SIAA monthly

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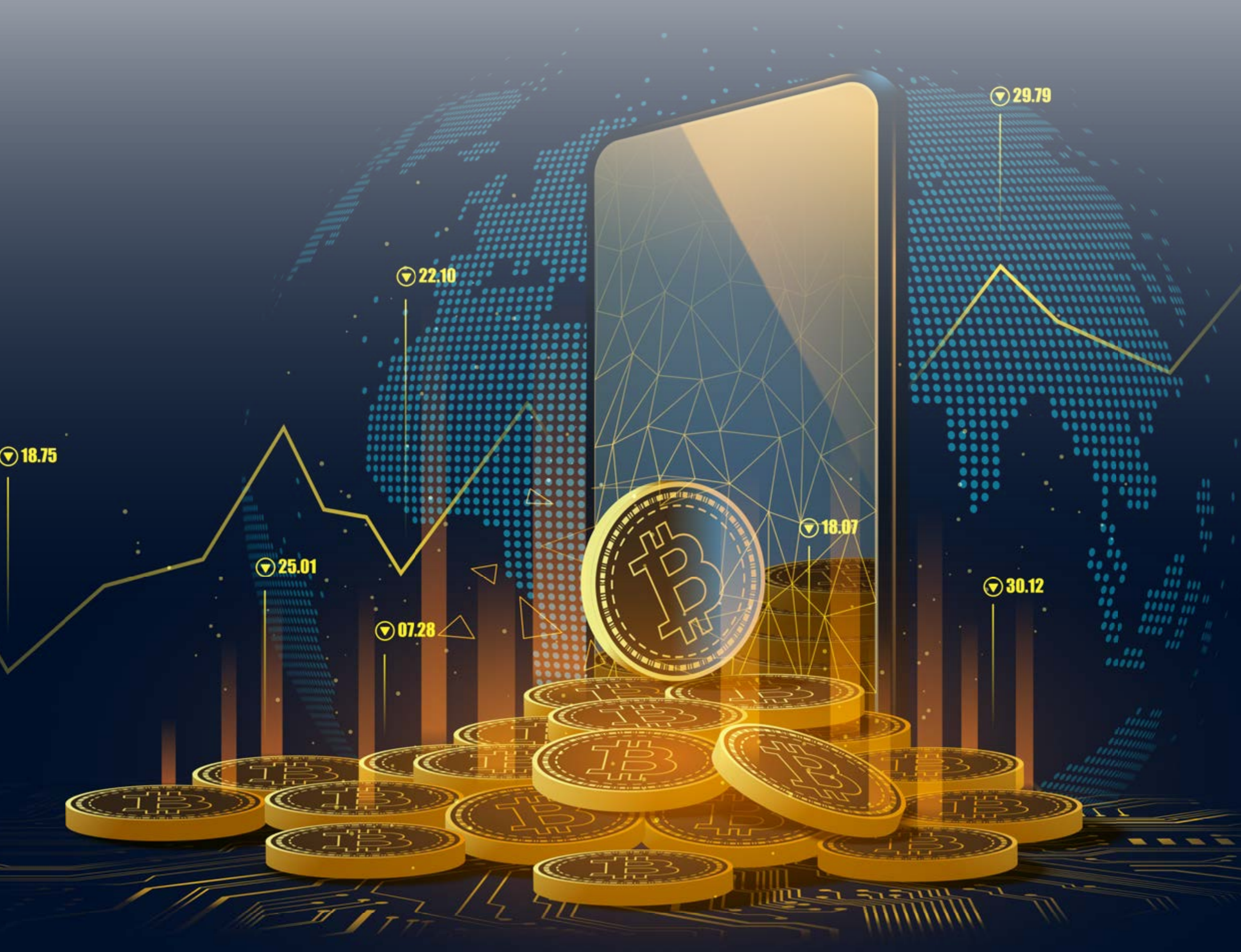

Treasury proposes a new financial product called a 'Digital Asset Facility'

Using options to 'Repair a stock position'

HNW investors embracing endowment-aligned strategies

What you need to know about Payments

Kickstarting retirement incomes

CONTENTS

3
COVER STORY

3 **Treasury proposes a new Financial Product called a Digital Asset Facility'**

The proposed regulatory framework for digital asset platforms, as set out in the Australian Treasury's consultation paper, if adopted, will usher in a new financial product and will be an important regulatory link between traditional financial products and crypto assets.

6 **Using options to 'Repair a stock position'**

No one's perfect. We've all had stock positions in our portfolio that haven't performed as expected, where we'd simply settle to break even and live to fight another day. Even the oracle of Omaha, Warren Buffett, has had a few of these failed investments himself.

11 **HNW investors embracing endowment-aligned strategies**

Australia's high-net-worth (HNW) investors ($1m+ in investable assets) and ultra-high-net-worth investors ($10m+ investable assets) are increasingly looking beyond traditional bonds and equities with a notable pivot towards alternative investments such as private equity, private credit and structured products.

14 **What you need to know about Payments**

Payments, the business of paying and receiving funds, is growing rapidly. It is estimated in 2024 to have a market size of $14 trillion in APAC alone. Globally and regionally, a growth rate in APAC of about 16% per annum is expected for 2024.

16 **Super snippets: Kick-starting retirement incomes**

The federal government ended 2023 declaring its intention to inject some urgency into the retirement income solutions superannuation funds are providing for their members with the release of a discussion paper that may not have garnered much attention.

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Treasury proposes a new Financial Product called a 'Digital Asset Facility'

By Ian Love, Founder and CEO, Blockchain Assets Pty Ltd

The proposed regulatory framework for digital asset platforms, as set out in the Australian Treasury's consultation paper, if adopted, will usher in a new financial product and will be an important regulatory link between traditional financial products and crypto assets.

A new Financial Product

The new financial product will be known as a 'Digital Asset Facility' (DAF). A DAF will be able to provide services such as trading, staking, tokenization and fundraising for crypto assets. So for example a DAF could be a crypto asset platform where individuals can buy, sell and hold assets such as bitcoin and ether.

A DAF would also be able to offer services for assets such as tokenized real estate, artwork, collectibles and commodities.

