SUBMISSION CONCERNING APES230 FINANCIAL ADVISORY SERVICES

By

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"Professional Standards-Accountants show how it's done"

(Cover of Professional Planner magazine, August-September 2010).

"...The Exposure Draft Standard (APES230) certainly reflects the more evolved state of the accounting profession and the rigour and independence of their standard setting process."

(Extract from Industry Super Network Briefing Paper, October 2010).

"It's great that commissions are gone, but they are being replaced by a high fence in the form of asset fees, so the shift to fees could be seen as another marketing ploy to sell more product".

(Jim Stackpool, Australian Financial Review, October 2010).

Support

We are writing to express our **support** for the proposed standard, **APES230 Financial Advisory Services.**

Adherence to the standard and its principles, which reflect the fundamental professional foundations of fiduciary obligation and unqualified trust that must exist between a professional adviser and a client, should be mandatory for members of the accounting bodies who offer financial advisory services (often described as "financial planning" services).

Lack of Involvement by Accountants in Financial Planning

Accountants have had the opportunity to engage in "modern" (licensed) financial planning since about 1975; however, given the passage of some thirty five years, there is a relatively small number of accountants seriously offering these services. Given their training, professional education and ethical standards, many more accountants should have become involved in financial planning. Theoretically, it is an "ideal fit".

Regrettably, however, most accountants view financial planning as a link in a financial product manufacturing and distribution chain, rather than as a legitimate and independent professional advisory service. This is a reasonable conclusion for those members to have reached, because that is the way in which the industry is viewed by most of its participants.

Stories abound over the last thirty five years of accountants being unsuccessful in financial planning because of a poor "cultural fit" with the product selling imperative that drives much of the industry. In addition, the accounting profession's leadership has not treated financial planning as a core professional activity (as it has treated auditing and tax), so that in practice, the profession's fundamental ethical standards, such as independence and conflict avoidance, have not been applied rigorously to members engaged in financial planning.

The closest the accounting profession has ever come to applying professional and ethical standards to financial planning was with the publication by the joint accounting bodies in 2005 of voluntary standard APS12 which recommended that a "fee for service" remuneration model should be adopted by members.

Then in 2006, The Institute of Chartered Accountants published an analysis of the industry in its paper "Reinventing Financial Planning". This paper called for the removal of remuneration-based conflicts of interest as the principal way to achieve unqualified trust of planners by clients.

APES230 is the evolved outcome of both those documents.

Nevertheless, due to the reluctance of our profession to enforce fundamental ethical principles in the delivery of financial planning services by our members, much of the accounting profession has continued to treat financial planning with suspicion and cynicism; and as a flawed and somewhat unethical activity.

APES230 as a Positive Force

APES230 will change that negative attitude. Its adoption will lead to substantial growth in the number of accountants engaged in financial planning because they will see it as having been transformed into a legitimate professional activity that is both honest and ethical. In addition, there will be substantial growth in the number of potential clients seeking to retain the financial planning services of our members.

In short, contrary to the short term commercially-based negative reactions of some people, APES230 will be a strong and positive force for the growth of our profession and for its acceptance by the public as a source of trusted professional financial planning advice.

In the absence of the adoption of APES230, financial planning will continue to be treated with suspicion by the majority our members and they will continue to avoid involvement in it, to the detriment of our profession and the public we serve.

Objections to APES230

Nevertheless, we realize that for some members of our profession who are currently involved in financial planning, especially those who receive commissions, asset-based fees, and other conflicted remuneration, the adoption of APES230 may be confronting.

We have heard a number of objections to the adoption of APES230 from these members (and from their related dealer groups and product manufacturers). In the following pages, we have outlined and responded to each of these objections.

Objection 1)

Members should not be told by their professional bodies how to charge their clients. Indeed, it's none of the professional bodies' business. APES230 is an unwelcome intrusion into their commercial lives.

As a general rule we agree with that proposition; however, membership of a professional body is conditional upon members complying with a set of ethical standards that distinguish us as a true profession and support the worth of our designation. We have a duty to protect our designation and the reputation of our profession by prescribing what members **should and should not do ethically** and then disciplining them when they cross the 'ethical line'.

