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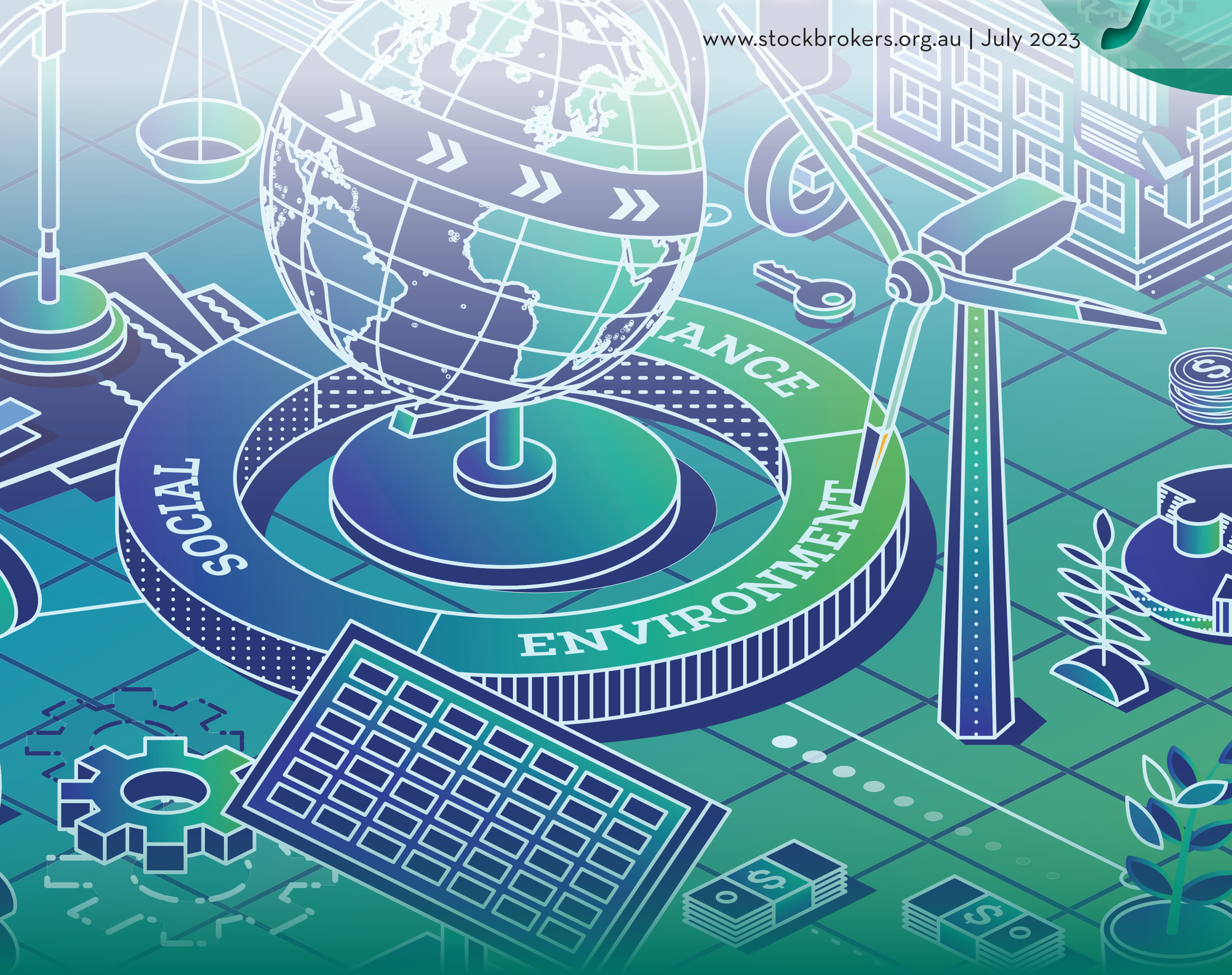

A new framework for understanding the sustainability of business models – Part 2

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A new framework for understanding the sustainability of business models – Part 2

By Mariana Wheatley and Pablo Berrutti, Altiorem

This two-part series is based on Altiorem's research 'how can businesses thrive in a sustainable economy?' In part one, we explored why and in which ways current business models are incompatible with a sustainable economy. In part two we will discuss five areas where business models can evolve to thrive in a sustainable economy.

Through best practice case studies and assessment questions, these five sustainability areas have been mapped in a simple framework that companies and investors can use to assess a company's alignment with a sustainable economy. While the research explored various models for a sustainable economy, we applied Kate Raworth's Doughnut Economics model, a framework for a sustainable, regenerative, and distributive economy where society and nature thrive. It is based on a social foundation which provides a life of dignity and opportunity for all and an ecological ceiling representing the earth's planetary boundaries. The framework has been used by governments around the world to assess and then find ways to bring about a sustainable economy.

Five features of a sustainable business

1. Purpose

A business should focus on creating sustainable value and positive impact, rather than solely maximising short-term profits. This involves contributing to society's foundations and protecting and restoring the environment. An organisation's value is determined by stakeholders, while some stakeholders prioritise financial value, the organisation's purpose and stewardship should ensure that meeting their needs does not harm society or the environment. Non-profit and social business models traditionally embody these principles, but for-profit B-Corps, such as Danone, Natura, and Ben and Jerry's, integrate social and environmental responsibilities into their governing documents.

B Corps are purpose-driven organisations recognising a broader purpose than profitability for shareholders. B Corps aim to benefit all stakeholders, including workers, customers, suppliers, and the environment. Certification is based on social and environmental performance, transparency, and legal accountability. To become a B Corp, a company must show how their business addresses global challenges like pollution and inequality. B Corps surpass non-certified organisations in environmental and social outcomes. For instance, B Corps are 87% more likely to set greenhouse gas emissions reduction targets and 9% more diverse than non-B Corps.

