

Alliance agreement with FPA

The Institute has made an important alliance with the Financial Planning Association to provide educational solutions.

The Institute is pleased to announce its appointment by the Financial Planning Association (FPA) to supply services to deliver the CFP® Certification Program. The Institute was chosen as the successful alliance partner by the FPA Board of Directors as having demonstrated a long history of developing and providing innovative education solutions to the financial services industry.

The appointment recognises the Institute's educational authority, capability and reputation for delivering applied postgraduate qualifications which complement the FPA's stature as the industry standard setter and custodian of the international CFP® designation in Australia.

The Institute will bring to the delivery of the CFP® Certification Program a curriculum team of editors and instructional designers led by a qualified financial planner, a course logistics team experienced in all facets of educational administration and records management, desktop publishing personnel, project management expertise, and information technology systems to manage student data and the delivery of distance education and assessment.

These significant capabilities enable the Institute to support the Financial Planning Association with a seamless, end-to-end solution to the delivery of the CFP® Certification Program of study.

of Superannuation Fund Regulations. The consultation paper outlines the outstanding issues in the regulations, which include the:

- Content of the standard choice form;
- Information that an employee choosing a fund must give their employers;
- Minimum level of life insurance to be offered by the default fund; and
- Exceptions to the general rule prohibiting a trustee or an associate from providing a benefit to an employer who chooses their fund as the default fund.

The SIA has lodged a submission to Treasury, dealing with several issues. We believe that the content requirements are basic and require further detail and guidance. The SIA has submitted a suggested template for the government to consider. The main issue surrounding the standard choice form is that employers are not licensed to provide product advice.

Regarding obligations of employers and employees, the SIA's position is that employers must provide employees with relevant and sufficient information regarding their chosen superannuation fund. Employees must provide prescribed information, such as personal details, and sign the appropriate fund forms.

Employers run the risk of providing advice on funds, and this may give rise to risk of complaints against them if they are seen as crossing the "informing" and "recommending" line and if their employee is a member of



BRIAN SALTER
ASIA
Chief Executive
Officer

Implementing Super Choice

On 2 November, The Hon. Mal Brough MP, Minister for Revenue and Assistant Treasurer, released Treasury's consultation paper on the Choice

a default fund that is just not performing well.

In terms of life insurance levels, the SIA's view is that the minimal level of life insurance to be offered by the default fund should be removed.

In January 2005, the government released another consultation paper seeking additional feedback on the choice of fund legislation. The SIA is currently drafting a submission for Treasury.

ASX proposes amendments to listing rules

On 30 September, the ASX released its exposure draft ASX Listing Rule amendments (see p28) – *Debt listings, Chairman's open proxies, Issue of securities to related parties, Exchange traded funds and Miscellaneous amendments* – for comment.

The SIA generally supports the proposed Listing Rule amendments as they: (i) ensure consistency with the obligations contained within the Corporations Act and (ii) better reflect market developments and industry practices. We welcome changes to the Listing Rules that enhance investor protection and market integrity and encourage innovation within our marketplace.

We believe some of the proposed amendments should be further considered in terms of whether certain reporting or disclosure standards should rest with the listed company or with the regulatory bodies (ASIC, ASX, or both), in line with the underlying principles of Australia's co-regulatory regime (see article on p28).

Harmonisation between Australia and New Zealand

Through the Australia New Zealand Closer Economic Relations (CER) Trade Agreement, the governments of both countries made a commitment for the Australian and New Zealand economies to become increasingly integrated.

The SIA endorses the key finding of the Productivity Commission's draft report Australia New Zealand Competition and Consumer Protection Regimes, which indicates that radical change to regulation (i.e. full integration or a single regulator model) is not warranted due to the high implementation costs and consequences for existing national regimes.

We endorse initiatives that provide an effective mechanism for:

- (i) promoting improved commercial

and economic opportunities for business;

- (ii) encouraging increased investment choice and opportunities for consumers; and
- (iii) "dealing with" regulatory barriers that artificially increase compliance.

Therefore, we support regulators engaging in greater co-operation aimed at improving any enforcement outcomes intended to protect consumers (and investors) and build the integrity of our markets.

It is important that both businesses and consumers can participate in cross-border financial and investment activities with confidence. It is equally important that Australia maintains a strong, dynamic and growing economy. Therefore, any new information sharing or other regulatory powers must be accompanied by the appropriate safeguards.

