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THE SPRINT TO CATCH UP:

why Australia needs to move fast to regain its place in financial market innovation

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Stockbrokers and Investment Advisers Association Limited ABN 91 089 767 706

Level 2, 74 Pitt Street, Sydney NSW 2000

Email: info@stockbrokers.org.au

Tel: +61 2 8080 3200

www.stockbrokers.org.au

Advertising

Silvana Eccles, Education and Operations Manager

Email: silvana.eccles@stockbrokers.org.au

Tel: 02 8080 3204

THE SPRINT TO CATCH UP:

why Australia needs to move fast to regain its place in financial market innovation

By David Ferrall, Founder and Group CEO, FinClear

Stockbrokers, wealth managers and online trading platforms operate right at the core of financial markets. Market infrastructure is the gears in the machine beneath them, with stock exchanges and clearing and settlement systems being instrumental to a reliable, functional market.

Australia was not too long ago at the forefront of efficient, sophisticated markets – and through competitive innovation, our market can once again regain a leading global position.

KEY TAKEAWAYS

- ✓ While CHESS was a world-first when introduced, the now failed CHESS replacement project has cost Australia time and money, leaving it lagging behind other markets in technological sophistication.
- ✓ Regulatory change enabling responsible competition will pave the way for a new wave of innovation, making up ground.
- ✓ Distributed Ledger Technology-based "atomic" settlement should be first off the rank, allowing for reduced risks and costs and improved efficiency and liquidity.

Australia – once world-leader

The 1990s was a significant time of change for the ASX. The bourse successfully implemented CHESS to replace manual settlement of trades. This was completed within budget, winning industry accolades for excellence in 'information technology'. Through the decade the ASX paved the way to simple Listing rules, and share certificates were completely replaced by electronic clearing and settlement of trading.

Australia was applauded by other global bourses for its leadership in financial market innovation. Indeed, at a time when technology was not as pervasive across other global markets and society, these offshore markets lacked the structure and the regulatory drive to achieve the same efficiencies. Australia was deservedly proud of the international recognition it received for its financial infrastructure and the advantages that it provided market constituents.

That mantle as a global innovator in financial market infrastructure was further progressed in 2016 when the then CEO of the ASX, Elmer Funke Kupper, announced that it would utilise distributed ledger technology (DLT) to upgrade the market's clearing and settlement system. This move was a world first.

Too little, far too late

As we now know, that particular project – the CHESS upgrade – was beset with delays and high-profile issues that eventually resulted in one of the worst technology failures that Australia had ever seen.

Not only is this a significant issue for Australia's financial markets and its domestic and international constituents, but it has come at a time when Australia holds significant geopolitical and economic influence in AsiaPac, so arguably this failure is impacting Australia's international reputation more broadly.

The ASX's promise to unveil the next iteration of its post-CHESS plans in 2024, seems farcical when you consider the pace of adoption of DLT enabled Clearing and Settlement systems around the world. Clearing and Settlement agencies in the US (eg DTCC, OCC) and Canada (eg. CDSX) expect to reduce trading settlement times to T+1 in 2024, with other countries well advanced on their pilot regimes to follow not far behind.

As things currently stand, this will put Australia significantly out of line with the rest of the world for potentially an extended period to time. Not only does the ASX need to put forward a meaningful proposal for what to do next, it importantly needs to convince the industry of its revised solution and for participants to commit the significant resources and capital required to support it, which many in the industry will be reluctant to do.

Competition spurs innovation

Conversely, Australia's challenges could be better solved through a different approach that encourages responsible competition in Clearing and Settlement services, spurs innovation and delivers a successful outcome quickly and reliably.

At FinClear we have spent considerable time assessing similar projects and regulatory developments underway in several international markets, including the UK, the US and Europe. The findings are very instructive.

Global experience tells us that regulatory reform will be an important first step to help capture the available benefits of Clearing and Settlement innovation, while at the same time ensuring the stability and performance of Australia's financial markets. Recent disruptive advances in technologies relevant to Clearing and Settlement services, predominantly focused around DLT, mean that existing regulatory definitions and approaches are outmoded.

Government and industry must work together to design a modernised regulatory framework, as well as a sector growth strategy that will deliver on the potential for innovation, investment and jobs growth and we welcome the Australian government's moves towards reforming competition in the clearing and settlement of Australian equities.