2. Organisation

The way in which a business is organised is critical for attaining sustainability across the business' operations. The report breaks down organisation into five sub-sections including the ownership structure, how the business distributes value in its supply chain, how the business utilises its networks, its time horizon, and how it manages its impacts, both positive and negative. We will provide a brief example of an alternative ownership structure. See the report for details on the remaining areas.

The steward-ownership model offers an alternative to shareholder-owned business models by prioritising self-governance and aligning profits with the organisation's purpose rather than shareholders. This model involves a cornerstone or controlling shareholder(s) that acts as a long-term steward of the company. These stewards can include trusts, foundations, or employee-owned companies. A number of leading global companies such as Bosch, Zeiss, Novo Nordisk, the Tata Group and Carlsberg have such stewards.

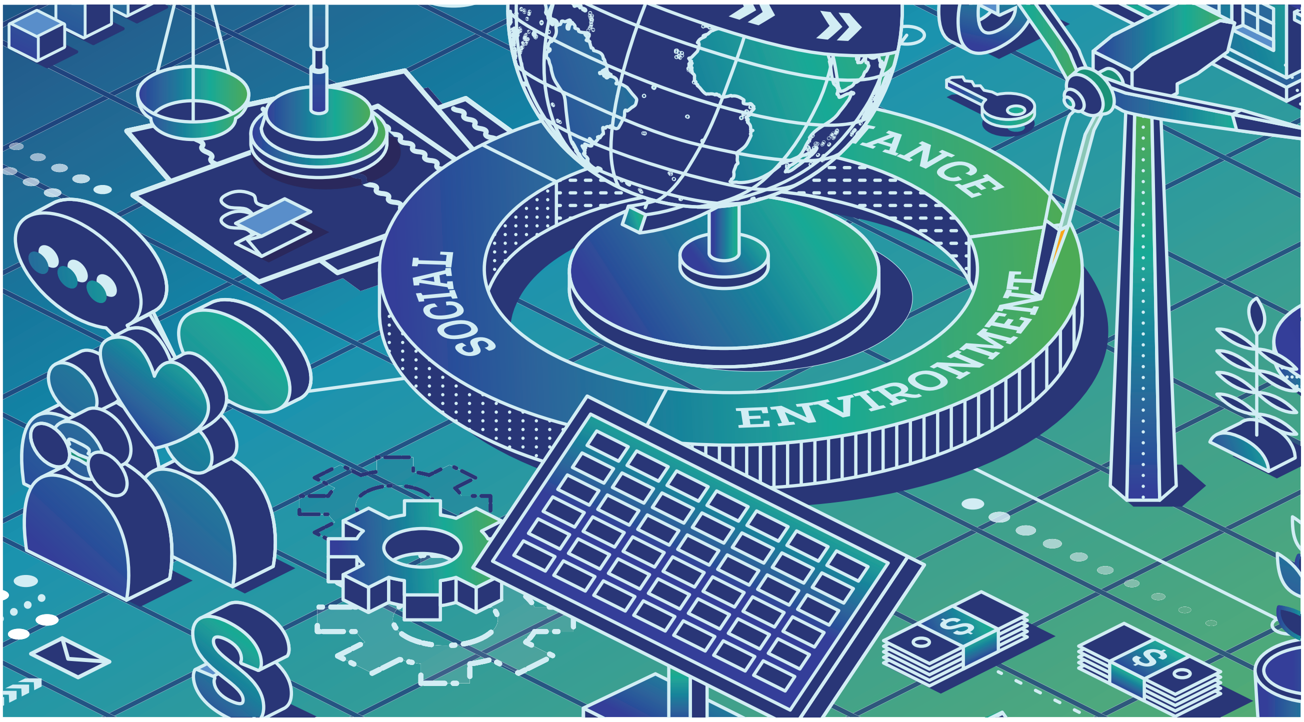
While there are many variations, these companies are governed by stakeholders who are aligned with the company's mission and have a significant or controlling interest that often cannot be bought or sold but is passed on to other stewards, such as future employees or as part of trust structures.

3. Circular and regenerative production

Businesses should design for circularity, that is systems of design, production and consumption that eliminate waste throughout a product's lifecycle. This includes using recycled resources, and designing products so they can be disassembled or reintroduced into new production processes. Circular economy principles have already gained momentum from both government and corporate bodies, and they will be vital to achieve sustainable production systems and infrastructure.

A leading circular economy company is Norwegian domiciled Tomra. Tomra manufacturers and operates a Clean Loop Recycling system that provides payment for returned containers made of plastic, aluminium and glass. Clean Loop Recycling is a process that ensures products are collected, recycled and repurposed. Reverse vending machines have resulted in return rates from 70% to almost 100% of sold beverages, recycling more than 35 billion cans and bottles annually.

"A business should focus on creating sustainable value and positive impact, rather than solely maximising short-term profits. This involves contributing to society's foundations and protecting and restoring the environment.



4. Delivery of product or solution

If a company seeks to maximise the consumption of their products in a linear manner, it will be hard to achieve sustainability. There is a need for firms to go beyond their supply side and tackle the demand side of their business. This can be done by encouraging sufficiency and circularity, delivering functionality rather than ownership (e.g. leasing models), and dematerialising products via digitisation. Each of these areas are discussed in detail in the report. Business can encourage sufficiency through providing quality, long-lasting, and repairable products. Citizen Wolf, is a B-Corp certified t-shirt manufacturer that encourages sufficiency by offering free alterations and repairs for all t-shirts, emitting 48% less carbon dioxide than fast fashion. About 30% of the output in the fast fashion industry normally ends up in landfill. Citizen Wolf eliminates this by their 'made to order' strategy.

