



15 September 2014

Committee Secretary  
Parliamentary Joint Committee on Corporations and Financial Services  
PO Box 6100  
Parliament House  
Canberra ACT 2600

Email: [corporations.joint@aph.gov.au](mailto:corporations.joint@aph.gov.au)

Dear Madam/Sir,

**PARLIAMENTARY JOINT COMMITTEE ON CORPORATIONS AND FINANCIAL SERVICES INQUIRY INTO PROPOSALS TO LIFT THE PROFESSIONAL, ETHICAL AND EDUCATION STANDARDS IN THE FINANCIAL SERVICES INDUSTRY**

The SMSF Professionals' Association of Australia (SPAA) welcomes the opportunity to respond to the Parliamentary Joint Committee on Corporations and Financial Services (the Committee) inquiry into proposals to lift the professional, ethical and education standards in the financial services industry (the Inquiry).

The general proposal to lift the professional, ethical and education standards in the financial services industry is strongly supported by SPAA. SPAA is adamant that the professionalism within the financial services industry, especially financial advice, needs to be lifted in order to create a robust industry that consumers can trust and engage with confidence. This is particularly important as Australia shifts towards an older demographic where financial advice will be crucial to ensure Australians can retire with dignity and increased self-sufficiency.

SPAA notes that high quality financial advice can have significant positive impacts on consumers' financial outcomes. Research undertaken by SPAA in 2012 and 2013 has shown that personal advice tailored to a consumer's personal circumstances results in the

consumer having increased engagement with their financial future and retirement savings.<sup>1</sup> This also aligns with increased consumer satisfaction, knowledge and confidence. Additionally, our research has shown that consumers are increasingly demanding specialised financial advice to assist them in achieving their financial goals. Financial advice assists consumers, especially SMSF trustees, improve their knowledge for more informed decision making. By developing strategic approaches to investment strategies, asset allocation, returns and managing risk, people can genuinely save and prepare for their retirement.

We believe that establishing a true profession for people providing financial advice is the key to ensuring consumers are receiving quality consumer advice. One of the important aspects of this Inquiry is to acknowledge the prospects of future emerging professions and not concentrate solely on what has been perceived as a profession or industry group. In particular, we note that there is an emerging 'SMSF profession where professionals from a number of different disciplinary backgrounds (financial advice, accountancy, taxation, law, actuarial, etc.) are specialising in providing advice and services to SMSFs. These professionals are providing strategic advice to consumers as well as complex tax and structured advice as core services for a new profession. They use their previous profession and experience to build efficiencies in service and advice offerings. The new SMSF profession must also be acknowledged as part of this review as a future profession to assist SMSF trustees and members achieve their retirement income goals through self-managing their superannuation.

SPAA believes that there are five keys to establishing a profession for financial advice. These are:

- Adequate and appropriate **education and experience** requirements.
- A **co-regulatory approach** to regulating financial advice.
- Requiring **professional association membership** for market participants.
- Maintaining **high ethical and professional conduct standards** in the financial advice profession that each individual must be **personally accountable** for.
- Establishing professional **remuneration models**.

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<sup>1</sup> SPAA/Russell Investments, Intimate with Self Managed Superannuation 2012; and, SPAA/Russell Investments, Intimate with Self Managed Superannuation 2013

In the attachment, we have documented what SPAA believes is required in order to progress these key areas to achieve professionalism in financial services.

### **About SPAA**

SPAA is the peak professional body representing the SMSF sector throughout Australia. SPAA primarily represents professionals, irrespective of their personal membership and professional affiliations, who provide advice to individuals aspiring to higher levels of participation in the management of their superannuation savings. Membership of SPAA is principally accountants, auditors, lawyers, financial planners and other professionals such as actuaries. SPAA provides education and representative services to all other communities within the SMSF profession and environment.

SPAA is committed to raising the standard of professional advice and conduct in the SMSF sector by working proactively with Government and the industry. In doing so, SPAA has contributed to SMSF advisors providing a higher standard of advice to SMSF trustees. This in turn has enabled trustees to make more informed decisions addressing the adequacy, sustainability and longevity of their own retirement savings. SMSFs offer trustees greater control and flexibility and have become an integral part of the Australian Superannuation landscape by providing significant and viable options for managers, business owners, executives and retail operators alike.

We would be happy to provide further information or to discuss any questions you may have about this submission with you.