If that were not so, our designation ('brand') would become worthless very quickly and we would become an industry lobby group whose role would be to protect the multitude of contradictory and competing commercial interests of members. It seems that some members erroneously believe that protection of their commercial interests should be the main priority of our professional bodies.

An analogy here is if auditors started charging a "fee for service" based on a percentage of the value of a company's assets. Would that be acceptable to us? Would we seek to stop that practice? Would we "back off" on the basis that we shouldn't be telling members how to charge their clients? No doubt, we would move quickly to stop this practice on the basis of an unacceptable conflict of interest having the potential to bring our profession and our designation into disrepute.

Similarly, if the medical profession moved away from flat fees for service and adopted a "fee for service" definition based on a percentage of the value of drugs prescribed by doctors, there is no doubt that community outrage would act to stop such a conflicted remuneration practice.

And yet, that model is essentially what many financial planners are using in their practices, or will use when commissions are phased out by proposed government legislation. APES230 seeks to stop such fundamentally conflicted remuneration arrangements in the practice of financial planning and we support its intent in doing so.

<u>Objection 2)</u>

The accounting profession should do nothing at this time. Our standards should simply reflect relevant legislation as it develops (no more and no less).

Adoption of this so-called “alignment with the emerging regulatory framework” position will lead to three unfortunate consequences:

First, our profession will be seen to have given up on self-regulation in the financial planning space, and even to have signaled our accession to the removal of our professional bodies from the self-regulatory role in general. Given that the articulation and self-regulation of professional and ethical standards should be central to the operation of any profession (and has been so in the case of the accounting bodies since their inception), our failure to adopt APES230 would signal a substantial change of direction and would be a most undesirable precedent.

Secondly, our profession will be seen to have accepted (even endorsed) that, instead of self-regulation, our members should be subjected to prescriptive, complex and costly compliance-based legislation which will be the inevitable result of the government’s “Future of Financial Advice” paper (FoFA). This legislation is proposed to commence on 1st July 2012. APES230 will be a “light hand of self-regulation” compared to what our members will be facing with FoFA and its inevitable refinements and “toughening” as the years pass; and

Thirdly, (whether or not it is so) our profession will be seen to have surrendered on the enforcement of our most fundamental ethical standards under pressure from the wider financial services industry, some of which views APES230 as an attack on product distribution networks and on the currently conflicted commercial alignments of our members with “dealer groups” and financial institutions.

This “emerging regulatory alignment” position may be superficially attractive to those uninitiated in the ways of the financial planning industry who are looking for a political compromise to a potentially difficult controversy; however, the supporters of this position well know that FoFA (“the emerging regulatory framework”) does not comprehensively cover the key conflicts of interest and professional obligations addressed in APES230 (including percentage-based asset fees).

They know that if they can convince our profession to accept their “delay and alignment” position, APES230 will have been defeated. There would be no point in having APES230 if all it did were to adopt the “lowest common denominator” position of FoFA. The opponents of APES230 know that. Indeed, it is the point of their opposition.

They have calculated that if they can effectively defeat APES230 by convincing our profession that there should be an alignment of any proposed standard with the “emerging regulatory framework” (and then negotiate to water down the flawed and politically compromised principles in FoFA even more), that will be a highly favourable commercial outcome for them; but it will be a very damaging outcome for the professional reputation, independence and self-regulatory foundations of our profession.

Objection 3)

The proposed standard is acceptable "in principle", but it should not be mandatory and should be offered as "guidance only".

Adoption of this proposition would follow the precedent of APS12, the unknown and substantially ignored "guidance only" predecessor of APES230. The critics of APES230 know that if the proposed standard is only offered as "guidance" to members, it too will be ignored, and effectively defeated.

This decision would make our profession look weak, lacking independence, and unwilling to assert and stand behind its most fundamental professional and ethical principles in the face of pressure from powerful commercial interests.

Much of the financial planning industry is regularly criticised for being long on rhetoric; but short on principles. Contrast this with APES230 in which our profession's adherence to timeless professional and ethical principles has been approvingly commented upon in the media, government, academia and even in the financial services industry in general. At least, it is said, the accounting profession stands for something.

