Dear sir/madam,

I am an accountant in public practice. I have approx 1800 clients, and mainly do Tax returns. I am a CPA, and I am very close to retirement being 59 years old.

I would like to give you my analysis of this problem. I see the results of it every day, and have done so for years. I have been an active investor on my own account for many years, having enjoyed some ups and downs. I have purposely refrained form giving financial advice for 2 reasons.
1. I am not licensed, and don't wish to be and
2. Giving financial advice is a no-win situation for me. If the client takes the advice exactly as it is given, and loses, then you are to blame. If they succeed, they are to be congratulated for having the good sense to seek your advice. I don't wish to debate the rights and wrongs of that attitude, except to say that I have a good working knowledge of investing, without being qualified.

Some say that the answer is to ban commissions, and bring in fee-for-service. That must be done of course, but it is only the first step to take. How can anyone give unbiased advice if they are being paid not to.

In my profession, everyone charges fee-for-service. That certainly DOES NOT guarantee good service. I would venture that about 40% of Accountants give poor service, value for money, and if they are not incompetent, employ people who are. These people are more interested in their remuneration, than giving good service. I used to go to supposedly "practice improvement seminars". These were just vehicles to preach new methods of extracting more money from unsuspecting clients. These methods are practised my many of these practitioners to the detriment of clients, and the enrichment of the practitioners involved. The clients in my experience get very very poor value for money, and quite often come to me down the track with affairs that are in a mess.

So how do we regulate to enforce good practice. let's look at the motivation of advisers.

They are there to either enrich themselves (at the very least earn a comfortable living), or try to ensure that their clients have a secure financial future. These 2 things can either be mutually exclusive, or inclusive. Let's say we made financial planning a public service (Centrelink does it already), and ban it from being practised privately. Then the advice given would be constricted, prescribed and very conservative. This may be good. At least no one would lose anything very much. But it wouldn't be long before voters would clamour for a piece of the prosperous pie, and either invest on their own account, or take advice from bootleg operators. At least when it all blew up, they couldn't blame the government. Of course, it would take years to see a government adviser, and it would be very expensive. So again there would be a clamour for an alternative. back to where we started.

I think the answer lies in education, and the way advisers are remunerated. The culture has to be changed. The type of commissions and incentives given to advisers must be regulated so that the interests of clients and advisers are aligned. Some of the remuneration of advisers must be linked to the performance of the investments they advise on. This remuneration must be drip fed. E.g. In a situation where the investment performs well in the first three years, but drops away in the next four, then they would say get one-third of the bonus in the first year, added to one-third of next years, and same 3rd year, but would lose part of first three years money when investment drops away. In this way, they are paid a small fee-for-service (regulated price per hour within limits to ensure competition) about 50%, and the rest in a bonus, where they can earn very good remuneration, if they are good over a long period. The reason that the price per hour must be regulated is because some of these charlatans who actually charge fee-for-service calculate their fee as a % of the amount invested (exactly the same as commission-based). The clients are generally not savvy. They just pay it. Absolute vultures, and they are everywhere. The commissions and incentives must be regulated to avoid sharp operators getting around the rules. This is going to end up being reasonably sized regulation, but it must be done, otherwise more and more peoples' wealth will be immorally transferred to these peddlars of dubious financial products.

The method of regulation up until now has been to tie the advisers in legal straightjackets, and regulate the products offered. This has been got around by sharp operators. Rules generally only stop the honest people from breaking them. You must go the the very core of the reasons why investors are being steered into these products in the first place. Again, it is because the advisers want to be enriched. That is a legitimate reason to be in a profession. Otherwise, why would you go through the sacrifice of studying for years etc. However, they get most of their money immediately, and regardless of the performance of the investment. Also, they do not have to pay any penalty at all if the investment fails. this is the weakness. They must bear some responsibility for failure, and need to be rewarded for LONG-TERM SUCCESS.