> "A business' purpose is the value it strives to create and therefore, its intended impact. It is not, however, guaranteed that the business will achieve its intended impact.

5. Impact

A business' purpose is the value it strives to create and therefore, its intended impact. It is not, however, guaranteed that the business will achieve its intended impact. Moreover, business impact also includes its externalities which are costs or benefits that are not borne by the parties directly involved in the transaction. It is key for a sustainable company to understand and monitor its total impact and how this impact changes over time. A sustainable company relies on its ownership model, value distribution, and operational timeframe to align with its purpose, finances, and governance.

Riversimple, a hydrogen-powered electric car company, is purpose-driven seeking to eliminate the environmental impact of personal transport. They incorporate circular economy principles in their product design and business model. Cars are energy-efficient, using hydrogen and kinetic energy storage. The subscription model reduces ownership and provides cars as a service, addressing cost barriers. Purpose is embedded in governance through a custodian corporate structure, representing six stakeholder groups. The board's duty is to pursue the organisation's purpose while balancing and protecting the benefits of all stakeholders, rather than solely maximising short-term financial value.

To support investors and companies in understanding and assessing the alignment of companies with a sustainable economy Altiorem has developed this simple framework which presents and explains the five sustainable business model characteristics. The report also includes relevant case studies and offers helpful company assessment questions, enabling investors to gain a comprehensive understanding of sustainable businesses.

Part one was published in the April SIAA Monthly. Altiorem's report: How can business thrive in a sustainable economy? is available on the Altiorem website.

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.

Wholesale clients Webinar

Wednesday 12 July
1.00pm to 2.00pm AET

What are the difference categories of wholesale clients? What makes a client wholesale and not retail? What are the consequences of categorising a client as wholesale? What is AFCA's approach to wholesale clients? Michelle Huckel will explore these issues and also discuss the recommendations from the Quality of Advice Review on wholesale clients.

Professional standards CPD:
0.5 Professionalism and ethics
0.5 Regulatory compliance and consumer protection

ASIC RG146:
1.0 Generic Knowledge

Cost:
Members FREE | Non-members $55

MICHELLE HUCKEL
Policy Manager, SIAA

Leveraging generative AI to improve retail investor engagement Webinar

Wednesday 26 July
1.00pm to 2.00pm AET

Generative AI and ChatGPT have taken the world by storm and no industry is immune to its impact, positive and negative. Please join this panel of experts as they discuss how generative AI can help wealth management firms and online brokers improve retail investor engagement, how generative AI and Large Language Models can increase advisor productivity and efficiency and much more.

Professional standards CPD:
1.0 Client care and practice

ASIC RG146:
1.0 Generic Knowledge

Cost:
Members FREE | Non-members $55

Introduction to stockbroking Workshop

Tuesday 10 October
11.00am to 1.15pm AET

Central to the operation of financial markets is the role of stockbrokers. 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 RG146:
2.0 Generic Knowledge

Cost:
Practitioner members $100
Organisation members $150
Non-members $200

RUSSELL MCKIMM

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SIAA **EVENTS**
cont...

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Market manipulation and other prohibited conduct Workshop

Tuesday 17 October
10.00am to 12.15pm AET

This workshop focuses on the prohibition on creating or maintaining an artificial price for trading in various financial products, including shares and futures, and will benefit all who wish to gain an understanding of markets and the consequences of breaching obligations. Designed to suit the needs of financial market professionals from the front and back office, this is a great opportunity to brush up on your obligations, learn how to protect yourself and understand the difference between manipulation and ordinary market forces.

Professional Standards CPD Area:
1.0 Regulatory compliance and consumer protection
1.0 Professionalism and ethics

ASIC RG146:
2.0 Generic Knowledge

Cost:
Practitioner members $100
Organisation Members $150
Non-members $200

PROFESSOR MICHAEL ADAMS

A day in the life of a trade Workshop

Wednesday 18 October
11.00am to 1.15pm AET

An excellent refresher for experienced staff and perfect for those in auxiliary roles (eg legal, IT, HR and other supporting roles associated with stockbroking), 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 Area:
Regulatory compliance and consumer protection 1.0 hour
Technical competence 1.0 hour

ASIC Knowledge Area:
Generic knowledge 2.0 hours

Cost:
Practitioner members $100
Organisation Members $150
Non-members $200

ROB TALEVSKI
CEO, Webull Securities

*For workshops register four or more before one week prior and receive a **$50pp discount** (organisation and non-members).*

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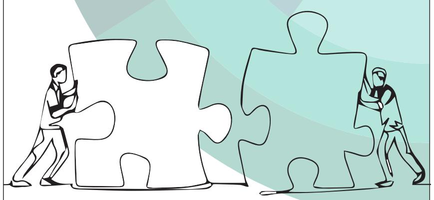
ACTING **FOR YOU**

SIAA exists to represent our members and work in their interests. Below are the key issues we are currently working on:

- ✓ Financial Adviser education standards
- ✓ Quality of Advice Review
- ✓ ASX CHESS Replacement Project
- ✓ ASX Market Management consultation
- ✓ Issues arising from ASIC Report 708
- ✓ Competition in clearing and settlement
- ✓ AFCA rules and operational guidelines – proposed amendments



