



30 April 2014

Committee Secretary  
Senate Economics Legislation Committee  
PO Box 6100  
Parliament House  
CANBERRA, ACT, 2600

Email: [economics.sen@aph.gov.au](mailto:economics.sen@aph.gov.au)

Dear Dr Dermody,

**AFA Submission to the Inquiry into the Provisions of the Corporations Amendment (Streamlining of Future of Financial Advice) Bill 2014**

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The Association of Financial Advisers Limited (“**AFA**”) has served the financial advice industry for over 65 years. Our aim is to achieve *Great Advice for More Australians* and we do this through:

- advocating for appropriate policy settings for financial advice
- enforcing a Code of Ethical Conduct
- investing in consumer-based research
- developing professional development pathways for financial advisers
- connecting key stakeholders within the financial advice community
- educating consumers around the importance of financial advice

The Board of the AFA is elected by the Membership and all Directors are required to be practising financial advisers. This ensures that the policy positions taken by the AFA are framed with practical, workable outcomes in mind, but are also aligned to achieving our vision of having the quality of relationships shared between advisers and their clients understood and valued throughout society. This will play a vital role in helping Australians reach their potential through building, managing and protecting wealth.

Thank you for the opportunity to make a submission with respect to the Senate Economics Legislation Committee Inquiry into the Government’s proposed FoFA Amendments.

The AFA strongly supports these amendments to the Future of Financial Advice legislation and the separate, but un-finalised proposals with respect to changes to the regulations. We believe that they collectively deliver significant enhancements and reductions in red tape, whilst at the same time delivering a high level of consumer protection. These amendments will make financial advice more accessible and more affordable.

We have been extremely disappointed to see the significant volume of commentary that has

incorrectly stated that there will be negative implications for consumers from these changes. In our opinion these comments are misinformed and reflect vested interests in retaining the existing legislation. It is unfortunate that there has been a complete lack of balance in the media coverage of this package of Amendments. We have also been particularly concerned about the risk of a significant reduction in consumer confidence in financial advice as a result of this campaign of misinformation and misrepresentation. It is time for Australia, as a whole, to recognise that financial advice is good for Australians and that all stakeholders should actually be striving for more Australians to receive financial advice and not less.

There are some fundamental problems with the existing FoFA regulatory regime, including the fact that an adviser cannot change from one licensee to another licensee without the comprehensive loss of all grandfathering that will have significant business and client impact. It is also the case that corporate super advisers are now virtually prevented from providing advice to employers on the selection of a default superannuation fund. It is very disappointing that such important issues have been left for so long in such a state of dysfunction. Given the impact that these unintended consequences are having upon the provision of financial advice to Australians who are in need of financial advice, it is time for the Parliament of Australia to act and resolve these and the other issues that are impacting consumers and those individuals and businesses that provide them with financial advice.

The financial advice profession has embraced much of what the original FoFA legislation implemented. There have been no calls to repeal the ban on conflicted remuneration for investments and superannuation, nor to remove the best interests duty. This package is about improving the legislation and making it more consumer friendly, effective and practical.

The AFA believes that the client is central to the role of financial advisers. We consider consumer protection to be critically important, although this needs to be subject to the consideration that the creation of additional consumer protection should be subject to a cost benefit analysis. In contrast to much of the public commentary on the amendments, advisers and clients sit on the same side of the fence and as such the AFA will not advocate for something that is detrimental to consumers. As such, we believe that these amendments have a net positive impact upon consumers in that any measures that have been removed have very minimal consumer benefits and that the amendments will have a positive impact upon the cost of running a financial advice practice, as well as improve the cost and access to consumers that wish to receive advice. We therefore believe that these amendments are positive for both consumers and financial advisers.

We are appreciative of the fact that the FoFA reforms impact a number of areas beyond the boundaries within which financial advisers typically operate. These reforms impact banks, superannuation funds, stock brokers and many more sectors. We are acutely aware that some stakeholders inappropriately attribute some of these changes to financial advisers, and incorrectly apportion benefits as being likely to accrue to financial advisers as a result of the proposed amendments.