There is no restriction per se on DAF offering tokenized 'financial products' (such as securities). However, if a DAF does wish to offer tokenized versions of existing financial products, they will have to observe the same laws as existing trading venues and market participants.

A DAF will need to hold an AFSL and will be regulated in the same way as any other AFSL holder.

Everyone is a potential winner

We have heard many people say things like '...blockchain technology will do to the banks what email did to the post offices...' This is far too simplistic, but there will be changes ahead.

One of my clients, many years ago, was an on-line brokerage. This was in the Mid-1990's in Hong Kong and at that time there was a view that on-line broking would lead to the extinction of traditional brokerage services. In the end this did not happen because human beings like to speak to other human beings, particularly when it comes to important things like money and investments. The financial markets are now bigger and employ more people than they ever have before.

The same thing is going to happen with the evolution of crypto asset marketplaces. The winners here will be those firms who are able to allocate the right amount of resources at the right time to evolve their firms to catch the opportunities that this technology brings.

The future of financial services

For a while we have been crystal balling about how traditional financial markets will merge with crypto asset markets. We are not close to that point yet, but the proposed regulatory framework is one part of the puzzle falling into place.

Already there are a number of highly profitable businesses operating what may become regulated DAF's, these are the so called crypto exchanges. Once regulated they will be able to consider building other services such as financial advice, initial token offerings, custody and potentially the full range of financial services.

At the same time, existing financial service providers will be able to advise their clients on which DAF to use, which assets are of interest and again potentially offer the whole suite of financial services within the crypto asset ecosystem.

In other words, the potential to offer new services to clients via both the traditional service providers and the newcomers is greatly increased. I imagine there will be a number of mergers and partnerships. It will not be a winner take all outcome, but certainly there will be a benefit in being first to market with a holistic offering of crypto and traditional assets.

If the momentum on the regulatory front continues in this direction, in less than five years from now most traditional financial service providers will be advising their clients on bitcoin, ether and tokenized assets such as collectibles, real estate and precious metals. This will be accretive to their existing offerings.

The existing crypto asset exchanges are going to have to lift their game. They will need to expand into the advisory space. This they can do for crypto assets reasonably easily. However, it is more difficult for them to expand into traditional markets and products.

Ten years from now there will be no distinction between traditional financial services companies and crypto exchanges. Like we have seen with every other industry, clients want a one stop shop. Clients will want to speak to their advisor about every possible asset available to them as investors and those advisors who are equipped to advise and execute on that advice will gain market share.

No business wants to be the 'post office' of the blockchain age. The future of financial services, from where I sit, seems to be very positive. There are a significant number of new clients looking for services, an increasing array of investable assets and a reduction in cost structures. I for one, cannot wait to see what happens next.

Ian Love is the manager of the Blockchain Early Opportunities Fund - Australia's First Crypto Asset Fund.

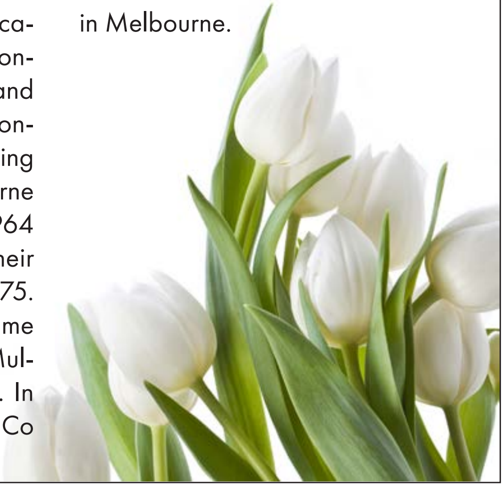
Blockchain Assets will exhibit at the SIAA 2024 Conference.

Vale Ronald Hay

The Association is saddened by the news of the passing of Ronald Hay FSIAA, former executive chairman of E.L. & C. Baillieu Ltd, on 30 December 2023 in Switzerland. He was a member of the Board of SIAA and the inaugural chairman of the Profession Committee of the Association, then known as the Securities and Derivatives Industry Association, on its establishment in the year 2000. He made great contributions to the industry through chairing the Profession Committee and the Conference Working Group for many years, and as a member of the Retail Broking Committee. Ronald was always passionate about stockbroking and gave much to the industry through his work on the various committees and working groups, always supporting the work of the Association. In recognition of his work, in 2008, Ronald was made a Fellow of the Association (FSIAA), one of only 10 Fellows who have been appointed.

Ronald Hay's professional career in stockbroking began in London in 1962 with Buckmaster and Moore, a member firm of the London Stock Exchange. On returning to Australia, he joined Melbourne stockbrokers Potter Partners in 1964 and subsequently managed their London office from 1974 to 1975. He left Potters in 1981 and became a partner and later director of Mullens and Co Melbourne office. In 1988 he joined Eric J Morgan & Co Ltd as Director, before joining joined E.L. & C. Baillieu Ltd in 1990. He was a member of Australian Stock Exchange Ltd, and a Director of the Securities Institute of Australia and its Victorian President.

A memorial service will be held in Melbourne.



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- ✓ **Access to video recorded presentations** post-conference.

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Using options to 'Repair a stock position'

By Lewis Taie, Senior Manager, Derivatives Program, AUSIEX

No one's perfect. We've all had stock positions in our portfolio that haven't performed as expected, where we'd simply settle to break even and live to fight another day. Even the oracle of Omaha, Warren Buffett, has had a few of these failed investments himself.

Now, for those of us who don't quite have the track record of Buffett, we're forced to look for alternate methods of trading in line with our views and searching for a "leg up" where we can find it.

So, what if there was a way to use Exchange Traded Options to break even, without the stock price getting back to your average purchase price?

The use of a "Stock Repair" strategy can potentially be a handy tool when managing your portfolio, providing a faster path back to break even, than simply holding stock alone.

As always, when trading options there's usually a trade-off involved. In this case, the trade-off comes from giving away the upside, should the stock price increase significantly. As such, it's essential to consider the likelihood of a significant rally before employing the strategy.

Construction

To construct the "Stock Repair" strategy, the investor will need to continue to hold the underlying stock and (for every 100 Shares) sell 2 "out of the money" Calls (strike price is above the current share price) while simultaneously buying 1 "at the money" Call (strike price at the current stock price).