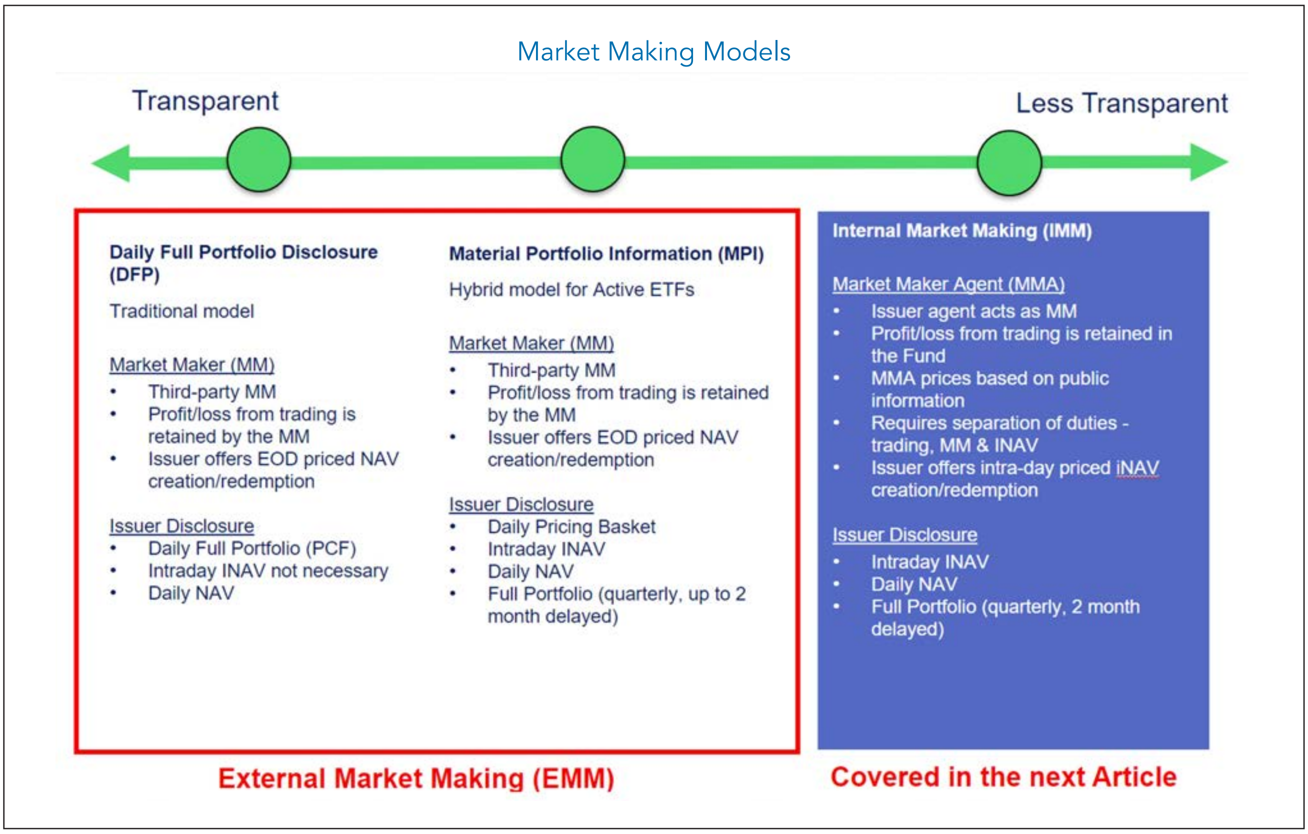
How Aussie ETF disclosure works

By Ross Pullen, Senior Director, Head of Product Development Cboe

In our last article "How ETF market making works", we looked at the operational steps behind the most common type of market making in Australia, called External Market Making (EMM). However, this didn't look at how ETF prices are formed. In this article, we look at what information EMM market makers (MMs) generally rely on to price an ETF.

Below is a general summary of Australia's three (3) approved ETF disclosure frameworks for educational and informational purposes.

Starting with the frameworks used by EMM MMs. There are



two (2) approved EMM disclosure frameworks used in Australia, being:

(a) Daily Full Portfolio disclosure (DFP); and,

(b) Material Pricing Information (MPI or pricing basket MMing).

Baseline Disclosure (both DFP & MPI ETFs do this)

At its simplest, this provides the following information to MMs pricing an ETF (see table 1):

(a) What the ETF does (e.g. what assets, countries and FX may impact pricing)

(b) How the ETF does that (e.g. does the ETF reset gearing/leverage, how, when); and,

(c) A robust & objectively determined point in time price reference (i.e. daily net-asset-value).

Intra-Day Price Performance Disclosures

Where DFP & MPI ETFs differ is the information they provide to determine an ETF's intra-day price change (the NAV provides a daily reference as it is the price that MMs can apply to create/redeem ETF units).

Table 2 below summarises some of key DFP/MPI disclosures supporting intra-day price change valuations (see table 2):

Table 1: All ETFs disclose (among other common disclosures):

Item	Frequency	Value	Notes
Product Disclosure (PDS)	Always in-force	**Objective:** what the ETF aims to do **Strategy:** How the ETF plans to do it	
Net-Asset-Value (NAV)	Daily	Point in time value reference	Per the ETF's unit pricing policy (e.g. an objective valuation methodology)
Units on Issue	Monthly	(1) ETF AUM (2) Whether the ETF is growing or shrinking	(1) A larger ETF is generally considered more efficient (2) Conversely, a "too large" ETF may suggest risks with implementing its strategy (e.g. a $100mm ETF that only buys from an investment universe worth $150mm may suggest risks around affecting efficient portfolio allocations/re-balances) (3) a small ETF seeing ongoing redemptions may indicate a risk of being closed due to not being commercially viable on an ongoing basis.

