This issue of JASSA is dedicated to a number of papers presented at the 19th Melbourne Money and Finance Conference — current issues in Australian financial markets — held in July 2014. The conference was organised by the Australian Centre for Financial Studies. It was sponsored by APRA, National Australia Bank and Reserve Bank of Australia, and supported by Finsia. While not subject to the usual double-blind process, each of these papers was reviewed by a member of the Editorial Board and by me prior to inclusion.

With the Senate recently disallowing the Coalition Government’s amendment bill to the Future of Financial Advice reforms, the first paper by Hazel Bateman and Geoffrey Kingston is very timely. It outlines the lessons for Australia from the approaches to regulating financial advice taken by the US, UK and Canada. The authors indicate that these countries all have first-cum-second pillars of retirement income that include defined-benefit schemes, both public and private ones. Effectively, the resulting link between wages and total income in retirement in these countries ensures that these schemes perform an income-replacement function for people of middle means. Bateman and Kingston argue that Australia’s distinctive problems in regulating financial advice arise from our policy of a first pillar consisting of a means-tested public pension, along with a second-cum-third pillar consisting mainly of privately-managed defined contributions, which are supposed to perform the income-replacement role. The authors note that with Australian superannuation portfolios having the riskiest asset allocations of any OECD country, the income-replacement function of the second-cum-third pillar is vulnerable to market crashes.

Next, Deborah Ralston and Martin Jenkinson examine the increased cross-border participation in financial markets facilitated by technology, which has allowed investors to diversify their portfolio holdings and corporate issuers to access new pools of capital. The paper investigates the potential impact of these trends on the location of various financial markets and the financing of Australian businesses. Ralston and Jenkinson suggest that the issue of financial market infrastructure location has wider implications for the Australian economy with regard to capital markets compared to foreign exchange and derivatives markets. They believe that these concerns go beyond the well-documented potential loss of regulatory control to include issues such as the inability for Australian firms to raise capital as a result of global shocks and the potential for Australian firms that would otherwise operate in Australia to move overseas to be closer to capital providers.

On a similar theme, the paper by Ashley Fang, Mitch Kosev and David Wakeling indicates that since the global financial crisis, investment and corporate funding trends in Australia have been characterised by the divergent experiences of the resources sector and non-resources companies. The paper highlights the fact that resources companies have participated in an investment boom, which has involved substantial long-term commitments to investment projects. It notes that in this environment, companies have used debt to smooth over temporary bouts of weakness in operating profits, whereas, investment in the non-resources sector has been much weaker, effectively limited to maintaining the asset base rather than expansion. The authors indicate that internal finance has been adequate to meet non-resources companies’ net funding needs and the sector’s capital structure has remained broadly stable.
Tom Valentine examines the determinants of real income per capita and the international effects of productivity growth and saving. Valentine finds that there are several good reasons for Australia to adopt policies which increase the saving rate. He says it would allow more investment spending to be funded from domestic sources so that it makes a greater contribution to national wealth; and maintaining the level of investment will also support the growth of productivity. In addition, increased saving will tend to reduce the value of the Australian dollar which will stimulate the economy and, in particular, support those industries which suffer from a high value of the dollar, i.e. the low-speed part of the two-speed economy. He adds that increased saving will make it easier to respond to the future pressures on the retirement income system arising from the ageing of the population, and if this is not done, there will be substantial pressure on the pension system.

Maria Yanotti and Mardi Dungey examine the evidence on the impact of the global financial crisis on the selection of mortgage products by borrowers. Using a sample of bank-originated mortgage applications between January 2003 and May 2009, Yanotti and Dungey find that the advent of the crisis results in significant changes in the effects of a number of borrower characteristics on mortgage product choice. They believe these changes suggest that risks were transferred to the borrower at a discounted price during the crisis period. For example, ‘honeymoon’ products became increasingly popular and more accessible during this period, offering the applicant higher discounts on the variable interest rate. The authors also note that variable and fixed-rate mortgages were both taken up by relatively low-risk applicants.

Finally, the paper by Chris Dalton on the future of securitisation highlights the key issues that will need to be addressed to ensure the securitisation market becomes a large, deep and liquid part of our financial system, and plays a larger role in funding Australia’s economic growth. Dalton notes that securitisation provides an alternative source of funding for authorised deposit-taking institutions, introducing an element of competition in certain lending markets, and it provides fixed income securities with varying risk and yield attributes to investors. He also indicates that securitisation is ideal to create asset-backed securities (ABS) based on established and predictable cash flows from established infrastructure assets, and that such ABS could easily be placed with superannuation funds that are seeking assets that provide annuity style returns for the growing appetite for retirement income products.

I would like to thank all of the contributors to JASSA in 2014 for helping us to examine the important issues facing finance professionals, policy makers and academics throughout the year. I strongly encourage your contributions for 2015 and, for those interested, please note that the guidelines for submission to the journal are available at www.finsia.com.