Atomic settlement, universal improvement

The primary benefits of technological and regulatory innovation in Clearing and Settlement services are already emerging in global markets currently testing these new systems.

Whilst Australia has adopted initial elements of technological innovation in Clearing & Settlement services, such as Straight Through Processing – enabling end-to-end transaction processing without the need for manual intervention, or the use of APIs to allow different systems to communicate and share information in real-time – making it easier to streamline

Clearing & Settlement processes, DLT technologies will revolutionise Clearing & Settlement services.

One key benefit of introducing DLT-based settlement processing is the reduction in settlement times resulting in reduced counterparty and liquidity risk. Transactions occurring on DLT platforms are instantaneous, through what is known as Atomic Settlement when two assets exchange instantly, thereby mitigating the risk in clearing and settlement by reducing the likelihood of one-party defaulting on their obligations.

Atomic Settlement reduces the time counterparties are exposed to credit and market risk, reduces costs due to shorter settlement times, and eliminates the need for counterparty collateral requirements. It also enhances liquidity as market participants can deploy capital more quickly to take advantage of trading opportunities. Cross-border trading will be easier than ever before, further internationalising Australian markets.

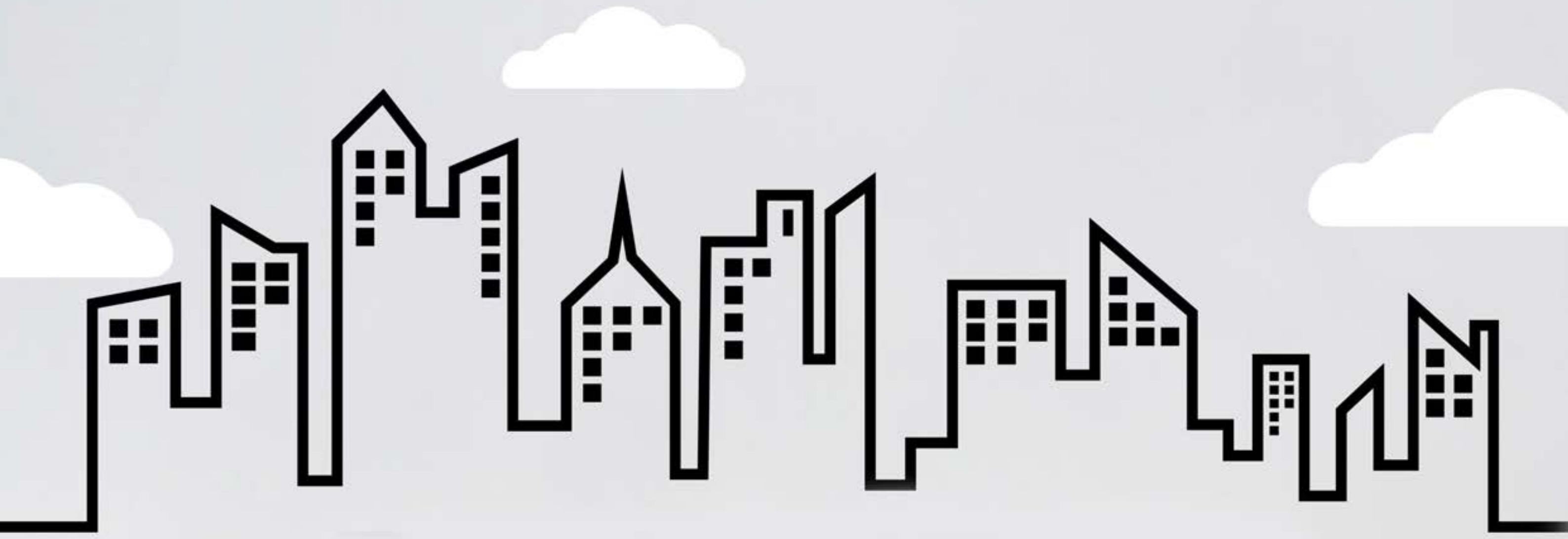
> “Modernising Australia’s financial system should be recognised as a national priority, and we should acknowledge that all market constituents stand to benefit from the rapid modernisation of Australia’s clearing and settlement system as a first step.