We are particularly concerned by attempts to link the proposed amendments to the likelihood of further financial collapses. This is a falsehood in every respect. These changes do not increase the risk of a future collapse, but neither do we think that any legislation or regulation can fully remove this risk from the financial landscape, particularly with reference to product failures and fraudulent activity.

In the following section we address each of the amendments proposed by the Government and also areas where we believe that changes are still required to the FoFA regulatory regime.

## **1. Repeal of the Opt-in Obligation**

The AFA supports the repeal of the Opt-in obligation. An obligation of this nature is not reflected in any other industry or profession in Australia. The financial advice profession is not the only

business that puts in place ongoing arrangements to receive client payments. There are many service provision businesses where clients continue to pay in the future based upon an agreement at the commencement of the arrangement. We do not believe that the cost and complexity that came with the Opt-in requirement was warranted.

We remain concerned that with the limited timeframe of 30 days to obtain the clients agreement to continue an arrangement, that in many circumstances the client would unintentionally not respond in time. This might include situations where the client is on holiday, is in ill health, or has other significant commitments in life. Industry experience suggests that the rate of response to any mail based request would be low, despite the level of value demonstrated in the financial advice relationship. The consequences of not responding within the 30 day deadline are significant, including the full and irreversible termination of the financial advice arrangement.

We recognised that the fulfilment of Opt-in was likely to be most effective in a face to face situation, however this is not always possible, particularly for rural, regional and ex-pat clients, or situations where client contact within the prescribed timeframe is not possible because the client has other pressing commitments.

The time and cost of following up clients who had not completed their Opt-in renewal notices would be extensive. This cost would have contributed no value to the clients, and may have negatively impacted upon their relationship with their adviser. It is challenging to force a client to comply with a legislative deadline for the return of a renewal notice when this is a bureaucratic process that in many cases they do not support nor see the need for as they are content with their advice relationship.

It is also important to note that the Opt-in obligation only applied to new clients after 1 July 2013 and these are the clients who will continue to receive Fee Disclosure Statements. Therefore these clients will still be clearly advised of the fees that they are paying and will have the opportunity to terminate the relationship if they no longer consider that it is delivering value.

It should be noted that there is significant misinformation about this measure. Some observers have stated that Opt-in will address those clients who are paying ongoing trail commission to advisers but the client has not seen the adviser for some time. This is incorrect as these clients were never going to receive an Opt-in notice under the current legislation as they were existing clients before 1 July 2013.

We fully respect the client's right to terminate an ongoing fee arrangement at any point should they either not be receiving the agreed service or not obtaining the necessary value to justify the continuation of the arrangement. This is a fundamental right that we continue to fully support.

<b>Recommendation:</b> Repeal the Opt-in Obligation.
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## **2. Repeal of Fee Disclosure Statements for Existing Clients**

The AFA supports the repeal of the obligation to provide Fee Disclosure Statements (FDSs) to existing clients (i.e. pre 1 July 2013). Not only was this obligation applied retrospectively to existing client arrangements, but also exposed some important issues with respect to the complexity of extracting information from legacy systems and products.

There appears to be a lack of understanding with many observers with respect to existing disclosure obligations and the implications for fees and commissions. It is important to understand what existing clients would receive and what the implications of the removal of the FDS for existing clients will involve. Relevant to this consideration are the following points:

- Adviser service fees and trail commissions need to be disclosed in Statements of Advice provided to clients.

- Adviser service fees are disclosed in periodical product statements by legal obligation.
- Advisers typically provide information about fees in client reviews.
- Due to the Product Fee exemption in the FoFA Regulations (Regulation 7.7A.10), trail commission does not need to be included in an FDS.
- Where a client chooses to terminate a trail commission payment to their financial adviser, the payment is retained by the product provider, rather than being passed back to the client. The cost to the client does not reduce as a result of terminating the trail commission.

Importantly, existing clients who are paying adviser service fees will already be receiving the information on the ongoing fee they pay to their adviser (that would have been included in an FDS) through the regular product statements they receive.

