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Level 2, 74 Pitt Street, Sydney NSW 2000

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Maximising returns and minimising risks: The power of geographical diversification in stock markets

By Adam Smith, Chief Executive Officer, Saxo Australia

In the realm of investing, the adage "don't put all your eggs in one basket" holds true, especially when it comes to the stock market. Geographical diversification, or spreading investments across different regions and countries, is a strategy that offers numerous benefits to investors seeking to optimise their portfolios. From mitigating risks to enhancing returns, geographical diversification plays a pivotal role in building a resilient and profitable investment portfolio.

Despite this, the *ASX Investor Study 2023* found that 58% of Australian investors directly held shares listed on the ASX, while only 16% directly held international shares.

Consider this in light of global market returns in 2023. The ASX 200 index rose 7.8% in 2023 - far less than the US S&P 500 (24%) and NASDAQ 100 (54%) indexes, German DAX (20%) and STOXX Europe 50 indexes (15%), and Japanese Nikkei 225 index (28%). Even when taking the ASX 200's comparatively high dividend yield into account, Australia's total return significantly lags its global peers.

So why are Australian investors failing to diversify their equity holdings internationally? And, more importantly, what are they missing out on in terms of wealth creation?

Risk mitigation

One of the primary advantages of geographical diversification is risk mitigation. By investing in multiple geographic regions, investors can reduce their exposure to the risks inherent in any single market. For example, a downturn in one country's economy may be offset by growth in another, thereby minimising the overall impact on the portfolio.

Economic cycle diversification

Different regions of the world often experience economic cycles at different times. While one country may be experiencing a period of economic expansion, another may be in a recession. By diversifying geographically, investors can position themselves to benefit from various stages of the economic cycle. This helps smooth out the volatility in returns and provides a more stable and resilient long-term investment strategy, while also providing investors with peace of mind.

Sector diversification

Geographical diversification also allows investors to access a broader range of industries and sectors. Not all regions specialise in the same sectors. By spreading investments across different countries, investors can gain exposure to sectors that may not be prevalent in their home market, while also mitigating the risk of sector-specific downturns and seizing on opportunities in emerging industries.

Currency diversification

Investing in multiple currencies through geographical diversification can act as a hedge against currency risk. Fluctuations in exchange rates can impact the value of international investments when converted back into the investor's home currency. By holding assets denominated in various currencies, investors can reduce their exposure to currency risk and potentially enhance returns, especially during periods of currency volatility.

Access to growth opportunities

Geographical diversification enables investors to access a broader range of growth opportunities. Emerging markets in particular offer the potential for higher returns due to rapid economic growth and industrialisation. By allocating a portion of their portfolio to these regions, investors can tap into the growth potential of dynamic economies and capitalise on emerging trends and market developments.

Access to global brands

Geographical diversification allows investors to gain exposure to globally recognised brands and companies. Many multinational corporations operate in multiple countries, serving diverse markets and benefiting from economies of scale. By investing in these companies, investors can participate in their global success and diversify their portfolios with well-established, reputable brands – whether it's Apple or Amazon, Panasonic or Sony, or Nestle or Ferrari.

Regulatory and political diversification

Investing in multiple geographic regions also provides investors with exposure to different regulatory environments and political systems. This diversification can reduce the impact of adverse regulatory changes or political instability in any single country on their overall portfolio.

Geographical diversification is thus a powerful strategy for investors looking to optimise their portfolios and achieve long-term financial goals. So why are they not accessing these advantages? Is the industry failing to provide the right opportunities for investors, and is it doing a disservice by failing to offer international access to the broader investor community?

The rise of online investing may offer some insight. A large proportion of the online broking market is focused on providing access to US equity markets, offering a service that Australian clients clearly desire. The ability to access Europe and Asian markets is less common, meaning there is still a significant gap in the broking landscape for retail investors.