For example, in a recent Briefing Paper (October 2010), the Industry Super Network noted:

"The approach taken (to remuneration) by the Financial Planning Association, the Financial Services Council (formerly IFSA) and the Association of Financial Advisers contrasts quite dramatically with the Exposure Draft Standard (APES230) released by the Accounting Professional and Ethical Standards Board, which would apply to all accountants providing financial advice. The Exposure Draft standard would require accountants to adhere strictly to a fiduciary obligation when providing any financial advisory services to clients, including a mandatory requirement to only charge a true flat fee for service.

Asset-based fees would be prohibited under this standard, along with other conflicted remuneration types including commissions, volume-based payments and soft dollar benefits…….the Exposure Draft Standard certainly reflects the more evolved state of the accounting profession and the rigour and independence of their standards setting process".

The ultimate value of our professional designations lies in the unambiguous trust of our clients. This is derived from our articulation and enforcement of fundamental professional and ethical principles. **This is the unique feature of a true profession over other occupational groups.**

Should we fail to mandate APES230, we'll be no longer respected as a true profession whose central role is to articulate and enforce professional and ethical standards in the public interest. We will soon be perceived to have become a lobby group which is prepared to be flexible about adherence to its standards because of its imperative to represent the commercial interests of its members.

Should we fail to mandate APES230, its opponents will approve publicly of that decision. They may even praise the decision as enlightened and realistic; but privately they will conclude that our profession can be counted on to compromise its principles when enough commercial pressure is brought to bear. Supporters of APES230 will be disappointed for the same reason. Either way, we will not be respected by either side of the debate and we will return to our previous position of irrelevance in financial planning (which is where many in the industry would prefer us to be).

In addition, our reputation in disciplines much wider than financial planning will be questioned. It would be reasonable for the media, government, regulators, and our members to ask what's next. That is, what's the next area in which our profession is going to compromise its principles under pressure and choose to apply our ethical standards as 'optional extras'? Will it be in auditing, will it be in tax, will it be in liquidations? We will have created a very large precedent.

We cannot seriously and credibly suggest that financial planning should have a **special exemption** from our most fundamental professional and ethical standards. Otherwise, we will be placed in a position where we have two tiers of ethics (conflicted and non-conflicted) which members may choose at their commercial discretion.

Finally, the implications of this decision are much wider than Australia. Many people in our profession around the world (for example, in the UK) are waiting to see whether we have the courage of our convictions to mandate APES230. If adopted in Australia, the principles in APES230 are likely to be considered for adoption in our profession elsewhere.

However, failure to mandate APES230 will inevitably lead to the standard's irrelevance (like its predecessor APS12) and the continuation of the conflicted system whereby product distribution networks control much of the financial planning industry throughout the world. That outcome would be a major lost opportunity for the Australian accounting profession to lead much needed and overdue reform in the public interest.

In summary, failure to mandate APES230 will effectively make the accounting professional bodies irrelevant in the financial planning industry.

<u>Objection 4)</u>

APES230 cannot be adopted without major commercial inconvenience, and accordingly, it should be dropped.

Sub-sets of this objection include "it can't be done", "it's not been done before", "APES230 is right in principle, but it's very difficult to change the way I do things", "it's not necessary because accountants are more ethical than other financial planners and to suggest otherwise is a personal affront to my integrity as an accountant", "it's unfair because it's retrospective" and "you're going to send me broke and my professional body should not be doing that".

Whichever way this objection is couched, its purpose is to avoid the implementation of APES230 by emphasising (and distorting) the practical difficulties that some members perceive will follow if they are forced to adopt the standard.

The challenge for the professional bodies is to present an “implementation framework” in order to demonstrate to members that making the change is not as difficult as they perceive it to be, that the principles in the standard have been adopted before and that APES230 has some significant benefits in terms of members’ ongoing incomes, the sustainability and value of their financial planning practices, and the improvement in their relationships with clients.

The practical process of implementing a true “fee for service” model (as proposed in APES230) is well documented. In addition to dealer groups offering training courses, there are consulting firms offering specialist implementation services to accountants (and others) wishing to make the change.

