Review of

"The Millionaires' Factory: The Inside Story of How Macquarie Bank Became a Global Giant", by Joyce Moullakis and Chris Wright, Allen & Unwin, Sydney 2023

This is an impressive, informative, piece of work which I enjoyed reading. It warrants wide readership. As well as providing insights into Macquarie's organization, evolution, activities and success, it will be of interest to those studying Australia's recent financial history. Of course, the large number of Macquarie alumni (the book suggests around 100,000) and current staff (over 18,000 globally in 2022) provide a ready market.

But for others, despite the many interesting character sketches and well written "travelogue" through Macquarie's exploits, the book may be somewhat heavy going - for one main reason. Macquarie is a mammoth organization which has been involved in a huge number of complex financial activities across the international stage. (The 2022 Annual Report of Macquarie Group states that it operates across 33 markets in areas of "asset management, retail and business banking, wealth management, leasing and asset financing, market access, commodity trading, renewables development, specialist advice, access to capital and principal investment"). Outlines of key transactions, necessarily, form a large part of the book. Unfortunately, most need virtually a book each to explain and require a high level of financial expertise to properly understand.

Those who are not finance experts can skip over the specific deals and will still find much value in (at least) two features of the book. One is the information on the management and governance of the organization, including adaptability of the divisional structure to opportunities and challenges. Macquarie has consistently shown a willingness to expand into new (generally "adjacent") activities promoted by staff (rather than a top-down approach) under a strict risk-control framework. A second (related element) is the emphasis on the quality of its staff and the organization's dependence on them to investigate, generate, and develop, new activities. The remuneration arrangements bring promise of rich personal rewards if successful, while failure of a new activity which has received the go-ahead under strict risk controls is not a career-limiting outcome.

Some readers may find the continued recitation of names and characteristics of key Macquarie personnel strange – but it is the people involved who have made Macquarie what it is today. As the old saying goes, in financial institutions the main assets walk out the door every night (or late-ish early morning in many cases in investment banking)!

One thing the book does not do is to provide any tables or graphs showing the enormous growth of Macquarie since its creation out of Hill Samuel in 1985, its integral role in the Australian financial system, and its successful overseas expansion. Some such summary material might have proven useful for those less familiar with Macquarie's position in the financial system.

Of course, given the scope of Macquarie's activities, relevant metrics for comparison purpose are not easy to identify. For example, Macquarie Bank (the "commercial banking" part of the group) is small compared to the four major banks, with resident deposits about one-third of those of ANZ (the smallest of the four major banks). The Macquarie Group overall has around half the number of employees of ANZ, but its overall personnel expenses in 2022 were around 15 per cent higher than ANZ (reflecting the "millionaires' factory" depiction used in the book's title).

The authors hint at but do address several questions which critics of Macquarie might pose.

First, to what extent have Macquarie's profits come from pushing the boundaries of tax arbitrage such that its resulting private profit does not equate with social benefits, but is instead redistribution from taxpayers? There are generally loopholes in tax law due to imperfect drafting, or gray areas between what is clearly within or outside of the law. The opportunity to exploit (or arbitrage) such situations is greater when several jurisdictions are involved, and the book refers to several such as the "cum-ex" dividend arbitrage. But domestically there are also many examples.

The profit motive underpinning Macquarie, and its remuneration structure, naturally leads towards attempts to exploit such opportunities even if the private gains are purely at the expense of government tax revenue and not involving any (or much) creation of social value. The authors quote former Treasurer Peter Costello saying "[t]hey engineered tax breaks to within an inch of their lives", which often led to changes to tax laws to prevent such activities. What is "ethical" is a matter of opinion!

Second, in constructing value adding deals with clients and customers, how much of the net benefit accrued to Macquarie and how much to the customers. As well as the nickname of "Millionaires' Factory", Macquarie has also been referred to as the "fee factory". In, for example, its now abandoned infrastructure trust structures, various parts of Macquarie would obtain fees: when purchasing assets for the trust (and "clipping the ticket" via a profit on the sale price into the trust compared to the purchase price); fees from managing the trust; commissions from selling units in the trust to investors etc.

Macquarie's position as an innovative creator of financial products and structures has often given it a first-mover advantage, such that with no competing supplier, Macquarie has been able to extract a major part of the value created. Obviously, some value for the client needs to be provided, and concerns that a perceived unfair distribution of benefits would cruel future business limit the amount of value extraction possible. What is "fair" is a matter of opinion!

Third, to what extent did Macquarie benefit from exploiting poorly informed (wholesale and retail) consumers and users of financial products – as the Royal (Hayne) Commission (RC) found to be the case for the four major banks and others. Macquarie escaped from the RC with its image barely tarnished compared to the four major banks. One reason was that its then CEO Nick Moore was able to point to the remediation activities it had put in place prior to the RC, once it had recognized problems. But Macquarie was also lucky in that the terms for the RC only required it to look back as far as the GFC. Had the mandate included years prior to that time, the result may have been different.

Prior to the GFC, Macquarie (and other banks) created highly financially engineered structured products and marketed them to retail (and other) investors. Even financially literate investors could not have possibly understood the risks or value of the products they were sold. A vast majority of those products would not have met current Design and

Distribution Obligation requirements aimed at financial consumer protection. This was typical of the time and Macquarie was not particularly different to other purveyors of such products. But whether, in the absence of effective regulation Macquarie would revert to pushing the behavioural boundaries is a matter of opinion!

There is no question that Macquarie is an Australian success story. Its 2022 Annual Report indicates that $100 invested in its shares at the time of its listing on the ASX in 1996 would have grown to $10,000 in 2022. But more importantly, it has provided or enabled funding for many investment projects of its customers which might not otherwise have gone ahead. By taking an active role in the management and governance of large projects (such as toll roads, utilities) it has enabled more efficient operation of such projects than might have otherwise occurred. It currently is near the forefront of financiers focusing on “green finance” where activities generating social and environmental benefits can be consistent with exploiting profit opportunities from a first-mover position.

There will, no doubt remain many critics of Macquarie’s profit orientation and a resulting possible conflict with broader social goals. They would gain much from reading this book, both to find specific examples of where that may have been the case, but also to understand that profit-seeking is not always inconsistent with social goals.

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