But is access alone enough? Our view is that access needs to be accompanied by information that assists investors to decide which opportunities are right for them – as well as participation in the full equity ownership process, from corporate action elections and proxy voting capabilities to commercial models that encourage investment. If stockbrokers are failing to facilitate international equity access for their clients, they are both doing their business a disservice and failing to act in the best investment interests of their client base.

This is where the industry has a golden opportunity to rethink the local fixation on Australian domestic equity markets, and consider the best financial outcomes for clients. All Australians are now part of a global investment ecosystem, and can no longer afford to act otherwise.

ASX's staged approach to implementation of CHESS replacement

By Michelle Huckel, Policy Manager, SIAA

ASX's consultation on its staged approach to implementing CHESS replacement has now closed.

ASX proposes a staged implementation of the new CHESS replacement solution in two major releases. Release 1 will replace CHESS's clearing component and Release 2 will enhance settlement and subregister functionality and messaging interfaces for participants, registries and payment providers.

The proposed scope of Release 1 includes:

Upgrading core clearing systems and connectivity

- Replacing the Trade Acceptance Service technology and CHESS clearing service components with a subset of the TCS BaNCS MI product.
- Introducing a new FIX 5.1 message interface for AMOs (trade and market price reporting).

Ensuring backwards compatibility

- Creating an internal ASX interface to transfer CHESS External Interface Specifications (EIS) messages from the new clearing service to the current CHESS system, for onward routing to Clearing and Settlement Participants. This will maintain backwards compatibility for Clearing and Settlement Participants.

Enhancing scalability

- Delivering a significant increase in performance through the new Trade Acceptance Service and clearing service components providing a boost to market volume and scalability within the existing CHESS framework.

Under the proposal for Release 1, Clearing and Settlement Participants and other CHESS users are expected to experience minimal disruption, as all existing external message workflows (ie EIS messages) generated by the new clearing service will be fully backwards compatible. The only change will be the new FIX 5.0 AMO message interface used by AMOs.

The proposed scope of Release 2 includes:

- **Complete implementation:** Fully deploying the target state solutions for settlement and subregister services.
- **Messaging Upgrade:** Introducing ISO 20022 messaging for all CHESS users (excluding AMOs).
- **System retirement:** Retiring the remaining legacy components of CHESS and ending the use of EIS messaging.

SIAA supports ASX's proposal to implement the new platform in two main releases.

Timing of Release 1

ASX is targeting the implementation of Release 1 in Q1 2026.

Industry testing

ASX is proposing an indicative Release 1 project timeline that includes several test phases.

Most initial industry test phases involve AMOs and their software providers.

Clearing and Settlement Participants will be involved in the CHESS user clearing regression testing phase and the AMO parallel test phase that are scheduled to take place between November 2025 and March 2026.

The CHESS user clearing regression test phase will provide Clearing and Settlement Participants the opportunity to validate that no issues arise from the downstream EIS messages received from current CHESS as a result of the new trade acceptance and clearing services.

The AMO parallel test phase aims to ensure the accuracy and consistency of trade registration feeds between the current CHESS system and the CHESS replacement system. This phase will allow Clearing and Settlement Participants to validate downstream EIS messages generated as a result of AMO trade registration and price reporting. To facilitate effective parallel testing, a to-be-prod environment will be established, featuring productions reference data and configured to the Release 1 target state (which will encompass both the current CHESS and CHESS replacement systems). Over a predetermined period, AMOs will be required to duplicate their trade registration and pricing data requests to the CHESS replacement system in the same manner as they are currently sent to the production CHESS. The results from these parallel tests will then be securely shared for thorough verification and validation with AMOs and upon request with Clearing and Settlement participants.

How this will impact SIAA's members

Clearing and Settlement Participants will need to be ready to participate in the test phases scheduled to take place between November 2025 and March 2026. Members have highlighted the challenges that testing over the Christmas/New year period may create for the project.