At least three of these consultants have published “how to” guides illustrating the process:

Jim Stackpool, “What Price Advice?”, Strategic Consulting and Training, 2009,

Sue Viskovic, “Pricing Advice”, Elixir Consulting, 2010,

Johnny Grohavaz, “The Financial Adviser’s Guide to Fee for Service”, 2010.

A significant number of financial planners have already successfully implemented the principles outlined in APES230. For example, in “Pricing Advice” (page 88), John Strange, CFP, Principal of Personal Financial Designs, says:

“We charge flat fees….in eight years we have never lost a client…we have experienced 40% growth every year, except during the GFC when our growth dropped to 25% (due to a temporary drop in new clients joining us)….we are very clear about the fees we charge. We are paid by direct debit from our clients’ bank accounts or credit cards-never from their investments”.

This experience is in stark contrast to the bulk of planners whose incomes suffered significantly during the GFC, so dependent were they on the receipt of percentages. There are many cases where planners’ incomes dropped by up to 50% during the GFC, just at a time when their clients needed their independent advice more than ever.

The GFC demonstrated the illogical nature of remunerating planners based on percentages, whose role is not to predict the rises and falls of markets, but to offer independent strategic financial planning advice based on a wide range of considerations including asset allocation, taxation, structures, product assessment, debt, risk and estate planning.

None of these considerations are directly or indirectly related to the vagaries of markets, so that charging commissions/fees based on percentages of amounts invested in certain products or funds under management is both illogical and corrupting of the independence of advice.

Another example in “Pricing Advice” (page 110) is Kay Aarons, B.Ec., CFP, Director and Financial Planner, Strategic Financial Solutions, who says:

“Having charged fee for service for years now, I would say the biggest obstacle for most advisers is the self-belief that they are worth paying.…first valuing yourself and then valuing the advice that you give-once you understand that, then you can appropriately structure your fees….we have been charging flat fees for all of our new clients and we are just about to embark on a process to work through all of our existing clients who pay us asset-based fees and move them to a flat fee model….the few clients who have not seen the value in our flat fee model, probably don’t see the value in what we provide. If we want to retain those clients, it is our challenge to communicate our value more effectively”.

It is important to note that the planners who have made the transition to true “fee for service” (as proposed in APES230) are not limited to independently owned practices with their own Australian Financial Services Licence.

For example, in a recent article in **The Australian Financial Review** (5th October 2010), AXA’s General Manager for Advice and Licensing is reported as saying that 75% of AXA-aligned advisers had started charging flat fees based on the complexity of the client’s situation, and the firm’s research and calculations of how much it actually costs to provide ongoing advice.

And in a recent report in **Professional Planner** magazine, **Catherine Robson** (an NAB/MLC affiliated planner and winner of the 2010 Outstanding Investment Adviser of the Year Award by the Australian Private Banking Council) says:

“We work on an agreed fixed-dollar-for-advice basis….making that change involved reviewing what it cost us to deliver our services, and then putting in place a pricing structure that delivered what clients were looking for, that is obviously profitable for us and for us to have a mechanism to determine what it’s going to cost us to deliver the service. It’s not a flat fee in the sense that every single client pays the same amount; the fee is determined on the complexity of the client’s need and the level of intensity of the service…. We wouldn’t be able to run a profitable business if we did not understand what the input costs of doing business looked like….it didn’t take long.”

Of course, there is no denying that making the change will be commercially inconvenient for some members, particularly where they are currently in receipt of large amounts of trailing income (commissions or asset fees) for which little or no work is performed; however (as we have demonstrated in this submission), there are many practical examples of members who have made the change, through which it can be readily demonstrated that the so-called “difficulties” of implementation are more matters of perception than reality.

Objection 5)

APES230 will put accountants at a commercial disadvantage. There should be a "level playing field" in financial planning for all participants in the industry.

In an ideal world, we agree that there should be a "level playing field" for the delivery of financial planning services; however, given the imperative that members of a true profession must place their clients' interests before their commercial interests, it is vital that accountants adhere to "conflict-free" ethical standards proposed by APES230.

In so doing, we submit that accountants are not placed at a disadvantage at all. They will be unambiguously trusted by their clients, their practices will flourish, their incomes will not fluctuate with the movement of markets over which they have no control, the value of their practices will grow, and they will not be "held hostage" by the commercial requirement to sell products and to accumulate of funds under management.

