FINANCIAL REVIEW

HD **China deal just the start**

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The best way to look at the China Australia Free Trade Agreement is to put all the hyperbole and rhetoric to one side and think of it as the concrete slab at the base of a building.

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That analogy fits with the one used by Prime Minister Tony Abbott over the past week. He likened the deal to constructing the first storey of a house that might later have a second storey and possibly a third.

It's a fitting way to think about it because further negotiations are planned which could significantly change the agreement and make it more reaching than it already is.

The foundation of the agreement is a side deal between the Reserve Bank of Australia and the People's Bank of China to establish official renminbi (RMB) clearing arrangements in Australia.

The RBA and BoC memorandum of understanding is the bedrock of the deal because it opens the way for our central bank to participate in underwriting the RMB trade flows transacted between the two countries.

The RMB is set to become one of the most widely traded currencies in the world.

The opening of China's capital account must also involve significant restructuring and opening up of China's financial system.

The numerous side agreements announced on Monday in financial services revealed the way in which Trade Minister Andrew Robb ensured business was deeply involved,

The side deals include the ASX and derivatives trading, the ANZ Banking Group and financing for Chinese projects with the China Development Bank, National Australia Bank and the Export Import Bank of China and Australia Post and Union Pay for a new multi-currency travel card.

Funds management is a big winner from the deal because the RMB agreement includes Australia being granted access to the RMB Qualified Foreign Institutional Investor (RQFII) program, with an initial aggregate quota of RMB 50 billion.

The best could yet be to come for financial services because a high powered committee will be formed that will include the Australian Prudential Regulation Authority and the Australian Securities and Investments Commission as well as Chinese regulators to discuss the possibility of mutual recognition of the licensing of financial services companies.

If such an agreement is reached it will provide Australian wealth managers, advisers and securities companies with access to China without the necessity for local licence approval.

It is this local approval in China which has the potential to be an impediment to the smooth operation of increased trade between the two countries in professional services.

The long lead times involved in the phasing out of tariffs for agricultural products show that the words "free trade" are often tossed around without concern for the nitty gritty.

The trade deal was given almost universal approval on Monday as industry bodies representing agriculture, mining and manufacturing gave their endorsement.

But the Australian Industry Group's Innes Willox injected a note of realism when he said that "all studies, along with feedback from our members, indicate there is very low take up of advantages under Australia's FTAs and this should be addressed to reap the full benefit of these agreements".

The visit to the Sydney labs of National Information Communications Technology Australia (NICTA)by German Chancellor Angela Merkel is a reminder of the value foreign leaders place on marrying research and commercial skills.

Germany's Fraunhofer Gesellschaft is Europe's largest application oriented research organisation. It has been used as a model for the development of translational research centres in other countries including the United Kingdom.

The Catapult Centres in the UK make world leading technical capabilities from research centres and universities available to large and small businesses.

A recent review of the seven Catapult Centres by Herman Hauser found that secure long term core funding from governments is part and parcel of international best practice in the commercialisation of research.

Hauser said the government funding allows the Catapult Centres "to carry out applied R&D projects addressing the key challenges and opportunities facing their sectors; it allows them to take-on the new areas that are too large or too risky for individual companies to tackle."

The concept of sharing development risk between government and business is happening at NICTA. But the federal government plans to scrap its funding in 2016.

Working for an Australian bank is a ticket to riches if you make it into the senior management ranks thanks to generous equity and cash based incentives. But the release of the National Australia Bank annual report shows that poor performance can be extremely costly for senior staff.

NAB's total deferred remuneration for senior managers fell 42 per cent to $36.4 million in 2014 mainly due to $47 million in forfeitures and lapses due to failure to meet performance hurdles.

That is not to say NAB's bankers will starve. The bank paid senior managers $22 million in equity awards and $25 million in cash based awards in 2014.

NAB's material risk takers are owed $19 million in deferred remuneration. They took home $15 million in cash and $11.8 million in equity awards in 2014.

Over at Westpac Banking Corp the value of deferred remuneration for senior managers rose from $93.6 million in 2013 to $94.7 million in 2014. Westpac paid its senior managers $31.7 million in equity awards and $31.7 million in cash awards in 2014.

Westpac's material risk takers were owed $23 million in deferred equity at the end of September. They took home $10 million in equity and $10 million in cash in 2014.

The benchmark for deferred equity is Macquarie Group. It has outstanding deferred remuneration of $132 million for senior managers and $213 million for material risk takers.

One of the reasons Gail Kelly will be remembered as one of Australia's most successful chief executives is her enlightened attitude to the media.

She explained her approach to Chanticleer in an exclusive interview last week.

"I have never had a thin skin. I have never been a CEO who has run to editors and said: what is this? and what is that?

"There are many, many times when I have felt personally affronted by things which have been written which are wrong or incorrect. There are many times where I think journalists get away with murder because they can write something which is unsubstantiated and wrong and hurtful and actually has damaging consequences on reputations or intentions or whatever.

"I have never been the kind of person that has rung up editors or others. I have always sucked it up and thought well that is the nature of the world we live in. I will just keep on doing my job and try through my career and through my leadership, through the delivery keep actually doing the right thing.

"I have known CEOs who go off the deep end and they blame people around them and they have started ringing editors and they have started threatening advertorials and who knows what.I have never in my whole career, never once, done anything like that. It's always about respect, it's always about trust. Actually I recognise that I am a public figure and I recognise as a public figure people will have comment and some of it is just wrong. As a public figure my job is to just get on and get the job done and keep delivering."

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