Yours sincerely

Andrea Slattery  
Managing Director/CEO  
SMSF Professionals' Association of Australia Limited

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**ATTACHMENT**

**SPAA's views on professionalism and financial advice**

SPAA believes that in order for the industry to flourish and best serve Australian consumers going forward, it is necessary to establish financial advice as a profession. Further, within this broad financial advice profession, SPAA believes that the SMSF industry will continue its nascent emergence as a separate profession. Please refer to the projected growth of the SMSF sector in Appendix 1 and the increase in trustees sourcing professional services annually. Research conducted with Macquarie Bank has indicated clients contact an SMSF professional on average 9.5 times per annum<sup>2</sup>.

Professionalism will see a natural increase in the ethical and education standards of those providing financial advice and services as well as increased accountability of advisers to their profession. This will see self-driven improvement in the quality of financial advice provided to consumers.

Defining what a profession is can be difficult as it relates to behaviours of groups of individuals within an occupation. We believe that the label of being a “profession” or a “professional” should not just be a description for a vocation or an individual that is part of a wider industry, but should embody a set of values. A financial advice profession should embody high standards of education and training and a commitment by advisers to ethical practice and upholding the reputation of their profession.

The Professional Standards Council (PSC), the independent statutory body responsible for promoting professional standards and consumer protection through professional standards schemes, defines ‘professions’ by reference to the five “e’s”. These are:

- a) education – the specific technical and professional requirements to practice in a discrete professional area;
- b) ethics – the prescribed professional and ethical standards that clients can rightfully expect their professional adviser to exhibit;
- c) experience – the personal capabilities (personal competencies) and expectations of experience required to practice as a professional in a discrete professional area;
- d) examination – the mechanism by which all of the elements above are assessed and assured to the community; and

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<sup>2</sup> SPAA Macquarie 2014 Research

- e) entity – in order for a profession to exist there must be a capable entity to oversee and administer professional entry, professional standards and compliance expectations on behalf of the community that relies on professionals in that area.<sup>3</sup>

SPAA agrees with the PSC’s view on the characteristics that define a profession and believe that they are embodied in SPAA’s five key factors for establishing a profession in financial advice.

These five key factors are as follows:

- Adequate and appropriate **education and experience** requirements.
- A **co-regulatory approach** to regulating financial advice.
- Requiring **professional association membership** for market participants.
- Maintaining **high ethical and professional conduct standards** in the financial advice profession that each individual must be **personally accountable** for.
- Establishing professional **remuneration models**.

### Benefits of professionalisation

According to the PSC, the benefits of moving towards a profession can be broadly classified into the following categories, each of which has the following benefits:

Economic	Community
Positive impact of business growth	Consumer protection
Increased business activity generated by increased level of trust	Increased community trust and confidence in the financial services industry
Reduction in litigation	Increased accountability
National economy, and Government budget will benefit if more people receive good financial advice	Guard against the social impact of financial loss
	Greater opportunities for utilising quality financial advice

<sup>3</sup> [http://www.psc.gov.au/sites/default/files/NEW-PSC%20Whitepaper\\_final.pdf](http://www.psc.gov.au/sites/default/files/NEW-PSC%20Whitepaper_final.pdf)

<b>Regulatory</b>	<b>Personal (for individual professionals)</b>
Reduction in regulatory costs	Professional pride/esteem
Less regulation (government interference)	Reputational benefit
Opportunity for greater self-regulation	Opportunity for increased remuneration
Reduction in compliance costs	Increase in skill level/standard of skills

SPAA endorses the PSC's analysis of the benefits that arise from improved professionalism in financial advice. We believe that for these benefits of professionalism to grow and benefit Australian consumers, SPAA's five key areas for improving professionalism need to be progressed.

## **Adequate and appropriate education and experience requirements**

SPAA believes that the current education and training requirements for financial advisers has not been successful in improving the standard of financial advice or in promoting professionalism.

As part of moving the industry to the status of a profession, it is vital to review the existing competency and training regime. The current approach of the Australian Securities and Investments Commission (ASIC) is to set a minimum standard of education and competencies for financial advisers through ASIC's Regulatory Guide 146: *Licensing: Training of financial product advisers* (RG 146). We believe this has not been successful in ensuring that advisers have the competencies required to provide high quality financial advice to consumers. As part of the professionalisation of financial advice, the education requirements and competencies expected of advisers would be set and governed by advisers' professional associations who would be held responsible for the task, as opposed to a government regulator. In turn, ASIC, as the relevant regulator of financial advice, would approve professional associations to be the arbiter of setting education and competency standards for their given profession. For instance, SPAA, being a specialist SMSF organisation would set SMSF advice education requirements and competencies if approved by ASIC to do so.<sup>4</sup> This would embody a system of co-regulation.

