STOCKBROKERS AND FINANCIAL ADVISERS CONFERENCE

SAFAA 2019

22 & 23 MAY | HILTON SYDNEY

#2019SAFAA

Adapting to Change

EVENT REPORT

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CONTENTS

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EVENT OVERVIEW

The Annual Stockbrokers And Financial Advisers Conference is an industry event staged by the Stockbrokers And Financial Advisers Association (SAFAA). The Conference is the largest event in Australia for the Stockbroking and Financial Advisory sector.

SAFAA 2019 was held at Hilton Sydney on Wednesday 22nd & Thursday 23rd May 2019.

The event kicked off with Welcome Drinks at Zeta Bar in the Hilton on Tuesday 21st May at 5.30pm. Excited delegates gathered to pre-register and attend the welcome function buoyed with news that the recently re-elected Treasurer and Assistant Treasurer would be attending the conference on the following day.

Welcome Drinks were sponsored by Refinitiv. Patrick Donaldson, who heads up Refinitiv in APAC, made a short welcome speech and set the stage for a vibrant conference.

At the conclusion of Day 1 of the conference, delegates strolled along George Street to the Ivy for the conference cocktail party, sponsored by IRESS. Kirsty Gross from IRESS and her team welcomed delegates with cocktails served in lightbulb shaped glass as part of a promotion of IRESS.

Most delegates who attended SAFAA 2019 came from SAFAA member firms, where they held senior positions across key business areas: executive management, client advising, business development, responsible executives and legal and compliance.

Key speakers at the event included the Federal Treasurer, policy makers and regulators, representatives of domestic exchanges, high profile industry participants and business leaders. It was actually a fantastic list of speakers and they did not disappoint, with many delegates describing the conference as the best ever.

The event received live coverage on CNBC and was covered extensively by the financial media and global news bureaus. There was strong media coverage in the AFR, The Australian, Telegraph and SMH to name but a few.

The Annual Stockbrokers And Financial Advisers Association Conference offers sponsors and exhibitors an opportunity to build relationships with key decision makers from market participants and other stockbroking and investment banking organisations in the industry. It also provides a unique platform for sponsors and exhibitors to gain significant market exposure and reinforce their brand awareness within the industry.

ABOUT SAFAA

Stockbrokers
And Financial Advisers
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The Stockbrokers And Financial Advisers Association (SAFAA) advocates for ethical, efficient and stable, listed capital and debt markets in Australia.

SAFAA has both Principal and Practitioner Members.

Principal Members comp9rise leading stockbroking and financial advisory firms and investment banks.

Practitioner Members comprise experienced stockbrokers and financial advisers.

In addition to its Advocacy role, SAFAA provides specialist education and training for its Practitioner Members.

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EVENT SCHEDULE

Wednesday 22 May 2018

17:30	Welcome Reception – Zeta Bar, Hilton Sydney

Wednesday 22 May 2018

8:30	Conference Welcome Brian Sheahan, Chairman, SAFAA for the official Conference welcome
8:45	KEYNOTE: Dominic Stevens, CEO, ASX
9:25	INTERVIEW: Elizabeth Bryan AM, Chair, Virgin Australia & IAG Narelle Hooper, Editor in Chief, Company Director Magazine
10:45	The Hon. Stuart Robert MP, Assistant Treasurer
11:00	The Hon. Josh Frydenberg MP, Treasurer
11:15	KEYNOTE: David Dredge, CIO, Convex Strategies
11:35	PANEL: Moderator: Vic Jokovic, CEO, Chi-X Panellists: 1. Mark Mitchell, Director, Portfolio Manager – Credit, Daintree 2. Stuart Gray, Fund Manager, Fixed Income and Head of Credit Research, Schroders 3. Steve Goldman, MD & Portfolio Manager, Kapstream
11:55	INTERVIEW: Professor Hayden Ramsay, Deputy Vice-Chancellor, Australian Catholic University Ann Bowering, Managing Director, National Stock Exchange of Australia
13:30	Stone & Chalk emerging stars Leona Murphy introduces two emerging stars from Stone & Chalk's portfolio. Stone & Chalk is Australia's leading fintech hub. Leona Murphy, Chairman, Stone & Chalk
14:15	PANEL: Moderator: Andy Campion, Head of Investment Products, ASX Panellists: 1. Paula Gigler, Head of iShares Wealth, Blackrock 2. Balaji Gopal, Head of Product Strategy, Vanguard 3. Nathan Ide, Managing Director, Private Capital Management
15:45	INTERVIEW: Geoff Wilson AO, Chairman & Chief Investment Officer, Wilson Asset Management Peter Tardent, Head of Distribution, CommSec Advisor Services
16:15	KEYNOTE: Stuart Gray, Fund Manager, Fixed Income and Head of Credit Research, Schroders
16:45	KEYNOTE: Mary Manning, Portfolio Manager, Ellerston Asian Investments Limited
17:15	KEYNOTE: Alexandre Kech, Chief Executive Officer, Onchain Custodian
17:30	Day One closing remarks Moderator: Julia Lee, Equities Strategist, Bell Direct Martin Cole & Ben Power, Capital Communications
17:40	Conference Day 1 Close
18:00	Cocktail Reception @ The Ivy

EVENT SCHEDULE

Thursday 23 May 2019

07:30	Executive Breakfast – invitation only
	Members Compliance Breakfast – invitation only
8:50am	Opening Remarks: Andrew Green, Chief Executive, SAFAA
9:00am	INTERVIEW: Greg Yanco, Executive Director, Markets, ASIC Scott Webster, Managing Director, Head of Platform Solutions Group, UBS
9:30am	INTERVIEW: Sir Bill English KNZM, Former New Zealand Prime Minister Luke Malpass, an editorial leader writer and deputy opinion page editor for the AFR
11:00	Presentation followed by Q & A Stephen Glenfield, CEO, FASEA
11:45	KEYNOE: Alva Devoy, Managing Director, Fidelity Australia
13:15	KEYNOTE: Dan Reyes, Principal, Head of Investments, Asia-Pacific and Head of Investment Strategy Group (ISG), Vanguard Australia
13:45	KEYNOTE: Mike Blomfield, CEO, Investment Trends
14:15	PANEL: Moderator: Mike Blomfield, CEO, Investment Trends Panellists: 1. Paul Howes, National Sector Leader – Asset & Wealth Management, KPMG 2. Brian Sheahan, Executive Chairman, Morgans Financial Limited 3. Karl Morris AO, Executive Chairman, Ord Minnett Limited 4. Michael Chin, Global Head of Trading, Refinitiv 5. Stuart Holdsworth, CEO, Financial Simplicity
15:15	Highlights from the Conference and key takeaways Moderator: Julia Lee, Equities Strategist, Bell Direct Martin Cole & Ben Power, Capital Communications
15:25	Closing Remarks
15:30	Conference Close

CONFERENCE DE-BRIEF

I would like to share with you my reflections of SAFAA 2019.

The conference provided us with a stage from which we could broadcast our message to the world. I think we did that exceptionally well, with strong media coverage on lots of relevant issues.

We were fortunate to be on the right side of history in the franking credits debate, which paved the way for both the Treasurer, the Hon Josh Frydenberg MP, and Assistant Treasurer, the Hon Stuart Robert MP, to attend the conference.

As always, the conference also provided a unique opportunity for networking. Ironically, although digital media provides us with an opportunity to stay in touch with people, there is no substitute for a face to face meeting.

Our speaker line-up was excellent. Something for everyone.

I was amused with one comment from a delegate who said, “It was a bit different from last year!”

I decided to take that comment as a compliment!

Naturally discussion topics follow changes in our operating environment.

CONFERENCE DE-BRIEF cont...

Feedback from delegates included the following:

#2019SAFAA delivered on the key objective of providing a platform for the Stockbroking and Wealth industry.

The key decision makers for the industry were in the room, and this year more so from international perspectives, from Asia, US and UK. The connection to the international markets is becoming more relevant for partnerships, education and collaboration. Particularly with the ASX CHESS replacement project, and generally with the opportunities and challenges of technology adoption.

The content was varied and engaging. Hearing from the Stock Exchange leaders, Josh Frydenberg and the Chair of IAG on the shift in governance was enlightening.

JOHN RYAN, CEO, SUITE2GO

Julia Lee as Moderator over both days did a smashing job.

Elizabeth Bryan explained "Corporate Governance" better than any consultant I have ever heard.

Mary Manning inspired everyone to invest in Asia.

The conference was the best I have attended.

EDDIE RIGG, ARGONAUT CAPITAL, PERTH

Hi Andrew, I had an amazing time at the conference and as usual, find it to be one of the best run conferences I attend. As I mentioned on my panel, the community of professionals in Australia are unique in their commitment to forging partnerships. This is one of the reasons I found the conference to be so valuable for Refinitiv.

I look forward to being a sponsor next year. All the best to you, MC

MICHAEL CHIN, MD, TRADING, REFINITIV

SAFAA 2020 will be held at Hilton Sydney on May 12th & 13th, with Welcome Drinks on May 11th at Zeta Bar in the Hilton.

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KEY SPEAKERS INCLUDE

Michael Blomfield
CEO, Investment Trends

Elizabeth Bryan AM
Chairman, IAG
Chairman, Virgin Australia

Andrew Campion
Senior Manager, Investment Products, ASX

Alva Devoy
Managing Director Australia
Fidelity International

David Dredge
CIO, Convex Strategies

Rt Hon Sir Bill English KNZM
Former NZ PM

Stephen Glenfield
CEO, FASEA

Stuart Gray
Fund Manager & Head of Credit Research, Schroders

Paul Howes
National Leader – Asset & Wealth
KPMG

Vic Jokovic
CEO, Chi-X Australia

Mary Manning
Portfolio Manager, Ellerston Asian Investments Limited

Karl Morris AO
Executive Chairman, Ord Minnett Limited

Leona Murphy
Chair, Stone & Chalk

Hayden Ramsay
Pro Vice-Chancellor & Professor of Catholic Philosophy, ACU

Daniel Reyes
Principal, Head of Investments, APAC, Vanguard Australia

Brian Sheahan
Executive Chairman, Morgans Financial Ltd

Dominic Stevens
Managing Director and CEO, ASX

Scott Webster
Managing Director, Head of Platform Solutions Group, UBS

Geoff Wilson AO
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PROPOSED CONFERENCE TOPICS INCLUDE:

- 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

SAVE THE DATE...
SAFAA 2019
22 & 23 May 2019
For further information visit
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ANY SUGGESTIONS?
PLEASE EMAIL Andrew Green,
Chair, SAFAA 2019 Steering Committee

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Please email dtran@stockbrokers.org.au

MESSAGE FROM THE CEO

MARCH 2019

should apply to any legislation impacting retirees:

1. Certainty
2. Fairness
3. Adequacy
4. Sustainability

On the point of fairness, under Labor's proposals, two residents in identical circumstances will be treated differently based on where their superannuation is managed.

If the superannuation is held in an SMSF that is not paying tax, then the franking credit rebate will not be paid. On the other hand, an identical resident with an identical holding in a large tax paying APRA fund will receive the franking credits, because the test will be done at the fund level.

So the proposal clearly fails the horizontal equity test.

If Labor's proposed reforms were to proceed, one behavioural response could be to move franked dividend shares across to a large tax-paying APRA fund and so preserve the franking credits.

Given that SMSFs comprise a significant proportion of revenue for member firms, a behavioural response such as the above would be very damaging to member firms.

Inquiry into proposed removal of refundable franking credits

On Wednesday, 19 September 2018, the Treasurer, the Hon Josh Frydenberg MP, asked the House of Reps Economics Committee to inquire into the implications of removing refundable franking credits.

The Committee invites interested persons and organisations to make submissions addressing the terms of reference.

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

Upcoming Public Hearings:
19 Mar 2019: Malvern, VIC
19 Mar 2019: Brighton, VIC
20 Mar 2019: Mount Martha, VIC

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HERE'S WHAT YOU CAN'T AFFORD TO MISS:

- Ethics – rebuilding trust
- The changing world of corporate governance
- FASEA reforms
- Operations & Technology
- Australian ETF market: the next phase of growth
- Why and how investors should protect long positions
- How the industry is evolving – what the research is telling us
- Changing stockbroking business models
- Navigating a changing tide
- The investment case for Asia
- The case for absolute return income strategies
- Why US institutions use ETFs

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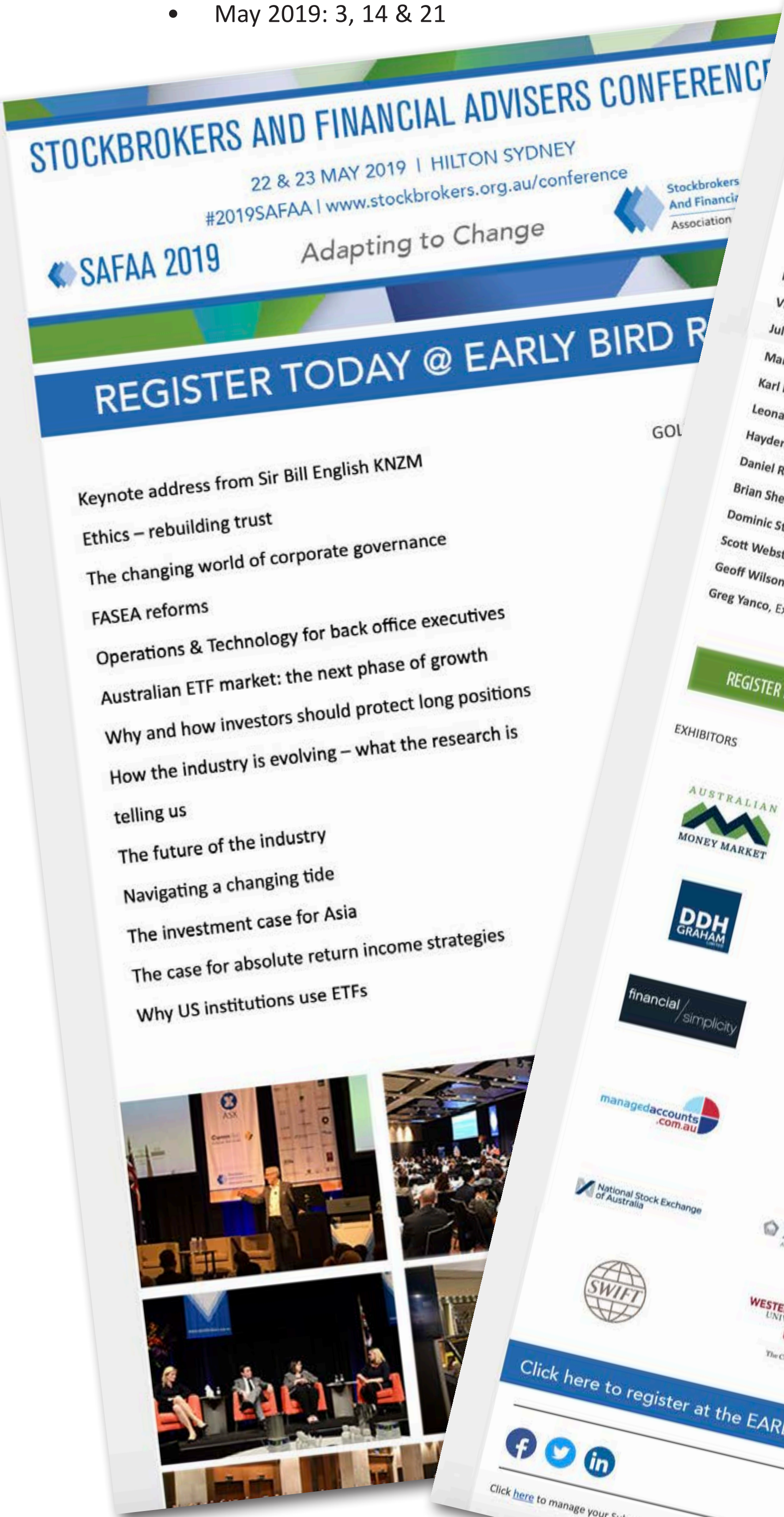
MARKETING | Electronic mail-outs

- December 2018: 13
- February 2019: 27
- March 2019: 13 & 20
- April 2019: 8, 15 & 30
- May 2019: 3, 14 & 21



