendar year gains in the US while China's equity market has fallen by nearly 30% from its peak earlier this year and the Australian market has fallen by over 10% and entered a technical correction.

Bear markets are extremely painful, and we expect the negative effects

of the looming bear market will be significantly worse if Labor wins office and introduces their draconian policies. We believe Shorten and Bowen's plans will have dramatic implications for the equity and property markets, resulting in the first economic recession in Australia for 27 years.

We must all stand up and fight for a fairer future for all Australians. Labor's policies will not only significantly impact retirees and low-income earners but they will destroy the aspirations of a generation of young Australians. ■



I-r: Ian Henschke – National Seniors,  
Tim Wilson, Chair House of Representatives Standing Committee on Economics



I-r: Wayne Strandquist – Association of Independent Retirees, The Hon, Stuart Robert MP – Assistant Treasurer,  
Judith Fox – Australian Shareholders' Association, Professor Deborah Ralston – Chair, SMSF Association &  
Alliance Spokesperson, Andrew Green – Stockbrokers And Financial Advisers Association



The Alliance  
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Retirement  
System

## IN THE NEWS

### Tim Wilson MP says Labor's retiree tax is 'lazy politics', 'vandalism'

*Financial Review*  
(Licensed by Copyright Agency) | 30 October

Liberal MP Tim Wilson wants to take the unusual step of holding "open mic" sessions as part of a parliamentary inquiry into Labor's plan to make franking credits non-refundable.

### Bitter divide over Labor franking credit proposal

*Financial Review*  
(Licensed by Copyright Agency) | 30 October

Self-funded retirees Vincent and Judy Mahon are unusual among the hundreds of people who have made submissions to a parliamentary inquiry into Labor's proposed franking credit changes.

### Labor's franking credits policy 'flawed, inequitable'

*AdviserVoice* | 31 October

The Labor Party's proposal to abolish refundable franking credits is "flawed, inequitable and fails to meet the policy intent of improving the integrity of dividend imputation for all taxpayers".

### Franking credit proposal to cost SMSFs thousands each year

*SMSFAdviser* | 31 October

Based on ATO statistics, the SMSF Association has estimated that Labor's proposal to remove refundable franking credits could impact up to 60.7 per cent of SMSFs in the next 10 to 15 years at an average cost of \$11,577 per fund.

### Retirees rail against Labor attack on franking credits

*The West Australian*  
(Licensed by Copyright Agency) | 30 October

Investor and retiree groups have kicked off a national campaign to stop a future Labor government killing off franking credit refunds.

### Draconian franking credit plan will spur recession, says Wilson

*SMSFAdviser* | 31 October

Labor's "draconian" plan to axe cash refunds for franking credits will ruin Australia's globally esteemed run of almost three decades without recession and tarnish the prospects of retirees and younger generations alike.

### Assistant treasurer attacks Labor's 'retiree tax'

*Professional Planner* | 30 October

The Coalition's new assistant treasurer, Stuart Robert, attacked the Labor Party's proposal to abolish excess franking credits in a scathing address at the Alliance for a Fairer Retirement System (AFRS) in Sydney on Tuesday.



I-r: Andrew Green – SAFAA, Ian Henschke – National Seniors, John Maroney – SMSF Association, Professor Deborah Ralston – Alliance Spokesperson, Tim Wilson, Chair House of Representatives Standing Committee on Economics, Judith Fox – Australian Shareholders' Association



Professor Deborah Ralston, Alliance Spokesperson

## ASIC Announces Compliance review of Fee Disclosure statements

**A**S PART OF THE fall-out from the Royal Commission into financial advice, ASIC has announced that it will be conducting a review of compliance by Licensees with the Fee Disclosure obligations introduced in the FOFA reforms.

Under the FOFA reforms, Licensees who enter into ongoing fee arrangements with clients are required to give a Fee Disclosure statement to the client, and a renewal notice every 2 years. If the client does not opt-in, or does nothing, pursuant to the renewal notice, then the ongoing fee arrangements are terminated by law.

