

Westpac gets away cheap bond issue

Matthew Drummond

Westpac Banking Corp has raised \$3.1 billion through local covered bonds at a lower price than Commonwealth Bank of Australia's similar deal last week, raising hopes that the new funding source could yet ease banks' margin strains.

Westpac treasurer Curt Zuber said it was encouraging that Australian bond investors had supported two large covered bond issues so close together. "But there's no doubt that overall the cost of funds is still rising," he said.

Westpac's deal, completed yesterday, was priced at 1.65 percentage points above the bank bill swap rate. That is 0.1 percentage points cheaper than CBA's \$3.5 billion raising.

The surprisingly high price paid by CBA to raise money through covered bonds within Australia — about as expensive for the bank as recent covered bond issues done by Australian lenders in the United States and Britain — had sparked concerns the new funding source would prove ineffective in lowering overall costs.

Earlier this week analysts at Macquarie Group said the CBA deal suggested that "higher funding costs are now baked into the domestic market".

After concerns were raised that CBA's mammoth deal may have soaked up all the available appetite for covered bond issuance, Mr Zuber said his deal showed there was clearly more demand from investors.

"The fact that the second deal was nearly the same size as the first one is clearly a good sign," he said.

Australian banks were given the ability to issue covered bonds in November, overcoming long-held resistance from the Australian Prudential Regulation Authority, on the basis it would ease their funding costs.

The bonds are secured by high-

quality assets such as mortgages, providing added protection for investors in the event of a default.

While they have been a popular source of funding for European banks, APRA opposed local banks issuing them because the covered bonds jeopardised the rights of depositors in the event of a collapse. This is because holders of covered bonds have first rights over the assets used as security.

Westpac's bonds were bought by a range of Australian insurance companies and wealth managers.

The big four are expected to refinance \$96 billion of debt in 2012.

Bouris paves the way for Japan loans

Yellow Brick Road is aiming for 125 branches by the end of June after securing its 100th outlet in Geelong, Victoria's second-biggest city.

Last year, the wealth company chaired by Mark Bouris added 50 branches to its nationwide network.

Mr Bouris has invited Japan's banks to lend to borrowers in the Australian market using his branches for distribution.

"The major banks have had it too good for too long and it's about time the oligopoly got a shake-up," Mr Bouris said in a statement yesterday. "Japanese banks have the ability to pick up 10 per cent of the market with the likes of Yellow Brick Road as a primary distribution network."

"More competition in the market means lower rates for consumers, which is why Yellow Brick Road will continue to look at opportunities that give mortgage holders the best deal possible."

It's not the first time Mr Bouris has identified a role for Japanese banks in the domestic market. Earlier this month he said Japan's lenders had a comparative advantage over the big four due to the spare money available for lending because of their deep deposit pools.

But this advantage would be eroded once they insured themselves against currency risk.

The Australian Financial Review's Chanticleer column reported in December that two of Japan's three largest banks are thinking of breaking into the Australian mortgage market to challenge the big four's dominance.

Yellow Brick Road also observed a rise in demand from mortgage brokers and financial planners.

Staff reporter

Treasury: wealth jobs are safe

Ruth Liew

Treasury has disputed claims that up to 35,000 jobs in the wealth industry could be wiped out if the government's push to ban financial adviser commissions goes ahead, arguing that many employers already factored in the proposed changes.

Treasury's executive director for its markets group, Jim Murphy, told a joint parliamentary committee looking into the government's Future of Financial Advice reforms yesterday he "can't see that there will be job losses".

"Anyone who is a financial planner who has been engaged, I would expect [they] would be able to adjust easily and change their practices," he said.

Mr Murphy's comments follow a prediction by the Association of Financial Advisers that up to 35,000 advisers and support staff could face the axe if the reforms were enacted in their current form.

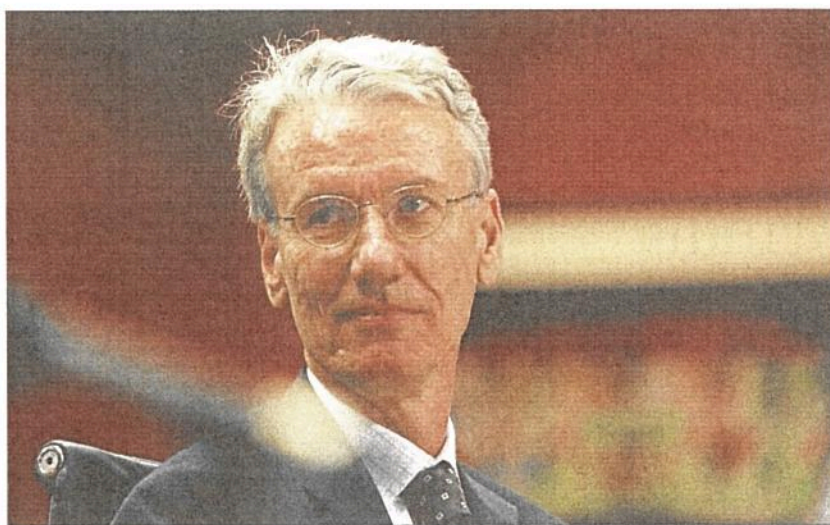
AMP estimates 25,000 roles could be wiped out, assuming two support staff are eliminated for each planner lost.

