Stockbrokers and Investment Advisers Association
Serving the interests of investors

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By email: FinancialAdvice@treasury.gov.au

Assistant Director
Advice Unit
Retirement Advice and Investment Division
Treasury
Langton Crescent
PARKES ACT 2600

Dear Sir/Madam

REMOVAL OF THE STAMPING FEE EXEMPTION: CONSULTATION PAPER

The Stockbrokers and Investment Advisers Association (SIAA) is the professional body for the stockbroking and investment advice industry. Our members are Market Participants and Advisory firms that provide securities and investment advice, execution services and equity capital-raising for Australian investors, both retail and wholesale, and for businesses. Practitioner Members are suitably qualified professionals who are employed in the securities and derivatives industry.

SIAA welcomes the opportunity to provide feedback on the post-implementation review of the removal of the stamping fee exemption.

We note that at the time of its removal, the Office of Best Practice Regulation determined that the measure was likely to have major impacts on affected businesses and individuals and a Regulation Impact Statement was required but never completed. At the time, SAFAA (the former name of this organisation) strongly disagreed with the removal of the exemption for LICs and LITs and provided submissions to Treasury in February and June 2020 providing our members' feedback. A link to those submissions is here and here.

At the time of those submissions, we considered that the decision to separate out some products from the stamping fee exemption overlooked the rationale for stamping fees and confused the service and remuneration model of stockbroking with the service and remuneration model of financial planners. It also reintroduced the market-distorting effect that the stamping fee exemption remedied when Parliament corrected the situation in 2014. We considered that the evidence Treasury relied on in support of the policy was flawed.

It also failed to give regard to:

- the importance of LICs and LITs to satisfy the demand from retail and high net worth clients for new and diversified classes of investments
- the potential that issuers will not develop and bring such issues to market in the Australian jurisdiction if there is no confidence that investors will have access to advice from their advisers on those products or will limit the offering to wholesale clients only.

We note that the issue of exemptions from the ban on conflicted remuneration is the subject of the Quality of Advice Review. SIAA has provided feedback on the removal of the stamping fee exemption for LICs and LITs to that review.

SIAA's view on the removal of the exemption has not changed. To summarise our previous points:

- Stamping fees have been the traditional way that stockbrokers and investment advisers have charged for the work that is done in analysing a potential offering and determining the appropriateness or otherwise of a recommendation to clients.
- There is a considerable amount of work that is involved in assessing the merits of a listed investment entity. This includes:
    - reviewing and analysing the offer documents
    - carrying out an assessment of the various risks of the investment
    - assessing the track record, experience and credentials of the Manager of the entity
    - assessing the fees, expenses and other costs and comparing with similar classes of investment, and identifying any anomalies
    - assessing the return on investment and comparing the return on investment for the asset class
    - identifying any conflicts of interest, and
    - in relation to individual clients who receive personal advice, assessing whether the investment is appropriate for that investor's individual circumstances, situation and needs.
- Stockbrokers and investment advisers are remunerated on a transactional basis. The traditional method of remuneration of a stockbroker and investment adviser is to charge brokerage on a trade. In the case of an initial public offering (IPO), there is no trade on which brokerage can be charged, so the stamping fee is the analogous remuneration charged for the service.
- LICs and LITs have the following features that investors, both retail and wholesale, find attractive:
    - payment of franked dividends (particularly attractive to retirees)
    - exposure to a basket of stocks, including a more diverse spread of stocks that could be acquired for a small investment amount
    - the listed company structure, which allows them a view of the governance of each entity and the capacity to attend and vote at AGMs — this is not available for ETFs
    - they are traded on market, so can be easily exited if desired
    - active management as opposed to passive management, or simple index tracking
    - investors may be attracted to a particular LIC/LIT manager based on their track record
    - they are closed end vehicles, so that exiting holders do not diminish the funds invested. The LIC/LIT is not required to sell assets to fund exiting holders. There is no potential threat that holders will be locked into their investment during times of market stress as is the case with unlisted funds.
- The role of stockbrokers and investment advisers to match investors with those seeking capital has been acknowledged in the past. If stockbrokers and investment advisers are not

able to fulfil this role because they are not able to be remunerated, this will impact on the ability of LICs and LITs to raise capital and come to market.

- LICs and LITs may find it more difficult to raise the amount needed to achieve listing, or sufficient numbers of investors to meet shareholder spread requirements and/or ensure a sufficient secondary market in the product. They may decide that other jurisdictions offer a better alternative market in which to list.
- A lessening in the LICs and LITs offered to Australian investors will reduce investment and diversification options.