Table 2:

Item	DFP	MPI	Notes
Full Portfolio – daily (constituent & weightings)	✓		An ETF's actual portfolio provides an ideal intra-day price performance reference (e.g. if an ETFs basket goes up 10%, then the ETF went up 10%)
Pricing Basket – daily		✓	(1) Pricing basket construction methodology with a demonstrated historical intra-day price change correlation (2) May include asset price proxies, e.g. a tech sector future for a US tech stock (3) May include portfolio proxies, e.g. duration/credit for fixed income ETFs
iNAV – live price (a live 3rd party calculated price of the ETF, publicly available)		✓	(1) Complies with ASIC Reg Guide 583 principles on iNAV calculation (2) Under MPI, the iNAV may be based on (i) the MPI published to the market or (ii) the daily full portfolio. Note that the daily full portfolio is disclosed only to the iNAV calculation agent, to ensure that EMM gets the same information as the investing public.
Full Portfolio – quarterly, two-month delayed (constituent & weightings)	N/A	✓	(1) N/A for DFP as these ETFs already disclose this info on a daily basis (2) Provides an opportunity to retrospectively assess the quality of ETF market making pricing (both for investors/brokers and ETF ratings houses)

At its simplest, both models provide information to determine an ETF's intra-day price change (between the daily NAV disclosures).

Full Portfolio – Daily

The DFP model is the traditional framework for Australian markets and provides the most transparency. Every share held by the ETF (and its % of the ETF's portfolio) is disclosed to the market every day (generally). Market makers can price the ETF intra-day using the same assets that an ETF's NAV is calculated from. If an underlying asset's market is closed, MMs generally manage that risk and/or determine correlated price proxies to use in lieu (e.g. an S&P 500 future for an ETF tracking the S&P500).

DFP is the preferred solution for index tracking ETFs. It's the easiest and cheapest model for ETF issuers to offer.

Pricing baskets (MPI)

However, portfolio managers of actively managed ETFs may be uncomfortable with full portfolio disclosure as it could have the following risks:

(a) Materially undermining an ETF's performance (e.g. risks of others 'front running' or other dealings that impact portfolio trade execution quality)
(b) Allowing insights that assist competitors seeking to forecast an ETF's future investment decisions;
(c) Undermining an ETF provider's value proposition as an asset manager (when anyone can see what they're doing and copy it without paying the manager).

In these situations, MPI provides a solution that:

(a) Has a demonstrated history of offering ETF trading at or close to NAV; and,
(b) Offers protection for an ETF's portfolio intellectual property.

MPI ETFs disclose:

(a) A daily pricing basket that has a demonstrated intra-day price correlation to the ETF's portfolio basket (without giving away proprietary information about the ETF's portfolio); and,
(b) A live iNAV (usually on the issuer's website).

An iNAV is a live calculation of an ETF's net-asset-value that is calculated by professional 3rd party providers (updated < every 15 seconds) and serves as an additional price check.

In some situations, a MM may rely on one more than the other. For example:

(a) If an ETF held 100% Australian stocks, the iNAV may be more accurate than a pricing basket because it is calculated from the ETF's actual portfolio and live traded prices; or,
(b) If an ETF held 100% offshore fixed income assets, then a pricing basket using portfolio proxies (e.g. credit/duration) would likely be more accurate than an iNAV calculated from stale prices.

All MPI ETFs require both a pricing basket and iNAV (even where one is generally better than the other). The main point of having both is to generate an alert for markets makers (as well as the exchange and investors) if both prices diverge. This doesn't necessarily mean there's a problem. However, MMs should consider whether pricing for an ETF is still accurate if these prices do diverge. Having both provides a mechanism to generate alerts for MMs and the issuer that something may be wrong and needs to be investigated.

One last point – Transparency

All ETFs in Australia disclose their full portfolios on a periodic basis. DFP ETFs disclose full portfolio information (constituents & weights) daily. Other ETFs must, at a minimum, disclose this quarterly with no more than a two-month delay.

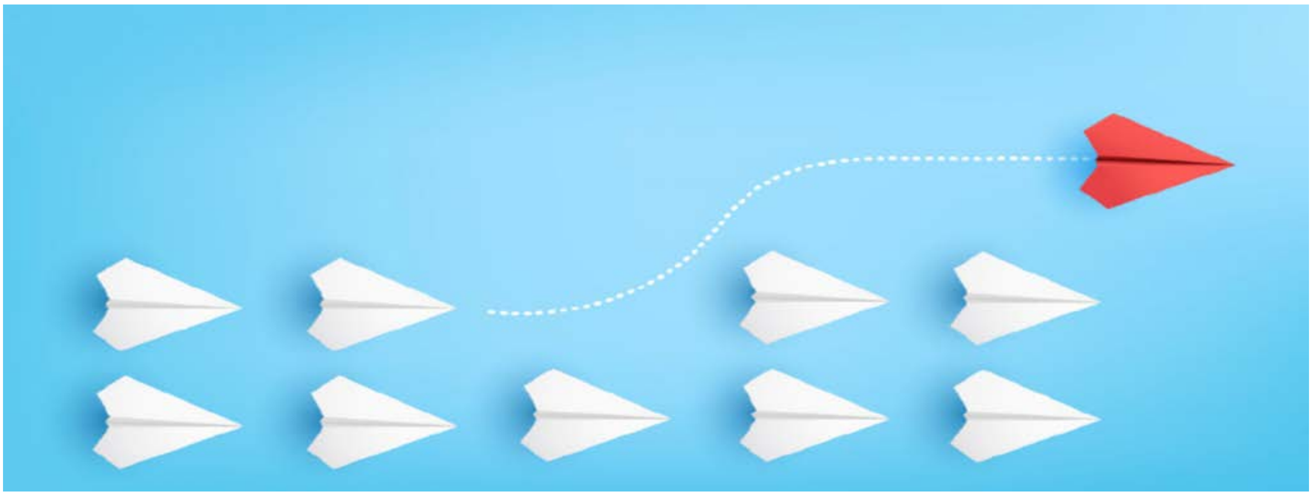
Both DFP and MPI frameworks work. Each has dozens of ETFs in Australia that have a history of trading at or close to NAV, day in and day out. Both also benefit from publicly disclosed information that allows other MMs to compete against each other to offer the best Bid/Ask for investors in-screen each day.