The production of FDSs has been the biggest driver of both project and ongoing cost that have arisen from the FoFA obligations. The removal of the requirement to provide an FDS for existing clients will have a significant positive impact upon the cost of running financial service businesses and financial advice practices, and the cost of getting advice.

**Recommendation:** Repeal the obligation to do Fee Disclosure Statement for pre 1 July 2013 clients.

Recommendation 5 within the Coalition’s original FoFA recommendations from February 2012 stated that the annual fee disclosure statement requirement be amended from “detailed” prescriptive information and inflexible issue rules to “summary” information only “given” at least annually to the client.

With respect to the inflexible issue rules, we would like to see the maximum timeframe for the issue of FDSs for new clients extended from 30 days to 60 days. The requirement to issue within 30 days places significant pressure upon financial advice practices which could negatively impact the provision of advice to clients of the practice. There is often a significant delay in the provision of information from product providers to licensees and thus individual advice practices, which places huge and unnecessary pressure on the whole process. For advisers who would prefer to deliver an FDS in a face to face manner, it may not be possible or convenient for clients to attend an appointment in the limited window of opportunity that exists at the end of this 30 day period. Extending this deadline by a further 30 days will not have any impact upon consumer protection, will be more convenient for clients and will enable businesses to operate the FDS process more efficiently. In fact a delay is likely to mean greater accuracy in the statements.

**Recommendation:** Increase the timing for the provision of the Fee Disclosure Statement from 30 days to 60 days.

### 3. Repeal of the “Other Steps” Obligation in the Best Interests Duty

The AFA believes that removal of the “Other Steps” obligation under section 961B(2)(g) creates an improved piece of legislation with an immaterial impact on consumer protection. From our perspective, there is a lack of clarity with respect to what is required in order to comply with this obligation. We therefore support the repeal of the “Other Steps” obligation.

Section 961B(2) is a safe harbour provision. As such, it is intended to provide pragmatic guidance on what is required to ensure that an adviser meets the obligation of satisfying the Best Interests Duty. The first 6 steps in Section 961B(2) comprehensively address the obligations when providing

financial advice. Based on a consensus of legal opinion, we do not consider it appropriate to have a safe harbour that includes an open ended requirement where no one can clearly explain what was required in order to comply with the legislation.

We also make the point that financial advisers remain bound by the obligations that the advice is appropriate to the client (Section 961G) and that they prioritise the interests of the client where there is conflict with their own interests or those of a related party (Section 961J). There is a high level of interdependency between these obligations that ensures financial advisers are subject to a high bar. The removal of Section 961B(2)(g) does not allow a financial adviser to provide advice that is to the adviser's benefit and not in the best interests of the client.

Whilst there have been many objections raised with respect to the removal of this "Other Steps" clause, those opposing this have not come forward with any examples of an additional step that is not already addressed in the first six steps in Section 961B(2), nor have those that oppose it offered an explanation of what financial advisers are currently doing that they could stop doing if Section 961B(2)(g) was removed.

One of the critical places to seek guidance on the requirements of Section 961B(2)(g) is in ASIC's guidance in RG 175 – Financial Product Advisers – Conduct and Disclosure. In the section below we have included an extract of what ASIC stated about Section 961B(2)(g). In our view, what they have suggested is already commonly covered by financial advisers.

*RG 175.336 What advice providers need to do to show that they have satisfied s961B(2)(g) varies depending on the surrounding circumstances. Advice providers may need to undertake the following steps, if they have not already done so, to satisfy s961B(2)(g):*

*(a) explain clearly to the client the advice service that is and is not being provided;*

*(b) if the advice includes a product recommendation, provide related strategic recommendations that benefit the client;*

*(c) depending on the subject matter of the advice, specify in the advice that the client should review any decision made about financial products on the basis of the advice provided:*