The intention here is to have the premium received for selling the 2 Sold contracts offset the cost of the bought at the money contract, resulting in a zero-dollar outlay strategy if possible.

The worked example below assumes 100 shares have been bought initially at $10.00, though recent underperformance has led to a current price of $8.00.

In order to repair the stock position, the client will buy 1 x $8.00 March Call for $0.10 and sell 2 x $9.00 March Calls for $0.05 each providing the below payoff schedule.

"The use of a "Stock Repair" strategy can potentially be a handy tool when managing your portfolio, providing a faster path back to break even, than simply holding stock alone.

Initial Stock Purchase Price	$10.00
Current Stock Price	$8.00
$8.00 March Call Price	$0.10
$9.00 March Call Price	$0.05
Shares Per Contract	100

Note: The above construction assumes 100 shares per contract.

As shown in the resulting "Stock Repair vs Long Stock" payoff diagram and schedule, the path to break even when using the stock repair strategy is significantly reduced, with breakeven now at $9.00, whilst the initial average purchase price was $10.00.

As alluded to, there is a trade-off, should the share price exceed $10.00, the client would receive a superior payoff simply by continuing to hold the stock alone.

Outcomes:

Stock price < $8.00

Should the share price remain below $8.00, both the bought $8.00 Call and sold $9.00 Calls will expire worthless, with the investor retaining the stock. As the cost of the bought Call was offset by the premium received for the sold Calls, the investors payoff for Stock Repair vs Long Stock only is the same.

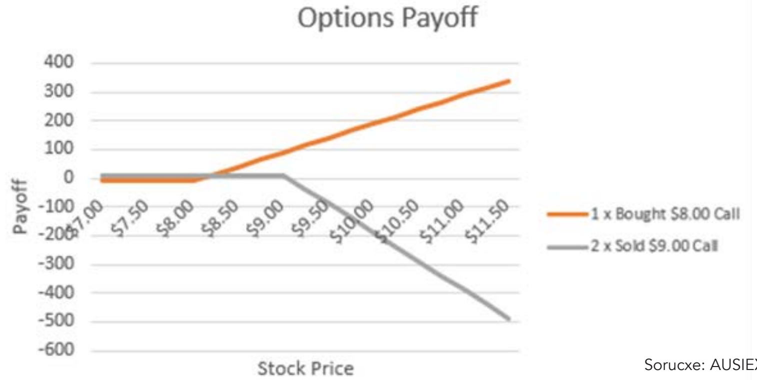
Under this scenario the investor would be indifferent to either strategy.

Stock price between $8.00-$9.00

Should the stock price increase beyond $8.00, the investor's bought $8.00 Call will be in the money with the gains from the bought Call offsetting the investor's unrealised loss on the stock position, enabling the investor to breakeven at $9.00 (as the $8.00 bought Call will have an intrinsic value of $1.00 at expiry when stock price is $9.00).

Under this scenario the payoff from the Stock Repair is preferable to just holding stock.

Payoff diagrams



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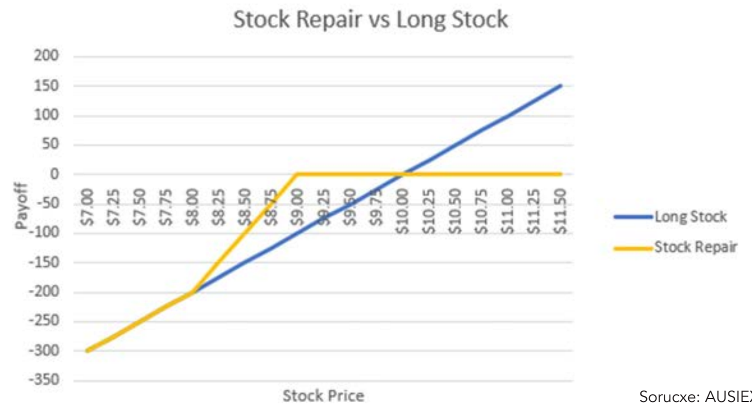

Sorucxe: AUSIEX

Payoff schedule

Blue = Equal Strategy Payoff

Green = Superior Strategy Payoff

STOCK	Long Stock Payoff	1 x Bought Call Payoff	2 x Sold Calls	Stock Repair Payoff
$ 7.00	-$300	-$10	$10	-$300
$ 7.25	-$275	-$10	$10	-$275
$ 7.50	-$250	-$10	$10	-$250
$ 7.75	-$225	-$10	$10	-$225
$ 8.00	-$200	-$10	$10	-$200
$ 8.25	-$175	$15	$10	-$150
$ 8.50	-$150	$40	$10	-$100
$ 8.75	-$125	$65	$10	-$50
$ 9.00	-$100	$90	$10	$0
$ 9.25	-$75	$115	-$40	$0
$ 9.50	-$50	$140	-$90	$0
$ 9.75	-$25	$165	-$140	$0
$10.00	$0	$190	-$190	$0
$10.25	$25	$215	-$240	$0
$10.50	$50	$240	-$290	$0
$10.75	$75	$265	-$340	$0
$11.00	$100	$290	-$390	$0
$11.25	$125	$315	-$440	$0
$11.50	$150	$340	-$490	$0

Sorucxe: AUSIEX

Stock price between $9.00-$10.00

When the stock price surpasses $9.00 the 2 x $9.00 sold Calls will move into the money. As any further gain from the stock holding and bought $8.00 Call will be directly offset by the loss from the 2 x Sold $9.00 Calls, the payoff for the Stock Repair remains flat, whereas the payoff for holding just the stock continues to improve in a linear manner towards the breakeven for the Long Stock @ $10.00.

Under this scenario the payoff from the Stock Repair is still preferable to just holding stock, as breakeven has been achieved for the Stock Repair, while Long Stock remains in negative territory until the share price reaches $10.00.

Stock price >$10.00

Should the stock price exceed $10.00, the Stock Repair payoff will remain at breakeven, while the Long Stock only [position] will push into a profitable position. Under this scenario Long Stock is preferable.