The industry continues to oppose the changes, which include banning commissions on investment products and volume-based payments and a requirement for financial planners to act in the best interests of clients. Advisers would be forced to sign contracts with clients every two years and provide an annual fee statement.

AMP Financial Services managing director Craig Meller told the committee on Monday that the draft laws were rushed, would force planners to leave the industry, and cut consumer access to advice, particularly in regional areas.

"The initial impact will be on financial advisers and even the EM [explanatory memorandum] forecasts a halving of planner numbers in the next few years. We believe this could lead to losses of up to 25,000 jobs," Mr Meller said.

But Mr Murphy argued that the Rice Warner research Mr Meller's forecast was based on was prepared in March 2010, and did not take into account subsequent changes in the proposed bill, including the easing of the government's stance on banning



Power plea . . . financial ombudsman Shane Tregillis addresses the parliamentary hearing yesterday. Photo: MICHELE MOSSOP

Profit drop

Financial adviser estimated commission and fees — in future dollars

12 months to June 30	Before regulatory change \$m	After regulatory change \$m
2010	2714	2714
2011	2967	3811
2012	3238	3774
2013	3528	3710
2014	3839	3621
2015	4172	3509

SOURCE: RICE WARNER

risk commissions sold outside superannuation.

"There's going to be increased use of financial services, there's increased wealth and money going into the financial services sector," Mr Murphy said.

"I find it hard to reconcile with all the work that's going on in the industry, and the success in the industry,

that there would be significant job losses."

Industry criticisms of the government's proposed reforms come as the Financial Ombudsman Service urged the government to arm the corporate regulator with greater powers to crack down on "phoenix activity" in the financial advice industry.

Chief ombudsman Shane Tregillis said his office had dealt with many complaints relating to consumers who had suffered losses after receiving inappropriate advice but whose financial planners had gone on providing advice services under a new licence.

"We can see that it's very devastating to consumers," Mr Tregillis told the committee.

"It's particularly unfortunate from an FOS point of view when people come in and they have these complaints. They do raise a view [of] 'how come I've suffered a loss, but I can see the person who I allege has caused this loss just setting shop under a different name'?"

He argued that enhancing the pow-

ers of the Australian Securities and Investments Commission would help crack down on phoenix activities and provide an added level of protection for consumers.

Phoenix activity refers to directors who transfer the assets of an indebted company into a new company of which they are also directors.

They then place the original company into administration or liquidation with no assets to pay creditors, and continue the business using the new structure.

There has been a significant rise in the number of complaints against advisers.

In its submission to the committee, the FOS noted that it accepted 1886 disputes about investment products and services during the year ended June 30, 2011, up 15 per cent on the previous year.

"Many of these disputes relate to advice," the submission said.

About 46 per cent were managed investment disputes, while 26 per cent related to superannuation and 67 per cent to real property disputes.

Contango confounds

Contango Microcap reported a net loss of \$22 million for the first half, failing from a net profit of \$50.6 million in the previous corresponding period. The investment company blamed a decline in the value of its investments for the result. No dividend for the six months ended December 31 has been declared. Separately, Contango Capital Partners reported a net loss of \$2.49 million compared with a profit of \$1.97 million.

Staff reporter

Businesses late to pay

Australian businesses are increasingly neglecting bills, the number of "severely delinquent" payments jumping over the Christmas period, Dun & Bradstreet has found. During the December quarter, the number of bills 90 days overdue or longer rose 20 per cent compared with the same period a year earlier.

Staff reporter

Bank clients happier

Satisfaction among bank customers increased in December to 79.3 per cent, the highest level in 15 years, Roy Morgan found. NAB rated the highest of the big four for the first time since July 2000, having narrowly beaten ANZ.

Staff reporter

Steady as a Rock

Standard & Poor's affirmed its BBB- issuer credit ratings on The Rock Building Society. The outlook is positive. The statement follows The Rock's takeover by MyState, which was completed in December.

Staff reporter

Credit Suisse bonuses set to include bonds

Bradley Keoun NEW YORK

Credit Suisse Group plans to pay a portion of senior employees' 2011 bonuses in bonds backed by derivatives, reviving a manoeuvre from 2008 that helped the firm dispose of risky assets while preserving the value for staff.

"We are trying to strike the right balance and align employees with

shareholders," chief executive Brady Dougan wrote in a memo to staff. It is "a risk transfer from the firm to employees".

Credit Suisse created the derivative-bond bonuses, which employees will receive in addition to cash bonuses and restricted stock, after a drop-off in trading and deal-making in 2011 led the biggest Wall Street firms to rein in compensation.

In 2008, during the depths of the US financial crisis, Credit Suisse gave employees shares in a \$US5 billion pool of junk-grade corporate loans and bonds backed by commercial mortgages.

Banks including Goldman Sachs Group and Morgan Stanley cut bonuses after anxiety about Europe's sovereign-debt crisis helped depress profits and share prices last year.

Credit Suisse, Switzerland's second-biggest lender, is among European banks facing pressure to bolster capital, the cushion of equity between a bank's assets and liabilities that's meant to protect depositors and senior creditors.

Europe's lenders have promised to cut more than €950 billion (\$1.2 trillion) of assets over the next two years.

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