Options, governance and continuous disclosure

The Institute has made several submissions to the government on a range of matters.

Following the Institute’s submission to the International Accounting Standards Board on proposed draft accounting standard ED 2: Share-based Payment, the Institute made a submission to ASIC on its Draft Guidelines on Valuing Options in 30 June 2003 Directors’ Reports. While supporting ASIC’s focus on more detailed disclosure of option payments to directors and five key executives (under the Corporations Act), the submission expressed concern about releasing the Guidelines (effective from 30 June 2003) before the finalisation of the IASB’s accounting standard on valuing options.

ASX Corporate Governance Council update

Since the launch of the Principles of Good Corporate Governance and Best Practice Recommendations in March 2003, the Institute has participated in the meetings of the ASX Corporate Governance Council held on 24 June and 7 August. The ASX Council agreed to establish an Implementation Review Group (IRG) to oversee implementation of the corporate governance recommendations and to propose any further guidance or adjustments to the Best Practice Recommendations as necessary. The Institute recommended that an analyst be considered for nomination to the IRG so as to provide a markets perspective of companies implementing the Best Practice Recommendations. The nine members of the IRG are Peter Abraham, Geoffrey Ashton, Graham Bradley, Rick Crabb, Patricia Cross, Erik Mather, Tom Pockett, Ian Pollard and Jerome Vitale FSIA.

Appointment to Chair of Financial Reporting Council

The Institute welcomes the appointment of Charles Macek FSIA as Chair of the Financial Reporting Council, the body which oversees the operations of the AASB, monitors the development of international accounting standards, and promotes and monitors their adoption in the Australian accounting standard setting process.

President’s Forum on stockbroking industry

A President’s Forum was held in late June to canvass views on the likely impact of US regulatory reforms on the Australian broking industry. Participants in the panel discussion made it clear that Australian brokers owned by US parent companies have no choice but to adopt the US reforms and that pressure to apply the US requirements may flow on to smaller brokers here. Given that Australia has not witnessed the same problems as in the US, there was concern that a proposal to separate research from other broking activities could result in a decline in the quality of research and...
drive up costs for investors. The Institute is now working with the SDIA and IBSA to find an appropriate industry solution for our local market on addressing analyst independence issues.

**Institute opposes proposal for infringement notices**
The Institute has advised the Government of its opposition to the CLERP 9 proposal to grant the Australian Securities and Investments Commission power to issue infringement notices to listed companies for minor breaches of the continuous disclosure regime. The Institute joined several other professional associations representing accountants, directors, company secretaries, fund managers and corporates in expressing their concerns about the infringement notice power in Proposal 22 in an industry consultation meeting with Senator Campbell.

**Institute’s position on corporations law amendments unchanged**
The Institute commented on several issues contained in the draft Corporations Amendment Bill. In particular, our submission focused on proposed amendments to s.300A and s.323DA and on requirements for calling of meetings under various provisions of s. 249. We reiterated the previous position made to the Parliamentary Joint Committee on Corporations and Securities inquiring into the Company Law Review Act in supporting removal of the 100-member rule and applying the 5% rule as the sole test for requisitioning an extraordinary general meeting.

**Professional Development**
The newly structured national PD team has produced 18 professional development programs over the last six months which have been rolled out in various regions. A pre-conference workshop developed as part of the SDIA Conference in NSW was an outstanding success, with positive feedback from more than 130 attendees. The same workshop ran in Victoria with similar success. A new corporate professional development program, ‘PD Direct’, has produced 18 completed online modules, with a further eight due for completion by late September. This corporate PD program for financial product advisers offers updates on compliance, securities, derivatives, superannuation, financial planning and other technical disciplines. Currently being utilised by a major investment bank, PD Direct is also available through the Institute for use by other companies.


R&D grants & loans | tax concessions | duty concessions | venture capital | information services
A committee has been established, under NSW Regional Council Chair Michael Shepherd’s chairmanship, to assist in developing a focused and engaging program for the second Australasian Investment Management Conference, to be held in conjunction with the AIMR in Sydney on 16–17 September.