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Navigating a changing tide
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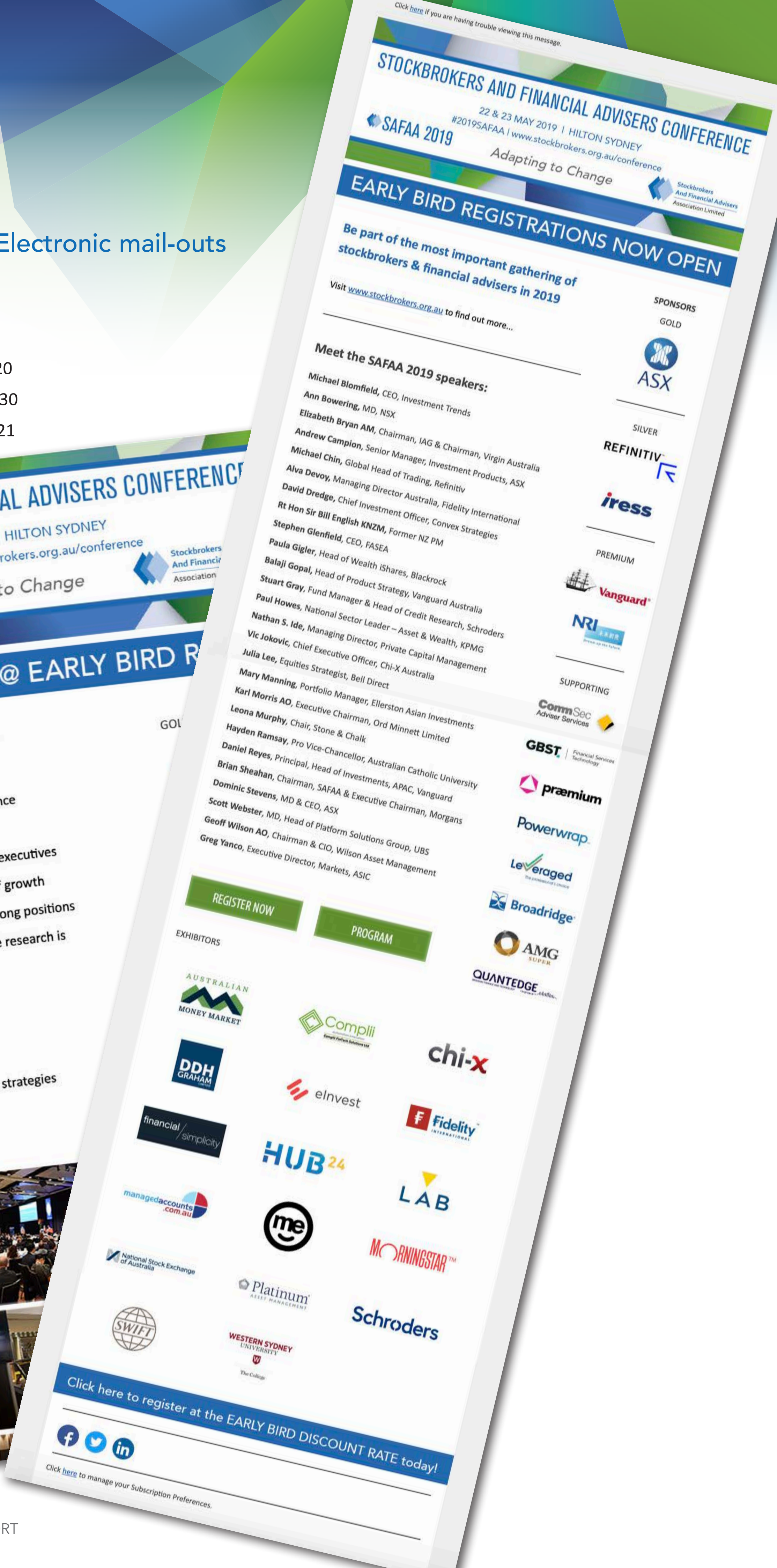
The case for absolute return income strategies
Why US institutions use ETFs



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David Dredge, Chief Investment Officer, Convex Strategies
Rt Hon Sir Bill English KNZM, Former NZ PM
Stephen Glenfield, CEO, FASEA
Paula Gigler, Head of Wealth iShares, Blackrock
Balaji Gopal, Head of Product Strategy, Vanguard Australia
Stuart Gray, Fund Manager & Head of Credit Research, Schroders
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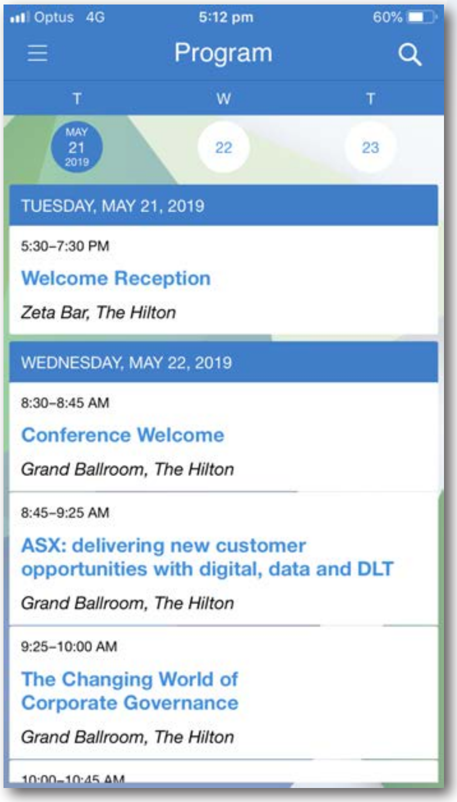

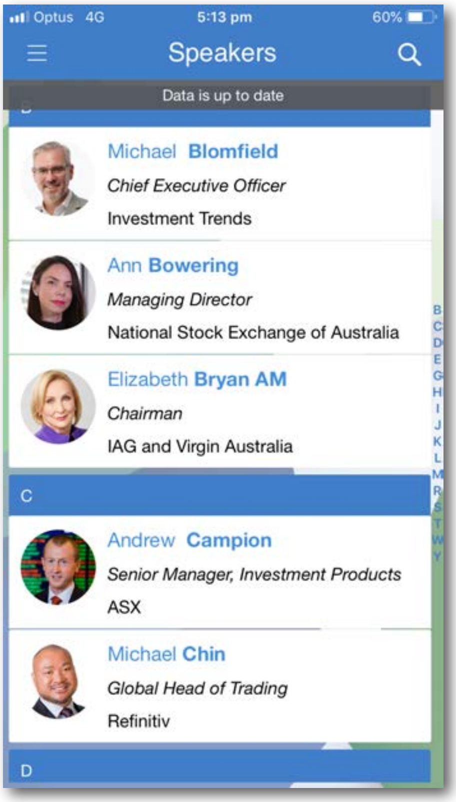

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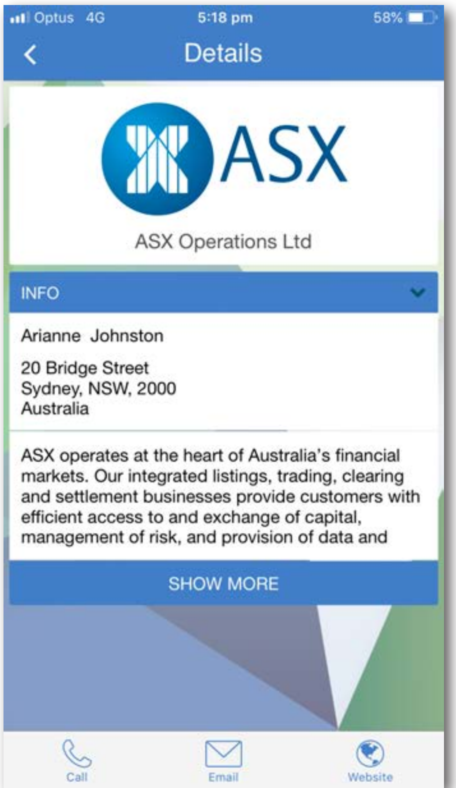

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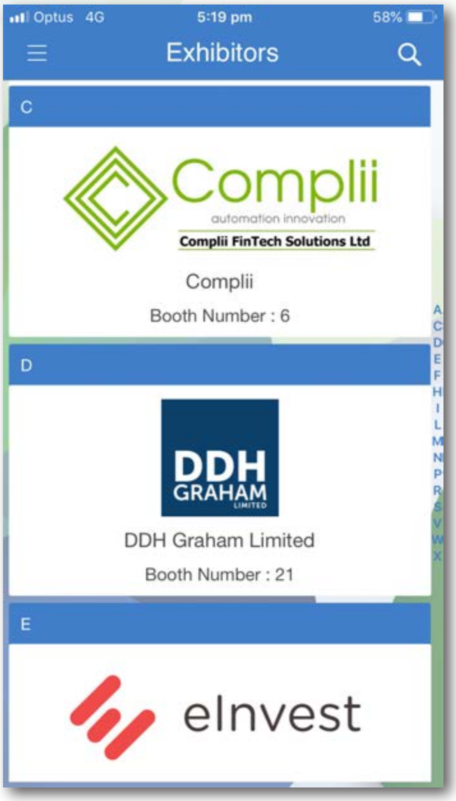

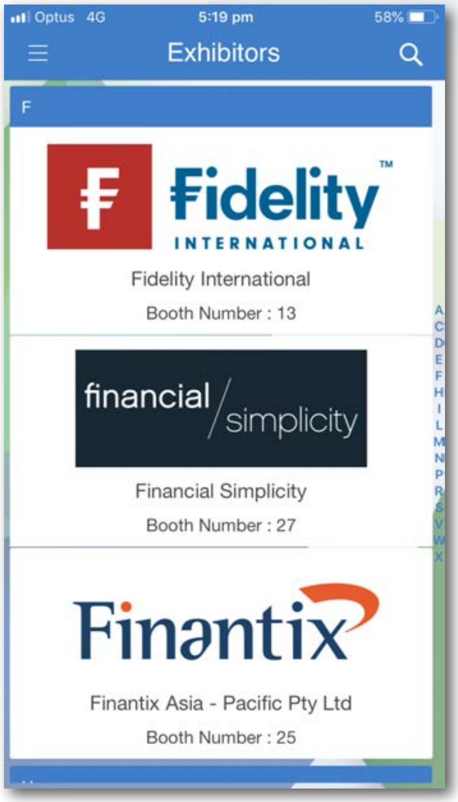

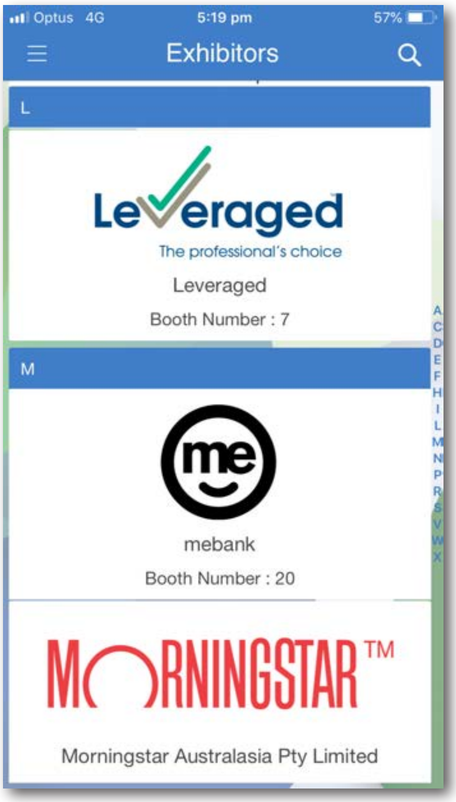

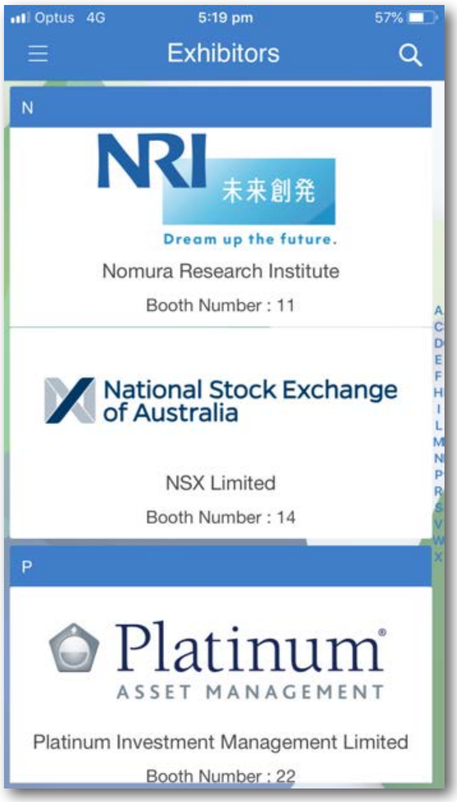

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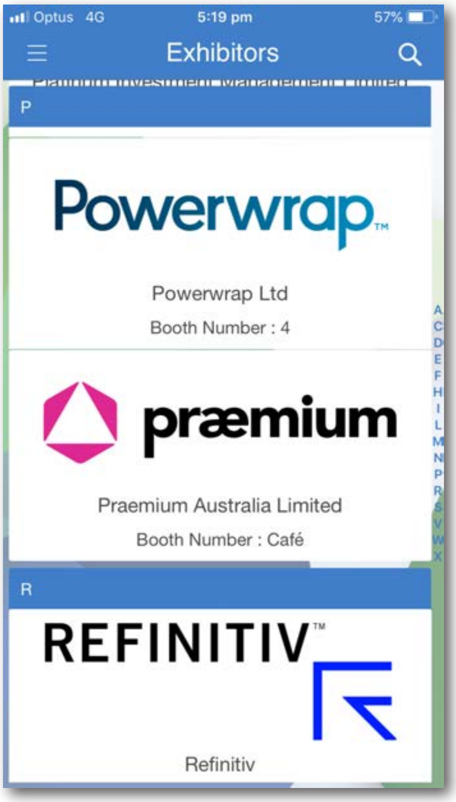

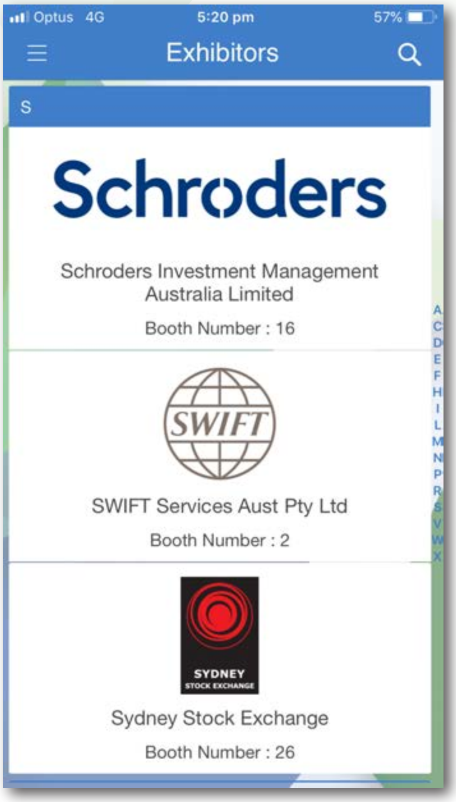

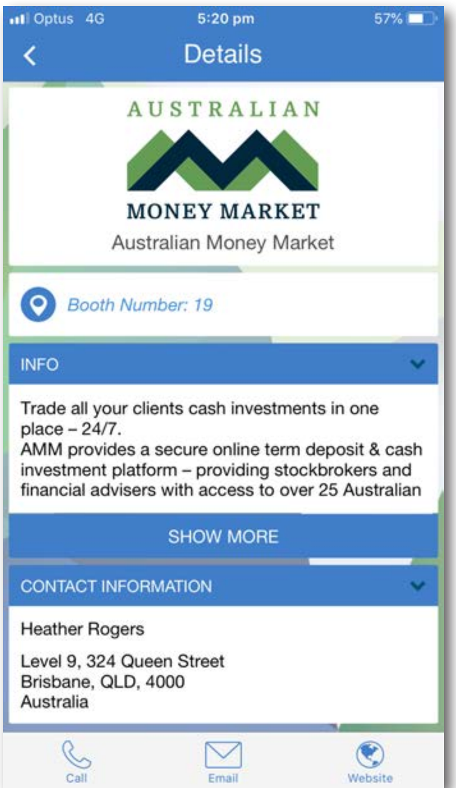

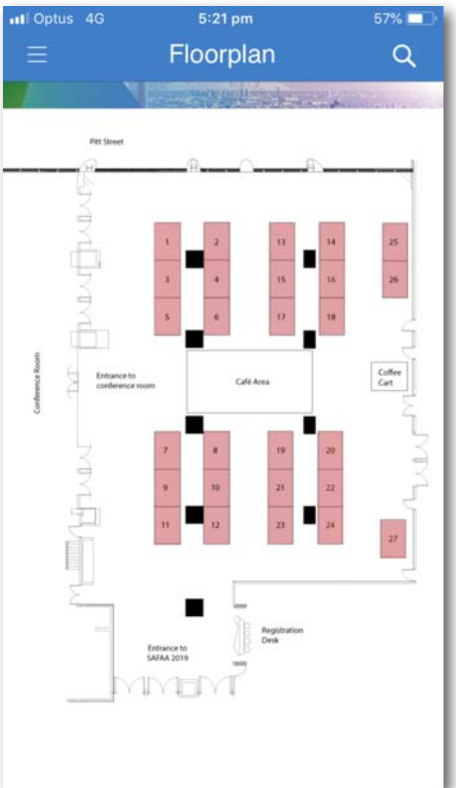

Treasurer Josh Frydenberg plots way through 'economic headwinds'

JOYCE MOULLAKIS, SENIOR BANKING REPORTER
12:38PM MAY 22, 2019

Prime Minister Scott Morrison and Treasurer Josh Frydenberg meet with the RBA Governor Philip Lowe at the Reserve Bank of Australia in Sydney. Picture: AA

Treasurer Josh Frydenberg met with Reserve Bank governor Philip Lowe today to discuss how Australia navigates "economic headwinds", as he also praised the prudential regulator's slated removal of interest rate hurdles for loan assessments.

After making his first formal business address since Saturday's election win, Mr Frydenberg confirmed a meeting with the prudential regulator today and welcomed the announcement of relaxed interest rate hurdles and buffers for home loan serviceability assessments.

"It is a positive move. It has been well received," he said at an annual stockbrokers' industry conference in Sydney.

"That will continue to spur lending across the economy."

The Australian Prudential Regulation Authority wants to remove an interest rate hurdle of 7 per cent that is baked into bank loan assessments, allowing lenders to set their own threshold. A buffer of 2 per cent will rise to 2.5 per cent under the APRA plan.

