

Attention of Shona Batge
Committee Secretary

Dear Ms. Batge,

I am one of the many clients that have been burned in the financial fire Storm that arose last year. I have already lodged a submission with the Committee explaining my circumstances and suggesting a number of reforms in the way financial advisors conduct their business. Having given much thought to the issues at hand these last few months, I have some further thoughts on the subject.

I am now convinced on the weight of evidence to hand that only radical regulatory change will protect investors in the future when investing in the share market through a financial advisor.

The parlous financial position of many of Storm's former clients has come about because, (1) they were persuaded to take out investment loans on their houses, (2) they were advised to take out margin loans to invest in the market place, and (3) no protection was afforded to investors for wrongdoings by the financial advisor.

1. Mortgaging Houses for Investment Purposes.

I believe that there should be a restriction placed on Banks whereby such should not be able in law to extend loans on houses for "investment purposes" beyond a certain percentage. Say for example, 50% of the actual equity (paid up value) in the house. In this way, you would be protecting investors from losing everything when so doing. If such a regulation were already in effect, many of Storm's clients today would still have some equity left.

2. Margin Loans

Margin loans should be secured on actual assets rather than asset bases inflated by borrowings which pervert lending ratios.

1. 50% of house "Investment Loan".
2. Cash equity "Liquid cash available"
3. Superannuation ?

Financial advisors should not be allowed to collect their fees "up front" and such fees should never come from the monies borrowed. In the case of Storm, we were actually paying interest, not only on the sums we borrowed, but also on Storm's fees because these were deducted directly from such borrowings. This led to a distortion of the true ratio between the margin loan and the client's actual equity in the portfolio and led to the negative equity situations that everyone experienced.

3. Investor Protection

I have already proposed that some form of insurance cover be mandatory for all investors that use financial advisors. I am not suggesting for a moment that this insurance cover relates to any losses in the market place because this would be impractical. Rather, this insurance cover should be take out for any wrongdoings by the financial advisor that leads directly to investor losses as a result of such. In the case of Storm, you have a financial body that has been clearly recklessly with its clients' investments and has blatantly misrepresented their wishes. Yet, we, Storms' clients, have no recourse against that firm because it has no means of recompensing us. This is clearly an anomaly in the law.

If all investors had to pay a mandatory fee (such would be a nominal amount over the total portfolio) for "indemnity insurance" to cover them in this respect, I feel confident that investors would find such a practice not only acceptable but reassuring. It would also restore public confidence in the financial market places of Australia which must be the Government's ultimate aim. The Government might even consider applying a government insurance cover in this respect which would give investors even more confidence.

ASIC has stated that it doesn't feel that further regulations are needed in the financial sector. The Storm debacle tells us otherwise. The regulations in place are clearly not working so effective

changes are called for with systems (checks and balances) in place that can monitor the activities of the financial sector in general.

Someone once said, If we fail to learn from the past, we are bound to make the same mistakes again! History has taught us this lesson the hard way. As a former Storm client that lost 1.3 million because he was given bad financial advice, I urge the Committee to reassess the guidelines and put systems in place that will protect the general public from the machinations of financial advisors and Banks that are driven by the bottom line. Banks have derived huge profits from lending monies willy-nilly but then had to be bailed out when it all went wrong. I think it's time now to bail out the victims as well?

One last thing. When something like this happens in the future, can the Government please set up an emergency fund so that people that have lost everything can, at least, claim a pension. The finer details can be established by Centrepont later! "What happened to all your assets?' Centrelink keeps asking us! Don't they read the papers? I wonder. The red tape one has to go through to get some financial relief in this country when one is a former tax paying citizen with a genuine need is incredible. I'm still waiting for a pension after some three months and my partner, Helen, has given up altogether.

I hope the aforementioned comments prove helpful to the Committee and something constructive arises from all this.

Regards,

VICTOR AINSLIE