RG 146 is not a flawed concept by itself as it simply outlines the minimum requirements expected by ASIC as a guide to advisers, licensees and education providers. However, too often the industry (licensees and educators) have interpreted the minimum requirements to be all that is required to be regarded as competent. For instance, parts of the industry have interpreted the wording around Tier 1 advice in RG 146 to mean that once the basic competencies for Tier 1 producers are met, an adviser is an expert in advising on the specific products for which they have met RG 146 Tier 1. Instead, RG 146 requirements should be recognised as a base starting point for training financial advisers. Higher competences and specialisation are essential and must be compulsory to ensure advisers improve their knowledge as well as continue their professional development.

While the industry continues to have licensees/employers manage and internally endorse adviser competencies as well as guide professional education, financial advice will not be

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<sup>4</sup> SPAA has produced and maintains high level quality education and competency standards for SPAA's accreditation programs, SMSF advice, independent educators and for the members and trustees of SMSFs.

able to move towards a profession. Each individual must be independently accredited by a recognised professional body and not accountable to a product list.

Further, the industry has taken a simplistic compliance-driven approach to establishing adviser competence by substituting compliance with RG146 for more comprehensive requirements for adviser competence. Licensees have not taken further action to check on an adviser's ability to provide financial advice in most cases other than requiring them to have completed RG 146 requirements. This compliance based approach leads to financial advice competencies being pushed towards a minimum level in a race to the lowest acceptable level rather than increased and improved which is the an underlying aim of a profession level. .

Further, this leads to businesses spending resources on meeting compliance requirements rather than building knowledge and skills of professionals. A profession must have a commitment by businesses to build the knowledge of their staff in order to underpin a future of a profession and this takes time.

SPAA believes there needs to be a cultural shift within the industry to embrace professionalism that encourages higher competencies rather than the current compliance driven approach. We believe co-regulation is essential to achieve cultural change in the financial advice industry's approach towards education and competencies.

SPAA believes a co-regulatory approach is more appropriate to lift standards of financial advice through education and training. This approach would allow professional associations to drive professionalism by setting their members higher level and stringent competency and training requirements. ASIC would approve professional associations that can regulate advisers as members under this framework. It would replace ASIC's needs to dictate and be responsible for minimum education standards and set a national exam for the financial advice industry.

Ongoing continuing professional development (CPD) is a current requirement under RG 146. The need to undertake CPD is currently driven by a compliance based approach to advisers required to undertake a certain amount of CPD over a set period. This results in advisers often undertaking training that maintains their current knowledge at an absolute minimum level, rather than extending and challenging themselves through new learning and improved knowledge. SPAA believes that if professional associations were tasked with setting the CPD requirements for their members, CPD would become more orientated to improving and challenging advisers' skills, rather than it being viewed as a mere compliance requirement by advisers and licensees.

SPAA believes that the current educational requirements are inadequate and that changes should be introduced. In fact, SPAA supports changes to the educational requirements irrespective of whether the industry moves towards co-regulation and professionalisation.

By way of example, we set out below two examples evidencing issues encountered with the current legislative/regulatory regime with respect to education and training.

***Example 1 - ASIC introduced RG 146.***

RG 146 sets out the minimum training standards that apply to advisers and how advisers can meet these training standards.

SPAA has identified that the majority of training and CPD courses offered to financial advisers are sourced solely from the requirements of RG 146. These courses therefore promote educational training based on the minimum standards imposed by ASIC.

The ASIC Training Register which was dispensed with 3 years ago included courses and training programs which had been ASIC approved. The length of these courses ranged from six months face to face programs (including exams) through to six hours for an online program. ASIC was not able to continue to support the ASIC Training Register (which was managed through an external accreditation body). The industry has not had any formal guidance on courses and education programs from ASIC in the interim. This has led to confusion in the industry in determining what programs or courses meet the minimum standards and who has been deemed to assess these courses.

The purpose of the ASIC Register was to support educators, licensees, individual assessment service providers and financial advisers to identify courses that were approved by ASIC to offer RG 146 accreditation. Once an adviser has been accredited, the list of ASIC's knowledge requirements detailed in Appendices A and B of RG 146, the register disappointingly serves to focus at a product and generic skills level to maintain competence. Furthermore, it does not adequately indicate that one needs to fully evaluate, assess and construct developmental objectives that build upon their existing strengths and areas for further development nor the progressive undertaking of more advanced CPD activities appropriate to their burgeoning responsibilities to meet consumers' needs.

RG 146 remains poorly understood by advisers, does not appear to be policed effectively and is driven by compliance and a 'tick box' mindset.

***Example 2 — SMSF Auditor Registration***

Another example that has been even more evident to SPAA is in relation to the change of SMSF auditor registration.

