FROM THE
Managing Editor

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This issue of JASSA features a special section on Australia’s recently completed Financial System Inquiry which has examined how the financial system can be positioned to best meet Australia’s evolving needs and support Australia’s economic growth.

In this special section of the journal, five members of the Australia–New Zealand Shadow Financial Regulatory Committee (ANZSFRC) critically assess the deliberations and recommendations of the inquiry.

I trust that you will find these articles incisive and helpful in advancing the important debates that have emerged following the inquiry about the future directions of the Australian financial system and the wider economy.

David G Mayes F Fin, who is a Professor of Banking and Financial Institutions at the University of Auckland and a Member of the Australia and New Zealand Shadow Financial Regulatory Committee, has kindly agreed to be Guest Editor of the special section of the journal because of my involvement as a panel member of the inquiry, and also my role as Managing Editor of JASSA.

The first paper in this issue of JASSA is by Bart Frijns F Fin and Alireza Tourani-Rad F Fin, who investigate the replicability of the recently introduced New Zealand retirement funds (KiwiSaver) by the same providers. Frijns and Tourani-Rad were interested in whether they could replicate a KiwiSaver fund that has the same level of risk and return compared with an existing fund but has a lower level of fees, which, in turn, translates into higher returns. After replicating moderate/balanced funds based on a combination of conservative and growth/aggressive funds offered by providers, the authors find that in many cases the moderate/balanced funds are linear combinations of these conservative and growth funds, but the replicated fund is cheaper than the fund offered by the provider. The study suggests that there is some mispricing in the fees charged for the various fund types that are offered by KiwiSaver fund providers.

Next, Hung Chu SA Fin and Wayne Lonergan SF Fin re-evaluate the relationship between the value of the total assets of a business entity and its enterprise value (EV). Chu and Lonergan note that the assessment of the market value of total assets is an important issue for stamp duty and tax purposes, and that this can be a particularly contentious issue in ‘land rich’ cases. The authors indicate that while it may seem uncontroversial for valuers and investors to use EV to assess the value of total assets, in practice, a number of adjustments to this are often made. The findings of this study suggest 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 paper also finds that total assets to which the market value standard is applied for tax and stamp duty purposes should include the net working capital assets.

Then, Adrian Melia and David Stocken take a close look at the evidence of the banks’ role in filling gaps in the exchange-traded derivatives market. Their findings are consistent with banks taking advantage of the opportunity to profit by listing warrants on stocks that do not have exchange-traded options (ETOs). After examining the market capitalisation, trading volume and volatility of the S&P/ASX 200 Index constituent stocks with and without exchange-traded derivatives the authors find that stocks with listed ETOs have large market capitalisations relative to warrant-only stocks. This result is consistent with the findings of Mayhew and Mihov (2004) in relation to market capitalisation. However, Melia and Stocken also find that when compared with warrant-only stocks, ETO stocks do not have higher relative trading volumes or lower volatility. Also consistent with Mayhew and Mihov, when comparing warrant-only stocks with stocks with no exchange-traded derivatives, the authors find that warrant-only stocks are larger, have higher relative trading volumes and are more volatile.
The final paper in the first section of the journal is another equities-related paper in which Andrew Ferguson and Peter Lam examine the recent trend towards backdoor listings (BDLs) in Australia. The authors note that backdoor listings have long been considered a viable alternative to initial public offerings (IPOs) for private firms seeking to list on the Australian Securities Exchange and that in 2014 Australia witnessed a record number of BDLs, raising a number of regulatory concerns about the BDL process. Despite popular perceptions, the authors find evidence from a sample of 302 Australian BDLs which suggests they are not necessarily simpler or faster than the IPO process. With BDLs being essentially a combination of a reverse takeover and the public listing process, they require more regulatory approvals and take longer to complete than IPOs. This finding has implications for entrepreneurs/owners of private firms contemplating a public listing via the backdoor route.

Thank you to all of our contributors, and to Guest Editor David Mayes in particular, and I look forward to a year ahead with many more outstanding contributions to JASSA.