In short, they will be at a significant advantage, both ethically and commercially, over those planners who have not adopted the principles in APES230.

Objection 6)

Percentage-based asset fees are simply a convenient "fee pricing mechanism" and are not inherently conflicted because the same percentage is charged on every product and/or all the client's investments.

This proposition is incorrect because:

1) Percentage-based asset fees require clients to own a reasonable level of assets on which to charge a percentage. Many clients do not own assets, and yet they are in need of financial planning advice in areas such as budgeting, estate planning and taxation, none of which give rise to the ability of a planner to charge a percentage-based fee on assets.

In the worst cases of abuse of percentage-based asset fees prior to the GFC, clients with very little in "investible assets" were convinced to take out very large margin loans (secured on their private homes), thus "creating" funds under management on which percentage-based fees could be levied. In one sense, this is worse than a commission-based arrangement, because it presents clients with an appearance of "commission-free independence" without actually being so.

Curiously, the proposed FoFA legislation **will ban** commissions and percentage-based asset fees in these "geared" situations (clearly conceding the conflict problem); but it **will not ban** percentage-based asset fees in un-geared situations, thereby allowing conflicts of interest inherent in percentage-based asset fees to continue unabated for the vast majority of clients;

2) Percentage-based asset fees cannot be charged (or at least at the same rate) on all assets. For example, it is highly unlikely that a percentage-based asset fee can be charged on investments in cash, on direct real estate investments, on a client's principal residence or on a client's assets in an employer sponsored superannuation fund. As a result, the planner would have a conflict of interest, which may lead to a planner avoiding the client altogether, seeking to "create" funds under management by way of gearing, convincing a client to liquidate assets, or selling insurance on which a commission can be earned; and

3) Percentage-based asset fees cannot be charged in situations where, for example, a client uses an inheritance, a bonus or a windfall to pay down a loan or salary sacrifice cash into an employer-sponsored superannuation fund. In that situation, the planner is conflicted and may be inclined to "sell" against these strategies that are otherwise appropriate to a client's circumstances.

In a recent comment in **The Australian Financial Review** (5th October, 2010), financial services industry consultant **Jim Stackpool** succinctly summarized the move to percentage-based asset fees:

"It's great that commissions are gone, but they are being replaced by a high fence in the form of asset fees, so the shift to fees could be seen as another marketing ploy to sell more product….There is no real connection between buying more product and advice".

In summary, percentage-based asset fees are inherently conflicted, and demonstrably lead to situations in which poor quality advice is offered. The principles in APES230 will avoid the situations described above and will give rise to unambiguous trust between a client and a planner.

Objection 7)

APES230 should not be adopted because it is retrospective and should not be applied to existing clients.

The aim of APES230 is to reduce conflicts of interest, not to create additional ones. Therefore, the principles of APES230 should apply equally to existing and new clients. It is unacceptable that existing clients should continue to be subjected to conflicted remuneration models such as trailing commissions and percentage-based asset fees, while new clients are not.

A significant concern here is that ongoing advice may be compromised where members are allowed to continue to receive percentage-based trailing incomes "in perpetuity" while clients remain in existing products **after** the standard's commencement date. Allowing this may improperly influence members not to recommend appropriate changes in clients' portfolios due to a preference to continue receipt of trailing income, as opposed to true "fee for service".

Objections will be raised to this requirement on the basis that it is **retrospective** in application. That would be so if trailing income were of the nature of a deferred income that ceased after a contractually agreed timeframe; however, the reality is that trailing income continues indefinitely, in many cases even after any service to the client has ceased.

Therefore, the claim that applying the standard equally to existing and new clients is retrospective, is simply incorrect. Of course, there may be exceptions to the rule in cases where members can demonstrate in writing a client's unwillingness to move to the new basis or a genuine inability to unravel an existing service contract until after the standard's commencement date.

While a certain amount of resistance to change is inevitable, it does not alter the fact that transitioning all existing clients to a true "fee for service" is achievable once a business has embraced both the principles in APES230 and the process by which the principles can be readily adopted. As shown above, there are many examples of successful transition to a true "fee for service".