The industry has changed from a professional audit approach which was overseen by *Superannuation Industry (Supervision) Regulation 1994* recognised SMSF audit associations to one where an auditor meets the bare requirements. SPAA was the only association that had a recognised SMSF Specialist Auditor member (SSAud). The minimum requirements were met by 1 of 2 ways. The auditors were either grandfathered into registration by making a statutory declaration that they completed a minimum of 20 SMSF audits per year without undertaking an exam. If the audited less than 20 SMSFs per annum they were required to complete a competency exam, as well as meeting other minimum compliance requirements imposed by ASIC. There are approximately 60% of the auditors who are required to do the exam have required extensions to comply as they did not meet the requirements as at 1 July 2014.

At SPAA we have seen a significant decline in the demand across the audit profession for higher levels of SMSF auditor training and specialisation. .

The SPAA SMSF Auditor registration and accreditation involves rigorous examination, higher experiences requirements and ongoing CPD compliance requirements than the ASIC minimum.<sup>5</sup> This has led to many auditors no longer seeing a need to be accredited and complete training and competencies at a higher level than that which just gets them over the line. Again, this drives behaviour within the industry with people simply seeking to meet the minimum standards.

The education conversations with Auditors have begun to shift from “how can I demonstrate my SMSF audit expertise to trustees?” to “what do I need to know to pass the exam?” and “I’m just doing this course to get my Audit CPD points”.

#### *Increasing the base education standard for financial advice*

In addition to shifting financial advice competencies to a co-regulatory and professional model, SPAA believes that the minimum standard for financial advice needs to rise. We believe that moving to an AQF Level 7 Bachelor degree standard for financial advice training

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<sup>5</sup> The SPAA SMSF Audit program is considered to be a very high standard. SPAA SSAuds have an average of 399 SMSF audits per annum whereas the other SMSF auditors average between 5 and 10 SMSF audits per annum. SPAA worked closely with the Auditing and Assurance Standards Board (AUASB) to create an SMSF Audit Guidance Statements (GS009) and SPAA worked with and adopted the International Ethical and Professional Standards (IPESB) which supported the accreditation program

could improve the quality of training and the quality of advice markedly. However it should be stressed that interpretation by the educators and licensees may dilute the essence of the intended purpose.

SPAA believes it should be recognised that undertaking units of study at AQF Level 7 Bachelor Degree level is different to undertaking an entire Bachelor degree. Undertaking a Bachelor degree is a cumulative, knowledge building process in a particular area that allows a student to build an in-depth understanding of a subject area as well as cumulatively improve their ability to analyse and explain a subject. This is quite different to the skills based training that the current RG 146 has embodied.

In other words, we believe that there is a marked difference between a financial adviser being required to have a Bachelor degree and undertaking Bachelor degree level study in RG 146 competency areas. Accordingly, SPAA believes that the financial advice industry should move towards having a bachelor degree in a relevant field as a minimum entry point going forward. This requirement should be phased in over the next five years.

Also, SPAA believes that adequate experience requirements need to be implemented to lift the standard of financial advice, especially for SMSF advice. SMSF advice is an extension of basic superannuation, financial planning and tax advice. Accordingly it requires specialist competencies and greater experience requirements. We believe that at least two years' experience in financial advice is required before an adviser is allowed to provide SMSF advice. SPAA requires a minimum of two years' relevant work experience for its SSA™ (SMSF Specialist Advisor™) program.

Further, SPAA has identified 17 specialist knowledge topics just within SMSF advice, making for a broad knowledge set that should be mastered before an adviser begins to provide SMSF advice. Consequently, we believe that SMSF advice should require additional experience and competencies on top of more basic financial advice areas. Under a co-regulatory approach setting education and competency standards for specialist advice areas should be left to professional associations that specialise in those areas. This would ensure higher standards are required for specialist areas of advice rather than applying broad standards that are relevant to professional occupations within the financial services sector rather than referencing overly simplistic terminology to Tier 1 and Tier 2 which have become redundant.

### **A co-regulatory approach to regulating financial advice**

To support professionalism and an improvement in the quality of financial advice, SPAA believes that the industry needs to move to a co-regulatory approach for training and determining competencies instead of an environment where a regulator, currently ASIC, sets a regulated mandated minimum (as is currently the approach). The major drawback with the current approach is that there is little incentive or need for financial advisers and their licensees to achieve higher competencies than the minimum requirements set by ASIC. This can lead to lacklustre advice being provided to clients as a result of poor or inadequate knowledge and/or understanding, particularly when it comes to more complex issues. SPAA notes the recent moves by major financial institutions to improve adviser competencies as a response to criticism of advice practices by the Senate Inquiry into the performance of the Australian Securities and Investments Commission.