Considerations

As highlighted by the change in preferable strategy at different stock prices, investors must weigh up the likelihood of a significant rally in the share price and the implications of foregone gains versus the lower breakeven point achieved when employing the Stock Repair strategy.

As with all options strategies, investors must ensure they are comfortable with the relevant trade-off/s when deciding whether or not the strategy meets their needs.

AUSIEX will exhibit at the SIAA 2024 Conference.

CPD EVENTS

Stay on top of your CPD with these SIAA-accredited CPD events. Webinars are FREE for Practitioner and Affiliate members and employees of Principal Members.

Bonds to perform in 2024

Wednesday 14 February from 1.00 to 2.00pm AEDT

Coolabah Capital's Christopher Joye will explore the landscape of bond performance in 2024 through an examination of key market factors. He will delve into the influence of economic indicators, interest rate dynamics, and inflation trends on various bond types such as government and corporate bonds.

Professional Standards CPD: 1.0 Technical competence
ASIC Knowledge Area:
1.0 Generic knowledge

Cost:
Member FREE |
Non-member $75

CHRISTOPHER JOYE Chief Investment Officer & Portfolio Manager, Coolabah Capital

Market manipulation and other prohibited conduct workshop

Tuesday 20 February from 10.00am to 12.15pm AEDT

This workshop focuses on the prohibition on creating or maintaining an artificial price for trading in various financial products and will benefit all who wish to gain an understanding of markets and the consequences of breaching obligations. This is a great opportunity to learn how to protect yourself and understand the difference between manipulation and ordinary market forces.

Professional Standards CPD:
1.0 Regulatory compliance and consumer protection | 1.0 Professionalism and ethics
ASIC Knowledge Area:
2.0 Generic knowledge

Cost:
Practitioner member $100
Organisation member $150
Student Affiliate member $50
Non-member $200

PROFESSOR MICHAEL ADAMS

Introduction to stockbroking workshop

Wednesday 21 February from 11.00am to 1.15pm AEDT

This workshop provides an overview of the critical role that stockbrokers play both in retail and institutional markets. A high-level view of stockbroking and financial advisory operations including order taking, transaction and settlement will provide insight into the different systems involved and allow for a discussion of the different business models in stockbroking today.

Professional Standards CPD:
1.0 Regulatory compliance and consumer protection | 0.5 Technical competence | 0.5 Professionalism and ethics
ASIC Knowledge Area:
2.0 Generic knowledge

Cost:
Practitioner member $100
Organisation member $150
Student Affiliate member $50
Non-member $200

RUSSELL MCKIMM

A day in the life of a trade workshop

Tuesday 27 February from 11.00 to 1.15pm AEDT

An excellent refresher for experienced staff and perfect for those in auxiliary roles, this workshop delves deep into the day of a life of a trade. You will walk away with a solid understanding of client onboarding processes, the process of share and derivative trades from order placement through to execution to settlement, sponsorship/HINS, CHESS messaging, registries and more.

Professional Standards CPD:
Regulatory compliance and consumer protection 1.0 hour | Technical competence 1.0 hour
ASIC Knowledge Area:
2.0 Generic knowledge

Cost:
Practitioner member $100
Organisation member $150
Student Affiliate member $50
Non-member $200

ROB TALEVSKI
CEO, Webull Securities

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CPD EVENTS *cont...*

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Digital identity legislation

Wednesday 28 February from 1.00 to 2.00pm AEDT

Hong-Viet Nguyen, a Partner with Ashurst, will provide an overview of the digital identity legislation and will discuss what this means for the financial services sector. How will this impact current processes of client verification? What ramifications will this have on AML practices? Will it impact privacy obligations? These and other issues will be explored.

Professional Standards CPD:
1.0 Regulatory compliance and consumer protection
ASIC Knowledge Area:
1.0 Generic knowledge

Cost:
Member FREE |
Non-member $75

HONG-VIET NGUYEN,
Partner,
Ashurst

Introduction to Payments workshop

Tuesday 19 March from 11.00 to 1.15pm AEDT

This online workshop covers the payment operations process in Australia. John Ryan, Chief Education Officer at PayEd, will outline the payments landscape and the main payment methods in Australia. Attendees will walk away with a solid understanding of the flow of payments, CHESS payments and how the digital wallet works.

Professional Standards CPD:
Regulatory compliance and consumer protection 1.0 hour | Technical competence 1.0 hour
ASIC Knowledge Area:
2.0 Generic knowledge

Cost:
Practitioner member $100
Organisation member $150
Student Affiliate member $50
Non-member $200

JOHN RYAN
Chief Education Officer,
PayEd

Executive Payments Course

Thursday 21 March from 11.00 to 1.15pm AEDT

This expands on the introductory course and delves into the impact these will have on BECS (DE file processing). John will also explain what the consumer data right would mean for those working in financial services and discuss the digital ID. What options are available when looking beyond Australia and is AI payments a game changer?

Professional Standards CPD:
Regulatory compliance and consumer protection 1.0 hour | Technical competence 1.0 hour
ASIC Knowledge Area:
2.0 Generic knowledge

Cost:
Practitioner member $100
Organisation member $150
Student Affiliate member $50
Non-member $200

JOHN RYAN
Chief Education Officer,
PayEd

AFCA's new rules about wholesale advice

Wednesday 27 March from 1.00 to 2.00pm AEDT

AFCA consulted on proposed amendments to the AFCA Rules and Operational Guidelines in 2023, including on how it would deal with complaints from wholesale clients. ASIC has now approved changes to the Rules. Shail Singh, Lead Ombudsman, Investments and Advice at AFCA will outline how the new Rules will treat complaints from wholesale clients.

