

19 February 2014

General Manager  
Retail Investor Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600

Email: [futureofadvice@treasury.gov.au](mailto:futureofadvice@treasury.gov.au)

Dear Bede

**Corporations Amendment (Streamlining of Future of Financial Advice) Bill 2014**

CPA Australia and the Institute of Chartered Accountants Australia ('the Institute') make the following comments on the Corporations Amendment (Streamlining of Future of Financial Advice) Bill 2014.

We are supportive of amendments that provide certainty and that will facilitate the provision of quality financial advice, such as the proposed amendments to the best interests obligations.

However, while we support the government's agenda to reduce the administrative burden on business it is essential that a balance is struck to ensure such changes are in the consumer's best interests. They must also deliver positive outcomes that will take the financial planning sector from an industry to a profession. Further, the ongoing changes to the industry and how the industry operates may in fact decrease consumer confidence resulting in less consumers choosing to seek advice.

We are concerned that proposals such as narrowing the existing ban on conflicted remuneration, may not be consistent with these principles and would encourage the government to consider the long term benefits of such reforms and not just the immediate cost of implementation.

It is also with these principles in mind that we support the existing initiatives to promote transparency and disclosure, such as opt-in and fee disclosure statements, included in the *Corporations Amendment (Future of Financial Advice) Act 2012*. We believe they are important tools that the financial services industry can use to further strengthen its relationship with consumers and develop greater trust and confidence in the financial services industry.

In addition to benefitting new clients, these mechanisms will provides an opportunity for those financial advisers who do not already regularly engage with their clients to better engage and demonstrate the real value of their advice. It will also protect clients who have become disengaged over time as well as clients who are not yet fully engaged in the client/ financial adviser relationship from paying ongoing fees where they receive little or no service.

Representatives of the Australian Accounting Profession



[cpaaustralia.com.au](http://cpaaustralia.com.au)



Institute of  
Chartered Accountants  
Australia

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CPA Australia and the Institute strongly believe that if the industry can begin to effectively communicate the benefits and value of seeking financial advice, the wider community will begin to understand the value of financial advice and to seek it out to make better informed financial decisions.

If you have any questions regarding this submission, please do not hesitate to contact Keddie Waller (CPA Australia) at [keddie.waller@cpaaustralia.com.au](mailto:keddie.waller@cpaaustralia.com.au) or Hugh Elvy (the Institute) at [hugh.elvy@charteredaccountants.com.au](mailto:hugh.elvy@charteredaccountants.com.au).

Yours sincerely



**Paul Drum**  
Head of Policy  
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#### **About the signatories**

CPA Australia and the Institute represent over 150,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally. Specifically members of the accounting profession are increasingly becoming involved more widely in financial services related advisory and service roles.

# **Corporations Amendment (Streamlining of Future of Financial Advice) Bill 2014**

## **Chapter 1 - Best interests obligations**

CPA Australia and the Institute believe that the majority of financial planners provide quality financial advice that is in the best interests of the client. However, the introduction of the statutory 'best interests' obligation has embedded this obligation in the financial advice framework. This obligation ensures providers of financial advice make certain the interests of their clients remain paramount, above and beyond those of the planner, licensee and any relevant associates.

We believe that the existing obligation achieves an appropriate balance of maintaining the principal of the obligation while providing appropriate guidance as to what is required to satisfy the duty. However, we acknowledge that there has been some concern that the 'catch-all' provision creates a level of uncertainty given its open-ended nature.

The amendments proposed to paragraph 961B(2), including the removal of paragraph 961B(2)(g) and addition of 961B(4A), should address these concerns. We believe this should still ensure an appropriate balance that positively encourages behavioural changes and facilitates the provision of scaled advice where appropriate.

## **Chapter 2 – Ongoing fee arrangements**

CPA Australia and the Institute support retaining the current mandatory two year opt-in process and fee disclosure obligations, as we believe these mechanisms are an important pillar of the FoFA reforms.

We believe that the opt-in provisions will assist clients who are actively involved with their financial future assess whether the services they are receiving reflect value for money before they decide to renew an ongoing fee arrangement.

It is also an opportunity for those financial advisers who do not already regularly engage with their clients and seek their ongoing consent to charge advice fees to now demonstrate the real value of their advice.

If the industry can begin to effectively communicate the benefit and value of seeking financial advice, the wider community will begin to understand these benefits and this may encourage more people to actively seek advice.

Further, we believed this protection mechanism should have been afforded to both existing and new clients. However, the compromise of requiring the provision of an annual fee disclosure statement to all clients will assist in ensuring existing clients have the opportunity to make an informed decision whether they are receiving value for the ongoing fees they are being charged.

While we understand that implementing new regulatory requirements comes at a cost, we also acknowledge that a balance must be struck between amending existing obligations and ensuring new rules and regulations are in the consumer's best interests and deliver positive outcomes that will take the financial planning sector from an industry to a profession.

Despite our objections to these amendments, we support the Government's intention to retain the fee disclosure statement for prospective clients. This mechanism will go some way to ensuring that these clients continue to have the opportunity to make an informed decision if they are receiving value for the ongoing fees they are being charged.

### **Chapter 3 – Conflicted remuneration and other banned remuneration**

CPA Australia and Institute are of the view that all commissions have the potential for real and perceived conflicts of interest and should therefore be removed. Remuneration models based on a commission structure do not align with the services generally provided by a professional. However, we recognise the practical implications this entails and that any change requires an appropriate and practical transition period.

While we support the ban on conflicted remuneration continuing to apply to personal advice provided by licensees or its representatives, we are disappointed amendments have been proposed to exempt general advice from this provision. We do not believe that further facilitating the receipt of conflicted remuneration is in the interests of the industry nor consumers seeking advice.

Further, we believe inconsistency in how commissions received on insurance for life risk products within superannuation adds unnecessary complexity may in fact encourage the retention of conflicted remuneration models.

CPA Australia and the Institute are supportive of the amendments to the education and training. Education and training relevant to the operation of a financial services business, which includes the provision of financial product advice, are valuable skills that should be encouraged for the benefit of the industry.