SPAA believes that a model where professional associations approved by a regulator (i.e. ASIC) are responsible for determining the competency, training and education requirements for financial advice professionals would best serve consumers and the industry. Such a model would promote professionalism and ethics, accountability of advice, raise professional standards, be contemporary with industry developments and increase competencies within the financial services sector. This contrasts with a system that merely meets a “bottom-line” standard set by the regulator, such as the current RG 146 approach for financial advisers which has been highly criticised (see above).

Professionalisation will lead to less regulation in the industry but a higher standard of advice and professional behaviour. Where an association introduces appropriate professional standards for governing a profession, the need for direct government regulation is consequently reduced. This is because the association/s responsible for that profession set the standards and requirements which must be adhered to. This ultimately leads to a more robust and efficient system where the association, which is best equipped to deal with the intricacies and management of the profession as a whole, is also held responsible for compliance and administration. One benefit is that the profession develops pro-bono services and builds career pathways where people strive for future professionalism.

SPAA believes the financial services industry must strive to rely less upon government regulation and more upon its own standards which it sets. This will lead to a more co-regulatory mechanism for governing the profession. A co-regulatory system is one where regulations are specified, administered and enforced by both the government and the profession itself. This will require a direct acknowledgment, by way of legislative and/or regulatory amendments, that a professional association will be responsible for those professionals within it.

Co-regulation can be defined as:

*a regulatory process whereby an industry-level organization (such as a trade association or a professional society), as opposed to a governmental or firm-level, organization sets and enforces rules and standards relating to the conduct of firms in the industry.*<sup>6</sup>

A system of co-regulation would involve one where industry would be responsible for:

- a. setting the relevant education standards
- b. approving and providing accreditation for relevant training which meets the education standards
- c. determining best practice guidelines for industry participants
- d. policing behaviour and the quality of advice provided
- e. imposing and being responsible for disciplinary measures where required
- f. suspending and expelling members where appropriate
- g. protecting consumer interests
- h. ensuring that the industry/sector as a whole remains a viable and sustainable one.

Businesses use co-regulation to decrease risks to consumers, increase public trust, and combat negative public perceptions. Not only will consumers benefit from co-regulation, but also the industry participants (the businesses, employers and employees), the government and the economy. To consumers, co-regulation ensures that overregulation does not occur by a government body enshrined with the role of overseeing a particular industry with a relatively fixed set of standards. For businesses, co-regulation can reduce costs that may be incurred as a result of unnecessary or inefficient regulations. These cost savings can be passed on to consumers.

The processes around creating industry rules, monitoring, enforcing and reviewing them can be much faster, simpler and cost-effective in a co-regulated environment. For example, certain rules can be quickly implemented if an emerging trend is identified in the sector.

In relation to financial advice, SPAA believes that a system of co-regulation together with more rigorous ongoing educational requirements will provide a more robust and dynamic industry. This will see higher quality financial advice being provided to consumers without the risk of unnecessary red tape and expensive regulation and compliance.

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<sup>6</sup> Anil K. Gupta and Lawrence J. Lad, "Industry Self-Regulation: An Economic, Organizational, and Political Analysis," *The Academy of Management Review* 8, no. 3 (1983): 417.

In addition, if financial advice is seen as a profession, it will lead to an increase in trust and confidence by consumers in their advisers. In turn, this professional relationship will lead to a long-term relationship over time where the consumer will use the adviser as and when required, as opposed to seeking an ad-hoc service. This system of rapport building is evidenced in any other professional relationships; take for example a doctor/patient relationship.

A long-term relationship allows for an environment where the adviser can provide a more holistic approach to the needs and requirements of the consumer over time. This allows the adviser the opportunity to better understand the changing needs of the particular consumer. Further, the model promotes fee-for-service arrangements so that financial advisers will seek remuneration for value added services instead of commission or sales based remuneration.

SPAA believes that instituting a profession for financial advisers will also encourage greater responsibility that good financial advice can have on the welfare of Australian consumers. For example, under a professional model, pro-bono and lower fee services can be offered as a social good to those who may not necessarily be able to afford those services. This is akin to lawyers who are encouraged by the Law Society to provide pro-bono services as part of their wider professional responsibility.

## **Requiring professional association membership for market participants and**

## **Maintaining high ethical and professional conduct standards in the financial advice profession**

As part of a co-regulatory arrangement, professional associations will need to be tasked with the role of governing the profession. Accordingly, this will require advisers to maintain membership in a professional association that is responsible for monitoring and policing its members' accreditation, competencies and professional behaviour.