ASIC has indicated that its review has been prompted by the instances of fees for no service that have been

highlighted in some of the evidence before the Royal Commission.

As the fee disclosure requirements are applicable across the financial advice industry, it is likely that ASIC's review will be across the board, and not limited to the areas of life insurance or banking product commissions. Certain advice services provided by stockbroking firms may attract the fee disclosure obligations, so member firms may consider it timely to review their documentation and procedures to ensure their compliance in advance of any enquiries from ASIC.

ASIC has indicated that its review will focus on compliance with the obligations generally, including



compliance with timeframes for notifications; content and accuracy of fee disclosure statements and notices; and provisions for termination of arrangements which are not renewed. ■

## Crowd sourced funding by Proprietary companies now permitted

**A**SIC HAS announced that the law has been changed to allow certain proprietary companies to access public funding through crowd sourced funding.

This is a significant change from the fundamental position that a proprietary company is generally restricted from raising funds from the public, other than for limited exceptional avenues.

Under the new provisions, a proprietary company can seek crowd sourced funding if it the company;

- has a minimum of two directors
- prepares annual financial and directors' reports in accordance with accounting standards
- has its financial reports audited



once it raises \$3 million or more from CSF offers

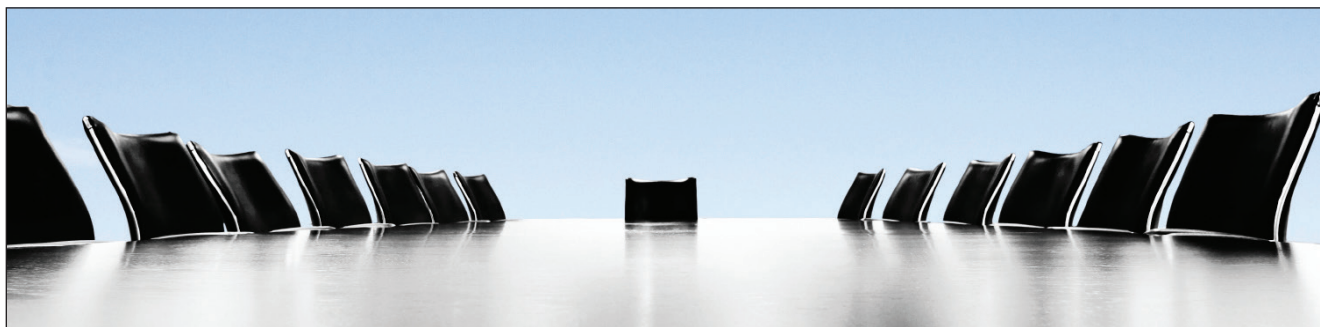
- complies with the existing related-party transaction rules that apply to public companies.

ASIC has stated that it will monitor crowd sourced funding offers and related advertising, and will ensure that investors are adequately protected. ■

**SUBMISSIONS** | Members can view submissions at [www.stockbrokers.org.au](http://www.stockbrokers.org.au)

**POLICY ENQUIRIES** | Peter Stepek, Policy Executive, [pstepek@stockbrokers.org.au](mailto:pstepek@stockbrokers.org.au)





# Committee News

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

**Derivatives sub-Committee Meeting, Thursday 8 November 2018**

Chair: Peter Tardent MSAFAA, Commonwealth Securities

**Institutional Broking Committee Meeting, Tuesday 13 November 2018**

Chair: Scott Webster MSAFAA, UBS AG

**Annual General Meeting, Thursday 22 November 2018**

**Board of Directors Meeting, Thursday 22 November 2018**

**Retail Broking Committee Meeting, Tuesday 27 November 2018**

Chair: Dean Surkitt MeSAFAA, Bell Potter Securities

# Membership Applications

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 email [Andrew Green](#).