I hope this offered some useful information about Australian disclosure frameworks for EMM ETFs. In the next article, we'll look at the gold standard for ETF portfolio "intellectual property" protection: Internal Market Making (IMM).

Ross Pullen leads product development efforts to launch new markets at Cboe Australia, joining the organisation in October-2015. Prior to joining Cboe Australia, Mr Pullen led the AQUA team at the Australian Stock Exchange where he was responsible for ETF, Managed Fund, Hedge Fund & Warrant markets and ASX BookBuild. His background includes >16 years stock exchange experience and uniquely, he either led or was a member of teams which launched both of Australia's ETF markets.

From remediation to rigorous due diligence: Transforming AFSL practices for financial success

By Danielle Radford, Director and Simon Smyth, Director, Oceanic Consulting Group



The financial advice landscape is currently undergoing a wave of significant reforms, captivating the attention of big banks, stockbrokers, and AFSL holders alike. At the forefront of these reforms are two crucial documents: ASIC's *Regulatory Guide 277*, released in September 2022, and Michelle Levy's Quality of Advice Review (QAR), published in December 2022.

As we eagerly await the official report due later this year, the Governments Delivering Better Financial Outcomes overview document, published June 2023, confirms the adoption of the 'bulk' of the recommendations outlined in Levy's paper. *For an initial review of the Governments interim report refer to the SIAA's insights*.

The importance of embracing simplification, innovation, and elevated professional standards is widely acknowledged. The profound impact and transformative potential of good financial advice cannot be overstated. When considering the estimated one million 'orphaned' Australians left without access to new service agreements following the discontinuation of many wealth management arms, and three trillion sat in super funds, the demand for financial advice is, and will remain, undeniably high.

Regardless of differing perspectives, licensees now face an all too familiar challenge: operationalising the new [Levy] reforms i.e., ensuring advice is affordable, available and meeting the diverse needs of clients (wide range of products, services and market access), whilst also navigating updated regulatory requirements.

Switching gears: Reactive to proactive

If you find yourself reading this and still questioning whether RG277 and QAR impact you and your licensed business, the answer is a resounding YES.

The big banks are now approaching the final stages of their extensive remediation programs (with some $5billion already spent), and the focus is shifting – what lies beyond remediation and what does the new BAU model look like? But it's not just the big banks who are accountable for undertaking thorough historic and ongoing reviews of their businesses. The expectation to do the right thing extends to AFS licensed businesses of all sizes. They too cannot evade public accountability for ensuring ethical practices. Some firms may not have even scratched the surface or know where to begin.

Gone are the days of reactive file reviews that solely focused on remediation after problems surfaced. Licensees should now realise the importance of adopting a proactive mindset. Imagine identifying and addressing systemic issues before they snowball into significant challenges. The stakes are high, and there is no room for repeating past mistakes.

This doesn't need to be a multi-million-dollar undertaking; by staying ahead of the curve and demonstrating good intent, companies can showcase their commitment to ethical practice and evidence their efforts when the regulators come knocking.

Embracing change: What steps can licensees take to ensure diligence within their business?

For licensees seeking a streamlined and efficient approach, we can reframe the concept of 'remediation' and turn to ongoing quality assurance. The concept of *file review as an ongoing service* has gained traction. This simple and cost-effective solution allows organisations to meet their regulatory obligations and reduce potential risks. By outsourcing the file review process, licensees can allocate their resources more strategically, enabling their compliance and risk teams to concentrate on broader aspects of the regulatory landscape.

