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**KiwiSaver funds: Can they be
replicated cheaper?**

BART FRIJNS F Fin and
ALIREZA TOURANI-RAD F Fin

This study investigates the replicability of the recently introduced New Zealand retirement funds (KiwiSaver) by the same providers. Specifically, we replicate moderate/balanced funds based on a combination of conservative and growth/aggressive funds. We observe that moderate/balanced funds are in many cases linear combinations of the conservative and growth funds with some serious mispricings between the fees of actual funds and reconstructed funds.

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The value of total assets

HUNG CHU SA Fin and
WAYNE LONERGAN SF Fin

The assessment of the market value of total assets is an important issue for stamp duty and tax purposes. In this paper, we re-evaluate the relationship between the value of the total assets of a business entity and its enterprise value (EV). In practice there are several methods commonly used to assess the value of total assets, based on various adjustments to the EV. However, our findings indicate that all of these adjustments are inappropriate, with the exception of the addition of the value of surplus assets to the DCF-based enterprise value. The total assets to which the market value standard is applied for tax and stamp duty purposes should include the net working capital assets. The correctly derived enterprise value reflects the market value of total assets.

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**Evidence of the banks' role in filling gaps in
the exchange-traded derivatives market**

ADRIAN MELIA and DAVID STOCKEN

This paper examines the market capitalisation, relative trading volume and volatility of the S&P/ASX 200 Index constituent stocks. We classify stocks into three groups: stocks with listed exchange-traded options (ETOs); stocks with listed warrants but no ETOs (warrant-only); and stocks that have no listed exchange-

traded derivatives. We find that ETO stocks have large market capitalisations relative to warrant-only stocks. However, ETO stocks do not have higher relative trading volumes or lower volatility compared with warrant-only stocks. When comparing warrant-only stocks with stocks that have no exchange-traded derivatives, warrant-only stocks are larger, have higher relative trading volumes and are more volatile. These results are consistent with banks taking advantage of the opportunity to profit by listing warrants on stocks that do not have ETOs.

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Backdoor listings in Australia

ANDREW FERGUSON and PETER LAM

We study a large sample of Australian backdoor listings (BDLs) over the period from 1994 to 2014. BDLs account for roughly 13 per cent of all firms going public on the Australian Securities Exchange and are popular among hi-tech firms and those with foreign-domiciled assets. We find that the BDL market is likely influenced by the sentiment in the initial public offering (IPO) market, with the number of BDLs announced in a year being negatively (positively) correlated with the number of IPOs lodged (the percentage of IPOs withdrawn) in the prior year. Contrary to common belief, BDL transactions take longer to complete than IPOs, since they typically combine both a reverse takeover and the public listing process. Roughly three-quarters of our sample raised equity capital as part of the BDL process.

**SPECIAL SECTION ON THE
FINANCIAL SYSTEM INQUIRY:
PAPERS FROM ANZSFRC**

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The Financial System Inquiry

Introduction by the Guest Editor

DAVID G MAYES F Fin

In this Special Section of JASSA on the Financial System Inquiry, five members of the Australia–New Zealand Shadow Financial Regulatory Committee (ANZSFRC) offer their independent critiques of the assessment and recommendations in the recently completed Financial System Inquiry (FSI) in Australia. The ANZSFRC has not, as yet, produced a joint statement on the inquiry. Since Kevin Davis SF Fin, the Managing Editor of this journal, was both one of the five panel members of the FSI Committee and still is co-chairman of the ANZSFRC, these papers have been produced independently.

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Resilience

DAVID G MAYES F Fin

This paper appraises the Financial System Inquiry's proposals for making the banking system more resilient by increasing capital buffers to reduce the chance of bank failures and by improving the resolvability of banks with minimum real impact should they fail. It concludes that the main problems lie in the area of resolvability, where Australia has taken limited steps compared with the rest of the OECD. Many questions need to be answered before satisfactory arrangements in line with the Financial Stability Board's recommendations can be introduced. On capital buffers, it is not clear why Australia should want to exceed the recommended levels or why the Basel Committee's proposed leverage ratio should be omitted. Surprisingly, the inquiry does not discuss whether the balance between Australia's big four banks and other sources of finance is best for resilience.

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Superannuation and retirement incomes

RAFAL CHOMIK and JOHN PIGGOTT

In this paper we consider four aspects of the recommendations in Chapter 2 of the Financial System Inquiry Final Report and identify where they have fallen short or been limited by the inquiry's remit. First, while the recommended formal clarification of objectives for superannuation is welcomed, a broader understanding of policy interactions is required. Second, ineffective price competition may be addressed through a tender system of investment, but we agree that current reforms need time to settle. Third, the inquiry makes an important contribution by highlighting that the payout phase requires government intervention, but supply-side issues are not adequately addressed. Fourth, while 'independence' of boards appears attractive, the related evidence is scant and some governance questions remain unanswered. Overall, we conclude that a more complete perspective on retirement incomes is needed to develop a comprehensive retirement income policy.

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Innovation and the Financial System Inquiry

DEBORAH RALSTON SF Fin

The Financial System Inquiry rightly has a strong focus on innovation in its

recommendations on how the financial system can better meet the needs of growth in the Australian economy. This paper appraises the inquiry's recommendations in four areas: collaboration to enable innovation; crowdfunding; data access and use; and comprehensive credit reporting. The inquiry highlights that openness to innovation with regard to information sharing by government, existing participants and regulatory bodies is not strong in Australia. These policy settings will need to be addressed in order for the financial system, and the whole economy, to take full advantage of these opportunities to innovate.

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Consumer outcomes of the Financial System Inquiry

ANDREW C WORTHINGTON SF Fin

This paper reviews the eight recommendations of the 2014 Financial System Inquiry relating to consumer outcomes. These include strengthening product issuer and distributor accountability, providing specific product intervention power to the Australian Securities and Investment Commission (ASIC), and facilitating innovative product disclosure. They also include better aligning the interests of financial firms and consumers, raising the competency of financial advisers, and improving guidance and disclosure in general insurance. The response by Australian industry and consumer groups has been generally favourable despite the expected difficulties and lack of detail associated with the product design and distribution obligation, and concerns about the substantial product intervention powers extended to ASIC. Some unease also exists about the apparent inattention to key issues in the general insurance industry, especially underinsurance and noninsurance in home and contents insurance relating to natural disasters.

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Financial System Inquiry: A mixed bag on regulation

RODNEY MADDOCK

The regulatory chapter of the Financial System Inquiry Final Report is strongest in the areas where it chooses not to change current regulatory arrangements. The inquiry's overall approach reflects a view that problems of coordination, operation and governance are all amenable to improvements within the current structures. This paper is sceptical that the solutions proposed will be effective and points out the ongoing weaknesses in regulatory transparency and accountability.