Our feedback on the Consultation Paper questions is below.

1. **What impact has the policy change had upon retail investors?**
2. **How has the policy affected stockbrokers and financial advisers?**
3. **How have consumer investment choices been affected?**
4. **Has the policy beneficially changed competition settings in the managed funds sector?**
5. **Have there been unintended consequences resulting from the policy changes.**

The unintended consequences of the removal of the stamping fee exemption that were highlighted in our previous submissions have come to pass and we challenge Treasury's underlying proposition that eliminating stamping fees has generated better outcomes for consumers.

As we have previously stated, there was no evidence of poor consumer outcomes resulting from retail clients investing in LICs and LITs, either from AFCA complaints data or from ASIC enforcement.

The LIC/LIT market was previously a thriving market, with new issuances, broker support for capital raisings and the provision of research. By way of example, during the 2018 calendar year 11 LICs and LITs were admitted to the ASX.

Since the period ending 31 July 2020 (the stamping fee exemption was repealed effective 1 July 2020) until the period ending 31 May 2022 only five LICs and LITs have been admitted to the ASX[1]:

Name	Amount raised[2]	Admission Date
Magellan Global Fund (MGF)	Restructure	30/11/2020
Salter Brothers Emerging Companies Limited (SB2)	$20 million	16/06/2021
WAM Strategic Value Limited (WAR)	$225 million[3]	28/06/2021
Touch Ventures Limited (TVL)	$100 million	29/09/2021
Cadence Opportunity Fund Limited (CDO)	$52 million	19/11/2021

During the same period the number of LICs and LITs listed on the ASX has declined from 111 to 95.

[1] ASX funds statistics https://www2.asx.com.au/issuers/investment-products/asx-funds-statistics
[2] As per their public offer documents.
[3] Of the $255 million offering, $125 million was a Priority Allocation to the Wilson Asset Management Family (existing or past shareholders of companies in the Wilson family and subscribers to the Wilson Asset Management updates).

This compares with other ASX investment products such as ETFs; the number of ETFs listed on the ASX since 31 July 2020 has increased from 211 to 247.

Secondary raisings for LICs and LITs have been largely restricted to wholesale investors.

There is no new LIC/LIT product coming to market in size. Issuers are unable to obtain the support of brokers to distribute their product. Feedback from our members is that the reduced levels of corporate activity in LICs and LITs has resulted in a decline in research coverage of the sector as well as a decline in adviser support for capital raising.

An example of the changed environment for LICs and LITs in Australia is the decision by Pimco in April 2022 to scrap the launch of its first listed investment trust in Australia. The asset manager was looking to raise $500m for an ASX-listed vehicle, the Pimco Global Income Opportunities Trust, but was unable to proceed.

The repeal of the stamping fee exemption has had significant impact on the LIC/LIT ecosystem and retail clients have been affected the most. This is ironic as LICs and LITs were developed primarily for retail investors. Listed investment companies have been in existence for over a century and we are puzzled why Treasury considers that they are no longer appropriate for retail investors.

We note that Treasury's 2020 report on the consultation on removing the stamping fee exemption has not been released.

Rather than benefit retail investors, the policy has disadvantaged retail investors in the following ways:

- Those who have invested in LICs and LITs are finding it harder to access research on these products.
- Secondary issuances are largely restricted to wholesale clients, thereby limiting the ability of retails clients to participate in capital raisings.
- It is harder for retail clients to invest in new issuances as stockbrokers and investment advisers are neither participating in these offers nor providing research coverage.

The result is a reduction in the investment and diversification options available to retail clients.

As one SIAA member has succinctly put it 'retail investors have been left at the bus stop with no bus'.

We also note that the removal of the stamping fee exemption introduced regulatory unfairness in their treatment compared to other listed products.

Accordingly, SIAA recommends that Treasury recommend to government that due to the disadvantage to retail investors introduced by the removal of the stamping fee exemption, the policy be reversed and the stamping fee exemption for LICs and LITs be reinstated. This would assist retail investors to gain access to wider investment and diversification options and also ensure that LICs and LITs were treated equally in regulation to other listed products.

Conclusion

If you require additional information or wish to discuss this matter in greater detail, please do not hesitate to contact SIAA's policy manager, Michelle Huckel, at michelle.huckel@stockbrokers.org.au.

Yours faithfully

Judith Fox
Chief Executive Officer