



13 July 2022

Secretariat, Removal of Stamping Fee Exemption Review
Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600

By email: FinancialAdvice@treasury.gov.au

Dear Sir/Madam

Removal of Stamping Fee Exemption for LICs and LITs

The Australian Financial Markets Association (AFMA) welcomes the opportunity to make comment on the Removal of the Stamping Fee Exemption for Listed Investment Companies (LICs) and Listed Investment Trusts (LITs).

In our February 2020 submission AFMA firmly opposed the removal of the exemption from the stamping fee ban on the following grounds:

- Capital raising is one of the most important functions of the financial markets and is vital to a well-functioning economy. In a market-based economy firms should be entitled to charge for the significant work involved in raising this capital and the associated risks they bear. These services include:
 - due diligence and review of materials relating to the product raising;
 - managerial compliance around the product release process, including consideration of entry onto restricted lists;
 - review and rebalancing of model portfolios and asset allocation models;
 - preparation of launch materials, standard emails, and the briefing of advisors;
 - preparation of Statements of Advice and Records of Advice;
 - application form completion (these are often by the advisor acting on instruction from the client);
 - due diligence in relation to each involved client;
 - communication with individual clients – this can include multiple consultations with clients and be more extensive for more complex products; and
 - confirmation letters to each client advising of allocation.

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- There are better alternative measures for managing conflicts of interest associated with raising capital. Government setting of stamping prices at zero is neither a targeted nor proportionate way to deal with residual mis-selling issues.
- Beyond LICs and LITs' substantial contribution to the economy similar products including REITs, infrastructure securities, stapled securities and other related securities form an important part of Australia's capital raising infrastructure.
- LICs and LITs offer a flexible platform with multiple inherent efficiencies.
- Concerns around LIC and LIT performance suffered from point in time analysis, using only a select subset of available data, reflecting a 4.7 year period analysis of a small (by capitalisation) subset of the market, giving particular weight to a single year period. This was not a suitable basis for reforms to the whole LIC and LIT market.
- Large discounts to NTA are often cyclical.
- Higher fees when compared to ETFs validly reflected the active management nature of LICs and LITs.
- We cautioned against supporting passive over active investment strategies given the potential for performance of these approaches to differ over different periods in the market, and the potential benefits for financial stability in keeping a balance of funds invested in active and passive strategies.
- "A key outcome of removal of the stamping fee exemption for LICs and LITs will be reduced and less convenient access to investment options for retail investors."
- "The sector might remain open only to incumbents with large investor bases they can contact in relation to new issues. This creates a barrier to entry to competition in these structures and is not an economically efficient outcome."

In our view our concerns for the future of the sector have been largely validated by the events since the ban on stamping fees was implemented.

We offer the below responses to the questions posed in the consultation:

1. *What impact has the policy change had upon retail investors?*

The removal of the exemption to the ban on stamping fees has reduced the access and choice for retail investors to institutional quality asset managers which had previously considered listing their strategies through LICs and LITs. We understand from our members that a number of potential parties who had been considering listing in these structures prior to the change have turned their focus to other offshore markets where similar closed-ended vehicles are still supported at listing via stamping which facilitates achieving appropriate scale at listing.

Since the removal of the stamping fee exemption, the number LICs and LITs on issue has declined and there has been little new issuance, with only five new LICs listing since 2020. This compares to approximately ten new LIC listings annually in the three years prior to the repeal of the exemption. This suggests the removal of stamping fees has had an impact on this sector of the market and has reduced the diversification opportunities to retail investors. It is noted that there has been some reissuance by existing LICs and LITs but this has been restricted largely to wholesale investors (e.g. PL8, PE1, MXT and MOT).

As these raisings were generally done at a discount this meant non-holder retail investors were not eligible for favourable pricing.

2. *How has the policy affected stockbrokers and financial advisers?*

Members report that there has been a shift in market participant focus back to vehicles such as ETFs and an acceptance there will be certain sectors which would not be accessible to their clients.

Members report that as some financial advisers previously rebated the stamping fees or considered the fees when assessing appropriate fees per annum, and the removal of stamping fees may have indirectly led to the cost of advice increasing in some cases.

As financial advisers cannot recover incurred costs through stamping fees for their analysis and distribution of LICs and LITs to retail clients we understand they are less likely to consider these investments for their clients.

3. *How have consumers' investment choices been affected?*

Yes. As noted above, investment options in the sector have become more limited as the the number of LIC and LITs on issue has reduced, and there has been a reduction in new issuances in the last two years. This combined with reduced availability through advisers has reduced diversification opportunities for retail investors.