"The banks now have an opportunity to continue to provide the capital flows into the economy, that is their economic and social responsibility," Mr Frydenberg said.

"But they are businesses and they have to do all the appropriate credit checks and make decisions that in the best interests of their business, but at the same time it important that credit continues to flow in the economy both to households and businesses."

On the economy, Mr Frydenberg said both opportunities and challenges were discussed with Dr Lowe.

Josh Frydenberg speaking at the Annual Stockbrokers' conference in Sydney. Picture: Hollie Adams

"The Australian economy faces some headwinds," he said, adding that trade tensions were escalating between the US and China and weighing on growth.

Mr Frydenberg said the drought and floods in Australia in recent months had also had a "significant impact" and made growth more difficult.

He said he stressed to Dr Lowe the government's planned tax cuts and $100 billion in infrastructure spending that would help to buoy economic output.

"It's the time for a pro-growth strategy.

"These are projects our country has been waiting half a century for," Mr Frydenberg said of the pipeline of infrastructure projects including Snowy Hydro.

His comments follow a speech by Dr Lowe yesterday urging more stimulus in the economy including infrastructure projects, as he signalled an official interest rate cut was likely in June.

Mr Frydenberg said uncertainty in the banking market had led to some "risk aversion" on lending but that would subside following the end of the Hayne royal commission and the federal election.

APPENDIX A | Day 1 Online articles cont...

"Now that the royal commission is over, now that the election is over and there was obviously uncertainty around the Labor Party's high tax agenda … now that is all over we can get on with business."

Economy needs growth strategy: Frydenberg

Angus Livingston, National

PM Scott Morrison and Treasurer Josh Frydenberg met with RBA Governor Philip Lowe in Sydney.

Treasurer Josh Frydenberg is banking on a "pro-growth" strategy of income tax cuts and infrastructure spending to reinvigorate a stalling economy.

But Labor frontbencher Penny Wong is worried there's no plan to deal with "tepid" economic growth.

The Reserve Bank of Australia will consider cutting the rate at its board meeting in two weeks, in hopes of reducing unemployment and buoying inflation.

Mr Frydenberg encouraged bankers to continue to lend, telling a Stockbrokers and Financial Advisers Conference they were "absolutely critical" to the economy.

"I just came from a meeting with the Reserve Bank governor, with the prime minister, and Australia does face some headwinds," Mr Frydenberg told the conference in Sydney on Wednesday.

"Domestically we've seen some significant impacts from the floods and the drought. The housing market has slowed.

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"It is not the time for higher taxes, it is time for a pro-growth strategy."

Scott Morrison has promised to make the flood and drought recovery an early priority for his re-elected government.

Mr Frydenberg is optimistic the economy would start moving again now the election has been decided and the coalition can implement its plan.

"That's about pro-growth, it's about more jobs, higher wages, and that's about our infrastructure plan, the tax relief, 80,000 new apprentices," Mr Frydenberg told reporters.

Senator Wong said the coalition needed to do more.

"We've had very tepid economic growth in recent times and some of the signs aren't good," she told reporters in Adelaide.

"My greater fear is that it doesn't appear this government has any plan ... to deal with an economy that is not as strong as we would want it to be."

The coalition is planning income tax cuts in the short and long term, although Mr Morrison concedes it is unlikely he will get them through before June 30.

Unemployment edged up to 5.2 per cent in April, while inflation was zero in the March quarter and 1.3 per cent over the previous 12 months.

That's below the RBA's target of between two and three per cent on average.

The cash rate has been at a record low of 1.5 per cent since August 2016, leading to suggestions it could drop again.

"A lower cash rate would support employment growth and bring forward the time when inflation is consistent with the target," RBA Governor Philip Lowe said in a speech to the Economic Society of Australia on Tuesday.

Dr Lowe said easing monetary policy and more infrastructure spending could help meet unemployment and inflation targets.

Mr Frydenberg said the coalition was spending $100 billion over 10 years on infrastructure.

He also praised the Australian Prudential Regulation Authority for easing lending standards to open up more capital in the housing market.

Australian Associated Press

Treasurer tells banks to lend

James Eyers *Senior Reporter*

May 22, 2019 — 1.10pm

Treasurer Josh Frydenberg told the major banks they have an "economic and social responsibility" to lend, after the prudential regulator eased borrowing restrictions amid signs of a softening economy.

Mr Frydenberg, who met Australian Prudential Regulation Authority chairman Wayne Byres on Wednesday, backed its proposal to remove the 7 per cent serviceability buffer on home loans, describing it as a "positive development that will continue to spur lending growth across the economy".

The Treasurer also said banks have an "economic and social responsibility" to continue to lend to support households and businesses, saying clarity after the Saturday election result and the end of the Hayne royal commissionshould restore lenders' confidence.

The comments came after a meeting with Reserve Bank governor Philip Lowe, also attended by Prime Minster Scott Morrison, at which Mr Frydenberg said Dr Lowe was "very optimistic" about the government's tax and infrastructure plans, after he called out the limitations of monetary policy on Tuesday and said more government spending may be needed to support the economy.

After bank stocks surged on Monday in a relief rally responding to the re-election of the government, and rose again on the back of APRA loosening its regulatory screws, Mr Frydenberg said banks should now be more comfortable putting money out the door.

This comes amid widespread lender concerns that responsible lending obligations and "micro-prudential" regulation by APRA in the form of the serviceability rules are restricting credit growth.

APRA's proposal to remove the floor "is a positive move, it has been well received, and I think you will see continued credit to flow", the Treasurer said after an address to a stockbrokers conference in Sydney.

Getting on with business

"There was a bit of uncertainty leading into the royal commission process, which may have led to a bit of risk aversion on behalf of some of the lenders, but now the royal commission is over, and now the election is over – and there was obviously uncertainty over the Labor Party's high tax agenda on the economy – we can get on with business," he said.

"[Banks] must do appropriate credit checks and make decisions in the best interests of their business, but it is important at the same time credit continues to flow to the economy, both to households and businesses.

"The banks now have an opportunity to continue to provide the capital flows into the economy: that is their economic and social responsibility."

Treasurer Josh Frydenberg and Prime Minister Scott Morrison leave the Reserve Bank after meeting governor Philip Lowe on Wednesday. **Peter Rae**

After Dr Lowe said on Tuesday that interest rate cuts may be necessary to hit inflation targets, Mr Frydenberg said he and Mr Morrison had discussed with Dr Lowe the key challenges to the economy of the trade war between the United States and China, the impact of the floods and drought, and the slowing housing market.

Yet Mr Frydenberg said the discussion was balanced, including discussion of "the opportunities, which the governor and we are very optimistic about".
"The governor and the government both understand, as he has said publicly, the importance of this tax relief as a means of delivering more disposable income into the hands of Australians."

Tax relief plan

The tax relief and infrastructure plans set out in the budget and election campaign would be the "the things that drive productivity gains into economic growth and more jobs", Mr Frydenberg said.

Under the Coalition tax plan, Australians earnings up to $126,000 will get up to $1080 in tax relief and small and medium businesses with turnover up to $50 million will get access to an instant asset write-off up to $30,000.

"The governor acknowledges how important our tax relief promised in the budget is to increasing disposable income for Australian households and that money will be spent across the economy," he told reporters after a speech to the Stockbrokers Association of Australia conference, which he attended immediately after the RBA and APRA meetings.

After Dr Lowe on Tuesday urged "increased spending on infrastructure", Mr Frydenberg said the government maintained its $100 billion spending program taken to the election – including a new airport in western Sydney and various road projects – would support the economy and "the jobs created through the infrastructure program will be very significant".

He said the government remains "absolutely committed" to its plans to create $45 billion in budget surpluses over the forward estimates and the elimination of net debt by the end of the decade.

Treasurer backs banking regulator's plan to scrap key home loan rule

By Clancy Yeates
May 22, 2019 — 12.58pm

Treasurer Josh Frydenberg has highlighted the "social responsibility" of banks to lend money as he backed a plan by the financial regulator that will lift the maximum amount of money a home buyer can borrow.

Fresh from a meeting he and Prime Minister Scott Morrison had with top officials from the Reserve Bank and the Australian Prudential Regulation Authority (APRA), Mr Frydenberg on Wednesday also acknowledged the "headwinds" facing the economy, including from the housing slump, but argued his planned tax cuts could help boost growth.

Treasurer Josh Frydenberg and Prime Minister Scott Morrison as they left the Reserve Bank following their meeting with governor Philip Lowe on Wednesday. *CREDIT:PETER RAE*

Speaking at the Stockbrokers and Financial Advisers Association conference in Sydney, Mr Frydenberg welcomed APRA's plan, announced on Tuesday, to scrap a rule that has meant banks assess how new customers would cope if interest rates rose to 7.25 per cent, which is much higher than current rates.

"That's a positive development. I think that will continue to spur lending," Mr Frydenberg said.
Add to shortlist

Slower credit growth and falling house prices are forecast to slow the economy via weaker residential building investment. Mr Frydenberg acknowledged banks had become more risk averse, in part as a result of the banking royal commission. But he said that with the royal commission and the election now behind us, the sector had an opportunity to lend.

"The banks now have an opportunity to continue to provide the capital flows into the economy – that is their economic and their social responsibility. But they're businesses, and they have to do all the appropriate credit checks and they have to make decisions that are in the best interests of their business. "

But at the same time, it's important that the credit continues to flow in the economy, both to households and to businesses," he said.

With housing slowing and dragging on growth, and interest rates on many loans below 4 per cent, the APRA on Tuesday proposed getting rid of the 7.25 per cent rule, and instead requiring banks to assess customers on the basis of a 2.5 per cent lift in rates from current levels.

Shares in property developers rose on Wednesday on speculation APRA's move would bolster demand, with Stockland up 3.3 per cent to $4.40 by early afternoon. Building materials firms also enjoyed a bounce. Shares in CSR rose 4.8 per cent to $3.86, and Boral was up 3.1 per cent to $5.15.

Analysts predicted the change would lift the maximum amount an average household could borrow by tens of thousands of dollars, at a time when the RBA is also widely expected to cut interest rates to new record lows in an attempt to lift inflation and strenghten the labour market.

Mr Frydenberg's meeting with the country's powerful financial regulators and central bankers comes after RBA governor Philip Lowe on Tuesday said the board would next month consider cutting interest rates, which markets took to mean such a change is all but certain. Dr Lowe also said the economy needed support from the federal budget, from infrastructure spending and other reforms that encourage business investment.

Mr Frydenberg said his discussion with the RBA and APRA had focused on both the challenges and the opportunities facing the Australian economy.

While drought, floods, housing and trade wars were dragging on activity, he said the opportunities included tax relief, infrastructure spending and the government's skills package in the budget.

"They're the things that drive productivity gains, and in turn economic growth and more jobs. The [RBA} governor and the government both understand, as he said publicly, the

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importance of this tax relief as a means of delivering more disposable income into the hands of Australians," Mr Frydenberg said.

He said the government remained "absolutely committed" to its pledge to deliver a budget surplus over the coming financial year.

ASX rebuffs its blockchain critics

James Eyers, *Senior Reporter*

May 22, 2019 — 4.32pm

ASX chief executive Dominic Stevens has responded to market speculation its CHESS replacement project may result in higher clearing and settlement fees and expand the ASX's power over market data, telling stockbrokers it doesn't want to compete with them but rather help create new revenue opportunities.

Concerns of various brokers, registries and alternative exchanges were set down in a recent unpublished report by Deloitte. These included concerns that ASX is forcing them to invest to adopt unproven technology and its consultation process lacked transparency, But Mr Stevens said it is important to understand "what CHESS replacement, is and what it's not".

No broker will be forced to use the new blockchain services being developed, he said, because the new settlement and clearing system will continue to offer a traditional connection based on messaging, albeit with new global standards. It will have all the current functionality of CHESS, plus 35 new features as requested by the market.

Amid rumours the project will consolidate additional data with ASX, Mr Stevens said it "will not be changing operating rules to require parties to provide new information to the settlement system" and said the philosophy of ASX is to create "contemporary open infrastructure".

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ASX CEO Dominic Stevens told the stockbrokers conference in Sydney on Wednesday it would not charge higher fees for like-for-like clearing and settlement services under its new system. **Christopher Pearce**

With fee transparency another market concern, he said ASX "will not be increasing the cost of like-for-like services carried through to the new system". ASX currently makes about $100 million from clearing and settlement.

ASX has said hiring a "node" – the connection that will provide the synchronised, "source of truth" data that removes the need for messaging and reconciliation – will be free for the first three years after the system goes live, but it has not provided details on pricing after that. ASX and third parties are preparing to offer new services built on the blockchain that have not yet been fully developed or priced.

Instead of fretting about costs, Mr Stevens said brokers should be exploring the "gargantuan" opportunities from having access to real-time, trustworthy equities data, including removing the need to reconcile brokers own systems with ASX's.

Additional security layers

Responding to a question on security from Andrew Green, chief executive of the Stockbrokers and Financial Advisers Association, who said members want to be confident the blockchain would be "immune from attack" from cyber criminals, Mr Stevens said it will sit behind all existing firewalls and be safer than the existing system given the software and hardware will be new and because its cryptography and replication across the market provided additional security layers.

Speaking more broadly than the blockchain project, Mr Stevens also responded to investor concerns that the ASX lacks diversification and the market is too orientated towards financials and resources, saying ASX would continue to seek to attract more foreign technology companies.

"There is no doubt technology will play a greater role over time in Australia and world economy," he said, pointing to the strong performance on ASX of the so-called WAAAX stocks (Wisetech, Appen, Altium, Afterpay and Xero).

"Should ASX shut the door to tech listings – or leave this industry to other exchanges – capital, companies, investors and exciting growth opportunities would go elsewhere. And our public markets would become less relevant."

Economy needs growth strategy: Frydenberg

PM Scott Morrison and Treasurer Josh Frydenberg have met with RBA Governor Philip Lowe in Sydney. (AAP)

Labor's Penny Wong says Australia's tepid economic growth needs work but Treasurer Josh Frydenberg believes tax cuts and infrastructure spending will help.

UPDATEDUPDATED 4 HOURS AGO

Treasurer Josh Frydenberg says Australia needs a "pro-growth strategy", but Labor isn't convinced the coalition's tax cuts will be enough.
The Reserve Bank of Australia will consider cutting the rate at its board meeting in two weeks, in hopes of reducing unemployment and buoying inflation.

Mr Frydenberg encouraged bankers to continue to lend, telling a Stockbrokers and Financial Advisers Conference they were "absolutely critical" to the economy.

"I just came from a meeting with the Reserve Bank governor with the Prime Minister, and Australia does face some headwinds," Mr Frydenberg told the conference in Sydney on Wednesday.

"Domestically we've seen some significant impacts from the floods and the drought. The housing market has slowed.

"It is not the time for higher taxes, it is time for a pro-growth strategy.

"We don't just have immediate (tax) relief, but we have long-term relief."

But Labor senator Penny Wong said the coalition needed to do more.

"We've had very tepid economic growth in recent times and some of the signs aren't good," she told reporters in Adelaide.

"My greater fear is that it doesn't appear this government has any plan ... to deal with an economy that is not as strong as we would want it to be."

The coalition is planning income tax cuts in the short and long term, although Prime Minister Scott Morrison concedes it is unlikely he will get them through before June 30.

Unemployment edged up to 5.2 per cent in April, while inflation was zero in the March quarter and 1.3 per cent over the previous 12 months.

That's below the RBA's target of between two and three per cent on average.

The cash rate has been at a record low of 1.5 per cent since August 2016, leading to suggestions it could drop again.

"A lower cash rate would support employment growth and bring forward the time when inflation is consistent with the target," RBA Governor Philip Lowe said in a speech to the Economic Society of Australia on Tuesday.

Asked what government policies could help the central bank hit its unemployment and inflation targets, Dr Lowe said an easing of monetary policy could be useful, as could more infrastructure spending.

Mr Frydenberg said the coalition was spending $100 billion over 10 years on infrastructure.

"These are projects that our country has been waiting half a century for," he said.

Hard work' after Hayne roils role of boards

JOYCE MOULLAKIS, SENIOR BANKING REPORTER
MAY 22, 2019

IAG and Virgin Australia chairman Elizabeth Bryan. Picture: AAP

IAG and Virgin Australia chairman Elizabeth Bryan says the role of an ASX board has changed after the Hayne royal commission, increasing pressure on firms to tackle social issues and technology change alongside profit growth.

"The role is changing … it is hard work now, you are dealing with a lot of questions that there is no real clear answer to," she said of the responsibilities of non-executive directors.

Speaking at the Stockbrokers And Financial Advisers Association conference in Sydney, Ms Bryan stressed there were two key issues boards needed to address, their social purpose and rapid change in technology.

"If any company gets either of those wrong it is out of business," she added. "They are really really serious issues."

After the damning revelations about the banking and insurance industries highlighted by the royal commission last year, Ms Bryan said local companies needed to focus on long-term profits over short-term earnings growth.

The royal commission highlighted a lack of accountability on several boards and led to the departure of National Australia Bank's chief executive Andrew Thorburn and will see former chairman Ken Henry depart later this year.

On how the industry responded to the Hayne final report and its recommendations, Ms Bryan said:

"There will be a lot of costs on companies in dealing with it there will be a lot of costs in our regulators in dealing with it.

"We have to make it work I think one way or another … it's not easy when you are down in the weeds but nevertheless it's doable."