Top of the list

Australia can learn from innovative developments across global markets to set its ambition and inform its plans. Modernising Australia’s financial system should be recognised as a national priority, and we should acknowledge that all market constituents stand to benefit from the rapid modernisation of Australia’s clearing and settlement system as a first step.

Failure to act quickly and decisively will have long reaching consequences.

To find out more about, please visit https://finclear.com.au/articles/.



COMMERCIAL REAL ESTATE CREDIT: an overlooked investment solution?

By Mark Power, Head of Income Credit at Qualitas

Commercial real estate (CRE) credit defined

CRE credit refers to loans provided to commercial borrowers to finance real estate for investment and development purposes secured by real property mortgages.

CRE credit is part of a wider asset class sometimes referred to as 'private credit', which is essentially an asset class of privately negotiated loans and debt financing provided by a lender that is not a bank.

In the current environment, CRE credit offers a unique portfolio diversifier, fitting into three asset allocation categories – fixed income, property, and alternatives. Generating a fixed level of income from an agreed level of fees means it has fixed income attributes, property attributes due to indirect property exposure and the underlying security of property, and alternatives given it doesn't fit into the traditional asset classes and has defensive characteristics. While allocation is based on individual investor profiles, CRE credit provides diversification regardless and is ideal for investors that prefer less income volatility.

Another key feature of CRE credit is its capital preservation characteristics, as a typical first mortgage loan is usually around 60% of the underlying value of the security. Therefore, during times of market volatility, when asset prices recalibrate, there is a "buffer" between the loan principal value and the value of the underlying security.

CRE credit can also provide exposure to the growing CRE market without the risk of property ownership. The asset class has the potential to provide attractive risk-adjusted returns[1] and, depending on the product, can provide a regular and predictable income stream[1] through the borrower's monthly interest repayments.

Key risks

Two primary risks of CRE credit include the loss of loan principal, which is when a borrower cannot repay the loan and the security property value declines and is insufficient to meet the full loan repayment. Second, the loss of loan income, when the cash flow from the property or other borrower sources are insufficient to pay loan interest and fees due to the lender.

This specialist asset class requires intensive asset management and risk management, fund manager selection is therefore critical when investors do their product due diligence.

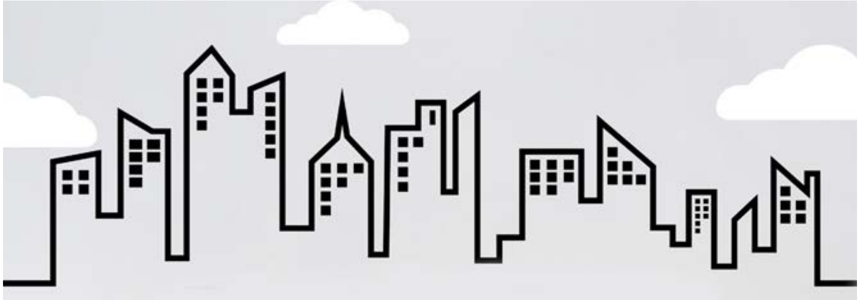
Is now the time to invest in CRE credit?

Rising interest rates and increasing inflation, along with market volatility, and hesitancy by traditional funding sources to deploy capital in the commercial real estate (CRE) credit space, have accelerated the shift from the major banks towards alternative financiers. Traditional financiers have also experienced increased APRA regulation which has reduced their capacity to lend in the CRE space.

Australia is currently experiencing increased migration, low residential vacancies and a housing supply shortage. These are key drivers of demand for multi-dwelling developments and these developments must be funded somewhere – providing an opportunity for alternate financiers to fill the funding gap left by traditional financiers with flexible and bespoke financing solutions to borrowers.

The rapid interest rate rises of the past year by the Reserve Bank in response to high inflation has marked the end of nearly a decade of no rate rises. The lag effect of interest rate rises has made it challenging to buy physical real estate and in this environment, public markets have persistently delivered low yields. As a result, we've seen an increasing flow of astute institutional capital into private credit.