Activities related to international business and initiatives continue. The Institute is pleased to have been named as the preferred provider for the Vietnam Securities Exchange technical assistance package, funded by the Asian Development Bank. Professor Ian Eddie (University of New England) is currently leading the training and consulting team in Hanoi.

Move to new national and NSW premises
June 2003 saw the successful move of the national and NSW offices to new premises on Levels 3 and 4 of the NAB House in George Street. The premises team, led by Pamela Newling, company secretary, worked on the relocation for six months. Despite the daunting IT risks associated with the move, there was very little downtime and no enduring problems, which was of immense credit to the technical support team and its leader, Kathryn Howard.

Senior members and industry leaders of major financial institutions attended an opening function held on 3 July 2003, at which Mr Alistair Urquhart, founding President of the Institute, officiated. (Alistair Urquhart’s speech is available on the website.)

INDUSTRY CALLS FOR FEE DISCLOSURE GUIDELINES TO BECOME LAW
A survey of 2000 Institute members in August found 71% of fund managers believe new Guidelines on the disclosure of fees must have the force of law if they are to work effectively and create a level playing field, according to a new survey.

Almost 260 members in retail and wholesale funds management, superannuation and financial planning revealed overwhelming support (81%) for better disclosure.

According to the Institute’s president, Mr Ian Neal, the results of the survey demonstrate the very deep concern of the true professionals in the industry.

“Intrinsic to our commitment to raising standards in the industry is the strong belief that an industry wedded to professional principles and best practice aspirations, underpinned by appropriate regulation, is in the best interest of consumers. However in this case our members are telling us that if there is not significant improvement in the disclosure of fees and costs, then there may be a case for regulation.

“There is no doubt that with many disillusioned by poor returns and negative publicity, the industry’s response must be swift, rigorous and relentless. At stake is the very real challenge of restoring investor confidence.

“Moreover, an industry committed to the full disclosure of fees and costs will reassure investors that the minority of unethical providers won’t slip through the net. Equally consistent across-the-board disclosure will work in the interests of funds managers by ensuring a genuinely level playing field”, Mr Neal said.

The results suggest that the Guidelines by themselves are insufficient with 25% saying they won’t be very effective in making it easier for investors to understand fees and costs. The majority (54%) believe they will be reasonably effective and only 5% of respondents believe they will be very effective.

“Tables and figures are not enough in themselves and no more effective if they are guidelines or enshrined in law. Good financial advisers need to ensure their clients genuinely understand what fees and costs they are incurring. Fee structures also need streamlining and simplifying to assist that process”, Mr Neal said.

Interestingly, almost a third of respondents felt better disclosure would not significantly impact consumer choices.

“Investors need to look beyond the fees themselves to what they are getting for their money: things like underlying investments, management capabilities, and performance. Price is just one of many factors”.

“It is also about making consumers feel more comfortable about their choice by telling them upfront where their money is going. At the end of the day, there must be zero tolerance within the industry for any actions that jeopardise investor confidence”, Mr Neal said.

Canberra student wins inaugural Roslyn Allan Scholarship
A 21-year old Canberra student, Christopher Flinders, has been awarded a prestigious scholarship that will prepare him for a place in the highly competitive financial services industry.

As the first recipient of the Roslyn Allan Scholarship offered by the Securities Institute, Christopher will be afforded the opportunity to undertake a Securities Institute’s Graduate Diploma course.

In his final year of a double degree in Commerce and Applied Economics, Christopher said he was delighted to have been awarded the inaugural scholarship and saw it as the first step in achieving his dream of becoming active in financial markets.

The Institute offers two scholarships a year to students on The Smith Family’s Learning for Life program as a way of further helping young people from disadvantaged backgrounds to continue their education after completing high school or university.

The scholarships are named after Roslyn Allan in recognition of her considerable contribution to the Institute and education in general during her 20-year tenure as managing director of the Securities Institute.