*(i) once after a period of time;*

*(ii) regularly (e.g. every one or two years); or*

*(iii) if the client's circumstances change.*

*The review period will depend on the circumstances, including the recommendation that the advice provider is making, the volatility of any investment returns and the likelihood of a change in the client's circumstances; and*

*(d) offer to provide advice (or refer the client to someone who can provide advice) on any other key issues identified by the advice provider within the subject matter of the advice sought by the client. For example, if the advice provider has identified that it is important for the client to consider whether to consolidate their superannuation accounts, and this is within the subject matter of the advice sought by the client, they may need to offer to assist them (or refer the client to someone who can assist them) in providing advice on that topic.*

*RG 175.337 There is no absolute requirement to take the steps in RG 175.336. As mentioned above, whether they are required will vary depending on the surrounding circumstances.*

Whilst what is stated above is already commonly done by financial advisers, we also consider the items raised above to be of a disclosure nature and as such do not represent genuine steps. In their absence they are not likely to have any material impact upon the overall quality of the financial advice.

The consensus of legal opinion is that Section 961B(2)(g) creates uncertainty in that courts and EDR's will be attempting to interpret what the legislator's intended by its inclusion, and would be some years before a level of clarity emerges as this obligation is tested by the External Dispute

Resolution service providers and the courts. This is problematic because it is likely to have a negative impact upon professional indemnity insurance premiums in the meantime, and the availability and competition for PI insurance is already at worrying levels in Australia. It is also of great concern that the EDR findings can be based upon “best practice” rather than the law; can involve large compensation payments; and do not provide for any right of appeal. In the absence of clear guidance or precedent from court decisions, this is likely to lead to inconsistent outcomes in the meantime.

The reduced cost and increased clarity from the removal of the “Other Step” obligation far exceeds any potential but unquantified loss of protection to consumers. In short, its removal will create clarity and understanding for both the client and the financial adviser.

With the exception of a small number of parties in the legal profession, there is strong consensus on the following:

- Section 961B(2)(g) is unworkable.
- Advisers are subject to a range of other duties that reduces the risk to consumer protections from the removal of section 961B(2)(g).
- The first six steps require a high level of professional judgement and are not simply a check list.
- It is the combination of the different obligations under the Best Interests Duty and related obligations that collectively ensure a high bar for consumers.

The consensus legal opinion is that the removal of Section 961B(2)(g) will improve the law, but not have a significant legal impact on an adviser’s duties. We continue to believe that for the purposes of clarity, that it should be removed to create a more effective piece of legislation.

We also support the repeal of Section 961E, in the context of the proposal to repeal Section 961B(2)(g), given that Section 961E refers to the determination of how to assess whether a step is required.

<b>Recommendation:</b> Repeal Section 961B(2)(g) and Section 961E.
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#### 4. **Increased Certainty with Scaled Advice**

We support the changes that have been developed to make it clearer with respect to the ability to provide scaled advice. We do not believe that these changes will have any negative impact upon consumer protections. We support the retention of the note below Section 961B(2)(g) and the additional sentence with respect to the inquiries required of a financial adviser.

We also support the new clarification on scaled advice as set out in Section 961B(4A).

In our view some of the commentary that has suggested that there is a high level of risk involved in the provision of scaled advice has been significantly misinformed. This talk seems to be suggesting that scaled advice should be prevented. Scaled advice was permitted under the previous legislative obligations and has been recognised by ASIC as applicable in some form to most financial advice. It is most surprising that this view is coming from elements of the industry fund movement where scaled advice is the only type of advice that they are able to provide.

The provision of scaled advice facilitates the delivery of financial advice in the most cost effective manner in many circumstances. Further work is necessary to better ensure that consumers can obtain cost effective personal advice. We would like to see further work done by the Government to assess the opportunities to increase the access to personal advice through better enabling scaled advice.