Professional Standards CPD:
Regulatory compliance and consumer protection 0.5 | Client care and practice 0.5 hour
ASIC Knowledge Area:
1.0 Generic knowledge

Cost:
Member FREE |
Non-member $75

SHAIL SINGH
AFCA

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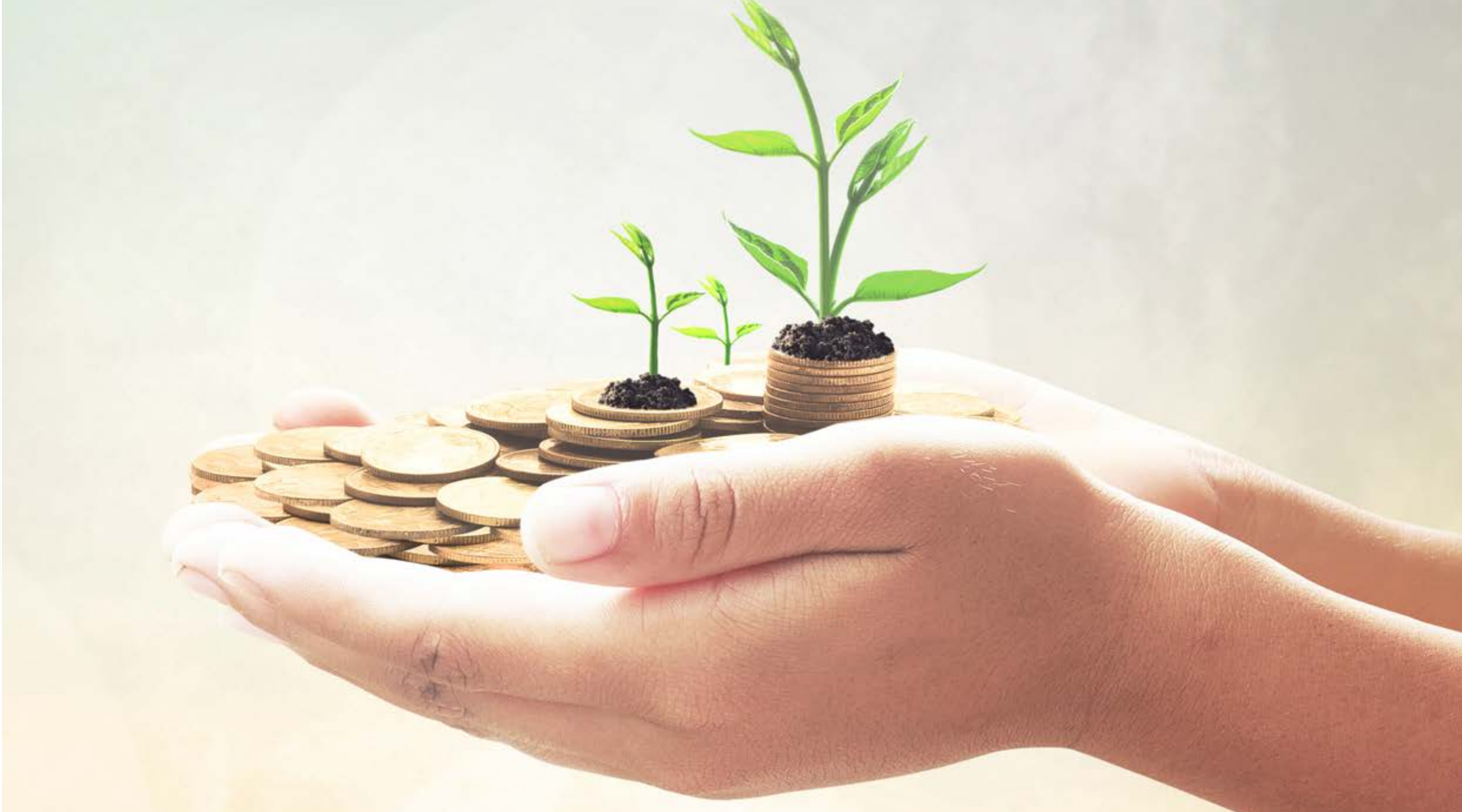


HNW investors embracing endowment-aligned strategies

By James Edmonds, Chief Operating Officer, Praemium

Australia's high-net-worth (HNW) investors ($1m+ in investable assets) and ultra-high-net-worth investors ($10m+ investable assets) are increasingly looking beyond traditional bonds and equities with a notable pivot towards alternative investments such as private equity, private credit and structured products. This is indicative of an overall transition to HNW investment strategies increasingly aligned with the asset allocations implemented by institutional asset owners. And this shift is not just about returns; but a deliberate move towards diversified portfolios, sustainability, and preserving intergenerational legacies — a convergence that's reshaping the landscape of modern wealth management.

Historically, leading endowment funds like those at Harvard and Yale Universities have favoured alternative assets advocating for diversified portfolios beyond traditional stocks and bonds. Unlike traditional portfolios, which often hinge on market fluctuations, an endowment-aligned strategy seeks consistent, predictable returns, shielding against volatility.

David Swensen, the former CIO for Yale University's endowment, pioneered an approach to portfolio management that championed this diversified approach, with sizeable allocations to alternative assets—real assets, private equity, and venture capital investments that have delivered superior returns while mitigating risk exposure. This approach has been adopted by endowments and foundations around the world. Their consistent outperformance of broader market indices has caught the attention of astute HNW investors seeking absolute returns and capital stability.

Increasing shift to alternatives

The Praemium/Investment Trends HNW Investor Survey 2023 showed that there was a 4% increase in HNW individuals allocating to alternative investments compared to the same survey in 2022. This supports similar recent analysis from research groups like PwC, Ernst and Young and McKinsey & Co. And the asset management industry has come to the market to meet this demand. Over a third of funds approved for access via the Praemium platform in 2023 were funds investing in alternative assets, with a large portion being private equity, private debt, and structured products.

This parallels the strategy of endowment funds, which have historically favoured alternatives such as private equity, real estate, and hedge funds for their diversification benefits and ability to outperform during market volatility. The relevance of private debt, private credit, and structured products in this landscape stems from their potential for enhanced yields and risk-adjusted returns against a backdrop of decade-high inflation. These investments strike an appealing balance between risk and reward, aligning perfectly with the objectives of HNW individuals seeking stability and growth in their portfolios.

Private debt and credit present compelling investment opportunities. In Australia, the private debt landscape has seen considerable growth, with investors tapping into opportunities within the real estate sector through mezzanine financing and direct lending to small and medium-sized enterprises (SMEs). The private credit market has expanded beyond traditional banking, fostering opportunities in peer-to-peer lending platforms and private credit funds catering to diverse sectors like healthcare, technology, and renewable energy.

