



Association of Financial Advisers Ltd
ACN: 008 619 921
ABN: 29 008 921
PO Box Q279
Queen Victoria Building NSW 1230
T 02 9267 4003 F 02 9267 5003
Member Freecall: 1800 656 009
www.afa.asn.au

The Chairman
Accounting Professional & Ethical Standards Board Limited
Level 11, 99 William Street
Melbourne VIC 3000

By email: sub@apesb.org.au

30 June 2017

Dear Chairman,

AFA Submission – Consultation Paper: Post-Implementation review of APES 230 Financial Planning Services

The Association of Financial Advisers Limited (AFA) has served the financial advice industry for 70 years. Our objective is to achieve *Great Advice for More Australians* and we do this through:

- advocating for appropriate policy settings for financial advice
- enforcing a Code of Ethical Conduct
- investing in consumer-based research
- developing professional development pathways for financial advisers
- connecting key stakeholders within the financial advice community
- educating consumers around the importance of financial advice

The Board of the AFA is elected by the Membership and all Directors are required to be practicing financial advisers. This ensures that the policy positions taken by the AFA are framed with practical, workable outcomes in mind, but are also aligned to achieving our vision of having the quality of relationships shared between advisers and their clients understood and valued throughout society. This will play a vital role in helping Australians reach their potential through building, managing and protecting wealth.

Introduction

The AFA has been actively involved in many reforms within the Financial Advice space over recent years including the Future of Financial Advice (FoFA), Professional Standards and the Life Insurance Framework (LIF). We have played an active role in seeking to raise the standards in the financial advice profession. We are conscious that a number of our members are also accountants and may therefore be bound by the APES 230 obligations.

Reforms to Financial Adviser Remuneration

Remuneration in the financial advice space has changed significantly with the banning of commissions on superannuation and investments effective from 1 July 2013 as part of FoFA and the limitations on insurance commissions as part of the LIF legislation that is due to commence on 1 January 2018.

It is our view that the nature of insurance products and insurance clients means that a commission model is the most effective means to ensure that everyday Australians have access to financial advice on life insurance. We are also very conscious that advised retail life insurance delivers a significantly better outcome for clients when compared to both direct insurance and group insurance options. Fee for advice is only practical for life insurance advice when packaged with other services for clients who also have superannuation and investments.

Developments in the Financial Advice Market

We note your reference in the Background section of your consultation paper to CPA Australia Advice and to the Independent Financial Advisers Association. It should be noted that both of these groups are relatively small, with CPA Australia Advice reported to only having 25 advisers and the Independent Financial Advisers Association reported to only have 34 members. The growth of both groups has been surprisingly low. The growth of CPA Australia Advice should also be viewed in the context of the introduction of licensing of accountants providing SMSF advice from 1 July 2016. During this time, other groups that cater to the accountants and have less restrictive requirements have grown rapidly. This presumably reflects the appetite in the market for business models that tightly comply to the requirements of Section 923A of the Corporations Act which defines the criteria for eligibility to use the term “independent”. Whilst the stance of these two groups should be acknowledged, it must be appreciated that they represent a very small percentage of the total financial adviser profession.

The Viability of Financial Advice Business Models

The AFA is also very conscious of a range of measures that have already or will shortly impact the cost structure of running a financial advice business. This includes issues such as the ASIC funding model, professional standards obligations and reforms in the external dispute resolution space. This is on top of all the requirements involved in FoFA, such as Fee Disclosure Statements, Opt-in and the Best Interest duty, that all contributed significantly to the cost structure.

We are therefore very conscious that we have seen pressure on the top line and the expense line that has impacted financial advisers in recent years. As a professional association in the financial advice space we want to both support the professionalisation of our members and also ensuring that we still have a vibrant financial advice market place.

As stated above there has already been significant changes impacting the revenue of financial advice practices, which we have supported. We believe that these changes have addressed significant issues and we expect over the longer term will contribute to the achievement of the professionalism goal. **We do not believe that there is any need for further reforms at this**

stage and would not be supportive of a regime that penalised good accountant advisers who run good ethical businesses.

Consultation on APES 230

The AFA contributed to the previous consultation on APES 230 back in 2012. At that stage we strongly argued against the banning of life insurance commissions and restrictions on income streams for superannuation and investment business. It is our view that the outcome achieved in the current version of APES 230 was a very sensible compromise that took into account the interests of the accounting profession and the interests of accountants operating in the financial advice space. Despite all the developments in the industry since that point, we do not believe there is a need for further change. In fact it is our view that reforms like LIF have effectively moved the standards in APES 230 as a direct result. **We therefore strongly recommend against any consideration by the APES Board to ban commissions on life insurance.**

On 27 June 2017, the Australian Securities and Investments Commission released a statement with respect to legal advice that they had received on the use of restricted words such as independent, impartial and unbiased as stipulated in Section 923A of the Corporations Act. ASIC expressed a view that asset based fees are not inconsistent with Section 923A and that the use of asset based fees does not impact upon a business in seeking to use the term independent. It is our view that this statement helps to support an argument that asset based fees are a valid form of adviser remuneration and should not be banned in any form. It is our view that advisers should be able to choose between asset based fees, hourly fees and fixed fees for the services that they provide. **We therefore strongly recommend against any consideration by the APES Board to ban asset based fees.**

As the AFA is not an operating financial advice practice, we will not provide responses to the detailed operational questions that have been set out in the consultation paper. We would like to make comment with respect to question 7. Whilst we believe that the reforms involved in the professional standards legislation will involve significant change and consequences for the financial advice community, we believe that they will deliver long terms benefits in raising standards and also assisting the community to respect the great benefits that financial advice delivers. Financial advice has suffered greatly as a result of negative media and political coverage in recent years. This coverage rightly reflects issues in the industry and the unacceptable actions of a small number of advisers. A healthy and prosperous future for financial advice is reliant upon lifting the professional standards generally and the removal of the small number of advisers whose actions have caused significant loss for consumers. We believe that the APES Board should give consideration to the obligations on Australian Financial Services Licensees and product providers in identifying and removing these rogue accountants and financial advisers who threaten the reputation of all participants in the financial services industry.

Concluding remarks

The AFA is a strong supporter of the reforms that the financial advice profession has already implemented and those that are still to be fully implemented. We believe that financial advice is on a challenging journey, but this will deliver long term benefits for both consumers and financial advisers.

The AFA welcomes the opportunity to contribute to this consultation process. Should the APES Board require any further clarification on anything in this submission then, please contact us on 02 9267 4003.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'P. Kewin'.

Philip Kewin
Chief Executive Officer
Association of Financial Advisers Ltd