A Submission to the Parliamentary Joint Committee on Corporations and Financial Services Inquiry into proposals to lift the professional, ethical and education standards in the financial services industry

Pursuant to the committee's duties set out in section 243 of the *Australian Securities and Investments Commission Act 2001*, the committee will examine proposals to lift the professional, ethical and education standards in the financial services industry, including:

1. the adequacy of current qualifications required by financial advisers;
2. the implications, including implications for competition and the cost of regulation for industry participants of the financial advice sector being required to adopt:
a. professional standards or rules of professional conduct which would govern the professional and ethical behaviour of financial advisers; and
b. professional regulation of such standards or rules; and
3. the recognition of professional bodies by ASIC.

Submission

I am a professional accountant operating a small practice as a sole practitioner and am nearing retirement.

I would like to address each of the proposals and while there may seem to be some degree of cynicism in my response, it is not intended.

1. Adequacy of current qualifications required for financial advisers. I consider that a qualification that can be obtained simply by completing on-line course materials without proper examination is not appropriate.

   Certainly, many financial advisers now have university degrees in various disciplines and this has increased the overall knowledge of advisers, but it does not preclude many hundreds and even thousands gaining access to a qualification without any real merit.

   Persons engaged in the financial planning industry, at least from my perspective, are largely driven by commissions or at least favourable financial relationships with the large insurance and banking organisations. Admittedly this is changing to a fee based structure, but the advice is still linked directly to one of the major finance houses. Virtually all products promoted in the financial industry are geared to their favoured insurer or bank.

   Financial planners will often, if not always, follow the templates set out by their favoured organisation and promote those products.

The gaining of a qualification does not of itself ensure that planners will act in the interest of their client.

No matter what rules and regulations are imposed on financial planners, I believe that they will still operate in their own interest or at least push a particular line of investments. It is the commission and/or fees that drive them. It is also the organisations to which they are linked, that provide all the investment support and resources so it is inevitable that there is no true independence.

Most professional accountants do not see themselves as financial planners. They are more likely to see themselves as a business adviser/tax agent or in some cases glorified tax collectors.

Most accountants want to act in the best interests of their clients so as to minimise tax liabilities and to provide client businesses with appropriate planning advice so as to enable the client's business to operating profitably and comply with all aspects of business law.

2. A major issue, at least to me, is the removal of the accountant's exemption to the giving of financial advice.

   I believe that an accountant in practice who has always advised on tax matters, including the establishment and running of self managed superannuation funds, is far better to advise on the tax implications or other benefits of investments than any present financial planner.

   Accountants as a general rule do not suggest any particular investment such investing in Telstra or the like, nor do they promote any particular financial organisation.

   Under the new rules it is a requirement that a person have a financial planning qualification in order to recommend the setting up or closing down of a self-managed superannuation fund. This makes no sense at all.

   A financial planner does not have to understand the accounting rules or the accounting standards applicable to financial reports for superannuation funds. Most financial planners would not even have to prepare a tax return for superannuation fund, let alone wind up a fund. Even fewer would know how to attend to the day-to-day management of a superannuation fund.

Yes, the planner may know where and how to invest a fund's monies – albeit with their preferred investment organisation, but other than that they generally have limited knowledge of the day-to-day matters affecting a self-managed fund.

Accountants in practice should be able to retain their ability to provide common sense advice as to the setting up, running and organisation of a self-managed fund, without the need to include another level of advice from an adviser who it may be argued would provide very little additional comfort. After all we have been doing it for a long time.

Accountants in practice already have sufficient checks and balances imposed by their professional bodies and have appropriate professional indemnity insurance.

When it comes to more complex investments such as derivatives and foreign investments and the like, then greater qualification is needed to provide appropriate advice.

I have yet to find a current financial planner who can advise on such investments yet these current planners are already permitted to do this. It is this area of investment, those that are complex and types that are "non-standard" that need greater oversight.

I don't believe that any current accounting or financial planning qualifications adequately cater for these types of investments.

I note that a "financial planner is someone who uses the financial planning process to provide a client with integrated strategies to achieve financial and life goals. The planner can take a holistic view of your financial situation – reviewing your budgeting and saving, tax, investment, insurance and retirement needs – or work with you on a single financial issue but within the context of your overall situation. This holistic approach may set the planner apart from other financial advisers, who may have been trained to focus on a particular area of your financial life." (FPSB, 2006).

This all sounds very well, but this is exactly (with perhaps the exception of determining insurance needs) what accountants in practice provide for their clients.

3. The professional bodies, under which accountants in practice already operate, currently provide suitable checks and balances for their members.

I consider that the checks and balances for a great number of financial planners are simply governed by the organisations (banks and insurance companies) to which they are associated. They appear for all intents and purposes self motivated and not geared to the investor/client.

What is needed is for financial planners to be degree qualified, not qualified by what is nothing more than a "cereal box" qualification.

If accountants in practice could retain their exemption, this removes the need to create these sub-qualifications and ensures that clients and investors at least receive advice from suitably qualified persons. It will also ensure that there is a greater independence in investment and tax advice.

My apologies for the late and cursive response as I only saw this submission today.

Kind regards

Keith Compton

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