



MEDIA RELEASE

PARLIAMENTARY JOINT COMMITTEE ON CORPORATIONS AND FINANCIAL SERVICES

23 November 2009

Inquiry into financial products and services in Australia

Following a nine-month inquiry, nearly 400 submissions from investors, financial advisers, financial services dealer groups and representative organisations, and public hearings in Canberra, Sydney, Melbourne, Brisbane, Townsville and Cairns, Mr Bernie Ripoll MP, Chairman of the Parliamentary Joint Committee on Corporations and Financial Services, tonight tabled the committee's report on financial products and services in Australia.

The Parliamentary Joint Committee on Corporations and Financial Services inquired into financial products and services in Australia following the collapse of Storm Financial, Opes Prime, and others, affecting thousands of investors.

"The collapse of Storm has had a catastrophic effect on thousands of people and has been a major focus of the inquiry, with over 200 submissions coming from former Storm investors," Mr Ripoll said.

"Although the committee cannot make judgements about unlawful conduct, there were clearly multiple failures by Storm Financial and some lending institutions. By recommending aggressive leveraged lending strategies to elderly people on low incomes, Storm's advisers were not providing advice that was appropriate to their clients' needs."

"Both Storm Financial and the margin lenders who provided credit to their clients, particularly the Commonwealth Bank, mishandled issuing margin calls when the market was in decline. The committee also found that some banks were lax in their lending practices, providing excessive credit to investors with little capacity to repay when the value of their investments declined. "

Beyond the events surrounding Storm, consistent evidence to the committee supported the view that the required quality of advice Australians receive from their financial adviser needs to improve.

"The remuneration incentives offered by financial product providers to financial advisers can lead to consumers getting advice that is not necessarily in their best interests. The committee has therefore recommended that the Corporations Act be amended to explicitly state that advisers hold a fiduciary duty to put the interests of their clients first", Mr Ripoll said.

"We have also recommended that the government consult with the industry on the best way to cease payments from product manufacturers to financial advisers, such as commissions

and volume bonuses. The conflicts of interest created by these payments are not always managed properly and should be removed to improve trust and confidence in the industry."

Other key recommendations include:

- ASIC and the industry work together to form a professional standards board that anyone wanting to call themselves a financial adviser would be required to join. This body would establish, monitor and enforce nomenclature, competency and conduct standards (recommendation 9).
- The government consider making the cost of financial advice tax deductible for consumers (recommendation 5).
- ASIC be appropriately resourced to perform effective risk-based surveillance of the advice provided under an Australian Financial Services Licence (recommendation 2).
- ASIC be given extended powers to remove individuals and licensees from providing financial services (recommendations 6 and 8).
- The government investigate different options for a last resort compensation scheme (recommendation 10).

The committee's report is available on the committee's website at:

http://www.aph.gov.au/Senate/committee/corporations_ctte/index.htm

or from the committee secretariat on 02 6277 3583.

For further information, contact the Committee Chairman, Mr Bernie Ripoll MP, on 02 6277 4935.