

1 September 2021

Committee Secretary  
Standing Committee on Economics  
PO Box 6021  
Parliament House  
Canberra ACT 2600

By email: [economics.reps@aph.gov.au](mailto:economics.reps@aph.gov.au)  
And via Upload submissions

Dear Senators

## **INQUIRY INTO THE IMPLICATIONS OF COMMON OWNERSHIP AND CAPITAL CONCENTRATION IN AUSTRALIA**

The Stockbrokers and Financial Advisers Association (SAFAA) is the professional body for the stockbroking and investment advice industry. Our members are Market Participants and Advisory firms that provide securities and investment advice, execution services and equity capital-raising for Australian investors, both retail and wholesale, and for businesses. Practitioner Members are suitably qualified professionals who are employed in the securities and derivatives industry.

SAFAA members represent the full range of advice providers from online brokers providing execution only services to full-service stockbroking and investment advice.

Thank you for the opportunity to provide input to the Inquiry into the implications of common ownership and capital concentration in Australia.

### **Overview**

ASX listed companies play a vital role for millions of Australians as generators of wealth for retail investors over the long term, including as retirement income. Australia has one of the strongest culture in the world for individual direct share market investment by ordinary citizens — the result of 25 years of bipartisan government policy. The *ASX Investor Study 2020* shows that 46 per cent of adult Australians are invested in either a listed or unlisted capacity (nine million) and of those that choose to invest, 74 per cent hold listed investments (6.6 million). That is, 35 per cent of the adult population owns shares. As with the previous study in 2017, the 2020 study shows that the number one held investment is Australian equities, with 58 per cent of retail investors holding this asset class, compared to 15 per cent of investments held on exchange with international shares. Australian retail investors have a strong preference for both Australian equities (38 per cent) and ETFs (20 per cent).

Public policy has also seen the advent and significant growth of the self-managed superannuation fund (SMSF) sector. These policies have allowed corporate prosperity to be spread and support the use of our savings to finance equity in Australian companies. We saw with the debate about franking credits recently how many Australians are affected by any regulatory changes to their participation in share investment.

All working and many retired Australians are also shareholders in Australian listed companies by virtue of their superannuation, which is invested on their behalf by superannuation funds in Australian and global listed entities. While the superannuation fund is the beneficial owner of the shares, they do so as fiduciary agents on behalf of members. Any consideration of superannuation fund holdings in Australian listed entities therefore needs to take into account that the beneficiaries of this investment are ordinary Australians.

However, while Australians have eagerly embraced investment in Australian listed equities directly, which fulfils the goal of common ownership as expressed in public policy over more than two decades, access to good quality investment advice is becoming much more difficult for ordinary Australians. This will result in detriment to retail investors.

The following are just some of the matters having a significant impact on the ability of our members to continue to provide good quality, affordable advice to retail investors:

- The Financial Standards and Ethics Authority's (FASEA's) lack of understanding about how stockbroking and investment advice differs from financial planning has led to its 'one-size-fits-all' approach to financial advice that is negatively impacting the stockbroking and investment advice profession and ultimately retail investors.
- There is an accelerating exodus from the stockbroking and investment advice industry of experienced, retail advisers as a consequence of FASEA's refusal to recognise a stockbrokers' qualifications, coupled with a mandatory exam, the content of which is largely irrelevant to their day-to-day business.
- A significant increase in regulatory burden has resulted in rising costs of providing advice to retail clients.

Retail investors are also being discriminated against in capital raisings, with a history from the Global Financial Crisis through to COVID-19 revealing that retail and SMSF shareholders have been unable to participate in many capital raisings. Unless a level playing field is introduced for retail investors, including SMSFs, to participate in capital raisings, capital will inevitably concentrate in institutional investors, many of them domiciled offshore, and ordinary investors will be 'locked out'.

Accordingly, we focus in this submission on 'access to advice' and 'access to capital'. It is vital that we continue to promote and support the capacity of ALL Australians to participate in equity capital markets and support and partner Australian business.