Clearing and Settlement Participants are recommended to consult with their software providers about their testing approach to ensure they have sufficient time to work through any issues before the testing phase begins.

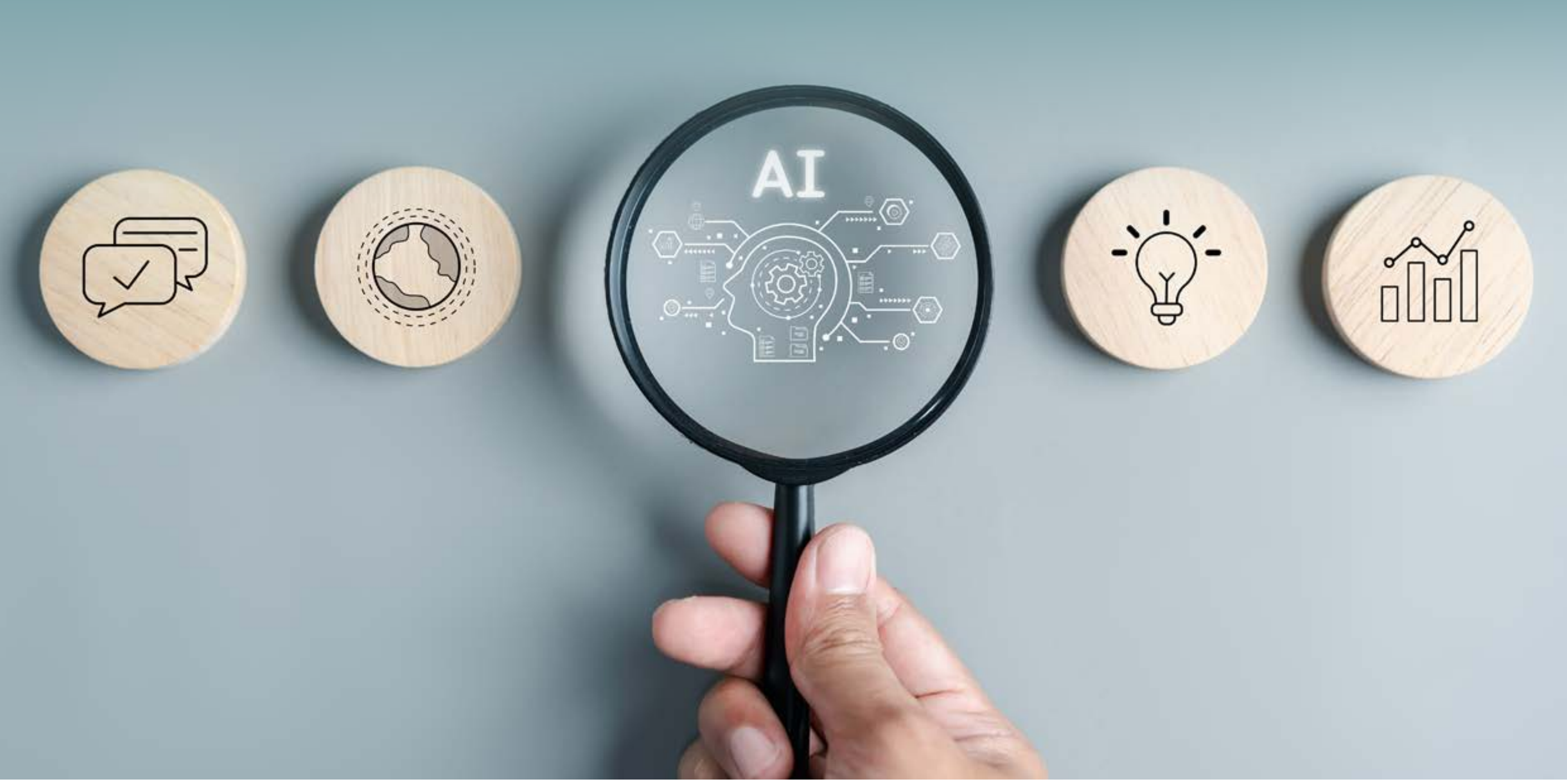
You can read further detail on members' response to the consultation paper in the Policy column on page 5.

