

Committee Secretary, Parliamentary Joint Committee on Corporations and Financial Services  
Department of the Senate  
PO Box 6100 Parliament House  
Canberra ACT 2600

I would like to make the following submission to the Inquiry **into Financial Products and Services in Australia**

**I request that our names not be published with the submission on the website**

My husband and I have invested approximately \$1,400,000 in the Wellington Premium Income Fund., formerly MFS Premium Income Fund.

Due to mismanagement and fraudulent loans made to related entities, as well as incompetent auditing and reporting of these transactions by KPMG, the fund has now all but collapsed with units originally purchased for one dollar now worth five cents.

We have always been very prudent and conservative investors and never sought to take risks for higher gains. This fund was marketed mainly to retirees and promoted as the flagship of the MFS group and investors' money was to be always invested in secure and diverse products. We were assured by our financial adviser that this fund was safe and our capital was secure due to a support facility in a related company (which subsequently also has failed and unable to repay the amount supposedly set aside). Promised insurance guarantees on property losses have also not been forthcoming.

ASIC have not been helpful in terms of advice to investors or taking action against those responsible for the situation.

The only avenue left to retrieve some of our investment is via limited class legal action initiated and funded preliminarily by investors.

We have no formal knowledge of financial products and services and how they work so have usually taken the advice of "experts" and believed they were acting in our best interests. We also felt that the regulatory bodies and watchdogs (such as ASIC) would ensure that any illegal transactions or misleading information would be discovered and dealt with before too much damage was done, especially with a company the size of MFS which boasted of over \$3 billion in assets.

Bearing in mind our limited knowledge we would like to make the following comments:

**1. The role of financial advisers**

- Must be properly qualified and regularly audited and accredited
- Advice should be independent ( see point 3)
- Companies affiliated with financial advisers should base recommendations on thorough and independent research, not just on information given to them by the companies they are reviewing
- Should keep clients regularly updated, especially if there are changes in investment values

**2. The general regulatory environment for these products and services**

- Should be strengthened – ASIC seems to be a toothless Tiger due to lack of staffing resources
- Auditing reporting should be more thoroughly investigated. It was partly due to the failure of the auditor of MFS that substantial losses continued to be incurred.

**3. The role played by commission arrangements relating to product sales and advice, including the potential for conflicts of interest, the need for appropriate disclosure, and remuneration models for financial advisers;**

- Regulations must be put in place to ensure that individual advisers and the companies (such as Lonsec and Wealthsure) are always acting truly independently and not recommending certain products because of the appeal of large upfront commissions and trailing commissions

- If a commission system is retained then all commissions paid by all products should be the same so there is no reason to recommend one product over another for financial reasons.

- There should be no other incentive payments ( such as entry fees, exit fees, application fees, platform rebates) to advisers or advisory companies

- Payments could be made on a fee for service basis which is tax deductible to the consumer.

#### **4. The role played by marketing and advertising campaigns**

- Marketing and advertising campaigns should be prohibited from directly benefitting company executives and directors e.g. I understand MFS spent ("wasted") huge amounts of money on lavish parties and functions attended by staff and board members to lure investors. They also sponsored sporting events which enabled staff and directors to personally benefit.

#### **5. The adequacy of licensing arrangements for those who sold the products and services**

- I don't know enough about this to comment but all advisers should be licensed only if they can prove they have substantial and broad knowledge and experience of macro and micro economics, accountancy, taxation laws, superannuation laws and regulations and all forms of investment strategies.

- New advisers should work under the supervision of a fully qualified mentor for at least 1 year before being able to give advice by themselves.

- All advisers and staff should be compelled to update their knowledge annually and provide evidence of this before their license is renewed.

- This must be a national arrangement so that unqualified advisers cannot move interstate and continue working unlicensed.

#### **6. The appropriateness of information and advice provided to consumers considering investing in those products and services, and how the interests of consumers can best be served;**

- Product Disclosure statements should be written in plain English with possible risks and possibilities of negative outcomes listed at the front of the document.

#### **7. Consumer education and understanding of these financial products and services;**

- No comment

#### **8. The adequacy of professional indemnity insurance arrangements for those who sold the products and services, and the impact on consumers**

- It appears that mostly these policies are woefully inadequate, for example the indemnity insurance for MFS directors is about \$30 million and the losses to investors just in the Premium income Fund is about \$600 million.

#### **9. The need for any legislative or regulatory change.**

- Compensation for investors – possibly a percentage of the investment capital can go into a government run trust account which guarantees return of capital if companies collapse.

- Increase penalties for company directors etc. who are found guilty of deception and illegal practices.
- Seizure of assets of those same directors, even if in the names of family members with proceeds distributed to investors.