4. *Has the policy beneficially changed competition settings in the managed funds sector?*

Competition for distribution has levelled with LICs and LITs with other products subject to the stamping fee ban but at a cost to capital raising, and investor choice.

5. *Have there been unintended consequences resulting from the policy changes?*

The main unintended consequences that we can observe have been:

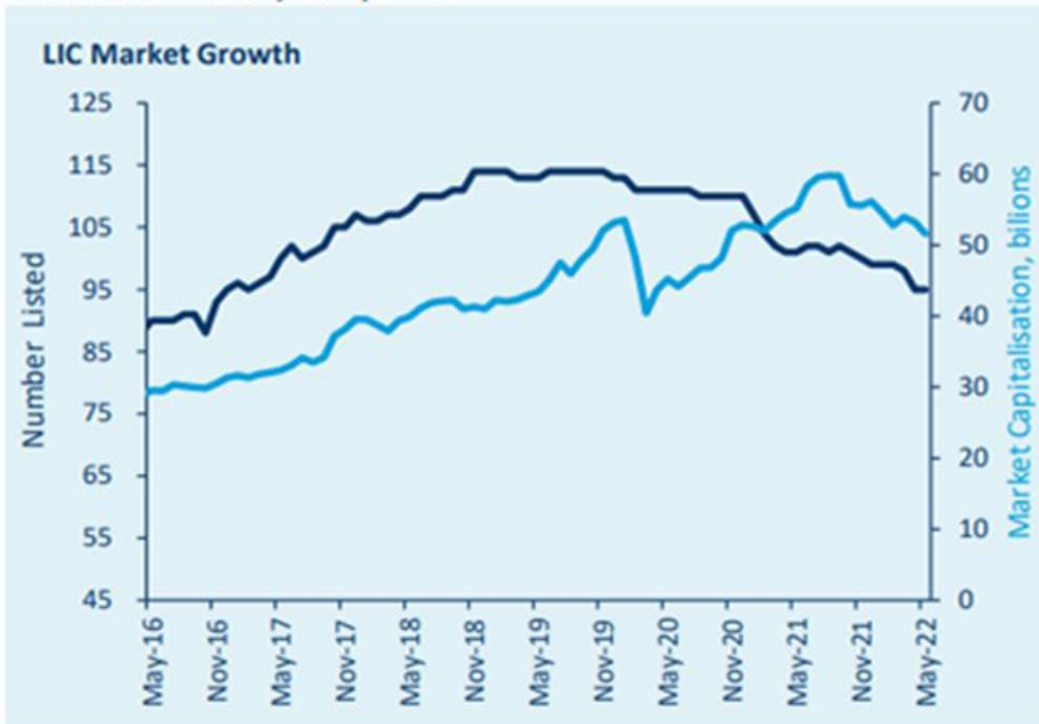
1. Reduced access for retail investors to some investment alternatives
2. Capital raising via these structures has decreased
3. Reduced attractiveness for global participants to enter the Australian market
4. Increased cost of advice in some cases
5. Reduced support for the LIT and LIC sector more broadly

As noted above retail investor access to primary LIC and LIT offers, and to secondary LICs and LITs has reduced, with reduced retail access to discounted offerings. Participants report they understand that some advisers have ceased to distribute these products to their clients.

Access to capital for LICs and LITs has become harder with capital raising impacted by an inability to recover costs incurred.

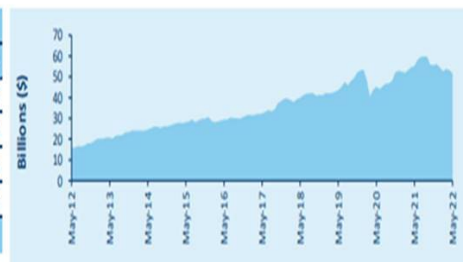
Growth in the LIC and LIT market has ceased (the number listed is falling and the total value is not growing) - Source ASX Investment Product Monthly May 2022:

LICs & LITs Summary - May 2022



LICs & LITs	Last 12 months			Last month	
	May-21	May-22	% change	Apr-22	% change
Market Cap (\$bn)	55.19	51.61	-6.5%	53.23	-3.0%
Number listed (actual)	101	95	-5.9%	95	0.0%
12 month avg transactions	104,106	123,997	19.1%	123,727	0.2%
12 month avg value (\$b)	0.76	0.92	20.5%	0.91	0.1%

more info <https://www2.asx.com.au/investors/learn-about-our-investment-solutions/lics-and-lits>



We trust these comments are of assistance. We would be pleased to provide further information or assistance if it would be of benefit.

Yours sincerely

Damian Jeffree
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