Next steps

By the end of June 2024, ASX plans to publish its response to the feedback received through its consultation and outline the next steps towards the implementation of Release 1. Following this, it will release detailed functional specifications, messaging requirements and other documentation related to the proposed changes.

Engagement with the industry regarding the scope and approach for both Release 1 and Release 2 will be ongoing throughout 2024. ASX plans to release a consultation paper on Release 2 in Q3 2024 with a response to that consultation to be published in late Q4.

The AI effect: Mapping the future of investment and risk management



By Michael Barbera, Chief Product Officer – Trading, Iress

Surging investment in the artificial intelligence revolution is showing no signs of slowing. Global funding for generative AI reached US$25.2 billion in 2023, nearly nine times the investment in 2022.

Gen AI takes AI (or machine learning models that learn to make predictions based on data) a step further to create new and original output.

The emergence of gen AI has taken some of the shine off traditional AI with private investment declining for the second year to US$95.99 in 2023. However, the decrease from 2022 was small at only 7.2 per cent and despite the recent falls, private AI investment globally has grown substantially in the last decade, notes the Stanford University's Artificial Intelligence Index Report 2024[1].

In fact, AI's influence on society has never been more pronounced, the report says.

The impact of gen AI's reach includes an acceleration in scientific progress; improved productivity with studies finding AI enables workers to complete tasks more quickly and to a higher quality; and smarter modelling with AI now surpassing human performance on several benchmarks.

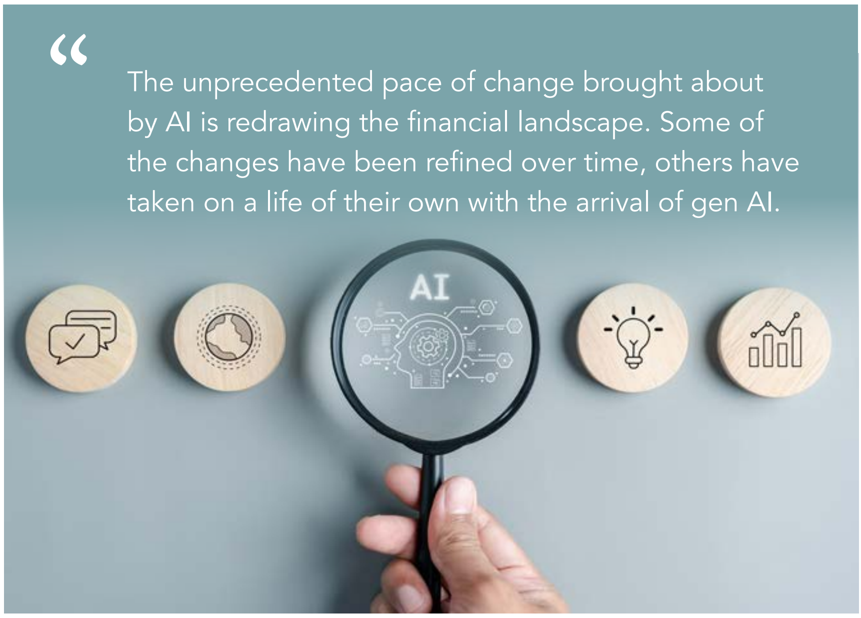
According to Goldman Sachs economists Joseph Briggs and Devesh Kodnani, widespread usage of Gen AI could boost global labour productivity by more than one percentage point a year.

However, they write that for large-scale transformation to occur, businesses will need to invest significantly in physical, digital, and human capital to acquire and implement new technologies and reshape business processes.

With these conditions in place, Briggs and Kodnani write, AI-related investment could peak as high as 2.5-4 percent of US GDP and 1.5-2.5 percent of GDP in other major AI players, including China and the United Kingdom.

