

Managing licensee conflicts of interest

The Institute has provided feedback to ASIC on how licensees, including research report providers, can more effectively manage conflicts of interest.

In a detailed submission in response to the ASIC Policy Proposal Paper: *Licensing: Managing Conflicts of Interest* which proposes guidance on how licensees generally and research providers specifically should meet their Conflicts Management Obligation, as proposed in the draft CLERP 9 Bill (Corporations Act s. 912A(1)(aa).

We stated that ASIC's guidance was heading in the right direction, but that clarification of core definitions and concepts and further consideration of the practicality of some measures would be needed to form an effective and workable solution for conflict management.

Our major concern was how ASIC would apply the proposed Conflict Management Obligation to all licensees, and argued that without further consideration, consultation and investigation, the scope of the proposed Policy Statement should not be extended beyond research report providers.

In late 2003, the Advocacy Committee of the Asian Securities Analysts Federation (ASAF) approved a policy position paper entitled "Recommendations for Addressing Conflicts of Interest in Securities Analyst Research" and adopted its principles as the voluntary regional standard. As current Chair of the ASAF Advocacy Committee, the Securities Institute prepared the draft policy, with constructive input and review from all 13 ASAF member societies.

Based on the high-level principles approach adopted in our *Best Practice Guidelines for Research Integrity* and consistent with the approach adopted by the IOSCO Statement of Principles

and the UK's Financial Services Authority, the ASAF position paper states the various principles for effectively managing research-related conflicts of interest and then reinforces the practical application of each principle by providing commentary and guidance on what constitutes acceptable and unacceptable conduct by research firms and their broking firm employer. (For further information on the ASAF organisation, see the ASAF website www.asaf.org.au).

ASX Exposure Draft on New Capital Raising Mechanisms

The Institute has supported a number of proposals contained in ASX's Exposure Draft: *Capital Raising Mechanisms in a Disclosure-based Market – ASX Proposals for Informed Choice*.

The Exposure Draft proposes to amend certain aspects of Chapter 7 of the Listing Rules and the timetables for pro rata offers. It is now expected that the proposed amendments will take effect around March 2004.

The main proposal is to amend the Listing Rules to increase the percentage of capital that may be issued without investor approval from 15% to 20%. In our submission to ASX, we acknowledged the threshold increase as a practical development and consistent with international practice.

The increase in the threshold reflects changes in the scale, depth and liquidity of Australia's market and improves the competitiveness of Australian listed companies by providing for a consistent capital raising environment to overseas exchanges. Small cap companies, particularly, will be able to raise capital with swiftness and certainty.



BRIAN SALTER
SIA (Afi)
Chief Executive
Officer

Institute members honoured on Australia Day

The January 2004 Australia Day honours list included two members of the Institute: Ross Matthew Petfield AM FSIA and Dr Michael Samuel Hirshorn OAM ASIA.

Ross Petfield was awarded Membership in the General Division of the Order of Australia for his services to the ASX and the SIA. He has been a member of the Institute since 1975, and served as National President from April 1991 to April 1993.

Michael Hirshorn was awarded a Medal in the General Division of the Order of Australia for service to medical technology through the development of strategies for product commercialisation. The Institute is honoured to have him as a current member and as a past graduate diploma student.

We congratulate both Ross and Michael on receiving these distinguished and richly deserved honours.

Draft Guidance Note on Financing Arrangements for Takeover Bids

On 30 October 2003, the Takeovers Panel released its Draft Guidelines on Financing Arrangements for Takeovers. The draft Guidance Note provides important guidance on circumstances that are unacceptable in relation to proposing and announcing a takeover bid and on the disclosure requirements of bidder's statements.

In our submission we acknowledge that the main purpose of the Draft Guidelines is to promote certainty in takeover bids by ensuring that a bidder only announces an offer after careful and responsible consideration and only when they have every reason to believe that they will be able to implement the offer. Indeed, inadequate financing arrangements where the bidder fails to maintain a reasonable basis to consider their arrangements adequate would constitute unacceptable circumstances,

and would contravene the bidder's obligations under the Corporations Act.

The Institute believes that the Panel's guidance will ensure that shareholders and directors of the target company are provided with sufficient information and a reasonable opportunity to assess the merits of any takeover bid.

The guidance will also ensure that the information disclosed to the market is accurate and discourages a false market in the target's securities.

However, in our submission we highlight that there is a gap in guidance about disclosure in relation to equity funding facilities. Due to the complexities associated with underwriting, such as the implications of outclauses, we believe that it would be useful for the Panel to expand on its guidance and provide the market with greater certainty regarding its obligations.

CLERP 9 update

The Institute has also submitted comments to Treasury on several proposals contained in the CLERP 9 Draft Bill. In general, the Institute endorsed the Government's principles-based approach to improve transparency, disclosure and accountability in financial reporting. (see policy page)

International Financial Reporting Standards – Insurance Contracts

The Institute's Company Reporting Subcommittee made a brief submission to the Australian Accounting Standards Board (AASB) on the adoption and application of the IASB's proposed approach to accounting for insurance contracts, as set out in Exposure Draft ED 5: *Insurance Contracts*.

The Institute expressed serious concerns about adopting the IASB's proposed approach, based on our belief that the current Australian insurance standards (AASB 1023 and AASB 1038) with a mark-to-market approach are more advanced and of better quality than the proposed draft ED 5 standard.