**Individual Membership applications for approval**

Applicant's Name	Membership Type Sought	Job description	Name of AFSL
David Comben	Master Member	Equity Partner/ Financial Adviser	Baillieu Holst
Caroline Curnow	Master Member	Client Advisor	Bell Potter Securities
Michael Tritton	Master Member	Head of Advisory , NSW & QLD	Crestone Wealth Management
Robert Backer	Practitioner Member	Director/Financial Adviser	HNW Planning Pty Ltd
Michael Miller	Practitioner Member	Senior Wealth Advisor	JBWere Ltd
Neville Azzopardi	Practitioner Member	General Manager, Advice	JBWere Ltd
Jean Findlay	Master Member	Private Wealth Adviser	Morgans Financial
Marcus Reade-Brown	Master Member	Wealth Management Specialist	Patersons Securities
Simon Goyder	Master Member	Head of Wealth Management	Patersons Securities
Craig Sidney	Master Member	Senior Investment Adviser	Shaw and Partners
Paul Hirth	Practitioner Member	Financial Adviser	TRG AFSL

# Consolidated MIRs to apply to NSXA market participants


**ASIC**

Australian Securities &amp; Investments Commission

**N**ATIONAL STOCK Exchange of Australia (NSXA) market participants that are not participants of any other securities market must comply with the [ASIC Market Integrity Rules \(Securities Markets\) 2017](#) from Monday 5 November 2018, and the [ASIC Market Integrity Rules \(Securities Markets – Capital\) 2017](#) from Monday 6 May 2019 (together, the Rules).

- ensure they're aware of their new obligations and the relevant guidance under [Regulatory Guide 265 Guidance on ASIC market integrity rules for participants of securities markets](#)
- understand their plans for preparing and implementing changes to their compliance arrangements.

- comply with the risk-based capital requirements, including maintaining minimum capital levels
- provide us with monthly risk-based returns detailing capital levels.

We'd like to thank all those NSXA market participants for their cooperation and engagement with the process.

## Engagement with NSXA market participants

We've engaged with NSXA market participants to:

- advise that the consolidated Rules contain additional require-

## Additional requirements

Under the consolidated Rules, some of the additional requirements for NSXA market participants are to:

- ensure trading by connected persons is pre-approved in writing
- report suspicious activity

## More information

Further information can be obtained by contacting your Intermediary Supervisor. Additionally, read the [media release](#) on our consolidated market integrity rules. ■



# Introductory Series

*Increase your industry knowledge today*

**Intro to Stockbroking & Financial Advising** | Melbourne – Wed 14 November

**Intro to Warrants** | Sydney – Mon 26 November | Melbourne – Tues 27 November

# 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](mailto:education@stockbrokers.org.au) or call **02 8080 3200**.



**SGSM**

SYDNEY GRADUATE SCHOOL  
OF MANAGEMENT



**Stockbrokers  
And Financial Advisers  
Association Limited**





# The case for managed accounts

By Recep Peker, Research Director, Investment Trends

**A**T A TIME OF significant regulatory change and the considerable administration and compliance burden that goes with it, financial advisers are tasked with materially reducing regulatory and operating risk. It's important to take proactive measures to lift transparency and elevate client conversations beyond transactional interactions.

At the same time, investors are demanding more transparency and direct ownership of shares and other assets, but without the paperwork.

In the face of these challenges, and in tandem with the ongoing pressure to deliver quality financial advice to clients, it's no secret managed ac-

counts have a lot going for them. Managed accounts serve to:

- Enhance your value proposition beyond investments
- Provide greater transparency to clients
- Optimise practice and compliance efficiencies, and
- Support your clients in achieving their goals.

Certainly, financial advisers' use of managed accounts has grown significantly in the past few years and shows no sign of slowing down. According to the Investment Trends 2018 Managed Accounts Report, the share of advisers' new client inflows captured by managed accounts rose to 10% last year. Looking ahead, this

number is set to grow with advisers expecting new client inflows to managed accounts to more than double by 2021.