Finance is the top adopter

The finance sector is leading the charge in AI integration with one of the highest adoption rates of any industry[2]. Global business intelligence platform Statista says the sector's embrace of traditional



AI, such as machine learning, since the late 2000s has put it in the box seat for the emergence of gen AI.

AI has transformed financial services but it's only the beginning. Figures for AI generally in financial services, including gen AI, vary widely between US$35 billion[3] and almost $45 billion[4]. Projections for market size by the end of the decade range from US$50 billion to $150 billion.

In 2023, almost twice as many global financial industry experts believed AI was important for the future success of their companies as in 2022[5]. According to a survey carried out in 2024, more than 50 per cent of the respondents said AI plays a crucial role in their business' success. In contrast, only three per cent thought the role of AI was insignificant in the future success of their companies'.

The unprecedented pace of change brought about by AI is redrawing the financial landscape. Some of the changes have been refined over time, others have taken on a life of their own with the arrival of gen AI.

Faster data analytics, better fraud prevention and machine learning algorithms, more comprehensive risk assessment and compliance checks are all familiar benefits of AI.

Now, gen AI and enhanced AI tools are turbocharging those benefits.

For example, portfolio management is getting a makeover with cost savings thanks to the automation of routine tasks such as data analysis and reporting, the creation of individual investor profiles and portfolio optimisation.

Algo trading is also benefiting from improved insights based on gen AI's ability to find patterns in historical data and predict trading signals by finding hidden correlations, enhancing market analysis and risk management. While some argue this reduces human biases, others suggest that AI algorithms can reinforce existing biases when systems are trained on biased, old or limited data sets[6].

The massive opportunities in function and output brought about by gen AI need to be accompanied by appropriate risk and compliance controls.

Meanwhile, stock markets are making use of AI-powered systems for risk management and fraud detection. The systems identify unusual trading patterns, detect potential market manipulations and recognise fraudulent activities—all at lightning speed – flagging suspicious activities in real time[7].

Data is king

As the use of AI filters throughout organisations and society, the quality and availability of data has never become more important.

AI relies heavily on vast datasets to identify patterns and generate meaningful insights but there are challenges to be overcome in data collection.

Integration is an important one. Much data is held in unstructured formats – such as PDFs, Word documents and emails – or in diverse systems, such as CRM, sales and inventory. Extracting and 'cleansing' this data is an important step in providing ideal conditions for gen AI to flourish.

A 2022 global study[8] found 86 per cent of financial services institutions lacked confidence in using their data to drive decision-making. Their biggest challenges were delayed access to data, not being able to get data or not getting it in the format needed. Almost all respondents reported data silos operating within their organisation.

Iress is revolutionising data access and analysis with its next-generation data platform and product, built on top of a cutting-edge cloud native data lakehouse infrastructure. This solution simplifies data access, integration and enables AI and machine learning capabilities. It will allow Iress' clients to unlock the full potential of their data, Iress data and beyond.

Later this year, Iress Order Management System (IOS+) and Iress FIX Hub data is expected to be available in the new data lakehouse, which will help improve the efficiency of trading compliance and risk management workflows.

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6. https://theconversation.com/chatgpt-powered-wall-street-the-benefits-and-perils-of-using-artificial-intelligence-to-trade-stocks-and-other-financial-instruments-201436
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The evolution of global AI investing in 2024

Wednesday 8 May from 1.00pm to 2.00pm AEDT

ELFREDA JONKER
Alphinity

Excitement around the life-changing potential of Generative AI dominated headlines. What is next for this megatrend in 2024 and beyond? Elfreda Jonker will discuss Alphinity's balanced approach to investing in early AI beneficiaries and across the broader AI ecosystem.