Globally, similar trends emerge, with investors finding avenues in distressed debt, infrastructure financing, and venture debt. Traditional banks have reduced their exposure to lending because of regulatory changes, and private debt has grown significantly in the last 15 years to fill the void. In Europe and Asia, investors have been exploring direct lending to corporations and alternative financing solutions, contributing to the evolution of a robust and diversified private credit market.

Structured investments offer unique opportunities by providing tailored financial instruments that combine various assets with one or more derivative instruments to meet specific risk-return profiles. In Australia, structured investments have gained traction among investors seeking exposure to diverse asset classes such as equities, fixed income, and currencies, while allowing them some downside protection. These products offer the potential for enhanced returns and risk mitigation strategies, attracting interest from retail and institutional investors alike. Globally, the landscape for structured products encompasses a wide spectrum, including structured bonds, derivatives, and collateralised debt obligations, catering to varying investor preferences and risk appetites.

"The adoption of endowment-inspired investment strategies by HNW individuals signifies a nuanced approach to wealth management. Given their complexity, varied nature and higher entry thresholds, accessing these investment opportunities can be intricate without professional guidance.

The appeal of structured products lies in their adaptability to market conditions, allowing investors to capitalise on specific themes or market movements while managing risk through structured payouts and embedded derivatives, fostering a dynamic avenue for investment diversification and customisation.

ESG and intergenerational wealth focus

The shift towards an endowment-inspired strategy isn't solely profit-driven; there's a notable emphasis on Environmental, Social, and Governance (ESG) principles. HNW investors are increasingly integrating ESG considerations into their investment decisions, much like endowments. They look for opportunities that promote environmental sustainability, social responsibility, and strong governance practices and recognise that companies with strong ESG practices might be better positioned for sustainable growth, which can positively impact their investment performance.

Intergenerational wealth preservation also stands as a cornerstone in this transition. Endowments are designed for perpetuity, focusing not just on immediate gains but also on the enduring transfer of wealth across generations. Both recognise the importance of strategic planning, tax considerations, estate planning, and, increasingly, the integration of sustainable and responsible investment practices to ensure the longevity of wealth across generations. In terms of intergenerational wealth transfer, the Family Wealth Report noted that high-net-worth families are increasingly focused on legacy planning and governance structures. This mirrors the institutional governance frameworks that endowment funds use to manage multi-generational wealth.

Adopting endowment-inspired investment strategies

The adoption of endowment-inspired investment strategies by HNW individuals signifies a nuanced approach to wealth management. Given their complexity, varied nature and higher entry thresholds, accessing these investment opportunities can be intricate without professional guidance. This is where wealth advisers play a vital role in facilitating access and inclusion as part of a broader risk-managed investment portfolio.

Wealth advisers will increasingly need access to a diverse range of alternative investments, ethical investment options and technology that can facilitate family wealth management and reporting. And a sophisticated investment platform such as Praemium, which has been truly built to support and administer these complex assets, is well placed to support this evolution in wealth management.

What you need to know about Payments

By John Ryan, Chief Education Officer, PayEd

Payments, the business of paying and receiving funds, is growing rapidly. It is estimated in 2024 to have a market size of $14 trillion in APAC alone. Globally and regionally, a growth rate in APAC of about 16% per annum is expected for 2024.

Since the recent pandemic, consumer payment behaviour has changed. The rate of digital payments versus physical cash has doubled, and it remains at this level today.

So, where have payments got to in stockbroking, investment advisory and financial services generally?

The most defining moment for payments in financial services in Australia was in the late 90's with the advent of the internet, as well as the dematerialisation of securities on the ASX, and the introduction of settlement and clearing through CHESS. All of these key events allowed for Straight Through Processing (STP) which has helped streamline the reconciliation and processing of payments.

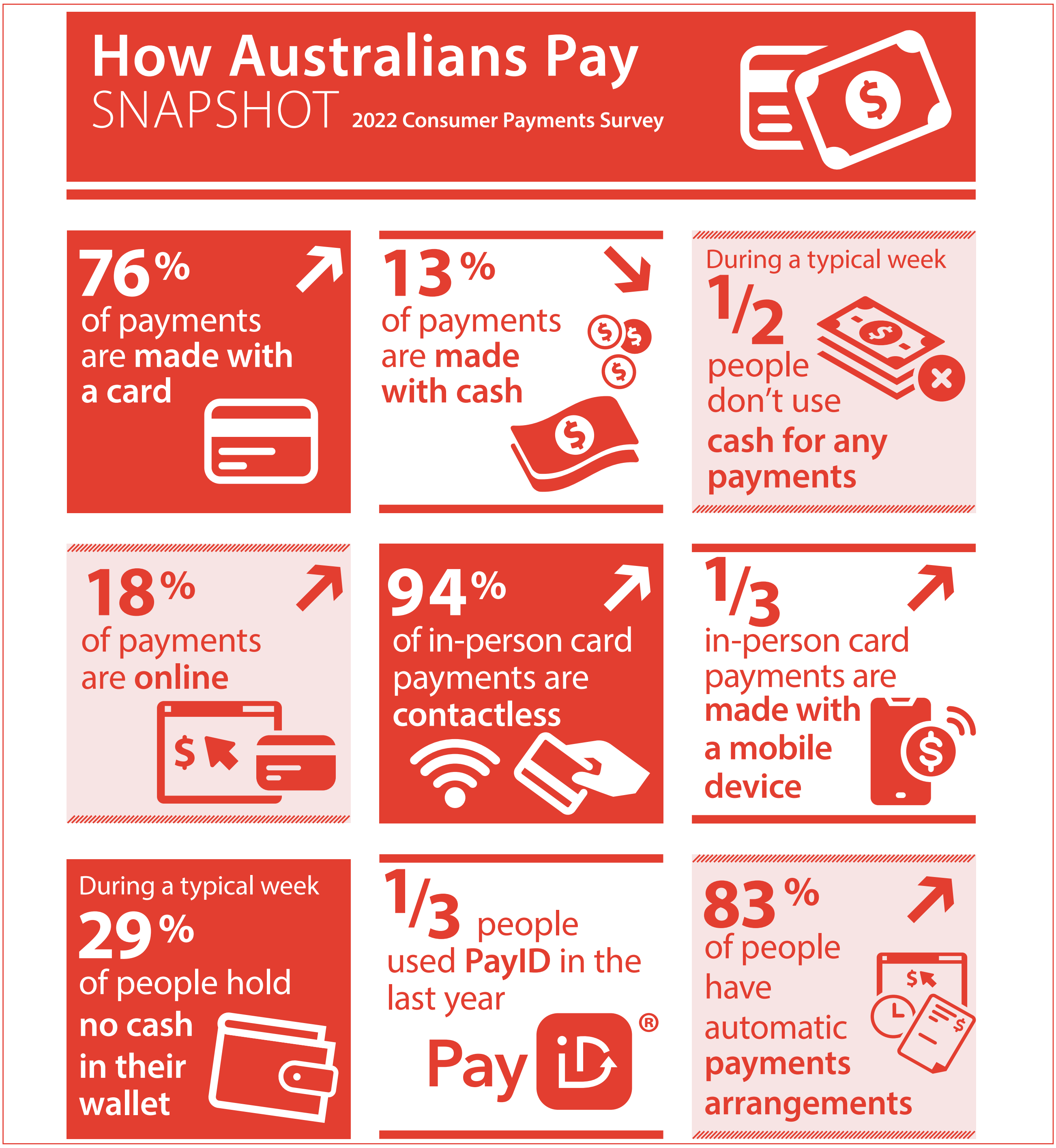
Within financial services organisations, the operation of payments sits somewhere between the online banking portal, a payment interface, reconciliation, compliance and perhaps even e-commerce. Financial services have been leading the way in the move to a cashless environment — cash in the industry generally represents inefficiency and increased risk — with the result that more than 87% of payment transactions are now cashless.

