We are pleased to present a range of very topical and insightful papers in the final issue of JASSA for 2010. The first three papers address some important issues within the superannuation and banking sectors in the areas of outsourcing, governance, risk management and transparency.

Kevin Y. Liu and Bruce R. Arnold examine the prevalence of outsourcing within the superannuation industry and indicate that this raises a number of issues for fund governance. While noting that the trust structure makes outsourcing natural and that there are obvious benefits to outsourcing, the authors emphasise the several layers of risk arising from it, especially operational and compliance risk in relation to the service provider. Liu and Arnold also indicate that these risks impose additional duties on superannuation trustees, requiring them to develop the capacity to select, contract with, and monitor service providers.

With one of the criticisms emanating from the GFC being the lack of transparency of funds to investors, the paper by Scott Bennett and Vivekananda Lal Sondhi reviews the concept of Active Money and how it can be utilised by investors to measure the level of ‘activeness’ and the level of risk in investment products. The authors find that Active Money provides a meaningful addition to the portfolio analysis framework. They also suggest that the Australian funds management community would benefit from the disclosure of a fund’s Active Money levels on a quarterly basis and that it should be incorporated in funds’ quarterly reporting.

With technology increasingly affecting the way in which banks conduct their business in recent decades, David Chan F Fin examines how technology decisions can expose banks and, in some instances, the wider financial system, to significant technology and strategy risks. He notes that 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.

As with the previous issue of JASSA, the latter part of this issue of the journal is devoted to several papers from the 15th Melbourne Money and Finance Conference: ‘Assessing the Impact of Changes to Regulation’, which was conducted by the Australian Centre for Financial Studies earlier this year. The conference was sponsored by the ANZ Bank, Australian Prudential Regulation Authority (APRA), Commonwealth Bank, National Australia Bank and Reserve Bank of Australia. The papers from the conference examine a range of significant policy issues that have emerged following the global financial crisis (GFC).

The first of the conference papers by Justin Douglas, Tanzila Fatema and Phillip Hawkins analyses the reform of remuneration and compensation practices within the financial sector as part of the global reform agenda. The authors note that 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. They also highlight the importance of international consistency, both to prevent opportunities for regulatory arbitrage and to minimise incentives for jurisdictions to use weak regulation as an incentive to attract financial firms and to reduce compliance costs for firms operating internationally.

Alex Erskine examines the post-crisis approach to be adopted for securities regulation and suggests that it will be strongly influenced by debates over how to achieve financial stability. He indicates that the way ahead for securities regulators is to help create a financial environment in which all actors in financial markets can make more rational, informed decisions, and that this will require regulatory actions that take into account what we have learned from behavioural economics and agency theory.

In examining the recent Review into the Governance, Efficiency, Structure and Operation of Australia’s Superannuation System (referred to as the Cooper Review), the paper by Howard Pender provides some background on the descriptive, policy and relevant analytical economic dimensions of our current super arrangements. It also assesses the policy attractiveness of some of the Review’s proposals and questions whether the ‘narrow’ focus of the Cooper Review on fees and operational efficiency ignores the potential for much greater social benefits arising from investment choices.

In a similar vein, Hazel Bateman and Geoffrey Kingston focus on a number of areas in which they see some ‘unfinished business’ in terms of Australia’s tax and superannuation arrangements. They propose a solution to the adverse-selection and supply-side problems which the Henry Review has indicated are stunting the Australian market for longevity insurance. Their proposal involves a hybrid of front-end and back-end taxes on superannuation, based on the successful hybrid regime for IRAs and 401(k)s in the United States.

After examining the conceptual issues underlying the debate on provisioning and procyclicality, and assessing possible financial statement impacts, the paper by Jane Hronsky 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.

Again, the editors would like to thank both the sponsors of the conference and the authors for their contribution to this issue of JASSA.

Please note that the guidelines for submission are available at www.finsia.com and any comments on these or any previous articles in JASSA are also welcome at m.fahrer@finsia.com.