Policy on Transition to Retirement

The Hon. Mal Brough MP, Minister for Revenue and Assistant Treasurer, also released a consultation paper on the government's Transition to Retirement

OUR ACHIEVEMENTS OVER 2004

- Attracting a record 2,167 new members;
- Most successful summer school on record, attracting 3,771 enrolments;
- Steady increase in customised in-house projects involving 2,263 students;
- Offering our first scholarship to Queensland Academy of Sport athletes;
- Launching Certificate IV in Financial Services (Finance/Mortgage);
- Implementing our comprehensive Online Learning Centre;
- Launching online products including PD Direct and Mortgage Industry Induction;
- Hosting our first National Finance and Investment Week attracting over 3,000 attendees;
- Organising and hosting the second Australasian Investment Management Conference with the CFA Institute;
- Conducting market consultation and research to review all postgraduate courses and subjects;
- Undertaking customer satisfaction research with members, students and practitioners;
- Formalising our strategic alliance with the Mortgage Industry Association of Australia;
- Partnering with Australasian Investor Relations Association to deliver executive education to investor relations staff;
- Delivering professional development events nationally, including joint seminars with Australian Prudential Regulation Authority and Australian Securities and Investments Commission;
- Winning the Financial Planning Association (FPA) tender for delivery of its CFPR[®] Certification Program;
- Winning the contract to deliver Sydney Futures Exchange (SFE) education program;
- Effective advocacy and influence in key policy initiatives covering industry legislation, principles and practices;
- Election of our new National President, Fred Grimwade.

policy on 3 November 2004.

Initially announced in February by the Hon. Peter Costello MP, Treasurer, this policy allows people who have not retired from the workforce to access their superannuation in the form of a non-commutable income stream, once they reach their preservation age. The main issues in the paper include:

- (i) characteristics of the non-commutable income stream;
- (ii) whether a cap should apply to the amount of superannuation benefits a person can access;
- (iii) whether only part-time employees should have access to the policy; and

(iv) whether it should be compulsory for superannuation funds to offer transition to retirement to their members.

The SIA's position is that it would not be desirable to introduce a new product at this stage, and that amendments to regulations regarding existing products would deliver a better outcome for consumers and industry. With all the expected changes in the first half of next year due to Super Choice, we believe that further reform will overwhelm industry participants.

The SIA also highlighted the importance of allowing non-superannuation monies into income stream products. We consider that this

approach would provide greater flexibility (and coverage) in retirement savings.

Review of FICS rules

Efficient and effective complaint handling is essential for maintaining market integrity and consumer confidence in the financial services industry. Section 912A(1)(g) of the Corporations Act sets out that licensees must have a dispute resolution system when providing financial services to retail investors.

The Financial Industry Complaints Service (FICS) deals with complaints about financial services providers (securities dealers, investment advisers and planners, fund managers, life insurers and some superannuation providers).

In our submission to FICS we aimed to strike a balance between providing consumers with access to dispute resolution mechanisms, and the need to resolve complaints within a reasonable time and through practical processes that do not inappropriately impede the FICS members' financial services business.

While supporting proposals that aim to clarify FICS's operation, we are concerned with proposals that may inappropriately extend FICS's jurisdiction. For example, the proposal to increase monetary limits (\$250,000 to \$350,000 for life insurance products and \$100,000 to \$250,000 for other financial products) may have unintended consequences that could compromise the principles for EDR schemes.

We believe that the monetary limit issue is of great significance to the accountability of FICS. A number of recent FICS determinations highlight how important the monetary limit is in considering FICS's jurisdiction over complaints and the possible award of compensation. The monetary limit should be set appropriately to ensure that significant or serious disputes are managed through alternative mechanisms, such as the courts.

Furthermore, the SIA considers that to ensure consistency across industry, it is appropriate for further industry-wide consideration to be made prior to

JASSA AWARD WINNERS FOR 2004

Since 1988, the Institute has awarded a prize of \$1,000 for best original article submitted to JASSA, plus three runner-up Merit awards valued at \$350 each. Winning articles are engaging, well written, have scholarly merit, and show an in-depth knowledge of the issues discussed.

The scope of articles awarded prizes in 2004 indicates the wide-reaching appeal of JASSA to a broad spectrum of membership. We continue to welcome contributions promoting awareness of industry standards, and generating discussion on topical issues relevant to the workplace.

Judged by members of the journal's Editorial Board, the 2004 prize was awarded to **Keith Ward ASIA** of Aegis Equities Research Pty Ltd for his article, "A behavioural finance explanation as to why market opinions may be held beyond their use by date," published in the Summer (December) 2004 issue.

Three Merit awards of \$350 each were awarded for 2004. Winners are:

- **Martin Gold ASIA** for his article, "Investing in pseudo-science: the active versus passive debate," in the Spring (September) issue;
- **Elvis Jarnecic** of SIRCA for his article, "The buy-write strategy versus the index portfolio," in the Winter (June) issue; and
- **Kim Wyatt and Jarrod McDonald** of Monash University Peninsula for their article, "Share and share alike: share buybacks since TD 2004/D10," in the Spring (September) issue.