SAFAA is of the view that investment by Australian superannuation funds is not the problem in relation to the capacity of ordinary Australians to invest in the listed equities market. The problem is the regulatory framework governing access to investment advice and capital raisings, which needs to be reformed.

## Detailed comments

### **The extent of capital concentration and common ownership of public companies, and its likely future trajectory in Australia**

As noted, Australia has the one of the strongest cultures in the world for individual direct share market investment by ordinary citizens — the second highest of any country after the US. Bipartisan public policy facilitating demutualisations and privatisations encouraged ordinary Australians to become shareholders some decades ago and in 2020 6.6 million Australians held listed investments outside of superannuation. This has since increased as new retail investors entered equities markets in 2020, most frequently directly through online trading platforms. Australians are comfortable owning shares as a means of generating wealth.

Retail ownership of the ASX200 is particularly high. For example, the four largest banks in Australia have significant retail shareholders on their registers. At 30 June 2021, the retail shareholdings in the four banks were as follows:

- CBA 51.07%
- Westpac 56.24%
- NAB 42.9%
- ANZ 43.14%

Research undertaken by nabtrade shows that as regards the increase of more than 30 per cent in total retail investors in 2020:

The average investor bought less than ten shares, the most popular of which were the big banks, Afterpay and Zip Co in the buy-now, pay-later space (which had also featured in the top 10 in prior years), and three key travel stocks (Qantas, Flight Centre and Webjet). An ASX200 ETF also featured in the top 10, although if all ETF products covering the ASX200 were aggregated, they may have made the top 5. Young investors were twice as likely to buy an ETF as older investors. ... Interestingly, with the exception of BHP, investors have been largely indifferent to the large cap resources companies in recent years.... The soaring iron ore price has changed all that, with Fortescue Metals now nabtrade's most traded stock. Rolling border closures and lengthy lockdowns have exhausted interest in the travel sector, and none of the afore-mentioned travel stocks has consistently made the top 10. And while Zip is sufficiently volatile to attract active traders, Afterpay is less favoured than it once was. Instead, investors have looked to Telstra, CSL and Woolworths, as blue chips return to favour. One consistent buy is the ASX200 ETF, as newer investors look to build wealth through dollar cost averaging.<sup>1</sup>

This recent research shows that new investors are favouring blue chip ASX200 companies, as have more longstanding retail investors. Retail shareholdings in the ASX200 continues to be strong. Research undertaken by Investment Trends in 2018 for major listed entities and shared in part with the Australian Shareholders Association showed that for retail investors the average holding period is 11 years. Retail investors are long-term shareholders, providing support against activism and allowing for long-term strategy implementation by boards and management. That is, retail investors are more likely to be long-term shareholders than institutional investors.

Stockbrokers have a long history of not only providing advice to retail clients in relation to investing in listed equities, but also working with retail clients to provide capital from equity investors for the young, growing companies that are the future ASX200. Without shareholders who are willing to take risks that a bank or a bondholder would not, these companies might remain stuck in low gear or never even get moving. It is unusual for large institutional investors to invest in these companies. Limiting retail investor access to capital raisings by limiting their access to affordable advice under the current regulatory settings therefore not only removes retail investors from the growth opportunities offered by ASX200 entities, but also weakens the opportunities for small listed entities to access much-needed capital.

### **Access to affordable investment advice**

The increased and unhelpful regulatory burden on the provision of financial advice is a consequence of government policy and legislation. SAFAA has long advocated for government and ASIC to revisit the regulatory settings around the provision of advice to retail clients and to move away from a 'one-size-fits-all' approach.

FASEA's lack of understanding about what stockbrokers and investment advisers do and importantly, how that differs from financial planning, has led to a 'one-size-fits-all' approach to financial advice that ultimately

---

<sup>1</sup> Gemma Dale, 'How investors like you are changing', 10 August 2021, nabtrade

disenfranchises retail investors. FASEA treats all financial advisers as financial planners, notwithstanding the differences between the financial planning advice model where advice is provided on all aspects of a client's financial circumstances and stockbrokers and investment advisers who provide scaled advice on a client's investments and shares. They are different forms of advice serving different client needs.