Payments are generally broken down between high value/institutional and retail clients. High value payments are lower in number. Retail transactions are lower in value, but higher in number. High value international transactions generally occur on the B2B and institutional side and are often processed individually. Reconciliation is the key to maintaining business integrity when it comes to keeping payments in balance.

Financial services generally are not affected by the stringent ADI regulation and compliance that applies to banks, but Trust Reporting can be onerous and reconciliation breaks costly. The latest version of the E-Payments code (updated in 2022) also contains more consumer protections including an unclaimed money service.

So, what has been happening in Payments that will be of growing interest across financial services? Here is a list of some key themes.

1. Cheques are due to be displaced by 2030. This will impact corporate actions, nominee/registered distributions, client onboarding, funds and retail settlement.
2. The AusPayNet BECS system which governs interbank transfers and direct debits and is a core business payments system for some SIAA members will be switched off by 2030). NPP (Real time payments), which is owned and operated by AP+, will be a core future system for Australia payments.
3. NPP / OSKO (Real time payments) is here and the newest service addition, PayTo, is now live and expected to be fully market operational in 2024. Some stockbrokers and advisers have started to consider switching to NPP as it can considerably improve the time taken to get a new client up and running in asset transactions.
4. The G20 "Cross Border Payments" Project commenced in 2020 and is due to conclude in 2025. The changes resulting from this initia-

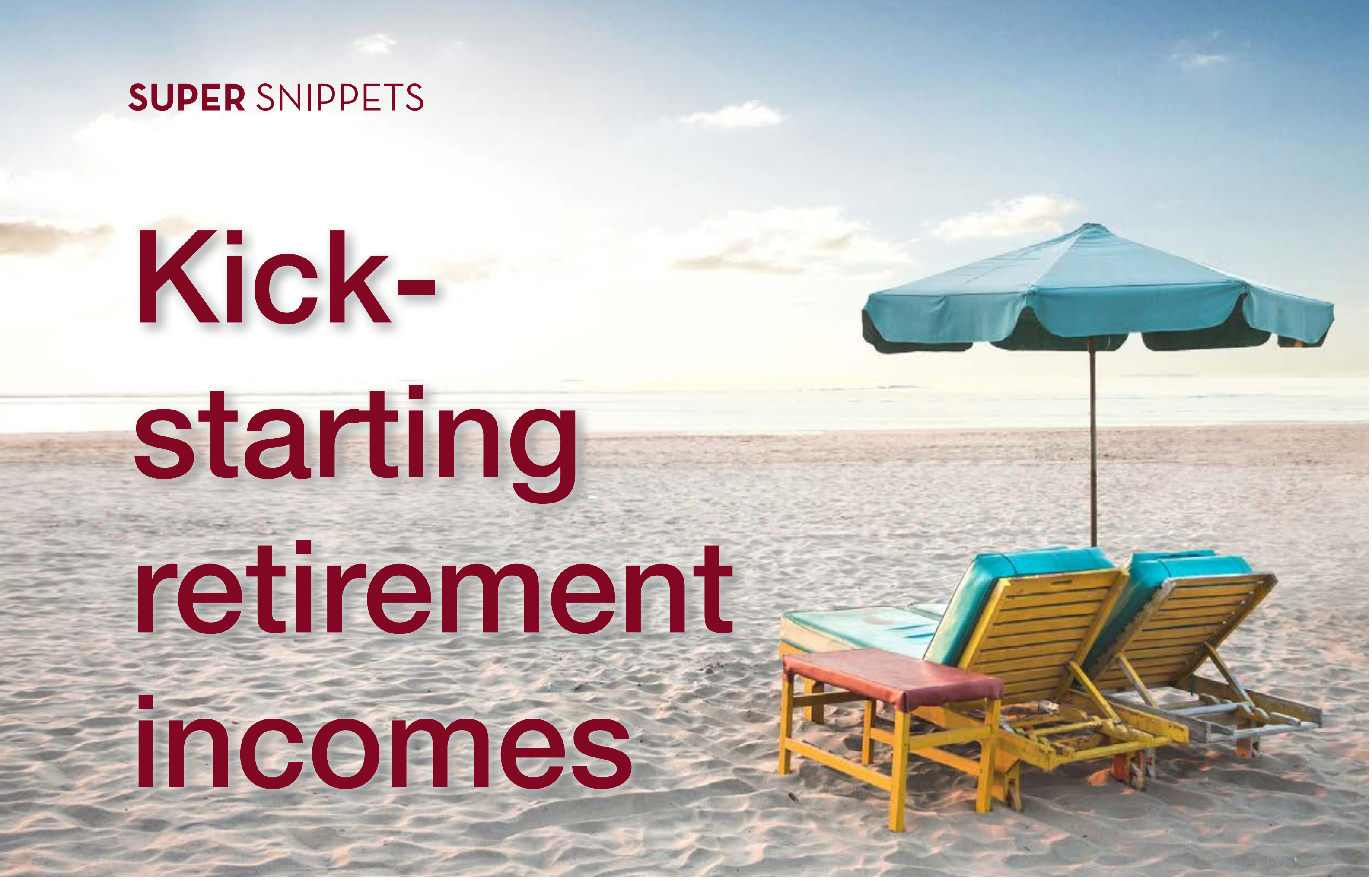


tive are likely to impact on cost, transparency, access and speed for FX in all major economies.