Stockbrokers are also exploring managed accounts as part of their broader transition to wealth management. Our most recent broker research shows that managed accounts are expected to account for 7% of new client inflows by 2020, up from 3% in 2017.

Another key driver of the growth of managed accounts is they have become more available on platforms. In 2018, managed accounts are available on 14 platforms, with 52 per cent of advisers now having ac-

cess to managed accounts on their preferred platform.

## Efficiency gains

In contrast to something like direct equities where planners need to spend a significant amount of time selecting and monitoring individual stocks, advisers who use managed accounts are liberated from these tasks.

With managed accounts, gone is the need to spend quite so much time on the non-revenue generating administration and paperwork involved in making changes to a client's portfolio, the effort chasing clients for signatures, and preparing RoAs.

Instead, managed accounts provide the legal framework upon which advisers can execute portfolio changes, while easing the advice documentation burden. In fact, advisers say the top business benefit of managed accounts is the efficiency gain they deliver. The average adviser user estimates they save 12.4 hours per week on portfolio management tasks.

Along with reducing administration, advisers' interactions with clients can move to a new level. Rather than having client conversations just focussed on stock selection and trade execution decisions, advisers can have more meaningful dialogue with clients centred around their goals.

## Deeper engagement

Advisers recognise transparency as the top benefit valued by their clients. As clients are the direct, beneficial owner of the shares and other assets held within their managed account, they can see exactly what shares and securities they are holding.

For those advisers using managed accounts, our research indicates that the overwhelming majority (79%) now focus less on investment selection decisions and spend less time on administration and compliance. This leaves them with more time to spend on quality conversations with clients, together viewing the assets that form their portfolio, and assessing whether the desired outcomes are being met.



Advisers recognise transparency as the top benefit valued by their clients. As clients are the direct, beneficial owner of the shares and other assets held within their managed account, they can see exactly what shares and securities they are holding.

As a result, many advisers agree their clients have become more engaged since adopting managed accounts in their business.

This would come as no surprise to brokers where the use of direct shares is high. Our most recent research shows that only half of stockbrokers intend to continue positioning themselves as stockbrokers in a year's time, driven by the need to expand their proposition beyond just equities advice.

## Improved financial outcomes

In terms of client suitability, their appeal is broad. These solutions are seen to be more appropriate than managed funds or individual direct shares, particularly for mid-wealth clients (\$100k-\$1m), but also for high net worth clients. In addition to their transparency, advisers believe their clients value the added diversification managed accounts bring, while enjoying CGT benefits those

placed in traditional managed funds miss out on.

In fact, our research shows that 75% of current adviser users perceive managed accounts to have improved financial outcomes for clients.

## Timely opportunity

Managed accounts offer something of a timely opportunity for financial advisers to reduce risk and refocus on conversations that add value for clients. Alongside greater client transparency, engagement and control, these solutions provide the means to reduce risks, and increase your value to clients. ■

### ABOUT THE AUTHOR: Recep Peker, Research Director, Investment Trends

Recep Peker leads the Investment Trends Wealth Management research team, which identifies and evaluates emerging trends relating to consumers, investors, SMSFs, financial advisers and investment technology in Australia and the UK. To learn more about Investment Trends research, visit: [www.investmenttrends.com](http://www.investmenttrends.com)

# The 'two strikes' rule: is it effective?

By Guy Griffin, Senior Lawyer, GRC Solutions



Seven years after its introduction the 'two strikes' rule continues to make headlines. Investor Weekly research shows about 9 per cent of ASX 200 companies received a vote of more than 25 per cent against their remuneration report in the last financial year.

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**WHILE IT IS TRUE** that in raw figures only a small number of ASX 100 companies received a first strike against their remuneration report, in the current febrile media climate around the issue of executive remuneration the rule works as a 'shaming measure' for the companies and directors receiving strikes. There is often a negative share market reaction when a company receives a first strike.