Members will also have the usual benefits that come with membership such as being able to utilise services and benefits offered by the association (such as CPD activities and cost-effective professional indemnity insurance) and being able to converse and build professional networks with others who are within the same industry. This environment of likeminded individuals promotes a positive environment to encourage individuals to strive to hold themselves to a higher standard and provides the ability to "bounce" ideas off of other members (whether it is in a formal or non-formal sense).

Further, membership of a professional association engenders the development of better ethical behaviour and professional standards through membership. Members are held personally accountable for complying with ethical and professional standards set by their association. For example, SPAA members are required to comply with the SPAA Code of Conduct<sup>7</sup> which binds them to various professional, technical and ethical standards. The SPAA Code of Conduct centres on seven key principles for ethical and professional behaviour being:

1. Safeguarding the public interest
2. Integrity
3. Objectivity and Independence
4. Confidentiality
5. Competence
6. Knowledge
7. Ethical Behaviour

SPAA members' compliance with the code of conduct and other rules such as the requirements of SPAA's specialist SMSF accreditations and SPAA CPD requirements are monitored through our Quality Review Program and SPAA's complaints register. This allows SPAA to respond to public complaints regarding SPAA members<sup>8</sup> and drives SPAA members to higher professional and ethical standards in delivering advice and services to SMSF clients.

We believe that self-regulatory activity is essential to the professionalisation of financial advice, and can be best encouraged by ensuring financial advisers are members of relevant and approved professional associations.

In a co-regulatory approach, ASIC would have a role have a role approving associations that can satisfy membership requirements.

#### Recognition of professional bodies

In order for a profession to be established, it will be necessary for the relevant regulator, currently ASIC, to recognise certain professional bodies. Bodies recognised and approved by ASIC would have a role in regulating their members who are required to be members of approved association. This is similar to other professions such as the legal profession where

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<sup>7</sup> [http://www.spaa.asn.au/media/22382/140212\\_spaa\\_code\\_of\\_conduct\\_feb14\\_final.pdf](http://www.spaa.asn.au/media/22382/140212_spaa_code_of_conduct_feb14_final.pdf)

<sup>8</sup> <http://www.spaa.asn.au/about/member-conduct-discipline.aspx#>

in each state or territory lawyers are required to be members of their relevant law society which has the responsibilities of administering the legal profession.

These bodies will be tasked with the obligations set out in this paper including setting relevant competencies and training requirements and maintaining accreditation standards for its members.

We believe it is important that ASIC distinguishes between approving professional associations and industry associations whose members are required under an AFSL regime to provide advice and services within the Financial Services industry. The distinction is as follows:

#### *Professional Associations*

- Comprised of individual members.
- Members are professionals.
- Members are personally accountable.
- Ethical standards.
- Professional standards.
- Conduct rules built on ethics and professional standards.
- Codes of conduct apply to members.
- Associations enforce member's compliance with codes.

#### *Industry Associations*

- Comprised of corporate members.
- Industry rules, normally without standards and ethics.
- Rules do not apply to individuals.

Only professional associations whose members must be licensed under an AFSL should be approved by ASIC to be part of a co-regulatory approach to regulating financial advice.

### **Establishing professional remuneration models.**

There is no place for conflicted remuneration in a professional context.

As set out in our submission in response to the Future of Financial Advice Amendments and our response to the interim FSI report, SPAA has been a strong supporter of eliminating conflicted remuneration. We strongly believe that there is no room for conflicted remuneration in financial services. Accordingly, we have some concerns regarding the

Government's limited exemption for conflicted remuneration for certain types of general advice.

SPAA believes that it is necessary to monitor the effect of the changes introduced by the Government in relation to conflicted remuneration to ensure that they are working as intended. SPAA is adamant that if financial advice is to become a true profession and be a supplier of quality financial advice to consumers, the industry needs to adopt professional characteristics that require a separation of product sales from adviser remuneration arrangements.

### **Implications for industry adopting professional standards or rules of professional conduct and professional regulation**

SPAA acknowledges that there are costs with transitioning and maintaining professionalisation but SPAA submits that the benefits to the industry far outweigh the costs involved.

Ordinarily, one of the major costs would be to establish education, training and assessment frameworks. SPAA, as the leader in the SMSF sphere, has already invested considerable time and effort in establishing relevant frameworks with the implementation of its SSA™ (SMSF Specialist Advisor™) and SSAud® (SMSF Specialist Auditor™) categories of membership. Both of these categories require individuals to meet certain eligibility criteria before sitting the required examination to assess their skills and competencies against industry benchmarks established by SPAA.

