

# CONTENTS

## ISSUE 4 2010

4

**From the Editorial Board**

6

**Australian superannuation outsourcing**

KEVIN Y. LIU and  
BRUCE R. ARNOLD

This paper describes the outsourcing landscape of the Australian superannuation sector, and provides context for further examination of the outsourcing-related challenges that it faces. The findings indicate that outsourcing is widespread within the sector, and a substantial number of outsourcing arrangements are with related parties. Not-for-profit funds are generally more likely to outsource than their retail counterparts, and when retail funds outsource, they are more likely to use affiliated service providers.

12

**Active Money – providing additional insights into portfolio risk**

SCOTT BENNETT and  
VIVEKANANDA LAL  
SONDHI

After testing the efficacy of Active Money (portfolio concentration) as a predictor of excess returns and risk, this paper finds that Active Money provides a valuable addition to understanding portfolio risk but it does not drive alpha. It recommends that investment professionals consider the level of Active Money in their clients' portfolios as a means to better identify, understand and manage risk.

23

**How technology decisions can expose banks to technology and strategy risk**

DAVID CHAN F Fin

Over the past three decades technology has had a profound effect on the way in which banks conduct their business, with technology decisions concerning bank legacy systems, technology outsourcing and financial innovation exposing banks and, in some instances, the wider financial system, to significant technology and strategy risks. The quality of early-stage planning, communication between management, and IT and systems implementation, can have a significant bearing on the level of technology and strategy risk to which the banks are exposed.

60

**2010 Index**

68

**Webmaster recommends**

Numerical algorithms, outsourcing, dark liquidity pools, human development and risk management.

## Papers from the Melbourne Money & Finance Conference 2010

Finsia acknowledges the contribution of the papers from the Melbourne Money & Finance conference 2010 to this issue. The conference was held in June 2010 by the Melbourne Centre for Financial Studies, now the Australian Centre for Financial Studies.

# 31

### **Bank remuneration rules: a case study of post-GFC regulation reform**

JUSTIN DOUGLAS,  
TANZILA FATEMA and  
PHILLIP HAWKINS

Following the global financial crisis, reform of remuneration and compensation practices within the financial sector has been an important aspect of the global reform agenda. With reforms to the rules governing compensation one of the first areas to be implemented under the new international institutional framework, this experience highlights potential issues for other parts of the reform agenda. These include: the importance of international consistency to prevent regulatory arbitrage; finding the optimal balance between regulation and supervision; the scope of prudential regulation; and the extent to which the effectiveness of reforms is determined by their implementation.

# 37

### **Framework for securities regulation post-GFC**

ALEX ERSKINE

Following the global financial crisis, the conceptual framework that underpins securities regulation needs to be adjusted to take into account what we have learned from the crisis, and how agency, network and behavioural theories can inform our understanding of markets and their participants. The main challenges for regulators are to set a realistic definition for financial stability and to find ways to achieve it at reasonable cost.

# 43

### **Reviewing Cooper**

HOWARD PENDER

In a well-known joke in which a traveller asks, 'How should I get to x?', the answer is, 'If I were you, I wouldn't start from here'. This paper examines the direction of Australian public policy in relation to superannuation, particularly the regulation of the industry. It is as much about 'Where is here?' as the attributes of the desirable destination.

# 49

### **Tax and super – unfinished business**

HAZEL BATEMAN and  
GEOFFREY KINGSTON

The Henry Review acknowledges the adverse-selection and supply-side problems stunting the Australian market for longevity insurance. This paper proposes a resolution that would give workers a choice between either or both of two kinds of super account, one taxed under the current arrangements (or those proposed in the Henry Review) and the other only in retirement and at the marginal rate of the retiree. The new accounts would be reserved for the purchase of lifetime annuities.

# 55

### **IFRS 9, impairment and procyclicality: is the cure worse than the disease?**

JANE HRONSKY

After examining the conceptual issues underlying the debate on provisioning and procyclicality, and assessing possible financial statement impacts, this paper indicates that the accounting treatment of loan loss provisioning provides only a delayed, second-order effect on procyclicality. It also suggests that the introduction of IFRS 9 may result in some perverse consequences due to the level of subjectivity and modelling complexity involved in assessing the level of expected future credit losses.