A number of planners who have made the transition (and have dealt with these so-called "legacy issues") without any financial detriment to their practices have indicated their willingness to voluntarily assist in developing a "step-by-step" implementation guide (including the writers of this submission).

Objection 8)

APES230 is unfair because clients should have the right to choose how to remunerate members.

We rejected a similar proposal earlier in this submission from the point of view of members who submit that the accounting bodies should not interfere with the manner in which they charge fees for professional services.

We certainly accept that clients have the right to choose whether to pay a "fee for service" from an investment platform/product or via their credit card or bank account; however, of far greater importance is that clients have the right to expect that members will provide financial planning services free of conflicts of interest (which is not the case with commissions, percentage-based asset fees and similarly conflicted remuneration structures).

Therefore, we reject this proposal on the basis that to accept otherwise would allow members to offer two levels of service, "conflicted" and "un-conflicted" which is neither in the interests of clients, nor in the interests of the accounting profession.

Objection 9)

APES230 is unrealistic because it requires members to charge fees for financial planning services on the basis of hourly rates. Hourly rates give rise to conflicts of interest in the same manner as percentage-based arrangements (commissions and asset fees). Therefore, percentage-based remuneration should not be banned.

APES230 does not require members to charge fees on the basis of hourly rates. Members may choose to do so; but they may use any other basis (for example, flat fees, annual retainers, task-based fees), so long as the fees are not calculated by reference to the sale of products or the accumulation of funds under management.

We accept that hourly rates may give rise to inefficiencies and over-charging, but they do not give rise to conflicts of interest that result in the sale of products or the accumulation of funds under management.

Objection 10)

Risk Insurance is a "special case" and should be "carved-out" of APES230.

Financial planning is an integrated advice discipline. It should not be "unbundled" in such a manner that certain sub-disciplines are required to reflect the profession's fundamental ethical standards in APES230 and other sub-disciplines are not required to reflect them. This is neither logical nor appropriate for a true profession and the public who deserve to be able to trust us without qualification.

Concerns have been raised that it is too difficult to offer insurance advice on a true "fee for service" basis because clients cannot or will not pay a fee for initial advice, implementation and annual review of their insurance needs.

As a result, it has been suggested that commissions on insurance should be "carved-out" of the requirements of APES230. We strongly disagree with this argument.

Clients already pay for insurance advice in their premiums, a significant proportion of which (often as high as 140% in year one and 20% on-going) is paid out as commission to advisers.

A number of financial planning practices are already successfully charging a true "fee for service" for insurance. For example, the long-established advisory firm, **Hewison and Associates**, offers the following case study:

"The table below illustrates the fee for service versus commission difference for the cost of insurance for a professionally employed, healthy, 45 year old, non-smoking male for a life insurance policy with a payout of $2 million, increased each year to offset inflation.

Year		----------------- **Fee for Service**---------------------		
	Premium pa with Commission	**Premium pa**	**Planner Fee**	**Total Cost**
1	**$2,178.70**	**$1,377.84**	**$600.00**	**$1,977.84**
2	**2,494.50**	**1,793.19**	**300.00**	**2.093.19**
3	**2,878.78**	**2,064.25**	**300.00**	**2,364.25**
4	**3,344.07**	**2,397.06**	**300.00**	**2,697.06**
5	**3,872.09**	**2,772.25**	**300.00**	**3,072.25**
TOTAL	**$14,768.14**			**$12,204.59**

The Planner Fee is an estimate only. Simple cases may have lower fees, while more complex cases would involve higher fees.

The saving in the above example is $2,563.55, or around 17% over five years. The savings increase, the longer the policy is held."

John Hewison commented on this case study as follows:

"….Insurance is the next frontier in the battle to give Australian consumers access to commission-free, independent advice and is also the key to unlocking the chronic under-insurance problem in Australia….wiping out commissions on insurance is a sure fire way to reduce the cost of personal insurance as well as to encourage people to seek advice on how best to protect their income and their family, without paying excessive premiums….Every person will have a different insurance need….for instance, as an individual moves through life and their debts are repaid their adviser should consider reducing their insurance cover, but often this creates a conflict of interest for the advisor as it reduces the commissions on the insured amount….when there isn't the conflict of commission clients can feel confident knowing that we will find the best and most affordable outcome for them….the fee for service model should be extended to insurance".