IAG was embroiled in the royal commission for selling junk add-on insurance through car dealerships, a market it has since exited.

The royal commission also took aim at the industry's pay structures and called for the banking executive accountability regime to be extended to the broader financial services sector.

"We (the industry) was operating on a model that is no longer acceptable, we were operating on a maximising profit model and we had rem (remuneration) structures that were built around maximising profit and we had very few other major accountabilities in there.

"That model shifted and we didn't shift with it fast enough."

Companies must act on climate: IAG chair

By AAP

6 hours ago

IAG and Virgin Australia chair Elizabeth Bryan says climate change is one of the key issues boardrooms must address if they want to remain in touch with community expectations and stay in business.

Ms Bryan said on Wednesday heightened social and political expectations around corporate responsibility had already begun changing the way businesses operate, and that companies could not afford to dig in their heels.

She said the financial services royal commission proved companies had been too wedded to a model of profit maximisation and now must embrace new expectations, including transparency, consumer wellbeing and action on climate change.

"You really have to get across the changes," Ms Bryan told the annual Stockbrokers and Financial Advisers conference in Sydney.

"One, changes from the social issues we've been talking about, and the other is the technology..... if a company gets either of those wrong, they are out of business."

Ms Bryan said rising to changing community standards would be a painful process for many businesses, but not necessarily a barrier to profit growth.

She said the art of management should be to balance short-term gains with long-term investment, and embrace the value of intangible assets

"And the intangible assets and their value is built up through not only delivering a high operating company ... but in this wider perception of the value of customers, the reputation of your brand, of how you fit into society, and the end the role you play in society," she said.

"It comes back through books."

Addressing and mitigating climate risk is another social and economic challenge companies must accept, Ms Bryan said.

She said data from IAG showed changes in the climate and that the impacts were heading "in a bad direction", posing a systemic risk for the health of businesses if not addressed.

"All companies need to understand that," Ms Bryan said.

"And we need to also, I think, be very clear about what companies in (the insurance field) could do to ameliorate, mitigate, protect, and just generally deal with it."

The ASX has rejected 80 would-be listings, despite mission to entice foreign tech companies

ALEKS VICKOVICH
MAY 22, 2019

William West/AFP/Getty Images

- The Australian Securities Exchange has knocked back 18.8% of applications to list on the exchange since 2016, with 80 individual applications rejected.
- The stock exchange was forced to introduce new regulations amid concerns it was admitting too many risky early-stage startups.
- The revelation comes as the ASX attempts to attract foreign applicants, especially in the tech sector.

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Australia has long been on a mission to attract more foreign companies to list on its stock exchange, especially from the tech sector.

But that doesn't mean the floodgates are wide open to any startup that needs a capital injection.

In fact, in 2016 the ASX introduced a new vetting regime in response to concerns that too many risky early-stage tech companies were being allowed to prematurely list on the exchange. In the two years to April 2016, 45 per cent of the 105 listings on the ASX were by companies with less than $1 million in revenue.

Now, ASX CEO Dominic Stevens has revealed that the vetting regime is apparently having an impact – with more than 80 listing applications rejected by the ASX in the last three years.

"Since introducing a new pre-vetting process in early 2016, ASX has rejected more than 80 listing applications from companies that failed to meet the business, governance or regulatory standards we expect of an ASX-listed company," Stevens said in a speech to the Stockbrokers and Financial Advisers Association of Australia conference on Wednesday.

"While we don't pick winners, we do set the admission rules for companies to help keep the standards of our market high. That's the quality control we apply."

An ASX spokesperson told Business Insider Australia that the total number of company listings since the new rules were introduced is 428, indicating a rejection rate of 18.8%. That figure only includes new companies to the ASX, not listed investment vehicles like exchange-traded funds.

Speaking to Business Insider Australia, The Motley Fool's chief investment officer Scott Phillips wondered whether this vetting role might be more appropriately taken on by ASIC, the government regulator, rather than the ASX — which is actually owned by ASX Limited, a public company listed on the exchange itself.

But he also said the exchange definitely needs barriers to entry, regardless of which organisation is regulating it.

"With online broking so cheap and available, it could turn into a casino if left unregulated," Phillips said. "If just anyone can stump up listing fees and take investors' money, it'd be a pretty poor reflection on the bourse, and leave investors, particularly new or unsophisticated investors, largely unprotected."

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While regulating entry to the exchange is sensible, companies the ASX has rejected and other growth-seeking companies are likely not celebrating the crackdown.

In 2013, Freelancer CEO Matt Barrie told Business Insider Australia it was already too difficult for tech companies to list on the ASX, describing it as the "valley of death" for mid-tier tech firms seeking growth. And that was three years before the ASX introduced the new rules.

But the ASX boss is unlikely to be deterred, telling stockbrokers and bankers they need to be careful about the companies they try to take public.

"There is a key role to play for those here today too, ensuring the quality of the companies you promote and bring to market, and the advice you give your clients and investors," Stevens said.

"A market of high integrity is in all our interests."

Creating corporate 'purpose' could upset shareholders

James Eyers, *Senior Reporter*

May 22, 2019 — 4.07pm

Attempts to create a corporate "purpose" recognising many stakeholders could backfire if it is not connected to the main profit-making operations of a company, IAG and Virgin Australia chairman Elizabeth Bryan has warned.

Her comments come as regulators pressure boards to focus more on treatment of customers and improving company culture in response to the Hayne royal commission.

But Ms Bryan warned that the creation of a "purpose", or corporate social responsibility initiatives, that are too broad risks crossing an unacceptable line into philanthropy, which would not be tolerated by shareholders.

IAG and Virgin chairman Elizabeth Bryan at the stockbrokers conference on Wednesday, warned companies about straying too far from making profits for shareholders. **Christopher Pearce**

This highlights an emerging risk for companies attempting to appease aggressive regulators wanting companies to focus more on the communities they operate in. On Wednesday, the Australian Prudential Regulation Authority released a report showing boards of financial services have more work to do to get a grip on responding to non-financial risks.

Amid a raging debate at the Australian Institute of Company Directors about whether directors are thinking enough about the long-term, Ms Bryan, one of the country's most senior directors, warned against the use of "slick logos and marketing lines" that result in companies straying from their core business.

"To actually decide on a 'purpose' that is embedded in your business, that guides everything you do, and determines the culture you have in an organisation, you must have a purpose that is very, very tightly linked with your business model," she told the Stockbrokers and Financial Advisers Association conference in Sydney.

"If it is not tightly linked to your business model, it becomes a form of philanthropy – and then you get down to having really hard conversations with your shareholders. There's no way you can reconcile shareholder return requirements and a weak version of something that is a disguised bit of philanthropy."

She highlighted IAG's stated purpose of "keeping people safe", which has allowed the insurance group to expand its service offering while driving higher profits for shareholders. That is because the concept of safety has allowed IAG to think about services that stop insured risks materialising.

"Returns on mitigation money are much higher than returns on remediation money," she said. "If we can do things for you before something nasty happens, then you are happy and better off and we are happy and better off because the money that flows out to meet our commercial deal with you is less.

"And if we have less payments, our prices don't need to be as high, and more people can afford insurance ... it means we make more profit.

"It's really hard to find that for a lot of companies, but that's what we need if we want to move into this world of social responsibility through the use of purpose."

As companies grapple with creating "shared value", an issue debated at last week's ASIC Forum, Ms Bryan said delivering strong shareholder returns should remain paramount.

"You have to deliver to shareholders, you have to deliver the returns they expect. But you have got to do something on top of it – that is what society is saying to us. So you have to find something that makes those two things reinforcing."

Amid discussion on whether directors' duties needed to change to make boards more accountable to employees and the wider community, Ms Bryan backed the positions of ANZ Bank chairman David Gonski and Westpac chairman Lindsay Maxsted that no change to the law was needed. Boards should "focus on profit, but you focus on long-term profit, not short-term profit", she said, which incorporated consideration of broad stakeholders.

And after the Australian Securities and Investments Commission's enforcement chief Daniel Crennan, SC, said on Friday he expected all companies to meet the higher standards of conduct that Commissioner Kenneth Hayne set down for banks, Ms Bryan said the "way we treat consumers, how we think about consumers, how we monitor the effects on consumers and the whole culture about the way we deal with consumers is a prime responsibility of boards and of a company".

The royal commission would "change how boards manage companies, it is going to change how regulators regulate companies, and for the industry of managing money, and all the intermediation services that have grown up around that, it is going to have an impact on the structure of your industry and the way you do things", she told the audience of stockbrokers.

'Material weaknesses': APRA mulls capital lift over risk failings

By Clancy Yeates
May 22, 2019 — 3.19pm

The banking regulator may force some financial institutions to hold more capital because they are failing to properly manage risks around culture, after finding scandal-plagued Commonwealth Bank's governance problems were not unique.

After a scathing inquiry into the CBA's fall from grace" last year found the bank's senses were "dulled" by its high profitability, the Australian Prudential Regulation Authority (APRA) on Wednesday released a report on how the wider financial sector was dealing with these issues.

Over the last year, APRA has forced 36 of the country's biggest banks, insurance companies, and super funds to conduct similar "self-assessments," and on Wednesday APRA said problems at CBA also occurred at other big financial businesses.

Recurring findings of the reviews were that financial risks received insufficient attention; lines of accountability often lacked clarity; and the weaknesses were well-known and in some cases, long-standing.

APRA said that while most of the organisations had critically examined themselves, a small group "took a lighter touch approach and viewed it as an exercise for APRA rather than an opportunity to drive improvement."

Add to shortlist

In response, APRA is considering forcing some of the institutions to self aside more capital - which would detract from profits - to guard against "operational risk." It said this was in response to "material weaknesses in the governance and management of non-financial risks."

APRA did not release the names of the companies where it is considering raising capital requirements.

“Although the self-assessments raised no concerns about financial soundness, they confirmed our observation that industry is grappling to manage non-financial risks, such as culture and accountability,” deputy APRA chairman John Lonsdale said.

He added that while the exercise was valuable, boards and management tended to give themselves "generally positive" assessments, "even when they had identified serious weaknesses in their institutions."

His comments underline the mounting pressure on boards of financial businesses - and indeed all big corporations - to consider other goals aside from maximising profits, following the Hayne royal commission into financial misconduct.

The chairman of Insurance Australia Group and Virgin Australia, Elizabeth Bryan, underlined the importance of boards having other considerations, aside from shareholders' profits, because society was demanding firms had a "higher purpose."

She said businesses should have a purpose that tightly linked to the business - such as protecting customers against risks, in the case of IAG - and it did not need to come at the expense of profit.

“You do focus on profit, but you focus on long-term profit, not short-term profit,” she said at the Stockbrokers and Financial Advisers Association conference in Sydney.

Ms Bryan said the Hayne royal commission was a "really good wake up call." The more assertive regulation of business was the result of firms' priorities getting out of whack and focusing too much on short-term profits, she said.

Add to shortlist

“There’s close and continuous monitoring going on for companies everywhere, and it’s a result of this getting out of kilter. The royal commission showed us all how it had got our of kilter. Our community and our society and our political masters and everyone is saying “fix it’. So that’s what’s going to go on over the next few years,” she said

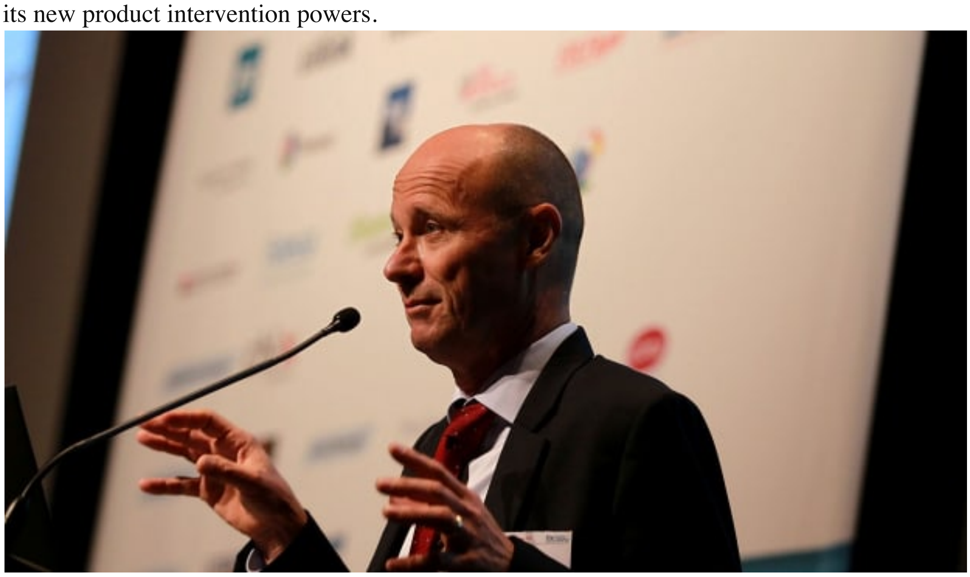
ASIC warns traders to 'lift their game'

James Eyers, *Senior Reporter*

May 23, 2019 — 12.04pm

The corporate regulator has warned fixed income and foreign exchange traders to "lift their game", revealing it has installed supervisors in 16 investment banks and stockbroking firms as part of its intensified market supervision in the wake of the Hayne royal commission.

The Australian Securities and Investments Commission's head of market supervision Greg Yanco also indicated the regulator will restrict the sale of 'contracts for difference' and 'binary options' to retail investors, given excessive risks, The move could be the first application of its new product intervention powers.



ASIC's head of supervision Greg Yanco said ASIC is consulting with brokers on banning contracts for difference and binary options for retail investors. **Ben Rushton**

After the prudential regulator on Wednesday lashed financial services company boards for holes in self-assessments of non-financial risks, Mr Yanco on Thursday told a room of stockbrokers at their annual conference in Sydney they, too, must benchmark themselves against standards set down in APRA's inquiry into Commonwealth Bank.

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He made it clear that fixed income, commodities and currencies (FICC) groups had the most work to do, and that ASIC is hiring new supervisors with bond market expertise to lift scrutiny of the market, especially around the provision of complex products to retail customers.

"Equities and futures markets are pretty well supervised, both internally and externally, but in the FICC markets people need to lift their game," Mr Yanco said.

Put on notice

ASIC has particular concerns with the provision of foreign exchange margin trading products by some online platforms to retail customers, after it was notified by several foreign regulators including from China that Australian players were selling products in international jurisdictions without proper licences. He said a handful of firms were being investigated.

It is also consulting with providers of controversial binary options, which allow customers to bet on the outcome of an event and get a fixed cash payout if they win but nothing if they don't, and contracts for difference, where investors can bet on the change in value of a share, foreign exchange rate or market index using borrowed money.

"We have the product intervention power now and we are starting to think really hard about binary options, and leveraged margin FX and CFDs.

"We will be doing a consultation about that and listening to what will be the impacts if we decide to do what has happened in Europe where they have effectively banned binary options and limited leverage quite significantly for margin products."

Equity market players and law firms have also been put on notice that from next financial year, ASIC will be applying artificial intelligence technology to better scrutinise prospectus documents for misleading statements or omissions.

A pilot of the 'natural language processing' technology has been a success. Mr Yanco said: "The computer can detect anomalies in prospectuses pretty much as well as people for which it is a pretty laborious task."

Use the checklist

After ASIC chairman James Shipton flagged the expansion of its 'close and continuing monitoring' program at ASIC's forum last week, Mr Yanco said ASIC has supervisory teams in 16 investment banks and stockbrokers.

They are conducting on-site reviews and have developed a "tailored supervision plan" for each firm taking into account risk appetite and management, and the teams are feeding concerns straight to the CEOs.

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In wholesale markets, the ASIC teams are monitoring implementation of the FX Code of Conduct pushed globally by deputy governor of the Reserve Bank Guy Debelle.

ASIC also has members of its 'corporate governance taskforce' inside financial services firms, examining the management of non-financial risk and remuneration. "That's quite a big piece of work the government has funded for two years," Mr Yanco said.

After APRA called out widespread problems with non-financial risk monitoring on Wednesday, ASIC plans to report in August or September on remuneration, and early next year on the management of non-financial risk.

He encouraged brokers to benchmark themselves against APRA's recommendations in the CBA report.

"That is a really good checklist of things you might want to consider about how you manage non-financial risk – am I focusing the business on the spread of things I need to or am I overly focused on profits?"

ASIC is also ramping up its collection of data from stockbrokers.

Mr Yanco said the quality of data about the trading of over-the-counter (OTC) derivatives was "not great" and ASIC is building a new portal for data to be provided and the market team has build a new data-lake to enhance detection activities.

"We are doing a lot of work in regulatory data and getting more data in to identify risks and red flags, risks and understanding businesses better."

He reminded the stockbrokers to keep in mind the mantra from Mr Shipton that they are working with "other people's money", and to observe the "fairness challenge" the ASIC chairman issued at the end of its forum last week to ensure products and services are not doing any harm to customers.

ASIC poised to ban risky financial products

ASIC executive director of markets Greg Yanco.

JOYCE MOULLAKIS, SENIOR BANKING REPORTER
7:07PM MAY 23, 2019

The corporate regulator is considering using its new product powers to ban or restrict the sale of risky financial products, including binary options, margin foreign exchange and contracts for difference.

The Australian Securities & Investments Commission's markets boss, Greg Yanco, said the regulator would consult before invoking its product intervention powers, but called on industry players to "lift their game".