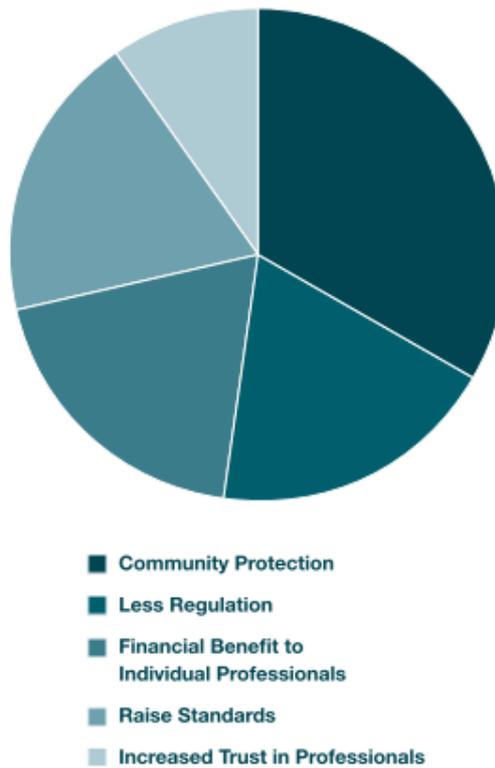
The SPAA SSA™ exam is recognised industry wide as a serious test of an individual's ability as an SMSF advisor. Similarly, the SPAA SSAud is specifically designed for audit professionals seeking recognition for their specialist skills and knowledge required through statutory obligations, Auditing & Assurance Standards and AUASB Guidance Statements.

Other associations have similar arrangements in place.

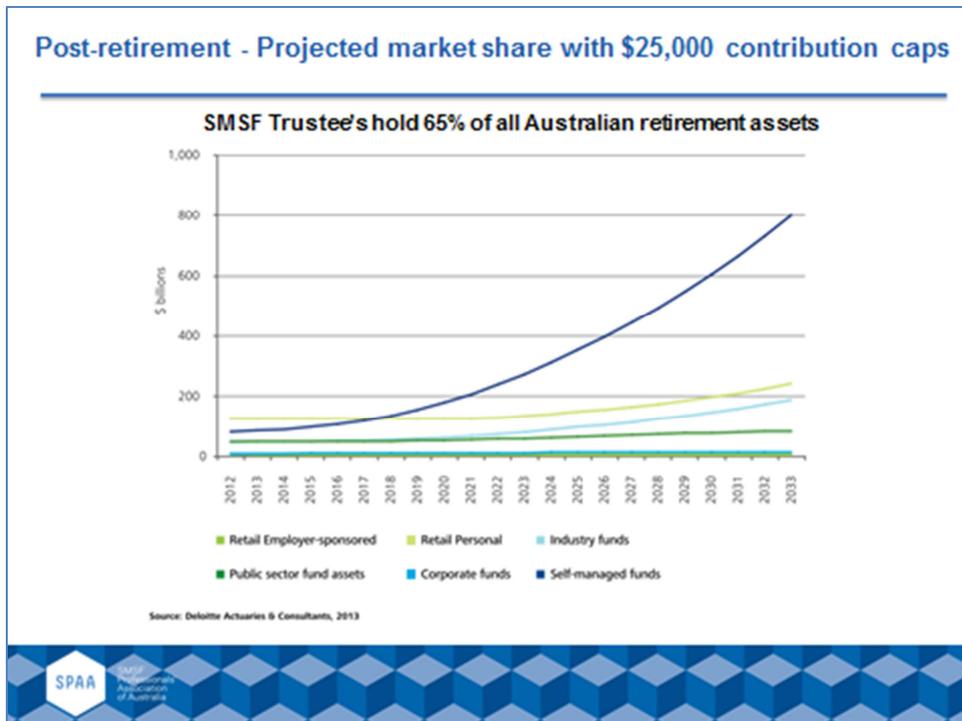
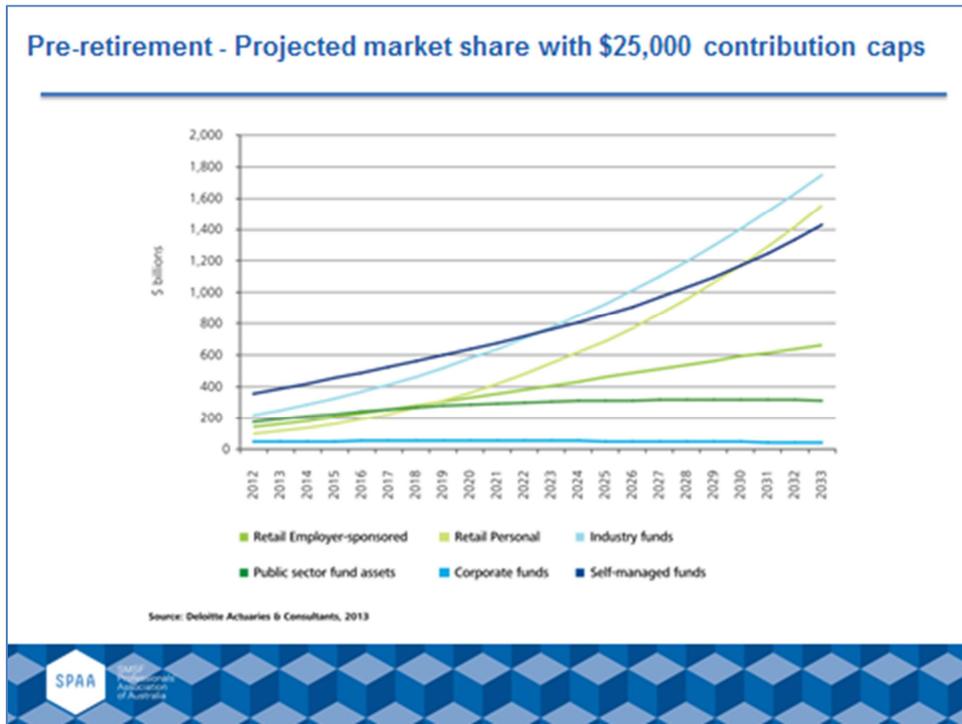
SPAA also notes that the PSC, in its recent survey of industry participants, found that:

