Harmonisation

The key to our investment future

Securities Institute managing director ROSLYN ALLAN FSIA presents a review of recent SIA activities and developments.

The Wallis Inquiry into the financial system, due to report to the federal government at the end of this month, has enabled the Securities Institute to clarify its approach to a number of issues and to call publicly for important reforms.

The Institute's submission to the inquiry contains 11 recommendations for enhancing the operation of Australia's capital markets through greater capital efficiency, effective and competitive regulation and a more efficient taxation system. These recommendations were compiled by a subcommittee comprising chairman Leigh Hall FSIA (AMP Investments Australia Ltd), David Morgan (Westpac Banking Corporation), Rowan Ross FSIA (Bankers Trust Australia Ltd), John Poynton ASIA (Poynton and Partners) and Clive Batrouney ASIA (ANZ Securities Ltd).

A central thrust of the SIA submission is the need for Australia to move towards international harmonisation and mutual recognition in key areas such as prospectuses. This is essential in maximising Australia's global trading effectiveness.

As an example of what is needed, the submission points out that a start has already been made on the harmonisation of our accounting standards with international accounting standards, which will have the effect of encouraging capital raising by Australian companies overseas and more foreign listings in Australia.

The submission warns that the penalty for failing to achieve these goals will be the loss of listings of Australian companies and damage to our international competitiveness.

In urging the extension of harmonisation, the Institute proposes the adoption of international standards of disclosure to investors during takeovers, in prospectuses and in relation to price-sensitive information.

On the question of regulation of the financial system, the submission firmly puts the Institute's view that the establishment of a "mega-regulator" is not justified. In fact, we believe strongly that no significant change should be made to the regulatory system unless there is an identifiable need and unless identifiable benefits would flow from the change.

The Institute does see merit in some adjustments to improve the efficiency of the regulatory system, such as eliminating overlaps between regulators, implementing measures to ensure consistency and encouraging more advisory input from the industry.

Simplification of the Corporations Law should be accelerated, within the framework of a proper consultative process, says the Institute's submission. Further, the process should be extended to other legislation affecting financial markets.

Australia's taxation system is recognised in the submission as a powerful influence on investment. Accordingly, the Institute has called for improvements to the system to eliminate restrictions on capital mobilisation and encourage greater individual control of capital.

The submission emphasises that the taxation system should encourage savings.

The Institute is deeply appreciative of the work the subcommittee has put into this submission to the Wallis Inquiry. The outcome of the inquiry has the potential to deliver real benefits to the environment in which the securities and investment industries operate. It gives the Institute great satisfaction to have played a part in shaping that outcome.

The SIA's 11 recommendations are:
1. That the government and regulators immediately pursue international harmonisation and mutual recognition arrangements in at least the areas of continuous disclosure, prospectuses and takeover information requirements to allow Australian financial institutions and companies to maximise their global trading effectiveness and reduce barriers to efficient capital movement.
2. That the government review the foreign investment regulations to minimise their impact on overseas investment in Australia and to that end that it set up a Task Force with industry participation to conduct the review.
3. That the government should seek to reduce and eventually eliminate share transaction duties to encourage greater trading on our markets and improve Australia's competitive position.
4. That the Council of Financial Supervisors be enhanced by being provided with statutory backing, an independent chair and a dedicated secretariat. COFS would be responsible for coordinating regulators in the financial system to: eliminate to the greatest
extent possible any regulatory overlaps; oversee regulators to ensure consistency; ensure regulatory gaps are eliminated; and ensure that regulators are enforcing applicable laws adequately.

5. That the government appoint a national industry advisory body to provide advice to the government, through the treasurer, regarding the operations of the financial markets, especially as regards the effectiveness of regulation and the performance of the regulatory structure and the regulators.

6. That financial system regulators be able to provide to their staff appropriate market-based salaries. That the interchange of staff between industry and the regulators be encouraged and that regulators report on their programs to facilitate such interchange.

7. That regulated activities in financial markets, especially fundraising and takeover documentation, be removed from the application of the Trade Practices Act.