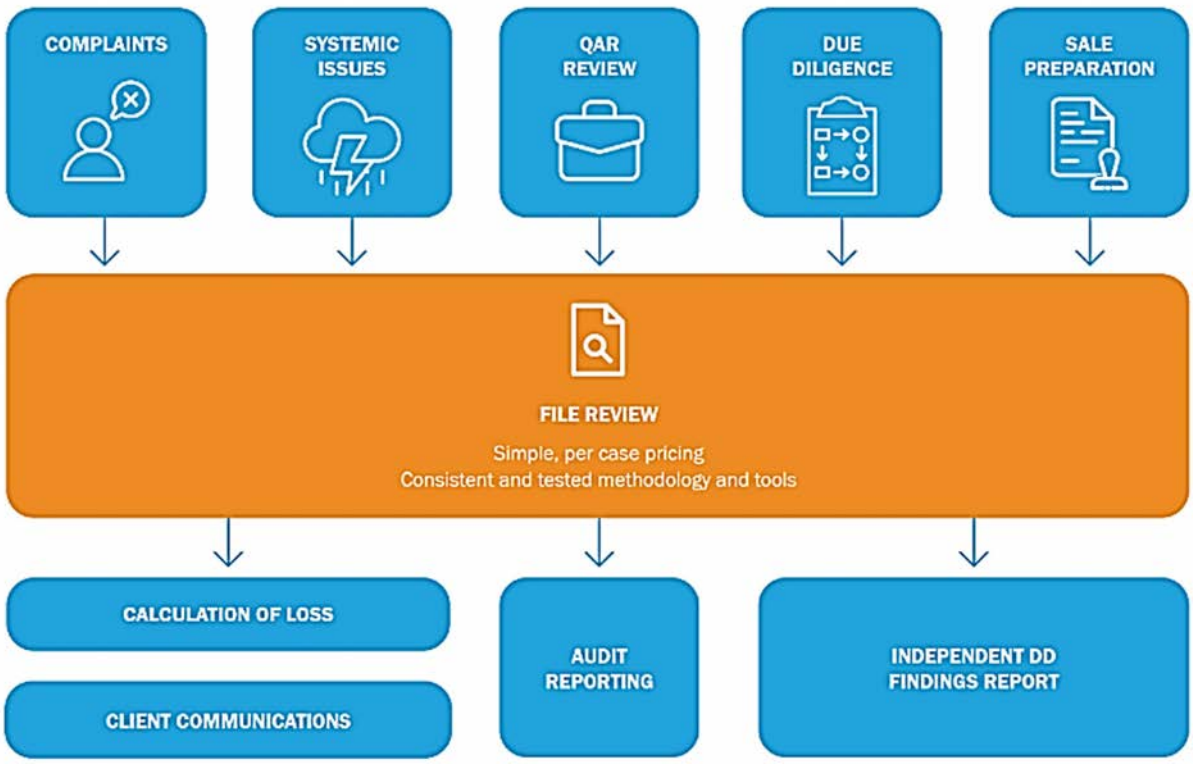
File review as a service provides numerous benefits across various domains:

- **Consumer complaints:** Licensees can leverage this service to ensure compliance with specific regulations such as ASIC's Regulatory Guide 271, which focuses on managing consumer complaints effectively.
- **Systemic matter review and remediation:** By engaging file review as a service, licensees can address systemic issues in their operations and adhere to relevant regulations like ASIC RG277, mitigating potential risks.
- **Ongoing Quality of Advice monitoring:** Maintaining the quality of advice is essential for licensees to fulfill their ASIC AFSL obligations. File review as a service aids in consistently monitoring and evaluating the advice provided to customers.
- **Due diligence for acquisitions or onboarding:** When licensees consider acquiring or onboarding new advisers, conducting thorough due diligence becomes crucial. File review as a service offers an efficient approach to assess the files and associated risks in such situations.
- **Preparation for business sale:** Licensees contemplating the sale of their business can utilize file review as a service to ensure that their files are in order, facilitating a smoother and more transparent transaction process.

It's time to embrace a new era of file reviews—one that is forward-thinking, preventative, and swift in resolving potential issues. By taking a proactive approach, licensees can safeguard their operations, protect their clients, and avoid the costly consequences of getting it wrong.

OCG supports Financial Services Licensees, through its full service, outsourced file review service. Developed through a decade of experience, leading and advising Australia's largest Financial Services Remediation programs, our consistent toolset, methodology, loss calculations and approach, has been distilled into a simple outsourced offering for our clients. With the support of file review as a service, financial institutions can stay ahead of the curve, safeguarding their compliance and reputation in an ever-changing industry.

OCG's File Review as a Service offering



COMPETITIVE ADVANTAGE THROUGH DIGITAL EMPOWERMENT

Part 2 – Wealth Management

By Gaye Anable, Saxo Institutional

Part 2 of a two part discussion on the transformation of the Australian stockbroking industry

Australian private wealth managers face an increasingly challenging external operating environment. A combination of margin pressure, rising costs, and process inefficiency is challenging the traditional advice model.

Add to these challenges the pressures from new entrants, regulatory and compliance requirements and an increasing demand from wealth management clients for more personalised services and quality advice, there is a real – and ever more urgent – need in the market for wealth managers to reinvent themselves and their business model to stay relevant and future-proof.

This is all happening during the largest intergenerational wealth shift in history, as the baby boomers pass on wealth to Gens X, Y & Z. According to productivity commission estimates, approximately $224bn will change hands each year until 2050.

Private wealth managers are facing one of the most important transitions in living memory. As a younger generation comes of age, we are seeing the emergence of two distinct audiences with vastly different needs, expectations and values: young tech-natives and an older, more traditional audience.

As client services businesses, this differentiation matters for wealth managers and retail trading platforms. These two audiences behave very differently and to succeed in the long-term, firms will have to ensure that they are able to service both effectively. The big question is in how they can attract a highly complex but increasingly affluent younger audience, while retaining and remaining accessible to an older generation.

Technology for all

Central to solving this problem is technology – giving firms the power, flexibility and functionality to simultaneously tap into these highly lucrative audiences. However, the extent of intergenerational preferences and the speed at which they can change should not be underestimated – pushing wealth managers to think carefully about choosing the right technology and functionality that will enable them to tailor user experience to an increasingly diverse user base at a cost that represents value to the individual investor.

The *ASX Australian Investor Study 2023* showed that 70% of Australia's 10.2 million investors place trades via an online broker or trading platform. Confirmation that the use of technology is key to any wealth offering.

Technology, while ubiquitous in wealth management, needs to provide firms with the tools to deliver the highest level of critical functionality while being able to respond to rapidly changing demand. The need for connectivity, automation of basic processes and easy access to market or portfolio intelligence cut across demographics, but understanding generational nuance and how it can be tailored to better meet demand is essential to long-term success.