In this environment, a competent CRE credit manager would convert their existing fixed rate loans to variable rate loans so investors can reap the benefits of uplifts in interest rates and also risk margins, which is the margin one charges over and above the bank bill swap rate. The risk margins have also been widening in this particular time of the cycle as liquidity has been less than what has been over the past couple of years due to smaller alternative lenders



“Australia is currently experiencing increased migration, low residential vacancies and a housing supply shortage. These are key drivers of demand for multi-dwelling developments and these developments must be funded somewhere – providing an opportunity for alternate financiers to fill the funding gap left by traditional financiers with flexible and bespoke financing solutions to borrowers.

capital sources drying up as well as the traditional lender's hesitancy to lend to the sector. This is a particularly good time for the larger, well established private credit funds, which are able to take full advantage of a reprice both in both base rates and risk margins to the benefit of the funds and their investors.

How to invest in CRE credit?

The asset class can be invested in through listed or unlisted vehicles. The Qualitas Real Estate Income Fund (ASX:QRI) is an example of a listed pure-play CRE credit fund which has a Mortgage Real Estate Investment Trust (MREIT) structure. MREITs are companies or trusts that service, originate, purchase and/or securitise commercial and/or residential mortgage loans.

The MREIT structure, provides access for retail investors to a previously illiquid asset class with the expertise of an institutional investment manager with multi-cycle experience via the ASX. The structure also provides liquidity in what would otherwise be a close-ended ended structure, meaning the manager doesn't have to force sale assets to fund redemptions and can focus on investment selection and portfolio management.

Find out more about CRE credit: https://www.qualitas.com.au/three-commercial-real-estate-debt-facts-worth-knowing-now/

1. The payment of monthly cash income is a goal of the Trust only and neither the Manager or the Responsible Entity provide any representation or warranty (whether express or implied) in relation to the payment of any monthly cash income. Returns are not guaranteed. The premium achieved is commensurate to the investment risk undertaken.

RegTech 3.0: The Future of Compliance technology in capital markets

Provided by Complii

From cost centre to growth lever

Once thought of as a cost centre, compliance is increasingly seen as an asset that can drive business growth. Compliance is no longer just a tick-the-box exercise to satisfy the regulators—it can also win and retain business.

However, challenges remain: Many compliance officers struggle with how to best support their firm's growth while facing the mandate to do more with less. As companies rely on technology to conduct business more than ever, risks around insider trading, electronic communications and cybersecurity are increasing in volume and complexity. Compliance officers have to both adjust the scope of their oversight, but also their techniques for conducting that oversight.

Compliance leaders are turning to technology for help. According to research from Thomson Reuters, 49% of survey respondents said they are considering RegTech solutions to manage compliance, which was a 34% increase since their 2021 report.

Through RegTech, compliance officers are finding ways to track and monitor compliance activities across the firm from one place, eliminate tedious manual tasks through automation and/or outsourcing, and feel confident that their compliance data is consistent, reliable, and secure.

Given that the majority of compliance cost still originates from manual processing, improvements in the processing space can significantly increase efficiencies and reduce costs. And when RegTech is implemented thoughtfully and strategically, compliance officers and adviser can spend their time where it's truly needed.

The future of compliance is smart, data-driven automation

Regardless of the sector, the capacity to demonstrate effective compliance will mean the generation of significantly more data for companies. This data must be addressed robustly, analysed and reported appropriately and comprehensively. This requires technology that is smart enough to address all these challenges, but simple enough to install, use and maintain.

Data-driven automation will allow scale that is out of reach to incumbent operating models, with advisers able to deliver improved service to significantly more clients at the same time as materially reducing the administrative burden with each advice case.

RegTech providers are providing the backbone of the next phase in the evolution of the capital markets by creating solutions that will fully digitalise the financial system.

Cloud-based RegTech solutions, powered by emerging technologies, will continue to play a significant role that goes beyond automation, offering advanced cognitive computing (AI), adaptive algorithms, and predictive analytics with deep machine learning for interpreting new regulations and near real-time reporting.

With the future ever more likely to be driven by regulators wishing to improve supervisory capacity, RegTech 3.0, as the term is coined, will fulfil the pursuit of a regulatory framework for the digital age and with that, clarity and efficiency into the way in which regulation is interpreted, how compliance is managed and most of all how reporting is and will be automated.

Future-proofing compliance through platform solutions

Financial institutions don't want to work with six or seven different vendors to meet their requirements – which is often the current situation. This isn't fit for purpose as it is over-complicated to manage, and the different solutions are often not easily integrated together. Financial institutions looking for future-proof solutions should be looking for a single vendor for functions which logically fit together. They need to think about compliance solutions from a platform perspective, along the whole corporate lifecycle, to be able to build-out new use cases quickly and integrate third-party sources at reduced cost.