He highlighted a spate of other markets that had already banned or restricted such products.

"We have that (intervention) power now. We are starting to think really hard … about binary options, and margin FX and leverage in margin FX and CFDs," Mr Yanco told the Stockbrokers And Financial Advisers Association conference. "We have really formed a view, and I think this is a global view for regulators, that equities and futures markets are pretty well supervised both internally and externally.

"But in the FICC (fixed income, currencies and commodities) market people need to lift their game.

"We've been lifting our game in terms of bringing people on that understand those markets."

Last month ASIC warned that Australian licensees offering over-the-counter (OTC) derivatives to retail investors in some countries may be providing "unlicensed or unauthorised services".

Regulators in markets including Europe, Japan and China had restricted or banned the products, ASIC said, noting it would not "tolerate that conduct".

Sources suggested authorities from several markets including China had been in touch with ASIC over the unlawful selling by Australian groups of binary options. The products are largely used by retail investors to bet on an event, with the outcome typically being losing the initial investment in full if the call is incorrect, or receiving a payout if they are right.

CFDs are used to speculate on the rise and fall in prices of underlying assets, such as foreign exchange and shares, without owning the underlying stock or currency. In foreign exchange trading, large amounts of leverage can be used, increasing the risk.

ASIC is believed to be looking closely at a handful of local firms that operate in this sector.

An ASIC report in 2018 into the OTC derivatives industry found it was riddled with issues, including misleading marketing, unclear pricing and inadequate risk management.

The report also said "the majority" of consumer trading in those products was unprofitable.

In March, ASIC obtained interim orders in the Federal Court against Forex Capital Trading restraining the company from removing assets from Australia, disposing of their property and freezing its bank account. The matter is ongoing.

Mr Yanco told the industry event that ASIC also had onsite visits "fairly regularly" with the largest 16 investment banks and stockbroking firms as it looked to clamp down on riskier parts of the market.

More broadly, Mr Yanco said the regulator wanted to be "getting under the bonnet" of finance companies, including meeting with leadership to understand processes and risk management.

He also spoke of a completed ASIC trial of natural language processing — computer-generated scanning of words — for ASX prospectuses.

"It seems as though we can, the computer can, detect anomalies in prospectuses pretty much as well as people," Mr Yanco said.

The industry expects the process to be rolled out as a method of trawling through ASX float documents from July 1, via a select sample of prospectuses.

Mr Yanco reiterated ASIC's new "why not" litigate policy, but cautioned that the regulator didn't have unlimited resources.

"There will be more litigation," he said, adding that close and continuous monitoring of large banks and wealth companies after the Hayne royal commission had led to hundreds of onsite interviews.

"We are picking up things they need to do better on."

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The Hayne royal commission hit out at ASIC and the prudential regulator over a relationship that was too cosy with the companies they monitored and supervised. It has prompted an overhaul of both institutions.

Mr Yanco said ASIC's onsite monitoring had ensured a direct line for problems to be conveyed to company chief executives.

Separately, an ASIC corporate governance taskforce will report on remuneration structures in the market by September 30 and non-financial risks in early next year.

New approach won't result in spurious prosecutions: ASIC

May 23, 2019 — 6.28pm

The corporate watchdog has assured nervous brokers and advisers that no-one would benefit from prosecutions "for the sake of it" as it takes a bolder approach to litigation following the royal commission.

The Australian Securities and Investments Commission (ASIC) faced criticism at the royal commission over its approach to enforcement and has vowed to now take a "why not litigate" approach.

ASIC's Greg Yanco. *CREDIT:LOUIE DOUVIS*

Greg Yanco, ASIC's executive director of markets, said the regulator would increase the number of matters it takes to court but only if it was in the public interest.

"It's not the way to go first and litigate everything," Mr Yanco said at the Stockbrokers and Financial Advisers Conference in Sydney on Thursday.
"We don't have unlimited resources, and that really wouldn't play to the result we're looking for, which is addressing deterring future misconduct, and really making the community expectations of wrongdoing will be dealt with appropriately through the courts."

The government beefed up ASIC and the Australian Prudential Regulation Authority with a $600 million boost at the federal budget in April to help ensure they had sufficient resources to address the royal commission's 76 recommendations.

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Mr Yanco said, despite adopting a "why not litigate?" approach in addressing misconduct, taking a matter to court may not always be the best route.

"The court doesn't really appreciate us taking taking its time unnecessarily and so there's often going to be a different outcome," Mr Yanco said.

AAP

Spurious litigation helps no-one: ASIC

By AUSTRALIAN ASSOCIATED PRESS
PUBLISHED: 10:25 AEST, 23 May 2019 | **UPDATED:** 10:25 AEST, 23 May 2019

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ETS could help sort energy mess: English

By AAP

4 days ago

Former NZ PM Sir Bill English says Australia needs to end its political impasse on climate change and consider a carbon price metric if the country is going to sort out its energy policy "mess".

Sir Bill named Australia's energy policy as one of several challenges facing Scott Morrison's returned government, as well as a housing market correction, and uncertainty around global trade.

Speaking to the Stockbrokers and Financial Advisers Conference in Sydney, the Wesfarmers director and Mt Cook Alpine Salmon chairman said Australia was in a fraught position when it came to energy, partially because of the country's policy impasse on climate action.

"We hope you sort it out ... but it's pretty messy," Sir Bill said.

"It's the politics of climate change, you don't have to be a rocket scientist to see it. If you are going to do something about climate change, then you should use a price metric... because it's easily the cheapest way to get changes you want."

Sir Bill said the adoption of an emissions trading scheme across the ditch in 2008, while not without its own complexities, had allowed his country to regulate carbon pricing in a similar way the Reserve Bank manages the cash rate.

He admitted this was helped by the fact 80 per cent of NZ's energy came from renewable hydro and geothermal power sources.

"The worst result is to decide you want to do something, and let's get a whole lot of bureaucrats and politicians, picking and mixing among options, including renewable energy targets to try and just come up with something on the day," Sir Bill said.

"Sorting your energy policy and getting it a bit more market orientated, where people can respond to prices, would help everybody."

Sir Bill, who was his country's minister for finance and deputy prime minister from 2008 to 2016, said a gradual lift in carbon prices had "largely gone unnoticed" in NZ as residents and businesses responded in their own way to reduce their output in the most efficient way possible.

Banks 'bluffing' on NZ lending threats: former PM

James Eyers, *Senior Reporter*

May 23, 2019 — 2.40pm

Former New Zealand prime minister Bill English says threats by Australian banks to reduce lending in New Zealand if its central bank demands higher capital levels are a "bluff" given the returns they make across the Tasman.

However, Mr English also raised concerns about the Reserve Bank of New Zealand's plan to ramp up bank equity to protect its economy in a crisis, suggesting this could create moral hazard by dulling major banks' management of risk.

He also revealed the extent of New Zealand's displeasure with the Australian government during the global financial crisis when Australia announced it would guarantee bank deposits.

This had turned the banks into a quasi "government department", Mr English told the stockbrokers conference on Thursday. New Zealand considers the risks of failure should sit with bank investors, including depositors, rather than governments, he said.

Bill English, former prime minister of New Zealand: "It's been an uphill battle since the day Wayne Swan – without telling the NZ government – issued his guarantee." **Photo: Pat Scala**

Relations between the RBNZ and Australia's four major banks – which have an 86 per cent share of the lending market there – have been strained since RBNZ said in December it wanted to lift capital to levels to sustain a 1-in-200-year shock. S&P has estimated the banks will need an additional $8.1 billion to maintain capital ratios in their parent bank. Shayne Elliott, the chief executive of ANZ, the largest lender in New Zealand, said in May it "cannot expect our shareholders to unreasonably subsidise" its ambitions in the country.
But Mr English said the moves were not large enough to force a reduction in lending. "[Threats] to withdraw capital is, to a large extent, bluff. Australian shareholders and Australian banks do very well out of New Zealand. They generate good returns. I think they will stick around," he said.

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Over the first half of the financial year, all of the banks reported robust deposit and mortgage growth in New Zealand, underlying profit growth of 4 per cent, and extremely low impairment charges – a stronger performance than in the Australian market.

Don't believe what they say – watch what they do.

— Bill English on the prospects of Australian banks pulling out of New Zealand

"You make a choice – you either put up with a system and put your capital at risk, or you take it away. So far, for all the bluster over the last 15 years, no Australian bank has taken its capital away. What does that tell me? What should it tell you? Don't believe what they say – watch what they do," he said.

Mr English's appearance at the Stockbrokers and Financial Advisers conference in Sydney also shone a light on emerging pressure points between Australia and New Zealand, as he described the "irritation factor" when a "small sister tries to write its own rules".

The NZ government would never tolerate the Australian Prudential Regulation Authority being the sole regulator of its banks, given this could result in NZ losing control of managing a banking crisis.

"I don't think there is any doubt on what the Australia preference is, which is we use the Australian regulators and don't have a regulatory structure in New Zealand," he said. "That means you can make decisions that could wipe out our sovereign balance sheet. We are not going to have that, and never will – that is never going to happen."

Mr English, who became finance minister and deputy prime minister of NZ in November 2008, a month after former Labor treasurer Wayne Swan announced the deposit guarantee for the Australian banks, said this was done without consultation with the NZ government.

"It's been an uphill battle since the day Wayne Swan, without telling the NZ government, issued his guarantee," Mr English said.

"All you can do is gradually push that boundary back from the assumption, which is deep-seated in Australia, that the sovereign guarantees the banking system. That makes [banks] a kind of government department, not serious businesses because they are not actually managing their risk."

Mr English, who was succeeded as prime minister by Jacinda Ardern in 2017, said his government, as part of its process for formalising how to deal with bank failures, considered requiring the banks to tell their depositors they might be forced to take a haircut in a crisis. While the details were not finalised, the proposed policy "gave them pause for thought they might have to" put losses on to investors and should not rely on the NZ government to prop them up.

'Satanic cult thinking'

The contrast with attitudes in Australia, where there is an expectation of government support, had the bosses of the NZ operations thinking "how we explain that to head office in Australia, where they think this is some kind of weird, satanic cult thinking".

Ms Ardern's government has backed away from this policy, but Mr English said he prefers it to the RBNZ's current capital plans under governor Adrian Orr.

While raising capital levels heavily reduces the likelihood the banks will struggle in a crisis, "on the other hand, it means banks will stop thinking about risk management altogether", he said. "And I think in the long run, that is dangerous.

"It is better to have the balance a bit the other way, where people understand the risk the event could happen on their watch, and they pay attention to what risks they are taking – and the market prices those so the right people pay the bill for the risk."

Mr English served as finance minster and deputy prime minister under prime minister John Key, who joined the board of ANZ in 2018. Mr English succeeded Mr Key as PM in 2016.

Market valuations 'ridiculous', Wilson says

Sarah Turner, *Reporter*

May 22, 2019 — 8.07pm

Veteran fund manager and franking advocate Geoff Wilson says one of the longest bull markets on record appears to be close to its natural end, having pushed up valuations to "ridiculous levels".

The Wilson Asset Management chairman was speaking at the Stockbrokers and Financial Advisers Conference in Sydney on Wednesday, fresh from an 18-month battle with the Labor party over its failed campaign to scrap cash refunds entitled to taxpayers with excess franking credits.

The Coalition's surprise election victory means Australians are still eligible to claim those refunds, setting off a more than $30 billion rally in stocks on Monday as investors rushed back into bank shares.

Mr Wilson ran a long, sustained campaign against Labor's proposals on behalf of shareholders of WAM's listed investment companies.

But on Wednesday, he said that the fight against the "grossly unfair" and "illogical" policy was over, and appeared ready to turn his attention to the wider market.

He was "ultra-bearish" on equities at the end of last year, with the imminent end of the US Federal Reserve's stimulatory quantitative easing program in sight. "Quantitative tightening - that worried me the most," he said.

Now that quantitative tightening is "off the table", with interest rates probably set to fall both in Australia and the US over the next twelve months, that will should be supportive for the market. And while earnings growth is a risk, investors will probably "kick the can down the road" for another six to twelve months, he said.

"But we are getting close to the end," the fund manager warned. Arriving at the end of a long bull run, valuations are at levels that "particularly in Australia are ridiculous at the moment", and sentiment was such that "you can float anything", Mr Wilson said.

Addressing the relentless debate around active versus passive portfolio management during the question and answer session, the WAM chairman defended the active camp.

"What does really worry me is ETFs [exchange traded funds]," he said. "With a fund manager you have someone controlling the outflows and when they see outflows they will probably end up building up a cash buffer. If we all run for the door now, it's going to be pretty painful getting out.

"I was around in 1987 and we all remember portfolio insurance," he said. "To me that's what drove the market in October 1987 - everyone was running for the door at the same time."

The risk to the market was: "we all think that there is liquidity until we want to sell."

Despite his vocal defence of stock pickers, he acknowledged the pressure on the funds management industry. "How can we continue to add value? I think that is the enormous challenge."

WAM shareholders appeared to welcome his battle against Labor's policy platform.

Mr Wilson went on the attack almost as soon as the proposal was announced by then shadow treasurer, Chris Bowen, early last year.

By late September, Mr Wilson had coined the phrase “retirement tax” in his weekly missive to WAM's 80,000 shareholders. This slogan would be picked up by the Coalition as franking became a divisive election issue.

Mr Wilson said the fact that Labor was forced to revise its policy almost immediately to exclude pensioners suggested it had not been properly formulated. He admitted to crying when reading stories from shareholders who sought his advocacy on the issue.

Shrinking' ASX in listings hunt after a rush of major acquisitions

JOYCE MOULLAKIS, SENIOR BANKING REPORTER
12:00AM MAY 27, 2019

ASX chief Dominic Stevens believes confidence is slowly returning to the local initial public offerings market, despite a weak start and new analysis showing the ASX 200 has shrunk by $6.5 billion so far this year.

Mr Stevens told The Australian a strong rally in the domestic bourse in recent months and the end of election uncertainty made the environment more favourable for listings.

"At my half-year [results in February] I was saying it looks like it could be a tougher six months ahead but things are looking a little bit better than that now," he said on the sidelines of a stockbroker's conference.

The market rout late last year and uncertainty around the election had impacted the outlook for floats but a subsequent rally had brought "confidence and people looking for opportunities back to the market", Mr Stevens said.

A wave of mergers and acquisitions have, however, prompted a number of delistings this year, including hospital group Healthscope, which was suspended from official quotation on Friday following a $4bn takeover by Brookfield. That followed other targets including Scottish Pacific, Greencross and MYOB so far in 2019.

And late last year, Fairfax Media folded into Nine Entertainment and Investa Office and Gateway Lifestyle were among companies that exited the ASX. MST Marquee senior analyst Hasan Tevfik, who closely tracks the ASX 200's level of equitisation, said that while 2018 was flat, 2019 had seen a $6.5bn drop in the total value of shares. The numbers do not include the Healthscope deal completion, which will see the company replaced by a smaller entity in the ASX 200.

"There is not enough issuance to replace the chunky loss in equitisation," Mr Tevfik said.

"The cost of equity that venture capital has is lower than equity markets. It is more prickly money on the equity market.

"They [investors] seem to be more cynical. We may actually see even less listings as buyers try to find another way to crystallise their gains."

Mobile application company Life360 and platform provider Powerwrap are among floats - planned for this year, while other companies in the float pipeline include Prospa and assets from the former Arrium business, which has been renamed Infrabuild.

Mr Stevens argued that the ASX had seen a substantial increase in value over the longer term and that the shrinking number of stocks was a global trend.

"If you look over the long term [in Australia] it's just like a slow grind up," he said.

"When I started in this job [in 2016] I think the CHESS sub register held $1.5 trillion of securities and that's well over $2 trillion now.

"In the longer term there is a global theme … the US market used to have 8000 or 9000 stocks and it now has 3500."

Mr Stevens also called out the listings of large technology groups in the US, which was seeing public markets price the assets.

Those include Pinterest and ride-sharing groups Uber and Lyft. "It's interesting to see a bunch of the unicorns starting to float, some of them successful, some of them less successful, but that's the market," Mr Stevens said.

However, Mr Tevfik believed there was a disconnect where private equity and venture capital remain cashed-up in a low interest rate environment and assets were often valued more highly when unlisted.

"It is happening all around the world. Listed equities have become less relevant," he said.

"Investors are willing to pay higher valuations off the market."

Mr Tevfik's analysis showed the US market has shrunk for nine consecutive years while Australia has mainly seen the ASX 200 grow in value over the past decade.

His tracking of equitisation levels measures IPOs, secondary raisings and additions to the index, minus M&A, buybacks and companies dropping off the exchange. It is adjusted for free float shares.

A flurry of further M&A activity, including the pending $3.8bn takeover of DuluxGroup and speculation that the likes of Lendlease and Vocus may be in the crosshairs of suitors, doesn't bode well for Australia's bourse.