**Recommendation:** Support the changes with respect to improved certainty in the provision of scaled advice.

## 5. General Advice Exemption

The General Advice exemption should not be relevant to financial advisers. We note the changes that have been made in the final Bill, which specifically excludes the application of this exemption for self-employed advisers. This is done by the means of limiting it to employees of a licensee, where personal advice has not been provided to the client in the last 12 months and where the general advice relates to what we believe to be the licensee's own product. We note that the Explanatory Memorandum does not provide further guidance as to the specific application of the requirement under Section 963B(6) that "the financial product in relation to which the general advice is given is a product issued or sold by the licensee." For the removal of uncertainty, we recommend that further explanation is provided.

The AFA does not support the use of this exemption by our members, as we believe that they predominantly maintain close ongoing relationships with their clients and provide personal advice. We have not advocated for a general advice exemption. We understand that this exemption is intended for call centres and branch based operations. It does not apply to financial advisers providing personal advice.

It is unfortunate, once again, that much of the negative campaigning has been directed at financial advisers through an assertion of a linkage between this exemption and financial advisers. We are pleased that the final version of the Bill, makes it particularly clear that this is not relevant to financial advisers. In the meantime, much of the commentary has wrongly questioned the integrity of financial advisers and their involvement in seeking this exemption. It is extremely difficult to undo the damage that has been done by the parties behind this campaign. The AFA is in no way seeking the re-introduction of commissions for superannuation and investment products.

We actually consider the use of the term commission in connection with this exemption to be misleading. We expect that the form of conflicted remuneration paid under such an exemption to be a once off bonus payment, rather than a traditional commission with an ongoing element.

We believe that the confusion caused by the parties driving this campaign of misinformation has brought into question a number of elements with respect to general advice and whether this is really the most appropriate term for this form of product recommendations. We believe that this is an issue that should be addressed to avoid confusion in both the financial services industry and in the mind's of consumers and would expect the Financial System Inquiry to form a view on the issue.

## 6. Other Conflicted Remuneration Changes

There are a number of changes that have been made to the Conflicted Remuneration obligations through items 23, 24, 25, 26, 28, 30, 31, 32, 33, 34 and Section 963B(7) that are largely of a technical or effectiveness nature, which we support. In particular we appreciate the clarification given with respect to the client directing payments from a superannuation fund, where technically these are assets under the control of the trustee.

We note the clarifications with respect to execution only advice. Whilst we have some reservations about this provision we expect that the application will be very limited as it will only be certain products that will still enable the payment of a commission. We would prefer to see fees for execution only services to be paid as an adviser service fee, although we recognise that some products may be designed to pay a commission and not have the capacity for an adviser service

fee. We do not think that this will apply to superannuation or managed investment scheme products.

The AFA supports the proposed extension to the training exemption achieved through the change to Section 963C(c)(ii), because training on conducting a financial services business should be as relevant as training on the provision of financial advice.

**Recommendation:** Support the other technical amendments to the application of conflicted remuneration.

## 7. Execution Only Exemption

We are uncertain with respect to how this exemption will work in practice and which products would exist where it might be possible for commissions to be paid. With respect to consumer protection, we are hesitant with options like this where there is a risk that it provides an inappropriate incentive to facilitate the placement of financial products without advice, as opposed to through the provision of personal advice. We do however understand the rationale that has been provided, in that the causal link should be with the specific provider and not just the licensee.

We find assertions by certain parties that financial advisers would leverage this execution only exemption by having one adviser provide personal advice and another to provide the execution only service as a means to be paid a commission, nothing short of ridiculous. There is no incentive for the financial adviser providing personal advice to follow this approach, particularly when they can charge an adviser service fee commensurate with the services provided in the form of personal advice. The motivation of those people behind these ridiculous assertions needs to be seriously questioned.

## 8. Commissions on Insurance Inside Superannuation

We note that the change that was proposed to be made to enable Insurance inside Superannuation, when personal advice is provided, has not been included in the final legislation. We are disappointed with this outcome for the following reasons.

Currently commissions can be paid on insurance inside superannuation, if the insurance is facilitated by an individual policy as opposed to a group life policy. This is a distortion of the market place and might pose the risk that it would inappropriately influence a financial adviser to recommend one product over another. Insurance via a group life policy should in many cases deliver lower premiums and other benefits, including higher automatic acceptance limits. Thus we saw no reason to allow commission for one form of insurance product, but prevent it in another form that is fundamentally similar.