The rule appears in the Corporations Act and it says that where a company's remuneration report receives a 'no' vote of 25 per cent or more of the votes cast on a resolution that the remuneration report be adopted, the company's subsequent remuneration report at the next

AGM must contain an explanation of the Board's proposed action in response, or, if the Board does not propose any action, the Board's reason for inaction.

## Spills – resolution and meeting

Where that subsequent remuneration report receives 'no' vote of 25 per cent or more of the votes cast on a resolution that the remuneration report be adopted, a 'spill resolution' is to be put to shareholders at the same AGM as the 'second strike'. A spill resolution will be passed if 50 per cent or more of eligible votes cast are in favour.

A 'spill meeting' is required to be held within 90 days of the passed

spill resolution. The directors required to stand for re-election at the spill meeting (other than the managing director) are those individuals that were directors at the time the directors resolved to put the directors' report to the most recent AGM. Failure by the directors to hold a spill meeting is an offence under the Corporations Act.

## Critics' views

Critics of the rule note that in reality:

- it is much easier for shareholders to deliver a first or second strike than it is for them to spill the board as a result (because key management personnel in a company who can't vote on the



remuneration report can re-enter and vote on the board spill)

- The 25% voting threshold is, in essence, advisory or a protest vote. Because of the 25% threshold, it is easier for activist shareholders to express displeasure via a vote against a remuneration report rather than by voting against a director's election (where over 50% adverse votes are required to stop a director being elected).
- There are any number of concerns that activist shareholders may be expressing with the remuneration report vote. Examples include displeasure regarding the performance of a CEO, a social

issue such as climate change, gambling or tobacco; poor or unexpected financial results or board composition

Ironically, directors who favour the shareholder primacy view of corporate governance - that the interests of shareholders must be considered paramount by directors - should have no issue with the invitation to shareholder engagement offered by the 'two strikes' rule. ■

Association. The e-learning delves into the topics mentioned before and gives a well-rounded overview, including recent cases and FS-related examples. It has been developed with Australian retail and institutional stockbroking firms, and investment banks in mind.

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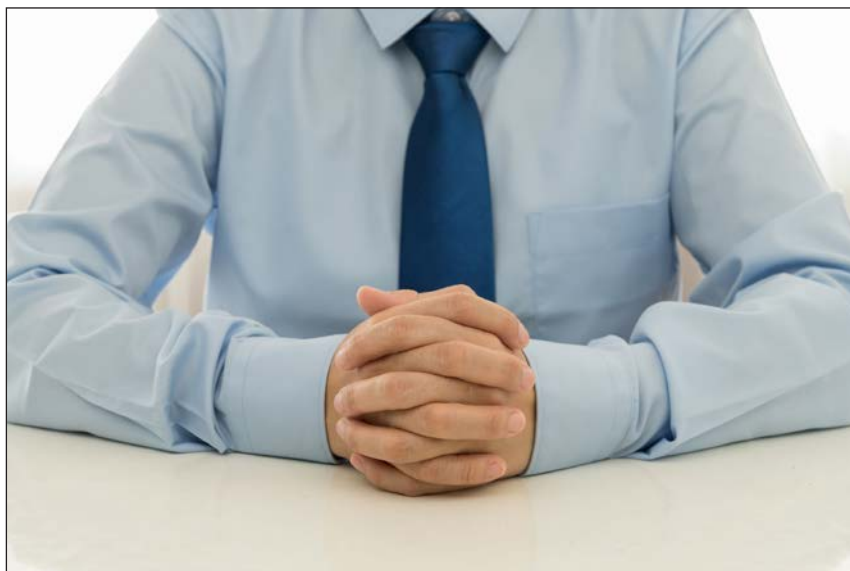
	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Application Closing Dates	7 December 2018	20 March 2019	12 June 2019	23 August 2019
Online Orientation	4 January 2019	27 March 2019	19 June 2019	11 September 2019
Online Classes Start Dates	7 January – 24 March	1 April – 16 June	24 June – 8 September	16 September – 1 December
Census*	31 January 2019*	24 April 2019*	17 July 2019*	9 October 2019*
Exams	16 -24 March	8 – 16 June	31 August – 8 September	23 – 30 November

\* Census date is the last chance to withdraw with no financial penalty.