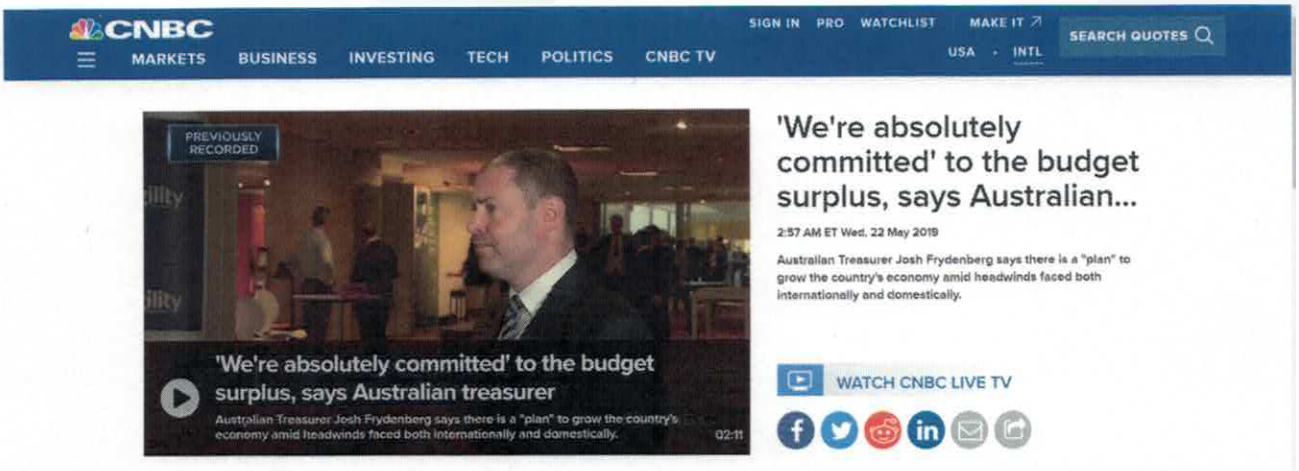
Fund manager scepticism of IPOs has also remained high.

"There are so many cases of the poor fund manager being burnt," Mr Tevfik said.

"Investment bankers are at least partly to blame." His view is that the average ASX 200 company is now of a "much higher quality" than 20 years ago, making it more difficult for new stocks to compete.

"If we are going to continue to be in an era of low interest rates and see these alternate pools of capital pop up and grow … the ASX could be a dinosaur," he said.

"The ASX has managed it well so far." The ASX has been on a drive to attract more local listings by companies based outside Australia. Over the past five years 126 offshore-based companies have floated on the local bourse.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'We're absolutely committed' to the budget surplus, says Australian treasurer

Australian Treasurer Josh Frydenberg says there is a "plan" to grow the country's economy amid headwinds faced both internationally and domestically.

02:11

'We're absolutely committed' to the budget surplus, says Australian...

2:57 AM ET Wed, 22 May 2019

Australian Treasurer Josh Frydenberg says there is a "plan" to grow the country's economy amid headwinds faced both internationally and domestically.

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Logic behind proposed tax policies by defeated Australian Labor Party is...

2:54 AM ET Thu, 23 May 2019

Tax policies proposed by the Australian Labor Party were said to have contributed to the party's surprise defeat in the recent elections. Geoff Wilson of Wilson Asset Management weighs in.

WATCH CNBC LIVE TV

www.afr.com | Thursday 23 May 2019

Cloud over stockbroker conference

On the surface there could not be a better time for the Stockbrokers and Financial Advisers Association to hold its annual conference.

The market is brimming with optimism in the wake of Prime Minister Scott Morrison's election victory. Clients of brokers and financial advisers must be feeling good as the S&P ASX200 marches towards beating the record high of 6828 set in November 2007.

The index is up 15 per cent this year making it one of the best-performing stockmarkets in the developed world. The stocks driving the index higher have been the big four banks, BHP Group and Rio Tinto – stocks that happen to be the most widely held by retail shareholders.

Banks are enjoying a revival after the removal of Labor's proposed changes to the treatment of franking credits, capital gains and negative gearing. To show their appreciation for the broking industry's support for the government in the lead-up to the election, Treasurer Josh Frydenberg and Assistant Treasurer Stuart Robert were late additions to the SAFAA conference in Sydney.

Apart from a tweet from President Donald Trump saying "buy Australia", it would be difficult to paint a more positive scenario for an industry that ties its fortunes to movements in stock prices.

But the reality is pretty grim for the 3000 advisers who work for the association's member firms. About a third of them are at risk of losing their jobs, according to SAFAA chairman Brian Sheahan.

He opened the conference with dire warnings about the impact of the federal government's new education standards for all professionals involved in financial advice that come into force from January 1, 2021.

Sheahan argues the standard, which is being set by the Financial Adviser Standards and Ethics Authority, fails to recognise the existing industry qualifications and continuing professional development of advisers working in the broking industry.

The FASEA is insisting all existing advisers must achieve a graduate diploma qualification or leave the industry. It is not clear if the ASFAA's warm relations with key ministers in the Morrison government will help its advocacy of changes to education standards. But it seems ridiculous a sector of the financial services industry with a low level of official complaints from customers should be forced to shed 1000 advisers because of inflexibility in setting education standards. Surely, it is not in the interests of financial literacy or the interests of broking clients to reduce the availability of affordable financial advice.

While FASEA grapples with the issue of financial adviser qualifications, the Australian Securities and Investments Commission appears to be headed for a financial advisory train crash associated with deadlines for compliance. About 25,000 retail financial advisers have to tell ASIC by November 15 the compliance scheme to which they belong. But no compliance schemes have been approved.

Chanticleer understands there are three draft compliance schemes and there is a final deadline for scheme providers to apply by the middle of August. It is doubtful any schemes can be put in place in time for the November deadline.

Hayne shakes up board roles

IAG and Virgin Australia chairman Elizabeth Bryan says the role of an ASX board has changed after the Hayne royal commission, increasing pressure on firms to tackle social issues and technological change alongside profit growth.

"The role is changing ... it is hard work now. You are dealing with a lot of questions that there is no real clear answer to," she said of the responsibilities of non-executive directors.

Speaking at the Stockbrokers and Financial Advisers Association conference in Sydney, Ms Bryan stressed there were two key issues boards needed to address: their social purpose and rapid change in technology. "If any company gets either of those wrong it is out of business," she added.

"They are really, really serious issues." Following the damning revelations about the banking and insurance industries highlighted by the royal commission last year, she said local companies needed to focus on long-term profits over short-term earnings growth.

The royal commission highlighted a lack of accountability on several boards. It led to the departure of National Australia Bank's chief executive Andrew Thorburn and will see former chairman Ken Henry depart later this year.

On how the industry responded to the Hayne final report and its recommendations, Ms Bryan said: "There will be a lot of costs on companies in dealing with it. There will be a lot of costs in our regulators in dealing with it."

JOYCE MOULLAKIS

Australian 23/05/19

ASX rebuffs critics of blockchain technology

James Eyers

ASX chief executive Dominic Stevens has responded to market speculation its CHESS replacement project may result in higher clearing and settlement fees and expand the ASX's power over market data, telling stockbrokers it doesn't want to compete with them but rather help create new revenue opportunities.

Concerns of various brokers, registries and alternative exchanges were set down in a recent unpublished report by Deloitte. These included concerns that ASX is forcing them to invest to adopt unproven technology and its consultation process lacked transparency. But Mr Stevens said it is important to understand "what CHESS replacement is and what it's not".

No broker will be forced to use the new blockchain services being developed, he said, because the new settlement and clearing system will continue to offer a traditional connection based on messaging, albeit with new global standards. It will have all the current functionality of CHESS, plus 35 new features as requested by the market.

Amid rumours the project will consolidate additional data with ASX, Mr Stevens said it "will not be changing operating rules to require parties to provide new information to the settlement system" and said the philosophy of ASX is to create "contemporary open infrastructure".

With fee transparency another market concern, he said ASX "will not be increasing the cost of like-for-like services carried through to the new system". ASX makes about $100 million from clearing and settlement.

ASX has said hiring a "node" – the connection that will provide the synchronised, "source of truth" data that removes the need for messaging and reconciliation – will be free for the first three years after the system goes live, but has not provided details on pricing after that.

ASX and third parties are preparing to offer new services built on the blockchain that have not yet been fully developed or priced.

Instead of fretting about costs, Mr Stevens said brokers should be exploring the "gargantuan" opportunities from having access to real-time, trustworthy equities data, including removing the need to reconcile brokers' systems with ASX's.

No broker will be forced to use the new blockchain services being developed.
Dominic Stevens,
ASX chief executive

Responding to a question on security from Andrew Green, chief executive of the Stockbrokers and Financial Advisers Association, who said members want to be confident the blockchain would be "immune from attack" from cyber criminals, Mr Stevens said it would sit behind all existing firewalls and be safer than the existing system given the software and hardware will be new and because its cryptography and replication across the market provided additional security layers.

He also responded to investor concerns the ASX lacks diversification and the market is too oriented towards financials and resources, saying ASX would continue to seek to attract more foreign technology companies.

NR AFRGA1 A031

AFR 23/05/19

Market valuations ridiculous, says Wilson

Sarah Turner

Veteran fund manager and franking advocate Geoff Wilson says one of the longest bull markets on record appears to be close to its natural end, having pushed up valuations to "ridiculous levels".

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But on Wednesday, he said that the fight against the "grossly unfair" and "illogical" policy was over, and appeared ready to turn his attention to the wider market.

He was "ultra-bearish" on equities at the end of last year, with the imminent end of the US Federal Reserve's stimulatory quantitative easing program in sight. "Quantitative tightening – that worried me the most," he said.

Now that quantitative tightening is "off the table", with interest rates probably set to fall both in Australia and the US over the next twelve months, that should be supportive for the market. And while earnings growth is a risk, investors will probably "kick the can down the road" for another six to 12 months, he said.

"But we are getting close to the end," the fund manager warned. Arriving at the end of a long bull run, valuations are at levels that "particularly in Australia are ridiculous at the moment", and sentiment was such that "you can float anything", Mr Wilson said.

Addressing the relentless debate around active versus passive portfolio management during the question and answer session, the WAM chairman defended the active camp.

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The risk to the market was: "we all think that there is liquidity until we want to sell."

Despite his vocal defence of stock pickers, he acknowledged the pressure on the funds management industry. "How can we continue to add value? I think that is the enormous challenge."

WAM shareholders appeared to welcome his battle against Labor's policy.

Mr Wilson went on the attack almost as soon as the proposal was announced by then shadow treasurer, Chris Bowen, early last year.

By late September, Mr Wilson had coined the phrase "retirement tax" in his weekly missive to WAM's 80,000 shareholders. This slogan would be picked up by the Coalition as franking became a divisive election issue.

Mr Wilson said the fact that Labor was forced to revise its policy almost immediately to exclude pensioners suggested it had not been properly formulated.

If we all run for the door now, it's going to be pretty painful getting out.
Geoff Wilson (above)

AFR 23/05/19

‘We can navigate the headwinds’

AAP

Reserve Bank governor Philip Lowe, left, John Frydenberg and Scott Morrison at the RBA yesterday

JOYCE MOULLAKIS

Treasurer Josh Frydenberg is confident Australia can navigate a softer housing market and other economic headwinds, a view he expressed to Reserve Bank governor Philip Lowe during a round of key post-election meetings with top financial regulators.

Mr Frydenberg accompanied Prime Minister Scott Morrison to a meeting with Dr Lowe yesterday, with the Treasurer also holding talks with the banking regulator's deputy chairs, Helen Rowell and John Lonsdale.

Mr Frydenberg said he told Dr Lowe the government's existing policies, including income and small business tax cuts, a $100 billion infrastructure spending program and support for apprentices, would help to stimulate economic and jobs growth.

"The tax relief, the infrastructure spending and the skills package, they're the things that drive productivity gains and in turn economic growth and more jobs," he said at a stockbrokers conference in his first business address since the federal election win.

"The (RBA) governor and the government both understand ... the importance of this tax relief as a means of delivering more disposable income into the hands of Australians."

His comments follow a speech by Dr Lowe on Tuesday urging more stimulus to support economic output, including infrastructure projects and policies to boost investment. In the speech the central bank signalled an official interest rate cut, from a historic low 1.5 per cent, was likely in June.

Mr Frydenberg later told the Stockbrokers and Financial Advisers Association annual conference he was mindful of local and international risks and headwinds to the Australian economy.

"The Australian economy faces some headwinds," he said, adding that trade tensions between the US and China were escalating and weighing on growth.

Mr Frydenberg said the drought and floods in Australia in recent months had also had a "significant impact" and made growth more difficult.

Despite the headwinds, he is not stepping back from a commitment to return the budget to surplus in 2019-20.

"We are absolutely committed to the surplus," he said.

Mr Frydenberg is also keeping a close watch on the languishing housing market where credit growth and investment have markedly declined.

"The housing market has slowed. We've seen the budget forecast for dwelling investment, which had been growing at about 5.5 per cent per annum on average over the last five years, it is forecast to be down 7 per cent in 2019-2020, then another 4 per cent the year after," Mr Frydenberg said.

"The impact of a slowdown in the housing market is also being felt, so it's not the time for higher taxes — it's the time for a pro-growth strategy."

After a detailed announcement by the banking regulator on Tuesday, Mr Frydenberg praised its planned relaxation of interest rate hurdles for loan assessments by banks.

"It is a positive move. It has been well-received," he said.

"That will continue to spur lending across the economy."

Industry participants believe

Continued on Page 27

The Australian 23/05/19

Stevens talks up blockchain boon

HOLLIE ADAMS

ASX chief executive Dominic Stevens addresses the SFAA conference in Sydney yesterday

JOYCE MOULLAKIS

An upgrade of the ASX's core trade processing system and the use of distributed ledger technology will deliver stockbrokers meaningful cost savings and other benefits, the exchange's chief, Dominic Stevens, says.

Mr Stevens said while it was difficult to pinpoint the efficiency gains of moving to a system that draws on distributed ledger technology, he expected cost benefits for the stockbroking industry of more than 1 per cent.

"It's a low bar to think that a fully implemented DLT system would give the industry a mere 1 per cent cost benefit," he told the Stockbrokers and Financial Advisers Association annual conference yesterday.

"Even if this 1 per cent is correct, ASX would be adding value to the industry that are multiples of the current settlement fees."

Mr Stevens's comments came after some angst around the project for not providing clarity to stockbrokers on the costs and benefits of the new systems. DLT, often referred to as blockchain, is a digital system that allows transactions to be recorded in multiple places at one time.

Mr Stevens said the ASX wanted to remain independent in providing the trading infrastructure and systems rather than competing with the stockbroking community. "We are not looking to compete with people in this room," he said.

He also clarified that the upgrade of the core CHESS system would provide some choice to brokers on how they participated, including opting out of connecting through the DLT network of computers, called nodes.

The new trading system is being prepared to go live in 2021.

"A DLT-based CHESS system gives ASX and the marketplace a foundation for the next 20 years upon which to generate significant efficiencies," Mr Stevens said, adding that had the ASX not chosen to include DLT in the upgrade, it would have been a "major missed opportunity".

On the issue of cyber risks that may emerge from moving to a new trading platform, Mr Stevens was adamant that defences would be stronger because the system would provide an "extra layer" of security. "It actually allows us to address cyber issues better because it's more modern technology and more modern hardware," he said.

> 'Technology is ... a key part of our listings growth strategy'
>
> DOMINIC STEVENS
> ASX CHIEF EXECUTIVE

Mr Stevens also noted the ASX had beefed up resources and spending in the cyber risk area over the past three years.

"The amount of spending and resources ... has not gone up by 20 per cent or 30 per cent, it has gone up by multiples," he said.

"ASX has got multiples of the people working on that than it did a few years back and it is spending multiples of the money."

He also gave stockbrokers more insight into the ASX's strategy of attracting more listings from companies based overseas. His presentation showed that 126 offshore-based companies had floated on the ASX over the past five years, raising an average of \$42 million apiece.

This month's initial public offering of app company Life360 was the ASX's largest-ever technology listing out of the US.

The push by the ASX to lure offshore-based companies follows several years of weak IPO activity, as several large floats, including that of Latitude Financial and Quadrant Energy, were shelved. Quadrant was divested in a trade sale while Latitude may revisit a listing at a later date.

Mr Stevens emphasised yesterday that technology companies were a big focus for the ASX as it looked to diversify away from its traditional sectors.

"Technology is not only a key plank of ASX's own business development, but it is also a key part of our listings growth strategy," he said. "We now have approximately 200 listed tech companies — our second largest sector behind resources."

The Australian 23/05/19

THE SYDNEY MORNING HERALD THURSDAY, MAY 23, 2019

12 News

HOME LOANS

Frydenberg backs plan to spur lending

Clancy Yeates

Treasurer Josh Frydenberg has highlighted the "social responsibility" of banks to lend money as he backed a plan by the financial regulator that will lift the maximum amount of money a home buyer can borrow.

Fresh from a meeting he and Prime Minister Scott Morrison had with top officials from the Reserve Bank and the Australian Prudential Regulation Authority, Mr Frydenberg also acknowledged the "headwinds" facing the economy, including from the housing slump, but argued his planned tax cuts could help boost growth.

Speaking at the Stockbrokers and Financial Advisers Association conference in Sydney, Mr Frydenberg welcomed APRA's plan to scrap a rule that has meant banks assess how new customers would cope if interest rates rose to 7.25 per cent, which is much higher than current rates.

"That's a positive development. I think that will continue to spur lending," Mr Frydenberg said.

Slower credit growth and falling house prices are forecast to slow the economy via weaker residential building investment. Mr Frydenberg acknowledged banks had become more risk averse, in part as a result of the banking royal commission. But he said that with the royal commission and the election now behind us, the sector had an opportunity to lend.

"The banks now have an opportunity to continue to provide the capital flows into the economy – that is their economic and their social responsibility. But they're businesses and they have to do all the appropriate credit checks and make decisions that are in the best interests of their business.

"But at the same time it's important that the credit continues to flow in the economy, both to households and to businesses," Mr Frydenberg said.