In addition to what was proposed, we also believe that the Government needs to review the case of corporate superannuation advisers providing advice on employer funds and making a recommendation on a group life arrangement where the adviser's involvement can lead to a reduction in premiums, an increase in automatic acceptance limits and an enhancement in the terms. These services are provided at the plan level and the benefits apply to all members, whether they are in the MySuper investment option or Choice options. Corporate superannuation advisers also play a very important role in assisting members or their families in making insurance claims. Corporate superannuation advisers may also provide services to assist individual members with their insurance arrangements, however this would not typically involve providing personal financial advice to the member. Employers and the members of their employer superannuation plans should have the ability to access advice and ongoing services on insurance and corporate superannuation advisers should be able to be remunerated for providing these services.



**Recommendation:** That the Committee recommend to the Government that they enable the payment of commissions on a consistent basis for insurance inside superannuation where advice is provided to the member, or in a corporate super context, to the employer.

## 9. Grandfathering – Changing Licensee

The AFA is conscious that the necessary change to grandfathering will be delivered by the means of Regulation, however we would like to take this opportunity to stress the importance of resolving this issue as a matter of urgency. This problem emerged on 28 June 2013, just prior to the commencement of FoFA through the release of Regulation 7.7A.16F, which prevents an adviser from moving from one licensee to another and retaining grandfathered benefits.

The impact of this issue has been that advisers who have anything other than an insignificant amount of grandfathered business have been effectively prevented from changing licensees. There are a number of reasons for this. Firstly there would be a huge impact on clients from moving (discussed below). Secondly there would be the likelihood or risk of a significant reduction in new business activity and revenue. Thirdly, since businesses are typically valued on the basis of the amount and type of ongoing income, there would also be a significant reduction in the value of the business.

If because of this Regulation, advisers were to be forced to stay with their current licensee then we see a number of negative implications:

- There would be a substantial loss of competition in the market for advisers. New licensees or growing licensees with a strong value proposition would be restricted in their ability to expand. Existing licensees could become complacent, simply because there would be a significant reduction in the risk of losing advisers. New licensees (i.e. created after 1 July 2013) are unable to compete for financial advisers who wish to retain grandfathered benefits.
- Licensees who have developed concerns about the conduct of their advisers need to be extremely careful before they terminate an adviser. Since terminating an adviser from a Licensee has significant irreversible implications for that adviser, there is a greater tendency to obtain absolute certainty that the adviser had done something to breach their agreement with the licensee, before taking any action. This is likely to mean that licensees are very hesitant to terminate an adviser and problems with conduct and behaviour may not be comprehensively acted upon until there is clear proof.
- An adviser who has lost confidence in their licensee, due to poor or inadequate processes, will not move despite their concerns. This will unfortunately place the adviser in an ethical bind because they need to trade off the issues with staying with a licensee that they are uncomfortable with, against the implications on their business from moving and losing grandfathering.

We believe that each of these issues is very significant and would have a serious negative impact upon competition and integrity within the financial advice profession.

In the event that an adviser was to decide to change licensee and to face the loss of grandfathering for existing clients, there would be significant implications for advisers including the following:

- The adviser would need to review every client on a trail commission arrangement in order to consider moving them from a commission paying product to a fee paying product. This would take a significant period of time as a Statement of Advice would need to be provided to each client. As any recommendation to change products would need to comply with the best interests duty, there may be many situations in which the adviser could not recommend a change, which would mean that the adviser would not be remunerated for their ongoing

services where the client retains the original product.

- This would be extremely time consuming and would mean that the adviser's capacity to service existing clients and provide services to new clients during this period would be significantly curtailed.
- It is also likely that in some situations there will be complex issues that need to be resolved as part of restructuring a client's position (see below), which would further consume the adviser's time.
- The net effect of this issue is that the adviser would put their business at risk and be subject to a high level of uncertainty and reduced productivity as well as a net reduction in market capacity to meet the public's personal financial advice needs.