Indeed, given tighter compliance budgets, gaining attention in 2023 will be regtech software that looks more like platforms upon which users can customize, configure, and self-service their own unique needs. This "buy-to-build" option avoids the upfront costs of coding from scratch and avoids the costs of having to swap out inflexible vendors.

Complii Fintech Solutions: a one-stop-shop complete compliance platform with a modular approach and customisation.

Our secure digital platform is based on customisable software designed to automate, record and report on an AFS Licensee's and Brokers compliance obligations.

Complii automates functions such as sending ROA's/SOA's emails based off client profiles, 708 8 expiry register, FOFA FDS letter auto-generation and electronic opt-in, online client profiles updates, disclosures, breach register, Chinese walls, internal compliance and much more.

Learn More

To the SIAA Community,

Cboe Global Markets celebrated its 50 year anniversary on 26 April 2023. While a new entrant to Australia, following its acquisition of Chi-X Australia and Chi-X Japan in 2021, Cboe has been at the forefront of markets, exchange, and technology innovation across North America, Europe, and now the Asia Pacific region over these 50 years.

In February 2022, Cboe Australia announced to the Australian capital market that it had an ambitious plan to migrate its core matching engine technology to Cboe's global platform by Q1 2023. 'Cboe Tech' is a best of breed, leading edge trading system technology that underpins Cboe's exchange and markets business globally. Its launch in Australia would be Cboe's first critical proof point in delivering Australia and its investors a new level of choice and competition.

We are proud to now say that on 27 March 2023 we delivered against this milestone successfully. This achievement is not Cboe Australia's alone but one shared with our broader customers and their vendors, including the members of SIAA, reflecting our stakeholders' collective efforts and achievement, and for this we say thank you.

Thank you for your support through the project, including making teams and resources available to meet the necessarily ambitious timeline. Thank you for your strong and productive engagement throughout the development and testing period, Industry Wide Test weekends, and events. Thank you for your trust and confidence that what we set out to achieve would be delivered.

Although much has been said previously about what the Cboe Tech migration means for the Australian capital marketplace, now is an important time to reflect on what has been delivered, what it offers today, and what it enables for the future. While core functionality and features remain unchanged for launch, there are significant non-functional capabilities that have been achieved through the migration project. Cboe Australia's technology infrastructure now operates on a platform that will support the growth of Australia's capital markets well into the next decade. Today, Cboe globally trades an average of USD $60b per day in equities. Further, the housing of Cboe's new technology infrastructure within the Equinix SY5 data-centre leverages the latest hosting facilities available and ensures future capacity for innovation. These factors mean that Cboe Australia now has the performance and capacity to better meet both current and projected future capital markets trading volumes for the entire Australian equities marketplace.

Cboe BIDS Australia has been launched alongside the Cboe Tech migration. This service allows buy-side and sell-side traders to anonymously trade large parcels of equities while minimising information leakage, all through a centralised exchange operated matching venue. Cboe BIDS Australia is designed to improve liquidity, deliver better outcomes for traders & investors, and resolve existing inefficiencies that create friction in trading of large parcels of shares in Australia.

Cboe is the exchange for the world stage. A truly global exchange operator, and Cboe Australia's position within this global exchange network, offers the Australian capital markets potential for innovation and competition not previously seen within our markets.

Cboe Australia's future aspirations for the Australian capital markets landscape are many and include:

- Enhancements to the current traded environment: The Cboe Tech platform offers rich functionality for enhanced order type functionality, persistent order book management and a range of liquidity event mechanisms.
- Multiple asset classes: Cboe Global Markets' origins are within the derivatives sphere of financial products. As innovators of the VIX and SPX derivative contracts, it is natural for Cboe Australia to investigate and consider the derivatives landscape locally.
- Cboe listed products: Cboe's global exchange network provides its local operations with leverage and scope to support a range of listed cash market products.
- Global Data, local relationships: Easy access to local and global data solutions through local relationships and at efficient cost
- Clearing and Settlement: Cboe has a strong culture in driving innovation through competition and technology and it is through this lens we view opportunities for clearing and settlement within the Australian market.