Professional Standards CPD: Professionalism and ethics 1.0 hour | **ASIC Knowledge Area:** Generic knowledge 1.0 hour

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2024 Global Fixed Income Update

Wednesday 29 May from 1.00pm to 2.00pm AEDT

JONATHAN LIANG
J.P. Morgan Asset Management

Join Jonathan Liang for insights from J.P. Morgan Asset Management's Global Fixed Income Quarterly Views. Learn about fixed income resilience amidst macro uncertainties and regional interest rate outlooks. Discover strategic portfolio positioning, featuring examples like JPGB and JPIE.

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

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World class prospect and client experience through education, video and auto-magic!

Wednesday 12 June from 1.00pm to 2.00pm AEDT

STEVE CORNEY
Learn Awesome

Steve Corney will discuss enhancing client experience using innovative tech, showcasing interactive tools for education, data-driven insights, and seamless solutions. He'll integrate video and auto-magic solutions, pioneering a new era in financial services engagement.

Professional Standards CPD: Client care and practice 1.0 hour | **ASIC Knowledge Area:** Financial planning 1.0 hour

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Hear from the CSLR CEO

Wednesday 26 June from 1.00pm to 2.00pm AEDT

DAVID BERRY
CSLR

Hear from the CEO of the newly-established Compensation Scheme of Last Resort (CSLR) about its role, consumer claims process, levy framework and estimates. He will also speak to how the 1st and 2nd levy period estimates were arrived at and take questions from attendees.

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

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Future of payments – what you need to know in the Australian financial markets

Wednesday 10 July from 1.00pm to 2.00pm AEDT

JENNIFER HARRISON
Reputation Edge

AMANDA MARK
MIntegrity

JOHN RYAN
PayEd

Join this expert panel exploring payment trends in stockbroking. They'll discuss recent shifts, future trends, and regulatory impacts from Treasury, RBA, ASIC, ACCC, and APRA. Learn strategies for enhancing payment adoption and explore digital currency and identity trends.

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

Cost: Member FREE | Non-member $75

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Cryptoasset insights: Navigating opportunities and risks

Wednesday 24 July from 1.00pm to 2.00pm AEDT

IAN LOVE
Blockchain Assets

Ian Love will delve into Bitcoin and cryptoassets highlighting both risks and opportunities of these emerging assets. He will also outline how to incorporate these assets into a traditional portfolio safely and securely, and in compliance with regulations.

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

Cost: Member FREE | Non-member $75

Introduction to stockbroking workshop

Tuesday 10 September from 11.00am to 1.15pm AEDT

RUSSELL McKIMM

This workshop outlines stockbrokers' vital role in retail and institutional markets, covering operations like order taking, transactions, and settlement. Gain insights into the different systems involved and allow for a discussion of the different business models in stockbroking today.

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

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A day in the life of a trade workshop Monday 16 September from 11.00am to 1.00pm AEDT

ROB TALEVSKI
Webull

Ideal for experienced and auxiliary staff in legal, IT, HR, and related roles, this workshop explores the trade lifecycle. Gain insights into client onboarding, share and derivative trade processes, settlement, sponsorship/HINS, CHESS messaging, and registries.

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

Market manipulation and other prohibited conduct workshop

Tuesday 17 September from 10.00am to 12.15pm AEDT

PROFESSOR
MICHAEL ADAMS

Focused on prohibiting artificial price creation in financial products, this workshop benefits all seeking market understanding and obligation consequences. Tailored for financial professionals, it covers obligations, self-protection, and discerning manipulation from market forces.

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

Cost: Practitioner member $100 | Organisation Member $150 | Non-member $200

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Australian Foreign Bribery Law gets an update

By Manish Ghiya, Principal, Compliense Advisors

Seven years and two failed attempts later, the *Crimes Legislation Amendment (Combatting Foreign Bribery) Bill 2023*[1] ('2024 Act') to reform and strengthen the foreign bribery laws finally passed in the Parliament. This article discusses the newly introduced offence of failing to prevent foreign bribery and the related defence of having 'adequate procedures'.