SAFAA strongly supports professional and educational standards. Our members are highly educated and highly qualified, but FASEA has only approved degrees in financial planning or with financial planning majors (with one exception being a wealth management degree from UNSW). This is in spite of the Corporations Act not requiring financial planning qualifications to be the only approved courses for financial advisers. The legislation requires a 'degree equivalent'. The FASEA board narrowed the scope of the approved qualification, which means that SAFAA members with degrees in commerce, economics, finance and business from top tier universities — the degrees most suitable for a career in stockbroking and investment advice — are required to undertake unrelated financial planning diplomas in order to continue to provide investment advice.

The degrees in commerce, finance, economics and business are suitable because they ensure stockbrokers and investment advisers can understand balance sheets and the growth and value opportunities of entities listed on Australian exchanges. They can provide advice on buy/sell/hold in relation to investments in listed entities. Again, this is a different expertise than that required to give taxation or superannuation advice that is central to financial planning.

What is most concerning to us is that top graduate talent is being deterred from entering the stockbroking and investment advice profession. Our industry attracts the brightest and the best, but a graduate with a finance, economics, commerce or business degree will also have to complete a 24-subject financial planning degree before they can enter the industry. A recent survey of our members showed very few professional year candidates — graduates are voting with their feet. The number of advisers leaving the industry is not being replaced. This shrinking pool of available advisers impacts on the availability and affordability of advice in investment in equity markets.

This will result in detriment to retail investors, who will increasingly be left with the choice of either DIY trading online with no advice or advice from a financial planner who has minimal direct expertise in listed investments and markets.

Wealth Data director, Colin Williams, advises that the number of advisers is predicted to fall to 15,000 from 28,017 in 2019. The number has already fallen to fewer than 19,000 as of August 2021. The new entrants go nowhere near replacing the losses. This will clearly impact on the accessibility and affordability of advice to Australian retail investors, and take place at the same time as retiring baby boomers come into their superannuation and a \$1.5 trillion transfer of wealth takes place between generations.

Australian retail investors will find it much harder to access experienced advisers once this exodus has taken place. This will have implications for how ordinary investors can participate in capital markets. The new generation of investors who have entered the listed equity market without advice have experienced only a bull market and have not yet had to weather a downturn. While we are currently in a bull market, at some point there will be a market correction and access to experienced investment advice will be vital in ensuring Australian retail investors make good decisions. This was proved during market volatility in March 2020, when advised retail investors were steered through the turmoil and emerged in good shape. The 2021 Russell Investment annual *Value of an Adviser* report released in August 2021 showed that in the previous 12 months advised clients benefited with a 5.2 per cent boost to their portfolio.

With the winding-up of FASEA and the transfer of standard setting to Treasury under Ministerial authority, SAFAA hopes that the government will see the need to ensure that education qualifications must be suited to the financial advice provided. The degrees sought by the stockbroking and investment advice industry are ones in commerce, business, economics and finance. Approval of these degrees will ensure that retail investors will continue to have access to experienced stockbrokers and investment advisers.

## **Capital raisings and impact on retail investors**

The investment banking industry has almost completely exited the retail, SMSF and high net worth (HNW) investor space and structures capital raisings targeting their own domestic and international institutional clients, often hedge funds, that results in shareholder dilution. This demonstrates a lack of engagement with non-institutional shareholders. Where capital raisings — including emergency capital raisings undertaken in the Global Financial Crisis and in 2020 as a response to COVID-19 — are undertaken without meaningful small and HNW shareholder inclusion, Australians lose the capacity and opportunity to support Australian businesses and participate in their recovery and future prosperity. Retail, HNW and SMSF investors are disadvantaged twice. Not only are their shareholdings in ASX listed entities diluted, but they miss the opportunity to buy shares at prices that are often a hefty discount to the market price. Those gains go to a few institutional investors, frequently domiciled overseas.