We therefore urged the AASB not to proceed with adopting an equivalent ED 5 standard in its present form as the interim Phase I standard, while awaiting Phase II finalisation of the draft IFRS replacement standard on recognition and measurement of insurance contracts.

Although this would be contrary to the Financial Reporting Council's mandatory adoption policy, we believe that in the long term, non-adoption of the IASB's proposed interim solution in ED 5 would be advisable.

Membership

As of the end of January 2004, the current membership figure was 10,609 and Student member numbers had reached 199. New members over 2003 totalled 1638, which represented significant growth nationally, especially in NSW/ACT, Queensland and International regions.

Professional Development

Development was completed on five

SIA Policy Issues for 2004

During 2004, the Institute will focus on a range of policy issues including:

- CLERP 9 legislation, audit reform and continuous disclosure
- international accounting standards-transition to IFRS – from a report user perspective
- conflicts of interest for licensees (including research report providers and analysts)

- corporate governance
- insider trading
- takeovers reform
- market conduct
- capital raising practices
- managed investments and asset management
- executive remuneration, fees and commissions disclosure and anti-money laundering reforms

workshops for implementation in Regions in 2004. *Unit Trust Administration, Funds Management Markets and Products, Credit Analysis Fundamentals, Understanding Financial Markets and Industry Induction* workshops have all been reviewed and revamped, and Participant workbooks and Facilitator guides added to provide practical work during the sessions and consistency in delivery in each of the Regions.

Work continues on the *Understanding Financial Statements* and *Analysing Financial Statements* workshops which are due for release fairly soon.

AMP luncheons were run throughout Australia and New Zealand. Andrew Mohl was warmly welcomed on his road show or, as he called it, his election campaign.

The joint ASX/SIA Capital Raisings national seminars were held over November 2003, with a national attendance of 461 and excellent attendance in Western Australia in particular.

The joint ICAA/SIA Financial Planning Conference was conducted on the Gold Coast in late November 2003. The Conference was run smoothly and professionally by the ICAA, supported by SIA staff.

The Securities Institute CFA compliance 'gap' program was launched in early 2004, and the 'Compliance at Work' series is going well in most regions.

All regions will present a Finance and Investment Week to be held the week commencing 10 May 2004. This initiative was pioneered by the Victorian Region in May 2003. The Queensland Council is particularly supportive of the Charity Management Challenge, which will be piloted by Queensland with the intention of moving to a national challenge in 2005.

The second Australasian Investment Management Conference to be held jointly by the AIMR and the SIA will take place in September 2004 in Sydney.

Education

Summer School ran nationally over the November–January period for the

second time, with a particularly high take-up of Masters subjects. The Award Education restructure of the open-entry Diploma of Financial Services (DFS) offerings has been completed, with new course materials delivered to those studying in First Semester 2004. The new courses have been listed on the ASIC Training Register.

The 2004 academic timetable has been brought forward slightly and shortened to facilitate a smooth transition to a trimester structure for 2005. This resulted in Semester 1

commencing late January, a week earlier than is traditionally the case.

International presence

Six technical workshops were conducted in Vietnam for the State Securities Commission (SSC) to assist in raising the standard of local market expertise, with over 600 attendees over the second half of 2003. Feedback from the SSC has been extremely positive.

Securities Industry Principles training for the Capital Markets Development Authority in Fiji was completed in early November. ■

JASSA awards for 2003

Each year since 1988, the Institute has awarded a prize of \$1,000 for the best original article contributed to JASSA. The JASSA Prize article and up to three articles granted Merit awards must be written in a manner that is masterly, stimulating, shows a good grasp of the issues involved and is well written.

Judged by members of the Editorial Board of the journal, the 2003 prize was awarded to David Gallagher and Adrian Looi, for their article, *Are active managers more successful?*, published in the Autumn (March) 2003 issue. Both authors are at SIRCA and the University of NSW. We congratulate David and Adrian on presenting new evidence on an old debate – well known to regular readers of JASSA.

Three Merit awards of \$350 each were awarded for 2003. Wayne Lonergan FSIA, of Lonergan Edwards and Associates, was awarded one Merit award for his article, *The emasculation of accounting standard setting in Australia*, in the Spring (September) issue. We congratulate Wayne for his highlighting of problems in the current regime of incorporating international accounting standards into the existing Australian marketplace.

Another Merit award was awarded to Direk Utharntharm, of TechInvest Pty Ltd, for his article, *Sector diversification, home-country bias and global investments*, in the Winter (June) issue.

Direk's article investigated a strategy to lessen our tendency to home-country bias, remove excess sector risk and achieve optimum sector diversification in investments. We congratulate Direk on his achievement.

A third Merit award was made to James Alexander and Jamie Krasowski for their article, *The value of adding corporate bonds to Australian fixed interest portfolios*, in the Summer (December) issue of JASSA. We congratulate James and Jamie for their exploration of the risks and rewards involved in investing efficiently in corporate bonds.

The following articles were highly recommended: *Valuation bias in projects with tax losses*, by Joe Cheung and Alastair Marsden, in the Winter 2003 issue; *Investment director turnover and the impact on performance*, by David Gallagher and Prashanthi Nadarajah, in the Autumn 2003 issue; and *Australian fixed interest – the sure nickel versus the uncertain dollar*, by Simon Romijn FSIA, in the Autumn 2003 issue.

The range of articles that have been awarded prizes for 2003 indicates the wide-reaching appeal of JASSA and the breadth of interest of the Institute's membership. We welcome contributions that raise standards in the industry and open up discussion on the many issues that face us day by day in our workplaces.