If you are an Australian business with overseas operations or connection (eg: you have commercial activity or outsourced operations overseas, overseas service providers, or a foreign subsidiary), then the recent changes to the foreign bribery law should be on your radar, if they are not already! The changes in the law make it easier to investigate and prosecute corporates for foreign bribery offences.

A new strict liability corporate offence of failing to prevent foreign bribery

One of the key changes through the 2024 Act is that it establishes a new corporate offence of failure to prevent bribery of a foreign public official by an associate. In brief, bodies corporate would be liable if their associate commits the offence of foreign bribery, and it was for the profit or gain of the body corporate.

This brings us to the other related change under the 2024 Act – in the case of such an offence, bodies corporate have a statutory defence that they had in place 'adequate procedures' to prevent its associates from committing foreign bribery.

The new provisions apply to such bodies corporate as specified in the 2024 Act, which includes constitutional corporations.

The penalties for the offence are stiff – not more than the greatest of $31.3 million, or three times the benefit received from the offence, or 10% of annual turnover.

The Explanatory Note to the Bill mentions that the newly established offence will be an incentive for corporations to implement and maintain measures to prevent bribery. It seems that the law took a cue from the UK, where a similar law introduced in 2010 led to an increased adoption of corporate compliance programmes.

While at it, it will also be useful to understand the concepts of 'associate' and 'adequate procedures'.

Associate

An Associate of a body corporate includes in its scope an officer, employee, agent, contractor or subsidiary, controlled entity, or one who performs

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> The nature of the offence, the wide scope of ‘associates’ and the requirement of ‘adequate procedures’ necessitate companies put in place robust foreign bribery prevention measures as part of their AB&C compliance framework.

services for or on behalf of the body corporate.

Thus, the sweep of the definition is quite wide, including everyone who works for the body corporate or provides services to it, and can also cover persons not directly engaged by the body corporate but performing services for it. Since the outsourced contractors and service providers are also considered associates, wrongful conduct on their part may lead to an offence by the body corporate.

Adequate procedures

What are ‘adequate procedures’? The 2024 Act states that this will be determined by the courts on a case-by-case basis. It is envisaged that this concept will be scalable - its requirements will depend on the circumstances, including the nature of the body corporate concerned and the relevant sector and geographical sector in which it operates.

While in a given case, the above determination will come only when a matter reaches the Court, it is imperative that entities take proactive risk mitigation measures proportionate to their size, nature and complexity, and the scale of bribery risks they face.

As an aid, the law requires that the Minister must publish guidance on the steps that bodies corporate can take for bribery prevention. However, as the name suggests, it will be guidance of a general nature and principles-based, and will not be considered a legislative instrument.

2019 ‘adequate procedures’ draft Guidance

During the 2019 iteration of a similar Bill (it did not pass), the Attorney General’s office had released a draft guidance for consultation, describing ‘adequate procedures’. Taking a cue from that, broadly bodies corporate should consider the following principles in their framework:

- Risk assessments, risk-based approach, regard to size, nature, and complexity of activities
- Pro-compliance conduct by the top management and the board of directors, oversight and assurance, fostering an anti-bribery culture
- Due diligence procedures for bribery risk assessment relating to the associates
- Communication and training programmes
- Confidential reporting and investigation, ie adopting a reporting mechanism that allows internal and external stakeholders to raise concerns about bribery risks and whistleblowing
- Monitoring and review that ensures the ongoing effectiveness of the anti-bribery framework.

The steps taken must result in an effective anti-bribery compliance programme.

Way forward

Companies should examine the applicability of the new provisions for them, and review their current AB&C compliance framework in regards to the foreign bribery risk. The nature of the offence, the wide scope of ‘associates’ and the requirement of ‘adequate procedures’ necessitate companies put in place robust foreign bribery prevention measures as part of their AB&C compliance framework.