Shares in property developers rose yesterday on speculation APRA's move would bolster demand, with Stockland up 3.3 per cent to \$4.40 by early afternoon. Building materials firms also enjoyed a bounce. Shares in CSR rose 4.8 per cent to \$3.86 and Boral was up 3.1 per cent to \$5.15.

Analysts predicted the change would lift the amount an average household could borrow by tens of thousands of dollars at a time the RBA is also widely expected to cut interest rates to new record lows in an effort to lift inflation and strengthen the labour market.

Mr Frydenberg's meeting with the country's powerful financial regulators and central bankers comes after RBA governor Philip Lowe on Tuesday said the board would consider cutting interest rates next month, which markets took to mean such a change is all but certain. He also said the economy needed support from the federal budget, from infrastructure spending and other reforms that encourage business investment.

Mr Frydenberg said his discussion with the RBA and APRA had focused on both challenges and opportunities facing the economy.

While drought, floods, housing and trade wars were dragging on activity, he said the opportunities included tax relief, infrastructure spending and the skills package in the budget.

Rule change

APRA has proposed getting rid of the 7.25 per cent rule and instead requiring banks to assess customers on the basis of a 2.5 per cent lift in rates from current levels.

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Thursday 23 May 2019
The Australian Financial Review | www.afr.com AFR

Social 'purpose' must align with returns: Bryan

James Eyers

Attempts to create a corporate "purpose" recognising many stakeholders could backfire if it is not connected to the main profit-making operations of a company, IAG and Virgin Australia chairman Elizabeth Bryan has warned.

Her comments come as regulators put pressure on boards to focus more on treatment of customers and improving company culture in response to the Hayne royal commission.

But Ms Bryan warned that the creation of a "purpose", or corporate social responsibility initiatives, that are too broad risks crossing an unacceptable line into philanthropy, which would not be tolerated by shareholders.

This highlights an emerging risk for companies attempting to appease aggressive regulators wanting them to focus more on the communities they operate in. On Wednesday, the Australian Prudential Regulation Authority released a report showing boards of financial services had more work to do to get a grip on responding to non-financial risks.

Amid a raging debate at the Australian Institute of Company Directors about whether directors are thinking enough about the long-term, Ms Bryan, one of the country's most senior directors, warned against the use of "slick logos and marketing lines" that result in companies straying from their core business.

"To actually decide on a 'purpose' that is embedded in your business, that guides everything you do, and determines the culture you have in an organisation, you must have a purpose that is very, very tightly linked with your business model," she told the Stockbrokers and Financial Advisers Association conference in Sydney. "If it is not tightly linked to your business model, it becomes a form of philanthropy – and then you get down to having really hard conversations with your shareholders. There's no way you can reconcile shareholder return requirements and a weak version of something that is a disguised bit of philanthropy."

You have to deliver to shareholders; you have to deliver the returns they expect.
Elizabeth Bryan

Elizabeth Bryan addresses the Stockbrokers Conference in Sydney yesterday. PHOTO: CHRISTOPHER PEARCE

She highlighted IAG's stated purpose of "keeping people safe", which has allowed the insurance group to expand its service offering while driving higher profits for shareholders. That is because the concept of safety has allowed IAG to think about services that stop insured risks materialising.

"Returns on mitigation money are much higher than returns on remediation money," she said. "If we can do things for you before something nasty happens, then you are happy and better off and we are happy and better off because the money that flows out to meet our commercial deal with you is less.

"And if we have less payments, our prices don't need to be as high, and more people can afford insurance ... it means we make more profit."

As companies grapple with creating "shared value", an issue debated at last week's ASIC Forum, Ms Bryan said delivering strong shareholder returns should remain paramount.

"You have to deliver to shareholders, you have to deliver the returns they expect. But you have got to do something on top of it – that is what society is saying to us. So you have to find something that makes those two things reinforcing."

Amid discussion on whether directors' duties needed to change to make boards more accountable to employees and the wider community, Ms Bryan backed the positions of ANZ Bank chairman David Gonski and Westpac chairman Lindsay Maxsted that no change to the law was needed.

Boards should "focus on profit, but you focus on long-term profit, not short-term profit", she said, which incorporated consideration of broad stakeholders.

And after the Australian Securities and Investments Commission's enforcement chief Daniel Crennan, SC, said on Friday he expected all companies to meet the higher standards of conduct that Commissioner Kenneth Hayne set down for banks, Ms Bryan said the "way we treat consumers, how we think about consumers, how we monitor the effects on consumers and the whole culture about the way we deal with consumers is a prime responsibility of boards and of a company".

The royal commission would "change how boards manage companies, it is going to change how regulators regulate companies, and for the industry of managing money, and all the intermediation services that have grown up around that, it is going to have an impact on the structure of your industry and the way you do things", she told the audience of stockbrokers.

6 News | Morrison's time

Josh Frydenberg and Scott Morrison after a meeting at the Reserve Bank in Sydney yesterday. PHOTO: PETER RAE

Treasurer tells banks to lend amid slowdown

James Eyers

Treasurer Josh Frydenberg told the major banks they have an "economic and social responsibility" to lend, after the prudential regulator eased borrowing restrictions amid signs of a softening economy.

Mr Frydenberg, who met Australian Prudential Regulation Authority chairman Wayne Byres on Wednesday, backed its proposal to remove the 7 per cent serviceability buffer on home loans, describing it as a "positive development that will continue to spur lending growth across the economy".

The Treasurer also said banks have an "economic and social responsibility" to continue to lend to support households and businesses, saying clarity after the Saturday election result and the end of the Hayne royal commission should restore lenders' confidence.

The comments came after a meeting with Reserve Bank governor Philip Lowe, also attended by Prime Minister Scott Morrison, at which Mr Frydenberg said Dr Lowe was "very optimistic" about the government's tax and infrastructure plans, after he called out the limitations of monetary policy on Tuesday and said more government spending may be needed to support the economy.

After bank stocks surged on Monday in a relief rally responding to the re-election of the government, and rose again on the back of APRA loosening its regulatory screws, Mr Frydenberg said banks should now be more comfortable putting money out the door.

This comes amid widespread lender concerns that responsible lending obligations and "micro-prudential" regulation by APRA in the form of the serviceability rules are restricting credit growth.

APRA's proposal to remove the floor "is a positive move, it has been well received, and I think you will see continued credit to flow", the Treasurer said after an address to a stockbrokers conference in Sydney.

"There was a bit of uncertainty leading into the royal commission process ... and there was obviously uncertainty over the Labor Party's high tax agenda on the economy – we can get on with business," he said. "[Banks] must do appropriate credit checks and make decisions in the best interests of their business, but it is important at the same time credit continues to flow to the economy, both to households and businesses.

"The banks now have an opportunity to continue to provide the capital flows into the economy: that is their economic and social responsibility."

After Dr Lowe said on Tuesday that interest rate cuts may be necessary to hit inflation targets, Mr Frydenberg said he and Mr Morrison had discussed with Dr Lowe the key challenges to the economy of the trade war between the United States and China, the impact of the floods and drought, and the slowing housing market.

Yet Mr Frydenberg said the discussion was balanced, including discussion of "the opportunities, which the governor and we are very optimistic about".

The tax relief and infrastructure plans set out in the budget and election campaign would be the "the things that drive productivity gains into economic growth and more jobs", Mr Frydenberg said.

Under the Coalition tax plan, Australians earning up to $126,000 will get up to $1080 in tax relief and small and medium businesses with turnover up to $50 million will get access to an instant asset write-off up to $30,000.

"The governor acknowledges how important our tax relief promised in the budget is to increasing disposable income for Australian households ..." he said after a speech to the Stockbrokers Association of Australia conference.

After Dr Lowe on Tuesday urged "increased spending on infrastructure", Mr Frydenberg said the government maintained its $100 billion spending program taken to the election – including a new airport in western Sydney and various road projects – would support the economy and "the jobs created through the infrastructure program will be very significant".

AFR 23/05/19

TAX CUTS BOOST ECONOMY

TREASURER Josh Frydenberg is banking on a "pro-growth" strategy of income tax cuts and infrastructure spending to reinvigorate a stalling economy. The Reserve Bank of Australia will consider a rate cut at its board meeting in two weeks, in hopes of reducing unemployment and buoying inflation.

Mr Frydenberg encouraged bankers to continue to lend, telling a Stockbrokers and Financial Advisers Conference they were "absolutely critical" to the economy as Australia faced "some headwinds".

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press clip

slice
CUT STRAIGHT TO YOUR NEWS

ASIC to flex new muscles

Risky products in watchdog's sights

JOYCE MOULLAKIS
FINANCIAL SERVICES

AUSTRALIA'S corporate watchdog is considering using its new powers to follow other countries in banning a suite of high-risk financial products.

But the Australian Securities and Investments Commission has moved to assure nervous brokers and financial advisers it will be rational as it adopts a strategy of suing wayward companies more readily.

ASIC markets executive director Greg Yanco yesterday said the watchdog was mulling over a move to ban controversial products such as binary options, margin foreign exchange and contracts for difference, or CFDs.

Such products can allow speculators to gamble on market movements using leverage, potentially multiplying their gains or losses significantly.

Mr Yanco said the regulator would consult with the industry before making a decision on evoking its new product intervention powers, which were approved by federal parliament last month.

It was calling on companies in the sector to "lift their game", he said.

Mr Yanco noted that a succession of countries had already banned or restricted such products.

"We have that (intervention) power now. We are starting to think really hard ... about binary options, and margin FX and leverage in margin FX and CFDs," Mr Yanco said at the Stockbrokers And Financial Advisers Association conference in Sydney yesterday.

"We have really formed a view, and I think this is a global view for regulators, that equities and futures markets are pretty well supervised both internally and externally.

"But in the FICC (fixed income, currencies and commodities) market, people need to lift their game.

"We've been lifting our game in terms of bringing people on that understand those markets."

Last month, ASIC warned that Australian licensees offering over-the-counter derivative investment products to "mum and dad" investors in some overseas markets might be providing "unlicensed or unauthorised services".

Regulators in markets including Europe, Japan and China had restricted or banned the products, ASIC said.

Binary options are products largely used by retail investors to bet on an event.

Typically, they either lose the initial investment in full if the call is incorrect, or receive a fixed payout if they are right.

Contracts for difference are used to speculate on the rise and fall in prices of underlying assets such as foreign currencies and shares, without owning the underlying stock or currency.

ASIC is believed to be looking closely at a handful of companies that operate in those markets.

Last year, a report by the watchdog into over-the-counter derivatives found the industry was riddled with issues, including misleading marketing, unclear pricing and inadequate risk management.

It said "the majority" of consumers' trading in those prod-

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press clip


Business Daily

ASIC to flex new muscles

Herald Sun (Melbourne)
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ucts was unprofitable.

On ASIC's plan to take a bolder approach to corporate misconduct by suing more companies, Mr Yanco yesterday said nobody would benefit from prosecutions that were launched "for the sake of it".

He said that despite the watchdog adopting a "why not litigate" approach to addressing misconduct, taking a matter to court might not always be the best route.

"We don't have unlimited resources and that really wouldn't play to the result we're looking for, which is addressing and deterring future misconduct," Mr Yanco said.

THE AUSTRALIAN, with AAP

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slice
CUT STRAIGHT TO YOUR NEWS

press clip

ASIC eyes ban on schemes

Risky products in watchdog's sights

JOYCE MOULLAKIS
FINANCIAL SERVICES

AUSTRALIA'S corporate watchdog is considering using its new powers to follow other countries in banning a suite of high-risk financial products.

But the Australian Securities and Investments Commission has moved to assure nervous brokers and financial advisers it will be rational as it adopts a strategy of suing wayward companies more readily.

ASIC markets executive director Greg Yanco yesterday said the watchdog was mulling over a move to ban controversial products such as binary options, margin foreign exchange and contracts for difference, or CFDs.

Such products allow speculators to gamble on market movements using leverage, potentially multiplying their gains or losses significantly.

Mr Yanco said the regulator would consult with the industry before making a decision on evoking its new product intervention powers approved by federal parliament last month.

However, it called on companies in the sector to "lift their game".

Mr Yanco noted that a succession of countries had already banned or restricted such products.

"We have that (intervention) power now. We are starting to think really hard ... about binary options, and margin FX and leverage in margin FX and CFDs," Mr Yanco said at the Stockbrokers And Financial Advisers Association conference in Sydney yesterday.

"We have really formed a view, and I think this is a global view for regulators, that equities and futures markets are pretty well supervised both internally and externally.

"But in the FICC (fixed income, currencies and commodities) market, people need to lift their game.

"We've been lifting our game in terms of bringing people on that understand those markets."

Last month, ASIC warned that Australian licensees which offered over-the-counter derivative investment products to "mum and dad" investors in some overseas markets might be providing "unlicensed or unauthorised services".

Regulators in markets including Europe, Japan and China had restricted or banned the products, ASIC said.

Binary options are products largely used by retail investors to bet on an event.

Typically, they either lose the initial investment in full if the call is incorrect, or receive a fixed payout if they are right.

Contracts for difference are used to speculate on the rise and fall in prices of underlying assets such as foreign currencies and shares, without owning the underlying stock or currency.

ASIC is believed to be looking closely at a handful of companies that operate in those markets.

Last year, a report by the watchdog into over-the-counter derivatives found the industry was riddled with issues, including misleading marketing, unclear pricing and inadequate risk management.

It said "the majority" of consumers' trading in those products was unprofitable.

On ASIC's plan to take a

press clip


BUSINESS DAILY

ASIC eyes ban on schemes

Daily Telegraph
Friday 24/05/2019

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bolder approach to corporate misconduct by suing more companies, Mr Yanco yesterday said nobody would benefit from prosecutions "for the sake of it".

He said that despite the watchdog adopting a "why not litigate" approach to addressing misconduct, taking a matter to court might not always be the best route.

"We don't have unlimited resources and that really wouldn't play to the result we're looking for, which is addressing and deterring future misconduct," he said.

THE AUSTRALIAN, with AAP

press clip

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slice
CUT STRAIGHT TO YOUR NEWS

ASIC closer to clamp on risky investments

JOYCE MOULLAKIS

The corporate regulator is considering using its new product powers to ban or restrict the sale of risky financial products, including binary options, margin foreign exchange and contracts for difference.

The Australian Securities & Investments Commission's markets boss, Greg Yanco, said the regulator would consult before invoking its product intervention powers, but called on industry players to "lift their game".

He highlighted a spate of other markets that had already banned or restricted such products.

"We have that (intervention) power now. We are starting to think really hard ... about binary options, and margin FX and leverage in margin FX and CFDs," Mr Yanco told the Stockbrokers And Financial Advisers Association conference. "We have really formed a view, and I think this is a global view for regulators, that equities and futures markets are pretty well supervised both internally and externally.

"But in the FICC (fixed income, currencies and commodities) market people need to lift their game.

"We've been lifting our game in terms of bringing people on that understand those markets."

Last month ASIC warned that Australian licensees offering over-the-counter (OTC) derivatives to retail investors in some countries may be providing "unlicensed or unauthorised services".

Regulators in markets including Europe, Japan and China had restricted or banned the products, ASIC said, noting it would not "tolerate that conduct".

Sources suggested authorities from several markets including China had been in touch with ASIC over the unlawful selling by Australian groups of binary options. The products are largely used by retail investors to bet on an event, with the outcome typically being losing the initial investment in full if the call is incorrect, or receiving a payout if they are right.

CFDs are used to speculate on the rise and fall in prices of underlying assets, such as foreign exchange and shares, without owning the underlying stock or currency. In foreign exchange trading, large amounts of leverage can be used, increasing the risk.

ASIC is believed to be looking closely at a handful of local firms that operate in this sector.

An ASIC report in 2018 into the OTC derivatives industry found it was riddled with issues, including misleading marketing, unclear pricing and inadequate risk management.

The report also said "the majority" of consumer trading in those products was unprofitable.

In March, ASIC obtained interim orders in the Federal Court against Forex Capital Trading restraining the company from removing assets from Australia, disposing of their property and freezing its bank account. The matter is ongoing.

Mr Yanco told the industry event that ASIC also had onsite visits "fairly regularly" with the largest 16 investment banks and stockbroking firms as it looked to clamp down on riskier parts of the market.

More broadly, Mr Yanco said the regulator wanted to be "getting under the bonnet" of finance companies, including meeting with leadership to understand processes and risk management.

He also spoke of a completed ASIC trial of natural language processing — computer-generated scanning of words — for ASX prospectuses.

"It seems as though we can, the computer can, detect anomalies in prospectuses pretty much as well as people," Mr Yanco said.

The industry expects the process to be rolled out as a method of trawling through ASX float documents from July 1, via a select sample of prospectuses.

Mr Yanco reiterated ASIC's new "why not" litigate policy, but cautioned that the regulator didn't have unlimited resources.

"There will be more litigation," he said, adding that close and continuous monitoring of large banks and wealth companies after the Hayne royal commission had led to hundreds of onsite interviews.

"We are picking up things they need to do better on."

The Hayne royal commission hit out at ASIC and the prudential regulator over a relationship that was too cosy with the companies they monitored and supervised. It has prompted an overhaul of both institutions.

Mr Yanco said ASIC's onsite monitoring had ensured a direct line for problems to be conveyed to company chief executives.

Separately, an ASIC corporate governance taskforce will report on remuneration structures in the market by September 30 and non-financial risks in early next year.