*Despite recognising that there are significant costs associated with professionalisation, all of the industry stakeholders interviewed were in favour of it. Indeed, all of the interview respondents were confident that the benefit of professionalisation outweighs the cost and transition effort required to achieve it.*

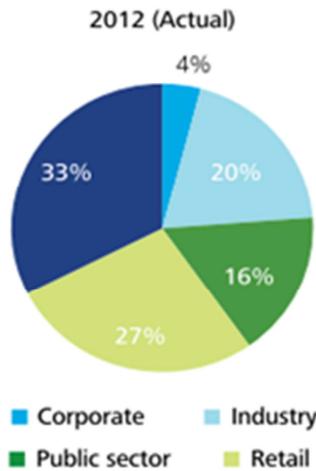
The PSC also found that increased trust in professionals was described as one of the key reasons that professionalisation is considered worth the cost and effort. The reasons are depicted in the below chart extracted from the PSC report:



APPENDIX 1



## Background: Australia's Superannuation Industry

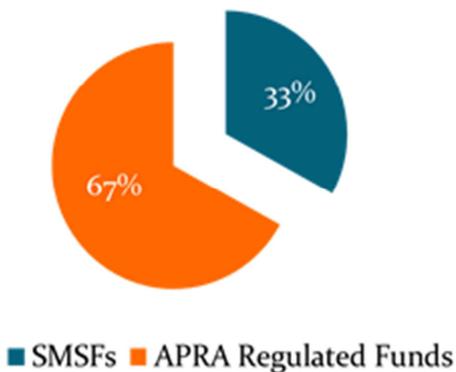


- \$1.75 billion assets currently in the Superannuation industry, expected to reach \$7.6 trillion by 2033
- Industry, Retail, Corporate, Public Sector funds comprise the large fund sector of superannuation and are regulated by the Australian Prudential Regulatory Authority (APRA). Originated in the 1970 & 80s (approximately 7 funds), but 5500 funds set up in 1992/93 to start Pillar 2 – Super Guarantee system
- Self Managed Super Funds (SMSF) comprise the small fund sector of superannuation and are regulated by the Australian Taxation Office (ATO). Originated in 1940s, with approximately 100,000 funds in existence in 1992/93 at the start of the Pillar 2 SG introduction.
- The Superannuation sector had \$350 billion in 2003: 11% in SMSFs, 49% in Retail and 9% in Industry Funds.

SPAA

Superannuation Association of Australia

## Deloitte : Current holdings & future projections



- SMSFs represent 32% of the current Superannuation market
- SMSF assets are expected to reach \$2.23 trillion by 2033
- APRA regulated funds assets are expected to reach \$5.37 trillion by 2033

To put the SMSF sector into perspective currently: it is 1/3 of the Australian GDP or equal to the combined total of the GDP of Singapore, Hong Kong and NZ.

SPAA

Superannuation Association of Australia