Any product Cboe Australia seeks to launch will be undertaken following strong consultation with the local stakeholders to ensure it supports their investors risk management activities.

With the Cboe Tech delivery behind us we look towards the future with:

- a platform to deliver growth and innovation;
- the strategy and local resources for meaningful enhancements for the Australian capital market; and
- the global backing to deliver.

This combined with the support of our customers, as shown through the recent Cboe Tech migration, instills high confidence in the opportunities for Cboe Australia and the Australian marketplace into 2030 and beyond.

Thank you for your historic support of Chi-X Australia and continued support of Cboe Australia. We remain committed to delivering exceptional service and support to all our clients and look forward to fulfilling our purpose of building trusted markets, together with our clients and partners.

Sincerely,

Cboe, The Exchange for the World Stage

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The Advisable Australian – A new way to think about Australian investors

Wednesday 10 May | 1.00 to 2.00pm AET

Not all Advisable Australians look the same, and nor do they behave in the same way or have the same financial advice needs. Genevieve Frost of Netwealth will look at two important segments, the Established Affluent and the Emerging Affluent – one is a younger cohort, largely millennials who are highly engaged in investing and digital natives, whilst the older 60+ group asset-rich individual, also highly engaged in investing.

Genevieve Frost

Professional standards CPD: 1.0 Client care and practice

ASIC RG146: 1.0 Generic Knowledge

Modern Slavery and its impact on stockbroking and investment advice

Wednesday 14 June | 1.00 to 2.00pm AET

Kimberly Randle

At the end of March 2023, the first review of Australia's Modern Slavery Act 2018 (Cth) (MSA) came to an end. Around the world, human rights due diligence reporting requirements are strengthening. Two experts with deep understanding of the Act will outline what investors and research analysts need to be aware of when assessing a company's modern slavery risks. What are the implications for the stockbroking and investment advice industry?

Julian Fenwick

Professional standards CPD: 1.0 Professionalism and ethics

ASIC RG146: 1.0 Generic Knowledge

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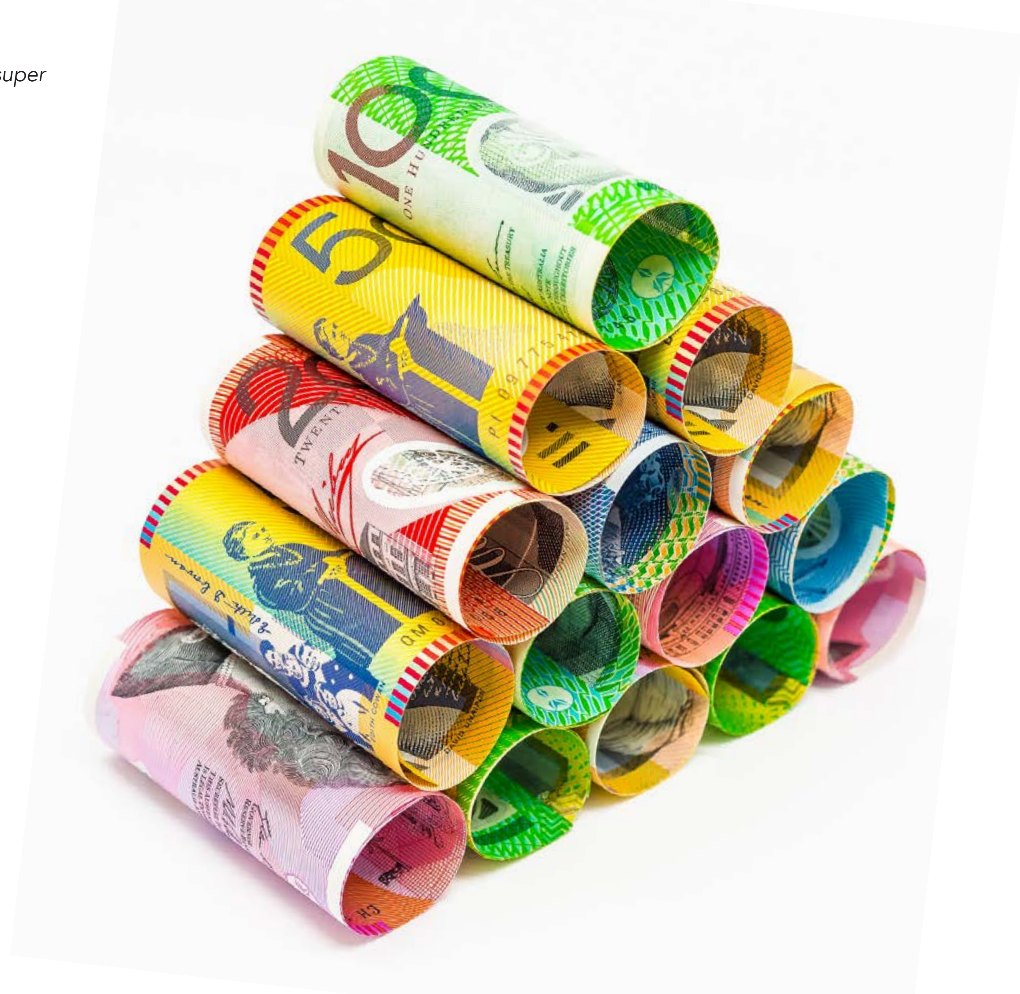
Indexation not just about pensions