Having holistic basic functionality is therefore essential – giving firms an extensive toolkit to service any audience. However, tools, features and user experience that deliver these services to individuals need to be carefully crafted. The older generation, for example, is broadly characterised as being more loyal to managers, with typically lower risk appetites and with clearly defined values. Giving this demographic access to longer-term metrics on performance, advice delivered by humans, robust risk management and through a desktop platform are important considerations for providers.

Younger generations' needs on the other hand are widely seen as more complex. The majority of this audience has been raised on computers or smartphones and therefore expect service providers to offer the efficiency and convenience of mobile technology that they have become accustomed to. In offerings, more plugged into social trends and more attuned to investing in line with their values.

While younger and older generations have some distinct preferences, both also have varying perceptions of the value of advice and what it means to them, whether they are "delegators" who are not comfortable with their own investment decision making capability and prefer an expert to select investment options or whether they are "validators" who are looking for confirmation that their decisions are sound. Both segments require a range of investment capabilities that include the capability of interaction with an advisor or wealth manager highlighting the requirement for hybrid models to fulfil this need.

A modern wealth management offering needs to include capability for self-directed, advised and discretionary clients, offering access to direct multi-asset security investments , those who want managed accounts and those who want professionally managed portfolios. It needs to offer various levels of investor to advisor engagement to allow for the level of transparency, control and data flow relevant to the client.

The common denominator will always be technology. Rather than adding technology as preferences evolve, firms are much better placed to fundamentally address legacy systems and processes by modernising their tech stacks to stay ahead of the curve.

A lifetime pursuit

Managing individual wealth should not be seen as a short-term pursuit, but a process than lasts for decades or even a lifetime. Wealth managers need to have this mindset when approaching their technology – ensuring that they have strong foundations that allow them to adapt to rapidly changing consumer behaviour over the long-term, allowing early age client capture and longer-term client retention.

To futureproof their businesses, private wealth managers need to ensure that their underlying technology can help their businesses adapt to rapidly changing preferences and behaviours. The tools and functionality to serve all age groups and the many different sub-groups within them already exist. Tech providers exist to give firms with all of the functionality they will ever need straight out of the box – allowing wealth managers and retail trading platforms to tailor their user experience to best suit their customer's unique and sometimes diverse needs.

Part 1 was published in the June *SIAA Monthly*.

SG increase needs acknowledgement

By Darin Tyson-Chan, Editor, *selfmanagedsuper*

The new financial year marks several changes to the Australian superannuation system, a few of which have been discussed in this column previously. In particular, the second round of indexation to be applied to the general transfer balance cap and its flow-on consequences have dominated industry discussion over the past six months.

However, there are other significant measures that will also be triggered on 1 July 2023. One of these is the increase in the compulsory superannuation guarantee (SG) levy. The amount employers needed to channel into the retirement savings system as part of their employees' remuneration package up to 30 June 2023 was 10.5 per cent. The start of the 2024 financial year will see the SG rise to 11 per cent.

This will be significant for individuals who have in the past been proactive in maximising the benefit from their concessional contributions cap, currently sitting at $27,500 a year.

Simple arithmetic dictates for a person to exhaust their concessional contributions cap based on their salary alone would mean they would have to earn around $260,000 annually, which of course is not the norm among the Australian workforce.

As such, people who want to make maximum use of their cap will have to make contributions to their super fund above and beyond the SG payments from their employer. This can be done via personal deductible contributions or salary sacrifice arrangements whereby individuals can request to have their employer pay more into their chosen retirement savings account prior to having the mandatory pay-as-you-go tax component deducted.

In this day and age when everyone suffers from being time poor, the salary sacrifice arrangement is the preferred option here. However, these strategies can be treated as a set-and-forget element of an employment contract and easily overlooked when significant changes to the system are made. Further, an employer might remind its employees of the increase in the SG as a forewarning their take-home pay may be reducing come 1 July 2023, but it is highly doubtful most organisations would make the notification in light of any salary sacrifice arrangement.

A simple example as to the difference this change might make can be seen using an example where an individual is currently being paid an annual salary of $200,000. Their SG component at 10.5 per cent would be $21,000. But if they wanted to make the most of their concessional contributions cap, they would include a salary sacrifice component in their remuneration contract instructing the employer to channel $17,000 each year towards their superannuation fund.

When the start of the 2024 income year rolls around though, and the SG jumps from 10.5 per cent to 11 per cent, the payments being made by the employer will also increase, in this case from $10,500 to $11,000. This means should the existing salary sacrifice arrangement facilitating an additional $17,000 payment to be made to the individual's super fund every year remain unchanged after 1 July 2023, the person in question will have exceeded their concessional contributions cap by $500.

This may not be seen as the largest contributions cap breach in the history of mankind, but the significance of it cannot and should not be downplayed either.

Upon breaching the concessional contributions cap, the Australian Taxation Office (ATO) will include the excess in the individual's assessable income and it will be taxed at the highest marginal tax rate after a 15 per cent offset has been made.

The person in question can elect to exit this money from the super system or choose to leave it where it is. If the excess amount is left in the super fund, with the aforementioned penalty applied, it will be counted towards the person's non-concessional contributions cap. This could end up being disastrous for the employee depending on their total super balance.

To this end, if the individual's total super balance is over $1.7 million, they would not be able to make any non-concessional contributions. As such, the original breach of the concessional contributions cap would turn into a breach of the non-concessional contributions cap, which would attract its own penalty tax in addition to that already applied.

I haven't gone into any great technical detail here, but the ATO website warns the most severe circumstances can result in a 94 per cent tax penalty.

So at the end of the day I think we'd all agree it will be easiest to review any salary sacrifice arrangements involving superannuation to avoid any additional administrative hassles and the chance of incurring any unnecessary tax penalties.

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