This is a result of those facilitating capital raisings typically not offering retail and SMSF investors a proportionate opportunity to participate in discounted capital raisings, instead relying on domestic and international institutional clients. While we recognise that Australia has long been an importer of capital, the exclusion of retail investors, including those in SMSFs, discriminates against them, despite their support of the company over long periods of time. At the same time the exclusion of retail investors from discounted capital raisings frequently advantages investors with little history with the company.

In almost all cases of capital raisings during the COVID-19 pandemic, retail and SMSF investors were not offered a proportionate opportunity to participate in discounted capital raisings. Most emergency fund raisings that were undertaken were via heavily discounted placements (utilising the temporary 25% placement capacity without shareholder approval) and, only in some cases, with attached meaningful Share Purchase Plans or entitlement offers that lessened the dilutionary impact on retail and SMSF shareholders. This was particularly evident in the larger companies with widely distributed shareholder registers.

Companies that go to the market for capital during a crisis are largely seeking to do one thing – recapitalise and strengthen their balance sheets. They are not usually looking to change their business model or make an acquisition. Shareholders are already invested in the business and should have the opportunity to participate. The risk to them is not an investing risk, but missing out. The discrimination is exacerbated by the fact that once companies have made the institutional placements, the share prices start to appreciate, making it more expensive for retail investors to purchase additional shares. And the institutional shareholders who came onto the register so recently sell at the higher price, thus having increased their wealth at cost to retail investors.

It is not a level playing field.

Reform is needed to ensure that retail, SMSF and HNW investors are provided with a level playing field in relation to capital raisings.

## **The influence of capital concentration and common ownership on markets, including on investment decisions, market behaviour, competition and any other relevant factors**

A spectrum of concerns have been expressed about concentration of capital, including competition-related ones, since asset managers, including superannuation funds, vote on strategic matters in companies which could be competitors.

However, we point to new analysis from Rainmaker Information which finds that capital concentration of superannuation funds in the ASX is decreasing. As at March 31, they held 37 per cent, which is split across not-for-profit (NFP) funds (13 per cent), retail funds (9 per cent) and smaller funds or SMSFs (15 per cent). Rainmaker Information notes the change in direction arises from NFP funds reducing their holdings in recent years. The

research shows that NFPs have reduced their holdings from 24 per cent in 2013 to 19 per cent in 2021, whereas retail funds (29 per cent) and SMSFs are increasing their allocations to Australian equities.

Other collectively held investments are ETFs issued by large asset managers such as Black Rock, Vanguard and BetaShares. No data is available for these 'passive' investments in the Australian market. However, we note that such funds pool investments for retail investors, allowing them to choose from a wide range of investment options that could not be accessed individually.

Again, we note that ensuring access to affordable investment advice through reforming the regulatory framework applicable to financial advisers and access to capital raisings will ensure that retail investors continue to have access to participation in capital markets and investment opportunities.

## **The changing influence between individual investors and small funds, compared to larger funds, as a result of capital concentration and common ownership**

A key shareholder right is voting on director elections, constitutional amendment and the remuneration report, among other matters, at general meetings. Individual investors can be concerned that they cannot influence the outcome of a resolution, given the capital concentration of institutional investors.

The Australian Shareholders Association (ASA) provides opportunities for the aggregation of retail investor votes. Each year, ASA monitors the performance of most of Australia's ASX200 companies, along with a number of other companies of interest to its members. ASA has a dedicated team of company monitors who meet with company chairs and directors to discuss issues of importance to retail shareholders. Based on board engagement and independent analysis of the annual report and financial statements, their monitors prepare voting intentions, having regard to ASA's *Voting and engagement guidelines*, and they attend AGMs on behalf of ASA's members and retail shareholders. Boards of ASX200 have regard for the views of retail investors.

Stockbrokers and investment advisers provide research reports that assist retail investors to understand if any issues of concern arise in their investee companies. Retail investors, including SMSFs, then either decide to sell — the ultimate sanction — or exercise their vote.