5. There is growing interest in digital currencies and tokenization across the world. We are likely to see some new use cases that could improve payments generally.
6. Fraud (including cybersecurity) and Payments are closely linked. The work on scams and fraud being conducted by the Australian government should have a positive impact on clients.
7. AI (Artificial Intelligence) was much talked about in 2023. We are already starting to see impacts on job roles in financial services. This trend will continue to continue from 2024 and beyond.

In 2022 the Federal Treasurer became responsible for Payments. In 2023 Michelle Bullock, who was previously head of Payments Policy, became the head of the RBA. This has enabled her to bring her extensive experience in Payments to her new role. The Federal Treasury is likely to announce new Payments Licencing in 2024/25. This, along with other digital asset and payment regulations, will represent challenges and opportunities across many areas of financial services.

PayEd – Education in Payments (www.payed.biz) is an organisation helping firms and individuals to better understand the role and impact of payments. SIAA is holding two workshops in March. 'Introduction to payments' will be held on Tuesday 19 March and the more advanced 'Executive Payments Course' will be held on 21 March. Visit https://www.stockbrokers.org.au/education/upcoming-events for more information.



Kick-starting retirement incomes

By Darin Tyson-Chan, Editor, *selfmanagedsuper*

The federal government ended 2023 declaring its intention to inject some urgency into the retirement income solutions superannuation funds are providing for their members with the release of a discussion paper that may not have garnered much attention.

The move has been made to examine how superannuation can be used more efficiently in retirement. It's basically an attempt to prompt namely the larger super funds to get serious about providing effective income solutions for individuals in their retirement, in my opinion, as a jump-start for the Retirement Income Covenant.

As a reminder, this measure imposed the requirement for all Australian Prudential Regulation Authority (APRA)-regulated fund trustees to have a "retirement income strategy that outlines how they plan to assist their members in retirement". Further, it was deemed "the strategy must consider how the trustee will assist their members to balance maximising their retirement income, managing risks, and have some flexible access to savings".

The legislation covering this obligation took effect from 1 July 2022.

As I have touched on briefly before in this column, adherence to this new duty seems to have been relatively poor so far. The disappointing state of affairs was laid bare when both APRA and the Australian Securities and Investments Commission rebuked APRA-regulated funds for trustee sluggishness in providing better retirement income solutions for superannuants as a result of a thematic review.

This inadequate response should be considered unacceptable, but some forgiveness could be offered had the requirement been a relatively new concept sprung upon the trustees of

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large funds. But this is not the case and these individuals cannot argue they haven't had ample warning this type of measure would be introduced at some time. Why? Because the industry itself for the past decade or more has been talking about the generational shift the country is going through whereby baby boomers as a demographic have been moving out of accumulation phase into retirement phase and the subsequent need for a greater focus on this area.

The philosophy behind the initiative cannot be questioned as better retirement income solutions are definitely needed and in a hurry. But some of the comments made by Treasurer Jim Chalmers and Assistant Treasurer and Minister for Financial Services Stephen Jones upon the release of the discussion paper might raise a few eyebrows.

At the time, both frontbenchers expressed concerns as to how many superannuants, mainly SMSF members, are pinning their hopes on account-based or defined benefit pensions. To this end, it was noted 84 per cent of retirees were using these vehicles as an income solution in this stage of life.

Moreover, the government stated it was a worry only 3.5 per cent of retirement savings are held in annuities.

The ministers' comments suggest Canberra wants to see more money channelled towards annuities fairly dogmatically rather than looking at what would work best for retirees.

Account-based and defined benefit pensions are obviously doing the job for many Australians and that is not to run down the merits of using an annuity. However, it must be recognised annuities are not a suitable solution for a lot of people, probably due to the costs associated with them and their relatively inflexible nature.

Conversely, having more people favour account-based pensions doesn't mean they've made the wrong choice either.

The trap here is potentially having the government seemingly favour one solution over another. Just because fewer retirees are currently using annuities doesn't necessarily mean more Australians should be using them.

Surely if this process is to be effective, outcomes must take priority rather than a particular vehicle that will deliver them.

Importantly, the whole thought process behind the Retirement Income Covenant is to encourage, in fact mandate, superannuation trustees to innovate and formulate better retirement income solutions and not confine themselves to what's currently on offer because it has been determined these vehicles are inadequate.

Innovation and a greater choice of effective retirement income solutions hopefully will be the end result.

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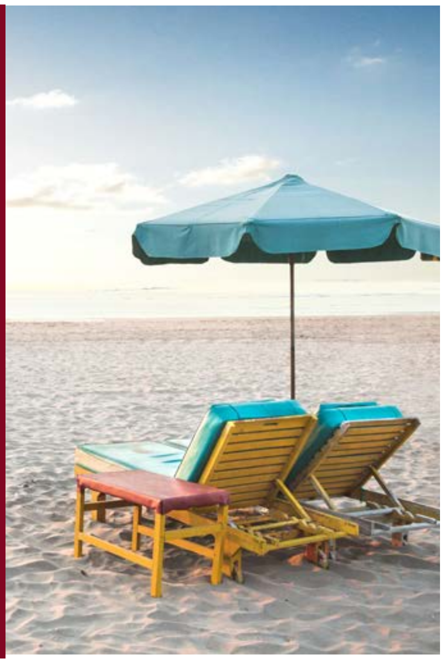

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