# A new acronym – AFCA

By Peter Grace

**From 1 November 2018, the Australian Financial Complaints Authority has started work as the single External Dispute Resolution (EDR) Scheme for complaints about financial services.**



**U**NTIL THAT DATE there were three EDR schemes:

- The Financial Services Ombudsman (FOS) which dealt with complaints about financial advice and investment and insurance product providers.
- The Credit and Investments Ombudsman (CIO) which dealt primarily with complaints about loans and mortgages.
- The Superannuation Complaints Tribunal (SCT) which dealt with complaints by superannuation fund members about the actions of the trustees of their fund.

In principle, AFCA will operate in the same way as the current schemes. A complainant should first approach their service provider – such as their adviser, insurance company, credit provider or super fund – and use their Internal Dispute Resolution (IDR) arrangement. The service provider must have an IDR as a condition of their licence to provide financial services.

The service provider will try to resolve the complaint within a given

timeframe. At the end of this period or if the complaint is not resolved satisfactorily, the complainant can take their complaint to an EDR. The service provider must be a member of an ‘approved’ EDR and from 1 November, there is only one.

The aims of AFCA, the new one-stop shop for financial complaints, is to simplify the process of making a complaint for consumers and to update and standardise the rules and conditions. Currently, the three EDRs have different complaints processes.

AFCA has finalised its ‘rules’ after a period of consultation with financial service providers and other interested bodies. The rules set out the types of complaints it can address and those that it will not consider. For instance, it will not consider a complaint that has not been through the service provider’s IDR. For complaints about superannuation trustees, it will not consider ‘whole fund issues’ (such as investment assets held by the fund) only issues impacting on the individual member (such as rejection of an insurance claim or

delays in completing an investment switch).

One contentious issue for service providers is that AFCA has raised the financial thresholds that apply to its determinations. This may lead to higher payouts for complainants, higher costs for service providers and an impact on professional indemnity covers.

It’s early days for AFCA, but it is hoped the new EDR will provide a fairer and more streamlined complaints process for both complainants and service providers. ■

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**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 November – December 2018

### NOVEMBER

14	Wed	1.30pm to 4.30pm	Melbourne	<u>Introduction to Stockbroking &amp; Financial Advising Workshop</u> 3CPD
15	Thurs	9:00am to 11:00am	Sydney	<u>Review &amp; Remediation Workshop</u> 2CPD (Compliance)
21	Wed	9:00am to 12:00pm	Sydney	<u>A Day in the Life of a Trade Workshop</u> 3CPD (Compliance)
22	Thurs	11:00am to 1:00pm	Melbourne	<u>Review &amp; Remediation Workshop</u> 2CPD (Compliance)
22	Thurs	12:00pm to 1:00pm	Sydney	<u>Intro to ETFs and Portfolio Solutions using ETFs</u> 1CPD
26	Mon	9:00am to 11:00am	Sydney	<u>Introduction to Warrants Workshop</u> 2CPD
27	Tues	9:00am to 11:00am	Melbourne	<u>Introduction to Warrants Workshop</u> 2CPD
28	Wed	2:00pm to 5:00pm	Melbourne	<u>A Day in the Life of a Trade Workshop</u> 3CPD (Compliance)
29	Thurs	1.30pm to 4.30pm	Melbourne	<u>Market Manipulation &amp; Other Prohibited Conduct Workshop</u> 4CPD (Compliance)
29	Thurs	1:30pm to 4:30pm	Sydney	<u>Intro to ETFs and Portfolio Solutions using ETFs</u> 1CPD

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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](mailto:Andrew.Green@stockbrokers.org.au),  
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