However, retail investors who are trading online without access to advice are mostly unaware that they can exercise their vote at the general meetings of listed entities. If retail investors are pushed to DIY investing without advice, due to a lack of affordability the retail voice will go increasingly unheard.

## **Any related consequences that flow from capital concentration and common ownership, including international experiences**

We note again the need to ensure that retail investors have access to affordable investment advice and a level playing field for capital raising participation. Regulatory reform is required to achieve both of these outcomes.

## **The role of regulators in responding to these consequences**

### **Access to advice**

ASIC has recently undertaken a review of access to affordable advice. However, any changes arising from this review will be limited, as ASIC's decision making is subject to enforcement of the law. It is the regulatory framework decided by Parliament applicable to the provision of personal advice to retail clients that needs to change. We provide our recommendations in the next section.

### **Access to capital raisings**

SAFAA understands that it is a board responsibility to decide how it will structure any capital raising. However, given that boards of listed entities tend to not undertake capital raisings on a regular basis they are reliant on advice from investment banks. Greater transparency and accountability is therefore required in relation to how boards of listed entities deal with that advice. SAFAA is of the view that ASIC can provide guidance to boards about their responsibilities, which will provide for such transparency and accountability. We provide our recommendations in the next section.

## **Policy responses to address these consequences, including by government, regulators and public companies.**

This submission has focused on access to advice and access to capital to ensure that Australia's healthy retail investor participation in the Australian listed market can continue.

### **Access to financial advice**

SAFAA recommends reform of the financial advice regulatory framework as follows:

- An independent review into financial advice should be urgently undertaken and experienced advisers should be a part of this process.
- Economics, finance, commerce and business degrees must be approved in the FASEA education requirements.
- There must be a recognition of past studies and experience in the FASEA education requirements to ensure we retain experienced stockbrokers and investment advisers to facilitate the participation by retail investors in listed equity markets.

### **Access to capital raisings**

SAFAA recommends that ASIC issues guidance to the boards of ASX listed entities that:

- ASX300 listed companies should structure offers to maximise access for retail investors to a proportionate offer. If there are opportunities for existing owners of companies to provide capital, they should be given the opportunity to participate in all aspects of capital raising and not be excluded.
- Offers should be structured to maximise access to all shareholders by 'ringfencing' a certain \$ amount (proportionate to the amount being sought) for retail stockbrokers who have quick access, due to technology systems in place, to reach out to their s708 qualified investors and SMSF clients to access the offer.
- A top 300 ASX listed company or lead manager should include a 'retail voice' in all deals at a meaningful level, or in investment banking terms, having retail-focused stockbrokers and investment advisory firms with meaningful named roles in such deals.
- If a company does not offer retail investors the chance to participate, the listed entity board should publicly explain why not. In requiring boards to disclose their reasoning, it would provide them with the opportunity to ensure that their deliberations with investment banks took into account equitable solutions for existing shareholders.
- Companies should disclose the post-allocation to their investors of the percentage of retail, SMSF and institutional offer allocations.

This would ensure less discriminatory participation in capital raisings.

Another recommendation that we share with the SMSF Association is that developing a single digital retail platform that builds on advances in financial technology could create a more efficient mechanism for fund raising from SMSFs and retail investors. The purpose of a such a platform would be to create a more efficient mechanism for fund raising from SMSFs and other retail investors. Participants could register for the single depository which would help facilitate an even quicker process for brokers to access larger retail markets. Not

only would this be more effective for capital raisings, but it may also be useful for larger scale infrastructure investments that SMSFs and retail investors are also typically restricted from accessing.

## **Conclusion**

Any consideration of common ownership and capital concentration in Australia must take into account the regulatory framework surrounding the provision of personal advice to retail clients and retail investor access to capital raisings. Not to take into account the impact of current public policy settings on these two matters will inevitably lead to diminished access by retail clients to affordable investment advice and access to investment opportunities, which will be to the detriment of retail investors. This will inevitably impact on capital concentration and common ownership.

Yours sincerely

Judith Fox  
Chief Executive Officer