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slice
CUT STRAIGHT TO YOUR NEWS

press clip

JOYCE MOULLAKIS
NET INTEREST

Bluff or tough?

Former New Zealand prime minister Bill English had an honest take yesterday on whether tougher capital requirements across the ditch would see Australian banks retreat or pull back from lending in New Zealand.

"So far, for all the bluster over the last 15 years no Australian bank has taken its capital away, so what does that tell me? Don't believe what they say. Watch what they do," he quipped, telling a stockbrokers conference in Sydney the Australian banks were calling New Zealand's bluff.

While English is removed from current deliberations, he said he saw merit in the higher capital requirements being proposed by the Reserve Bank of New Zealand as long as banks remained focused on risk management.

"All you can do is gradually push that boundary back from the assumption — which is deep-seated in Australia — that the sovereign guarantees the banking system," he said. "These outfits (banks) can do serious damage to a country ... they stuff the sovereign balance sheet and it can take a long time to get that sorted out."

It's a work in process, though, for New Zealand policymakers. The RBNZ has received 164 responses and submissions on its new capital rules as well as feedback through briefings.

UBS has been a staunch critic of the proposed requirements, labelling them "unnecessary and potentially damaging" and warning they could prompt Australia's major banks to cut dividends.

The next step is that submissions will be collated and published alongside a summary in June, followed by an announcement by November 30.

Implementation is scheduled to begin from April, but the RBNZ has already signalled this will be a multi-year transition.

The measures have already put capital management measures from the likes of ANZ — which has been divesting assets and stockpiling capital — and others on ice as they work through the numbers.

Australia's banks account for about 88 per cent of New Zealand's banking assets.

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slice
CUT STRAIGHT TO YOUR NEWS

ASIC warns traders to lift their game

James Eyers

Key points

The regulator is about to apply its new product intervention powers.

Fixed income groups have the most work to do, says the head of market supervision.

The corporate regulator has warned fixed income and foreign exchange traders to lift their game, revealing it has installed supervisors in 16 investment banks and stockbroking firms as part of its intensified market supervision since the Hayne royal commission.

The Australian Securities and Investments Commission's head of market supervision, Greg Yanco, also indicated the regulator will restrict the sale of "contracts for difference" and "binary options" to retail investors, given excessive risks.

The move could be the first application of its new product intervention powers.

After the prudential regulator on Wednesday lashed financial services company boards for holes in self-assessments of non-financial risks, Mr Yanco on Thursday told stockbrokers at their annual conference in Sydney they, too, must benchmark themselves against standards set down in APRA's inquiry into the Commonwealth Bank.

He made it clear that fixed income, commodities and currencies (FICC) groups had the most work to do and that ASIC is hiring new supervisors with bond market expertise to lift scrutiny of the market, especially around the provision of complex products to retail customers.

"Equities and futures markets are pretty well supervised, both internally and externally, but in the FICC markets people need to lift their game," Mr Yanco said.

ASIC has particular concerns with the provision of foreign exchange margin trading products by some online platforms to retail customers, after it was notified by several foreign regulators including from China that Australian players were selling products in international jurisdictions without proper licences. He said a handful of firms were being investigated.

It is also consulting with providers of controversial binary options, which allow customers to bet on the outcome of an event and get a fixed cash payout if they win but nothing if they don't, and contracts for difference, where investors can bet on the change in value of a share, foreign exchange rate or market index using borrowed money. "We have the product intervention power now and we are starting to think really hard about binary options, and leveraged margin FX and CFDs," Mr Yanco said.

"We will be doing a consultation about that and listening to what will be the impacts if we decide to do what has happened in Europe, where they have effectively banned binary options and limited leverage quite significantly for margin products."

Equity market players and law firms have also been put on notice that from next financial year, ASIC will be applying artificial intelligence technology to scrutinise prospectus documents for misleading statements or omissions.

After ASIC chairman James Shipton flagged the expansion of its "close and continuing monitoring" program at ASIC's forum last week, Mr Yanco said ASIC has supervisory teams in 16 investment banks and stockbrokers.

They are conducting on-site reviews and have developed a "tailored supervision plan" for each firm.

In wholesale markets, the ASIC teams are monitoring implementation of the FX Code of Conduct pushed globally by the Reserve Bank's Guy Debelle.

ASIC also has members of its "corporate governance taskforce" inside financial services firms, examining the management of non-financial risk and remuneration.

Mr Yanco encouraged brokers to benchmark themselves against APRA's recommendations in the CBA report.

"That is a really good checklist of things you might want to consider about how you manage non-financial risk – am I focusing the business on the spread of things I need to or am I overly focused on profits?"

ASIC is also ramping up data collection from brokers.

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press clip

slice
CUT STRAIGHT TO YOUR NEWS

Australia 'must sort out energy policy'

FORMER NZ PM Sir Bill English says Australia needs to end its political impasse on climate change and consider a carbon price metric if the country is going to sort out its energy policy "mess".

Sir Bill named Australia's energy policy as one of several challenges facing Scott Morrison's returned government, as well as a housing market correction, and uncertainty around global trade.

Speaking to the Stockbrokers and Financial Advisers Conference in Sydney, the Wesfarmers director and Mt Cook Alpine Salmon chairman said Australia was in a fraught position when it came to energy, partially because of the country's policy impasse on climate action.

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Sir Bill said the adoption of an emissions trading scheme across the ditch in 2008, while not without its own complexities, had allowed his country to regulate carbon pricing in a similar way the Reserve Bank manages the cash rate.

He admitted this was helped by the fact 80 per cent of NZ's energy came from renewable hydro and geothermal power sources.

"The worst result is to decide you want to do something, and let's get a whole lot of bureaucrats and politicians, picking and mixing among options, including renewable energy targets to try and just come up with something on the day," Sir Bill said. "Sorting your energy policy and getting it a bit more market orientated, where people can respond to prices, would help everybody."

Sir Bill, who was his country's minister for finance and deputy prime minister from 2008 to 2016, said a gradual lift in carbon prices had "largely gone unnoticed" in NZ as residents and businesses responded in their own way to reduce their output in the most efficient way possible.

press clip

Gold Coast Bulletin
Friday 24/05/2019

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slice
CUT STRAIGHT TO YOUR NEWS

Spurious litigation 'no help'

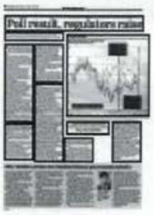
ASIC has assured nervous brokers and advisers that no-one would benefit from prosecutions "for the sake of it" as the financial watchdog takes a bolder approach to litigation following the royal commission.

Greg Yanco, the Australian Securities and Investment Commission's executive director of markets, said the regulator would increase the number of matters it takes to court but only if it was in the public interest.

"It's not the way to go first and litigate everything," Mr Yanco said at the Stockbrokers and Financial Advisers Conference in Sydney.

"We don't have unlimited resources, and that really wouldn't play to the result we're looking for, which is addressing deterring future misconduct, and really making the community expectations of wrongdoing will be dealt with appropriately through the courts."

The government beefed up ASIC and fellow regulator APRA with a $600 million windfall at the federal budget in April to help ensure they are sufficiently resourced to address the royal commission's 76 recommendations.



The Saturday Age
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Circulation: 241029
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press clip

slice
CUT STRAIGHT TO YOUR NEWS

Poll result, regulators raise hopes for big four banks

There was a trifecta of positive news for finance companies this week. But is it all as good as it seems, asks **Clancy Yeates.**

Assistant Treasurer Stuart Robert got a warm welcome when he addressed a room full of stockbrokers and financial advisers at Sydney's Hilton Hotel this week.

No doubt still buzzing from the Coalition's shock election win, Robert seemed happy to return the goodwill to the crowd, welcoming them into Prime Minister Scott Morrison's new "quiet Australians" cohort.

"I think this is the first set-piece speech of any minister of the new government, and I can think of no better place to do that than here amongst friends," began Robert, at which point he was interrupted by a round of applause.

"Great thing I love about the audience here is you exemplify everything the Prime Minister speaks about quiet Australians – getting on, hard-working, doing what they do – and how bloody good are quiet Australians today?" he said at the Stockbrokers and Financial Advisers Association conference.

Robert's praise for the sector – and the enthusiastic response of many in the room – partly reflects one policy area where the government and the industry body that organised the event are in furious agreement. Both fiercely opposed Labor's plan to end franking credit refunds.

It also illustrates a wider burst of optimism across much of the financial sector this post-election week. The shock result triggered a $33 billion sharemarket rally on Monday and Tuesday, led by the banks. In fact, Monday was the second biggest post-election bounce for the ASX since 1993 (Kevin Rudd's 2007 win triggered a bigger rise).

Late in the week, the big four banks were all still trading at least 6.5 per cent higher than their pre-election close.

The explosion in bank share prices was sparked by the Coalition's surprise victory, and the Morrison government's commitment to preserve the status quo on the taxation of property and franking credits.

And it wasn't just banks enjoying a lift. Health insurers also surged on Monday because Labor's plan to cap premiums would not proceed, while mortgage brokers and property developers also enjoyed healthy share price gains in response to some newfound optimism on housing.

Moves by powerful financial regulators to boost the sagging mortgage market, and the Reserve Bank's strong hinting at interest rate cuts, added further fuel to the fire as the week continued.

The moves pushed the sharemarket to fresh 11-year highs, and the strength was noted by Treasurer Josh Frydenberg.

"While I don't, as the Treasurer, comment on market movements on a day-to-day basis, that's not my job, clearly there was a positive response in recent days, which is very, very welcome," Frydenberg said when he addressed the same conference as Robert.

Looking beyond the sharemarket rally, however, it's less certain just what the past week means over the longer term for the big four.

How much will moves to reinvigorate the housing market really ease the tougher operating environment for retail banks?

More fundamentally, some are wondering what lies behind the regulators' clear desire to stimulate housing credit growth, and whether it reflects concerns of stormy economic skies ahead.

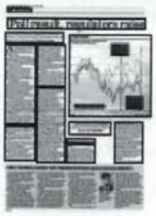
For the past few years, the financial services sector has copped a battering at the hands of politicians.

Following a string of scandals and customer rip-offs, outgoing opposition leader Bill Shorten promised a banking royal commission in April 2016, declaring "enough is enough".

Though Labor lost the election to the Malcolm Turnbull-led Coalition a few months later that year, the political pressure on lenders did not let up.

With banks on the nose with the public, then treasurer Scott Morrison slugged the big four and Macquarie with a bank tax in 2017, and the government bowed to the pressure and called its own banking royal commission later that year.

The Hayne commission dominated the industry in 2018, wiping off billions in market value as it exposed even more poor behaviour and brought the harrowing stories onto the nightly news.



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slice
CUT STRAIGHT TO YOUR NEWS

press clip

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The Hayne commission dominated the industry in 2018, wiping off billions in market value as it exposed even more poor behaviour and brought the harrowing stories onto the nightly news.

As Labor and the Coalition responded to Hayne's final report this February, it became a virtual bidding

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slice
CUT STRAIGHT TO YOUR NEWS

press clip

Banks 'bluffing' on NZ lending threats: ex-PM

James Eyers

Former New Zealand prime minister Bill English says threats by Australian banks to reduce lending in New Zealand if its central bank demands higher capital levels are a "bluff" given the returns they make across the Tasman.

However, Mr English also raised concerns about the Reserve Bank of New Zealand's plan to ramp up bank equity to protect its economy in a crisis, suggesting this could create moral hazard by dulling major banks' management of risk.

He also revealed the extent of New Zealand's displeasure with the Australian government during the global financial crisis when Australia announced it would guarantee bank deposits.

This had turned the banks into a quasi "government department", Mr English told the stockbrokers conference on Thursday. New Zealand considers the risks of failure should sit with bank investors, including depositors, rather than governments, he said.

Relations between the RBNZ and Australia's four major banks – which have an 86 per cent share of the lending market there – have been strained since RBNZ said in December it wanted to lift capital to levels to sustain a 1-in-200-year shock. S&P has estimated the banks will need an additional $8.1 billion to maintain capital ratios in their parent bank. Shayne Elliott, the chief executive of ANZ, the largest lender in New Zealand, said in May it "cannot expect our shareholders to unreasonably subsidise" its ambitions in the country.

But Mr English said the moves were not large enough to force a reduction in lending. "[Threats] to withdraw capital is, to a large extent, bluff. Australian shareholders and Australian banks do very well out of New Zealand. They generate good returns. I think they will stick around," he said.

Over the first half of the financial year, all of the banks reported robust deposit and mortgage growth in New Zealand, underlying profit growth of 4 per cent, and extremely low impairment charges – a stronger performance than in the Australian market.

"You make a choice – you either put up with a system and put your capital at risk, or you take it away. So far, for all the bluster over the last 15 years, no Australian bank has taken its capital away. What does that tell me? What should it tell you? Don't believe what they say – watch what they do," he said.

Mr English's appearance at the Stockbrokers and Financial Advisers conference in Sydney also shone a light on emerging pressure points between Australia and New Zealand, as he described the "irritation factor" when a "small sister tries to write its own rules".

The NZ government would never tolerate the Australian Prudential Regulation Authority being the sole regulator of its banks, given this could result in NZ losing control of managing a banking crisis.

"I don't think there is any doubt on what the Australia preference is, which is we use the Australian regulators and don't have a regulatory structure in New Zealand," he said. "That means you can make decisions that could wipe out our sovereign balance sheet. We are not going to have that, and never will – that is never going to happen."

Mr English, who became finance minister and deputy prime minister of NZ in November 2008, a month after former Labor treasurer Wayne Swan announced the deposit guarantee for the Australian banks, said this was done without consultation with the NZ government. "It's been an uphill battle

Continued p20

From page 17

Banks 'bluffing' on NZ lending threats

since the day Wayne Swan, without telling the NZ government, issued his guarantee," Mr English said.

"All you can do is gradually push that boundary back from the assumption, which is deep-seated in Australia, that the sovereign guarantees the banking system. That makes [banks] a kind of government department, not serious businesses, because they are not actually managing their risk."

Mr English, who was succeeded as prime minister by Jacinda Ardern in 2017, said his government, as part of its process for formalising how to deal with bank failures, considered requiring the banks to tell their depositors they might be forced to take a haircut in a crisis. While the details were not finalised, the proposed policy "gave them pause for thought they might have to" put losses on to investors and should not rely on the NZ government to prop them up.

The contrast with attitudes in Australia, where there is an expectation of government support, had the bosses of the NZ operations thinking "how we explain that to head office in Australia, where they think this is some kind of weird, satanic cult thinking".

Ms Ardern's government has backed away from this policy, but Mr English said he prefers it to the RBNZ's current capital plans under governor Adrian Orr.

While raising capital levels heavily reduces the likelihood the banks will struggle in a crisis, "on the other hand, it means banks will stop thinking about risk management altogether", he said.

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press clip

Australia 'must sort out energy policy'

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press clip

Risky products in ASIC watchdog's sights

JOYCE MOULLAKIS

AUSTRALIA'S corporate watchdog is considering using its new powers to follow other countries in banning a suite of high-risk financial products.

But the Australian Securities and Investments Commission has moved to assure nervous brokers and financial advisers it will be rational as it adopts a strategy of suing wayward companies more readily.

ASIC markets executive director Greg Yanco yesterday said the watchdog was mulling over a move to ban controversial products such as binary options, margin foreign exchange and contracts for difference, or CFDs.

Such products can allow speculators to gamble on market movements using leverage, potentially multiplying their gains or losses significantly.

Mr Yanco said the regulator would consult with the industry before making a decision on evoking its new product intervention powers, which were approved by federal parliament last month.

Mr Yanco noted that a succession of countries had already banned or restricted such products.

"We have that (intervention) power now. We are starting to think really hard ... about binary options, and margin FX and leverage in margin FX and CFDs," Mr Yanco said at the Stockbrokers And Financial Advisers Association conference in Sydney. "We have really formed a view, and I think this is a global view for regulators, that equities and futures markets are pretty well supervised both internally and externally. But in the FICC (fixed income, currencies and commodities) market, people need to lift their game."

Binary options are products largely used by retail investors to bet on an event.

Typically, they either lose the initial investment in full if the call is incorrect, or receive a fixed payout if they are right. Contracts for difference are used to speculate on the rise and fall in prices of underlying assets such as foreign currencies and shares, without owning the underlying stock or currency.

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press clip

ASIC vows to be tough but fair

FINANCIAL SERVICES

The corporate watchdog has assured nervous brokers and advisers that no one would benefit from prosecutions "for the sake of it" as it takes a bolder approach to litigation following the royal commission.

The Australian Securities and Investments Commission (ASIC) faced criticism at the royal commission over its approach to enforcement and has vowed to now take a "why not litigate?" approach.

Greg Yanco, ASIC's executive director of markets, said the regulator would increase the number of matters it takes to court, but only if it was in the public interest.

"It's not the way to go first and litigate everything," Mr Yanco said at the Stockbrokers and Financial Advisers Conference in Sydney yesterday. "We don't have unlimited resources, and that really wouldn't play to the result we're looking for, which is addressing and deterring misconduct."

The government beefed up ASIC and the Australian Prudential Regulation Authority with a $600 million boost in the federal budget to help ensure they had enough resources to address the royal commission's 76 recommendations.

Mr Yanco said despite adopting a "why not litigate?" approach, taking a matter to court may not always be the best route. "The court doesn't really appreciate us taking up its time unnecessarily and so there's often going to be a different outcome," he said.

AAP

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slice
CUT STRAIGHT TO YOUR NEWS

press clip

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AAP

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