The following articles were highly recommended:

- "Venture capital investment trends," by **Nicholas Humphrey ASIA** of Deacons in the Autumn (March) 2004 issue;
- "The risk of crediting rates," by **Christopher Andrews ASIA** of Mercer Investment Consulting in the Winter (June) issue;
- "The impact of private placements and capital structure changes on technical analysis," by **Ben Marshall** of Massey University, New Zealand in the Winter (June) issue; and
- "The hidden costs of trade execution," by **Subhrendu Rath** of Curtin University of Technology in the Summer (December) issue.

WELCOME TO ALL NEW MEMBERS

New member numbers over the 2004 calendar year reached a high of 2,167, outdoing previous figures for the calendar years 2002 (1,871) and 2003 (1,639).

increasing existing monetary limits, including consultation with other EDR schemes.

Our submission is available on the SIA website and includes comments on a number of other matters that go towards improving FICS's operation. Further details on other policy issues can also be found on the website, as well as the regular Policy Update newsletters.

Record summer school enrolment

Summer school enrolments reached record highs in 2004, with the total number of open-entry and postgraduate enrolments peaking at 3,771. This represents a 130.22% increase on 2003 enrolments. The success of this session is mainly attributed to an increase in subject offerings. A total of 23 open-entry and 16 postgraduate subjects were offered, compared to 11 open-entry and 10 postgraduate subjects in Summer school, 2003.

The increase in enrolment numbers also reflects an increased demand for formal qualifications in financial services, as industry participants look beyond basic compliance to formal Diploma, Graduate Diploma and Masters qualifications. For the industry as a whole, this means that overall standards are being raised. Applied Finance and Investment and Financial Planning courses are attracting the highest enrolments to date.

Joining the SIA's suite of courses in 2005 is the Certificate IV in Financial Services (Mortgage Broking), which is boosting the SIA's open-entry enrolments and addressing the need for compliance level education in the mortgage sector. This course has been developed by leading industry practitioners in conjunction with the Mortgage Industry Association of Australia (MIAA), and is aligned to the industry endorsed national competency standards and meets the requirements of the National Training Information Service's FNS04 Financial Services Training Package. It is likely that a trend towards higher levels of education for the mortgage industry will emerge in the future.

Membership update

Membership as recorded at the end of December 2004 reached 10,604 with Student member numbers totalling 257. Figures continue to grow in this category, which was introduced in April 2003. Student members continue to upgrade their membership to Affiliate on completion of their diploma courses, while postgraduate-qualified students advance to Associate membership.

Congratulations to members honoured, elevated and upgraded over 2004. There were two members elevated to Life Member status: **Alison Lansley FSIA** and **Clive Powell FSIA**. Twenty-one members were elevated to Fellow status, and 22 elevated to Associate status nationally. We honour in particular the two Securities Institute members who received recognition in the Australia Day honours list, January 2004: **Ross Matthew Petfield AM FSIA**, and **Dr Michael Samuel Hirshorn OAM ASIA**, and in the Australia Day honours list, January 2005, **Donald John Mazzucchelli OAM SIA (Aff)**. J

Continued from page 14

Consistent with existing research and with our data (not reported here), there is a negative relationship between the size of a company and its asset beta. Thus, the compco betas are likely to underestimate the beta of a sample company. As a very rough rule of thumb, the under-estimation of asset beta may be in the order of 0.1, but will depend upon other comparative features as well as the level of asset beta. Where possible, we recommend using compcos that are as closely matched in size as possible.

Unfortunately, the difficulty of getting a reasonable number of compcos that are comparable in their businesses may make this infeasible in most cases.

We show that models incorporating variables in addition to the compco betas are capable of eliminating the bias in the estimates and have lower standard deviation of the estimates than CCA. Our work reported here is still exploratory, and we do not suggest that our estimated model parameters should be used in estimating betas. However, we do believe that our results identify variables that are important in understanding how compcos can be used to best estimate the beta of a non-public company. The most important variables that can be measured for a non-public company are the compco beta, dividend payout and whether the company has had negative earnings.

Notes

1 See R. Bowman and L. Graves, "A Test of the Usefulness of Comparable Company Analysis in Australia," *Accounting Research Journal*, vol 17 (Special Issue), 2004, pp121-135, and R. Bowman and S. Bush, "A Test of the Usefulness of Comparable Company Analysis," paper presented at the AFAANZ Conference, Alice Springs, NT, July 2004.

2 We excluded companies in oil, mining, property, financial services or regulated industries.

3 We also replicated all of our tests using equity betas and found no qualitative differences. J

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