The new provisions will come into effect early September 2024!

Note: The above article is for general informational purposes only and does not constitute professional or legal advice. Please seek specific advice for your situation.

Compliense Advisors is an AML and FinCrime compliance and risk management advisory firm, and we can assist in your compliance framework and obligations. Write to us on compliense@compliense.com.au. Visit the Compliense website for more such knowledge resources.

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[1] The Bill was passed by the Parliament on 29 February 2024; and received Royal assent on 8 March 2024. The law will become effective six months from the assent.

Backward test runs counter to forward-looking system

By Jason Spits, Senior Journalist, *selfmanagedsuper*

The Australian superannuation system is regarded as one of the best retirement savings systems in the world and since its inception more than 30 years ago has grown to hold more than $3.6 trillion in assets.

While it is common to see the system, and those assets, referred to in their entirety, it is important to remember the latter are collectively owned by around 16 million people who are the end beneficiaries.

As such, recent governments have been keen to ensure those assets are not being undermined by poor investment performance and have taken steps to ensure the best interests of members are being met.

In 2014, MySuper products were introduced as a default superannuation fund offered by an employer for people who didn't have a fund or nominate one when commencing work.

Following concerns employees may be automatically signed into poor-performing funds, the Your Future, Your Super changes took place on 1 November 2021 and introduced an annual performance test for MySuper products.

These tests are carried out by the Australian Prudential Regulation Authority (APRA), which constructs a benchmark portfolio that matches the asset allocation of the fund being tested. The benchmark is based on actual returns from each underlying index used in the same proportions within the MySuper product and from this APRA calculates an expected return over a rolling 10-year period.

Since the first performance test in 2021, nine MySuper products have closed for failing it and in the most recent test of 64 MySuper products in 2023, only one fund, with 4000 members and $151.1 million in assets, failed, leading to its trustee electing to wind up the fund.

While this sounds like good news for consumers, the downside is choice products, which are specifically chosen by super fund members, have not fared as well.

Tested for the first time in 2023, APRA found 12 per cent, or 96 of 805 products, failed to meet the performance benchmark.

In numerical terms, those choice products represent 60,000 members and $4 billion in assets, so the addition of a test for superannuation products available to millions seems like a good idea.

However, the concept of a backward-looking test that can effectively close off a superannuation product to new members after two strikes seems at odds with the old investment mantra – that past performance is no indicator of future performance – featured on every super product available.

Criticisms of the test are that it encourages short-term investing and benchmark hugging, has been gamed to generate outcomes for the super funds rather than their members and its quantitative nature does not address reasons for underperformance.

The government has opened the doors to feedback on the test, releasing via Treasury a paper, titled "Annual Superannuation Performance Test – design options", whose purpose "is to canvass a range of options for reforming the test, should the government decide to do so in the future".

The emphasis has been added because reforming the test is something this Labor government, which presents itself as the champion of super, should really do even if it may resent the fact it was introduced under the previous Liberal government.

> "Tested for the first time in 2023, APRA found 12 per cent, or 96 of 805 products, failed to meet the performance benchmark.

As the self-proclaimed champion of super, the government should actively be working towards a test that generates good member outcomes and pulls up funds that cannot achieve them, and it will be presented with a range of ideas from across the tax and superannuation sector.

Some of these include adding a review function to allow the trustee of a product that fails the test to give reasons for that failure and address how the forward-looking aspect of an investment strategy or trustees' actions, which are overlooked in the test, may produce better outcomes in the future.

The test could also be improved by accounting for risk-adjusted returns, particularly where fund members have a specific objective, such as ethical investing or preserving capital, that may not align with a broad-based test of maximising returns over a set period.

Superannuation funds do these things already, but the test they have to meet has to date ignored them. At the same time, fund trustees know the test is not going away and failing it is not an option. Listening to and implementing feedback from the sector on how it is assessed makes sense and it would be a champion thing to do.

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