Catherine Robson (quoted earlier in this submission):

"….rebates all commissions to the client, including commissions on risk products. An amount for the work involved in setting up insurance is built into the initial and annual fees….rebating and charging a fee on risk business works better for the firm….because we're so confident it's in our client's best interest, and because we've got no vested interest in strongly recommending they take the insurance cover we think is appropriate for them-and it's very clear to the client that's the case-invariably the client will take our recommendation….previously, it was much more like as sales conversation: I know I'm going to get $10,000 commission, but you should take what I'm saying, and do what I say....".

In order to make the transition to true "fee for service" on insurance, planners who provide insurance advice would need to cost the various services they provide. For example, what does it cost to assist a client with a claim and what fee should a client then pay for this service?

The "fee for service" model ensures that planners are paid for the genuine value provided during, for example, the underwriting process, even if the client is rejected or does not proceed for any other reason.

As a justification for having a special "carve-out" for this service, it is often argued that insurance is "sold not purchased". Indeed, it is suggested that given the "chronic underinsurance problem" referred to above, planners must be able to continue to receive commissions; however, we suggest that if commission is the answer here, clearly, it has not worked well over the last thirty years, otherwise the "problem" would not still exist.

The reality is that under any remuneration model, members should demonstrate the value and benefits of insurance. This would continue under APES230. The difference in the approach under APES230 is that conflicts of interest would not exist and the "selling" of the benefits of the insurance would clearly be based on the value to the client and not the value to the member.

This is much more likely to solve any underinsurance problem in Australia than continuing with an expensive and conflicted system.

Objection 11)

APES230 bans (volume) bonuses/rebates/fees paid by platform providers to planners. This is unfair and unnecessary because "platforms" (aka wrap accounts) are administration systems (not products) and the payments to dealer groups (and then to planners) are not of the nature of incentives paid for placement of funds in a platform.

This is an illogical argument. After all, if the "platform" is providing a valuable administration service to dealer groups/planners, why is the payment **from** the platform provider, and not in the opposite direction? The reality is that the payments (however described, characterised or constructed) are of the nature of an incentive to encourage the placement of funds in the "platform product". In that sense, it gives rise to conflicts of interest, and should be treated in the same manner as any other commission or incentive payment from a product manufacturer.

Objection 12)

Percentage-based remuneration models must stay in place because Australians who want or need financial advice will not or cannot pay flat fees (the true "fee for service" proposed by the APES230).

This argument is flawed on five grounds:

First, it conveniently overlooks the fact that under the current percentage-based remuneration regime "ordinary Australians" are avoided by the majority of financial planners because they are not attractive sales prospects;

Secondly, it fails to recognise that much of the remuneration of financial planners is unearned, excessive and undeserved, particularly the receipt of "drip feed" trails/fees based on a percentage of funds under management;

Thirdly, it does not acknowledge that flat fees will lead to community trust of the financial planning industry because clients will be comfortable that they are buying an independent strategic consulting service, not a product sale disguised as a service;

Fourthly, it does not accept that by removing conflicts of interest caused by flawed remuneration models, the cost of compliance will recede, as will the cost of advice. Therefore, many more Australians will be inclined to retain the services of a financial planner; and

Fifthly, Australians have a healthy appetite for financial planning services, provided that planners are trustworthy (not conflicted), their services are reasonably priced and they are perceived to "add value". Removal of percentage-based remuneration models will lead to all three.

Conclusion

APES230 will be a strongly positive force in our profession.

APES230 reflects our mandate as a true profession to act in the in the public interest, to put our clients' interests ahead of our own, to do so in an environment of unqualified trust, and to do so without conflicts of interest.

APES230 will encourage more participation in financial planning by our members and it will lead to many more members of the public using the services of financial planners who have adopted its principles.

We commend the Accounting Professional and Ethical Standards Board for showing the leadership and courage to issue the proposed standard, and we commend it to our profession and to the wider financial planning industry.

15th October 2010