As discussed above, it will be necessary for financial advisers to consider moving clients from a commission paying arrangement to an adviser service fee arrangement. There are likely to be a number of complications for clients in this:

- Changing adviser remuneration arrangements for existing products will be confusing and time consuming for clients. If nothing has happened other than their adviser changing licensee, then it will not be obvious to them why they have to receive new advice and change product and/or remuneration arrangements for products they currently hold. It will also potentially impact upon their trust in their financial adviser. It is difficult to see what benefits are available to the client to offset the disturbance and time involved in this.
- Adviser service fee options will not be available for all products. This would mean that the client would need to be moved to a completely different product. Moving a client to a completely different product could expose the client to exit fees, Capital Gains Tax and also the risk of a loss or reduction in insurance cover and increase in premiums (where insurance is held through a superannuation product). The loss or reduction in insurance would apply in the context of the client's current health condition having deteriorated since the insurance was originally taken out. Being subject to new underwriting may have significant consequences, such as having the cover declined, exclusions added, limitations on the level of cover and premium loadings. In this context, the adviser would not be able to recommend a movement to a new product and would no longer be able to be remunerated for services provided to this client.
- The client's existing investment options may not be available in a more modern product. One example of this might be capital guaranteed products.
- Other products may provide for commissions and adviser service fees, however not allow the commissions to be rebated to the client. In this case the client would be in a disadvantaged position if they were required to pay an adviser service fee, but not get the benefit from the commission being cancelled (because it would be retained by the product manufacturer). Once again, there are potential best interest implications from this situation.
- Further, other products will allow an adviser service fee to be added and for trail commission to be rebated. This will be a complex situation for clients because they will see fees come out of their product, and a separate rebate for the trail commissions. This will be complex and confusing to understand which will be challenging for clients. Further, it is uncertain as to whether receiving and then rebating commissions is an entirely acceptable approach.

Therefore as set out above, we believe that the impact of Regulation 7.7A.16F is to have a significantly negative impact on financial advice practices and consumers by effectively preventing the normal and competitive movement of financial advisers between one licensee and another. Thus we believe that a solution via Regulation is urgently required.

We would also like these changes to be extended to cover new licensees that were created after 1 July 2013. In our view the ability of new licensees to enter the industry and to attract existing

financial advisers is an important element of maintaining a robust financial advice profession. We believe that the best solution is for grandfathering to apply on the basis of an existing adviser to client product relationship. This would also resolve the situation where an existing licensee did not have an arrangement with a product provider that was applicable to an adviser who is transferring from another licensee that already has an arrangement with that product provider.

**Recommendation:** That the Committee recommend to the Government that they finalise a Regulation to resolve the Grandfathering issue as soon as practical.

## 10. Other General Concerns

We note that the legislation will be effective from the day after Royal Assent and that this will leave a gap in terms of obligations like FDSs for existing clients between 1 July 2013 and the date of the commencement of the legislative changes. We are concerned that advisers will have acted upon the Government's announcement and ASIC's guidance, however will still be exposed for the non-provision of FDSs during this period. We ask the Committee to consider this issue.

## 11. Priority Additional Amendments

We would like to take this opportunity to summarise our additional priority amendments that have not been addressed in this package:

- **Corporate Super Advisers.** We are seeking a solution for Corporate Superannuation Advisers so that they can be appropriately remunerated for the provision of advice and services to employers and the members of superannuation funds. A partial solution exists in the form of intra-fund advice fees, however there are a number of problems making this highly problematic. This can best be achieved by enabling a superannuation fund adviser plan fee to be negotiated at the workplace level and be separately charged by the fund. There is also a conflicted remuneration problem preventing the payment of remuneration for the ongoing servicing of an employer and members of the fund if the corporate super adviser has also been involved in the recommendation of the superannuation fund to the employer. At the core of the Corporate Superannuation problem is that advice is provided to the employer, but the fees are typically deducted from the members account. This means that the existing 'client pays' exemption does not apply. Where fees are paid for ongoing services after the recommendation of the fund, it is argued that this is conflicted remuneration. When considered in the context of the MySuper rules, this presents a fundamental obstacle to corporate superannuation advisers being able to provide services to new clients. We believe that the best option is to provide a further extension to the 'client pays' exemption that would provide for this to cover fees agreed with the employer on behalf of members. We would also like to see a measure introduced that enables Corporate Superannuation Advisers to be remunerated for the provision of advice and services related to the group life arrangements for members of an employer superannuation plan.
- Also with respect to corporate superannuation we call on the Government to review the mandatory transfer of Accrued Default Amounts, by 1 July 2017, as required under Tranche 3 of MySuper. This is a particularly important issue where members will be moved to investment options that differ from their current option and where there are going to be changes to their insurance cover or premiums. Significantly, many clients that are switched may be worse-off from the mandatory transfer.
- **Timing of Fee Disclosure Statements.** As discussed above, we support the extension of the timeframe for the delivery of FDSs from 30 days to 60 days in order to improve the

efficiency of the production of FDSs and the convenience for clients. We are aware that clients are often confused by the content of a Fee Disclosure Statement, including some clients where they have incorrectly assumed that it was an invoice and have paid their adviser again. Financial advisers favour where possible giving the FDS to the client in a face to face meeting, enabling them to explain the context and the contents. Given that it often takes a couple of weeks to generate an FDS, this only allows advisers a very short period to schedule the meeting with the client. Often this is not sufficient time to arrange the meeting in a timeframe that is suitable to the client. There would be no consumer protection disadvantage by allowing the financial adviser an extra 30 days to provide the FDS.

- **Training and Education.** In order to support the training and education of financial advisers we would like to see provisions made that enable partners to support licensees in the operation of training and education programs for financial advisers. Whilst Licensees have the opportunity of leveraging Regulation 7.7A.14, which provides an exemption for soft dollar benefits that are for the purpose of training and education, the complication is that this only applies to non-monetary remuneration. This means that the partner would need to pay directly to a third party (event venue, caterer or speaker), and they can't pay the licensee directly. This makes it very difficult to structure a professional development program as these programs are typically agreed a year in advance, well before any specific program costs can be established. In return for their contribution, via this partnership program, the partners would be recognised on marketing material, have the ability to provide exhibition stands at events and also the potential opportunity to provide speakers at events. In the context of the industry's commitment to professionalism, these speaker opportunities are almost always technical or professional development in nature rather than product focused. The partnership payments are typically flat dollar payments, rather than being volume based. The loss of this support for training will result in a decline in the availability of these important training and development events and would have a negative impact upon the overall level of training and education provided to financial advisers. We would like to see a regulation introduced that specifically enables the continuation of these partner programs. We would expect to see clear rules developed around the structure of these programs and the type of benefits that could be made available to the partners for participation in the program to ensure the avoidance of an inappropriate incentive or conflict of interest.
- **Small Non-Monetary Benefits.** There is an exemption under Regulation 7.7A.13, where non-monetary benefits are exempt provided they are under \$300 and identical or similar benefits are not provided on a frequent or regular basis. This requirement has caused a lot of confusion in the market place due to product providers and licensees taking different views on what identical or similar and frequent or regular mean. It would be beneficial for the financial services industry for greater clarity to be provided with respect to this obligation through regulation or regulatory guidance.

**Recommendation:** That the Committee recommend to the Government that they finalise a workable solution for Corporate Super Advisers as soon as practical.

**Recommendation:** That the Committee recommend to the Government that the timeframe for the provision of Fee Disclosure Statements be extended from 30 days to 60 days.

## **Conclusion**

We thank you for the opportunity to contribute to this Inquiry. We support this package of FoFA Amendments and look forward to the finalisation of these changes so that the financial advice profession can return their focus to the provision of great advice for more Australians.

We would be very happy to further discuss our views should the opportunity be available.

Yours sincerely,

**Brad Fox**

**Chief Executive Officer**