8. That the regulators have a specific goal of encouraging market development and product innovation and report to government annually on their activities in this area.

9. That the regulation of derivatives markets be as flexible as possible and be adaptable to innovation on a timely basis. That arbitrary distinctions be avoided in favour of regulation which is based on the nature and risk of products, the nature of the parties to transactions and the importance of disclosure requirements.

10. That the simplification of the Corporations Law be continued and completed in a timely manner within the framework of a proper consultative process. That the government implement a process of simplification of other legislation affecting financial markets.

11. That the government undertake a review of the taxation system to ensure that:

\[ \checkmark \text{it is internationally competitive in terms of our financial markets;} \]
\[ \checkmark \text{it does not allow distortions in the marketplace which are based purely on taxation considerations;} \]
\[ \checkmark \text{it does not unduly restrict mobilisation of capital;} \]
\[ \checkmark \text{it encourages greater individual control of capital;} \]
\[ \checkmark \text{it is able to be adapted to changing circumstances and encourages innovation;} \]
\[ \checkmark \text{it applies equally and fairly across the various sectors of the financial system;} \]
\[ \checkmark \text{it promotes savings and investment without undue distortions to promote investment flexibility.} \]

NEW GRADUATE DIPLOMA SUBJECT

A new subject, Advanced Portfolio Management, to make its debut in the second semester of 1997, is a result of the Institute's commitment to offer a range of specialised subjects in the Graduate Diploma in Applied Finance and Investment.

The subject is being developed by a taskforce headed by Dr Phillip Dolan of Macquarie Investment Management Ltd, who has recently completed a PhD at Stanford University. He is backed by a number of distinguished investment analysis practitioners including members of Q-Group Australia.

Optimisation techniques, factor models, market efficiency and time diversification, as well as performance measurement and attribution, are among the topics to be covered.

Advanced Portfolio Management forms part of the Graduate Diploma's Investment Management Stream.

ASAF HIGHLIGHTS

The 1996 Asian Security Analysts Federation Conference in New Delhi in December gave delegates first-hand experience of what some observers say could be the world's next economic development phenomenon - the emergence of India as an economic power.

In his keynote address, titled "India: The Tiger Uncaged", former Reserve Bank of India governor S. Venkitaramanan reminded his audience that in 1991 India was all but written off by the international community following a foreign exchange crisis, coming close to a collapse that would have rivalled Mexico's.

The experience set India on a path of economic liberalisation and financial reform which has now led to the opening of its markets to international investment.

The significance to Australia of this unlocking of capital flows was underscored at the conference by SIA life member Max Powditch, who delivered an address on "Investing in India: A Fund Manager’s Perspective", and by SIA national president Ian Rosenberg, who gave an Australian capital market review.

Other ASAF highlights:

\[ \checkmark \text{Leigh Hall FSIA was elected co-chairman of the International Coordinating Committee of Financial Analysts' Associations.} \]
\[ \checkmark \text{The Association of Securities Analysts of Philippines was admitted to ASAF, bringing the number of member societies to 12.} \]
\[ \checkmark \text{The next ASAF conference will be in Bangkok on 16-19 November 1997.} \]

MARKET RESEARCH

An extensive market survey has provided new information about external perceptions of the effectiveness of Securities Institute education services.

The results of the survey, which follows similar research in 1993, indicate that the Institute is succeeding in its pursuit of continuous improvement.

Most respondents, including students who had withdrawn from their courses, said we were the best, or one of the best, providers of financial market education - only 4% disagreed.

Eighty-six per cent of graduate students said our education was more practical than university courses.

The vast majority of respondents had the following views:

\[ \checkmark \text{our courses help with career advancement;} \]
\[ \checkmark \text{undertaking our courses is essential for anybody in the securities industry;} \]
\[ \checkmark \text{our courses are of a very high standard;} \]
\[ \checkmark \text{the subject content is up-to-date; and} \]
\[ \checkmark \text{staff have a helpful manner and attitude.} \]

The information gathered in the survey is still being analysed. A comprehensive report will be published in the June issue of JASSA.