By Darin Tyson-Chan, Editor, *selfmanagedsuper*



Back in February I wrote about the slated second round of indexation to be applied to the general superannuation transfer balance cap that will bring it up from the current level of $1.7 million to $1.9 million.

Previously I also pointed out the increased level of complexity this measure will bring to the management of an individual's super account and in particular their pension strategies if they have indeed already commenced a pension.

But the implications go a lot further than this. The superannuation system as it exists has numerous thresholds that govern what an individual can do with their retirement savings, including how much they can actually put into their account.

Most people would be aware of the contributions caps dictating how much money they can channel into their superannuation account in a particular income year. At the moment the annual concessional contributions cap is $27,500 and the annual non-concessional contributions cap is $110,000 or four times the concessional cap.

Further, the rules allow an individual to bring forward three years of non-concessional contributions to apply to a single year. That means being able to put $330,000 into their retirement savings in one financial year.

Many people might wonder what this has to do with the general transfer balance cap. I mean doesn't that only have to do with how much money you can allocate to a pension?

Yes it does, but the general transfer balance cap also dictates how much of this bring-forward non-concessional provision is available for people to use.

To this end, the general transfer balance cap is in fact linked to the total super balance as well.

How does it work? The general transfer balance cap sets the total super balance limit that determines an individual's ability to access the bring-forward non-concessional contributions feature.

Currently the general transfer balance cap is $1.7 million. This means a person with a total super balance of $1.7 million or above will not be able to make any non-concessional contributions, let alone take advantage of the bring-forward rule.

Similarly, if a person has a total super balance that sits between $1.59 million and $1.7 million right now, they will only be able to make maximum non-concessional contributions of $110,000 in a particular year before they also breach the $1.7 million threshold.

Further, if an individual's total super balance is between $1.48 million and $1.59 million this year, they will be able to benefit from two years' worth of non-concessional contributions and allocate $220,000 to their superannuation account in this income year.

Finally, if a person has a total super balance that is less than $1.48 million now, then they will have access to the full three-year bring-forward amount that will allow them to put $330,000 into their retirement savings in 2022/23.

Following this principle, the new general transfer balance cap of $1.9 million expected to take effect from 1 July 2023 will change all of these bands linked to the non-concessional contributions rules.

It means from that date no non-concessional contributions will be allowed for individuals with a total super balance of $1.9 million.

In addition, the annual non-concessional contributions cap of $110,000 will be available for a person with a total super balance of between $1.79 million and $1.9 million as at 1 July 2023.

Also the two years' worth of the bring-forward provision, $220,000, will be available to people whose total super balance is between $1.68 million and $1.79 million from the start of the coming income year, and the full three-year bring-forward amount of $330,000 will be able to be used by individuals with a total super balance that is lower than $1.68 million from the indexation implementation date.

> "You can see this will make a difference to contribution strategies for the 2024 financial year and beyond.

You can see this will make a difference to contribution strategies for the 2024 financial year and beyond. At the most basic level, a person who currently has a total super balance of $1.7 million will be able to pay another $200,000 into their retirement savings account.

So both pension and contribution plans merit consideration once the general transfer balance cap indexation has been applied. That is assuming the government will allow for this full indexation to take place, a fact we won't know until the budget is handed down in May.

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