AUSTRALIAN BANKERS' ASSOCIATION INC.

Steven Münchenberg
Chief Executive Officer

AUSTRALIAN BANKERS' ASSOCIATION INC.
Level 3, 56 Pitt Street, Sydney NSW 2000
[redacted]

www.bankers.asn.au

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Ms Meghan Quinn
General Manager
Financial System and Services Division
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Ms Quinn,

Inquiry into proposals to lift the professional, ethical and education standards in the financial services industry

The Australian Bankers' Association (**ABA**) is pleased to provide comments on the Federal Government's consultation on recommendations of the Parliamentary Joint Committee (**PJC**) on Corporations and Financial Services' inquiry into proposals to lift the professional, ethical and education standards in the financial services industry (the Consultation Paper).

With the active participation of 24 member banks and banking groups in Australia, the ABA provides analysis, advice and advocacy for the banking industry and contributes to the development of public policy on banking and other financial services.

The ABA works with government, regulators and other stakeholders to improve public awareness and understanding of the industry's contribution to the economy and to ensure Australian consumers continue to benefit from a stable, competitive and accessible banking industry.

Introductory remarks

Consumers deserve high quality financial advice that is accessible and affordable. High quality financial advice contributes significantly to wealth creation and ensuring a strong financial future and prosperity in retirement for Australians.

The banking industry recognises that consumer trust in financial advice is low and the banking industry has an important role to play in restoring consumer trust and confidence. A new education and professional standards model provides a substantial opportunity to develop, enhance and standardise education and competency requirements and establish areas of best practice, conduct, behaviour and ethics. Ultimately, these standards will serve to improve the quality of financial advice, professionalise the financial advice industry, and assist to rebuild trust and confidence in the financial services industry.

A new education and professional standards model should apply to persons providing personal financial advice on Tier 1 financial products to retail clients (financial advisers). The nature of personal advice and the complexity of Tier 1 financial products mean that particular education and professional standards should apply to providers of that advice, to promote the best consumer outcomes and provide appropriate consumer protections.

Importantly, a new education and professional standards model should be comprehensive and go beyond raising benchmark education and competency standards for financial advisers. Additionally, it should be part of broader co-regulatory efforts to ensure:

- *Financial advisers are part of a trusted profession*. Financial services law and professional standards should seek to improve the quality of advice and the professionalism of the financial advice industry. We consider that financial adviser education and competence is part of a professional standards framework.

- *Consumers receive personal advice that is in their best interests and have confidence the advice they receive is not conflicted*. We consider that the key underpinnings of the Future of Financial Advice (**FOFA**) reforms, being the introduction of the best interests duty and the ban on conflicted payments, have provided a significant platform for improving professional standards across the financial advice industry. Additionally, the Financial Adviser Register (**FAR**) has made a significant improvement in transparency about financial advice in Australia.
- *Financial advice is accessible and affordable for all Australians*. Affordable, simple and general advice and accessible 'scaled advice' should be promoted and innovation in the delivery of financial advice encouraged to ensure consumers can continue to interact with their bank in easy, simple and low cost ways across different channels. Financial services law should better accommodate the different advisory situations which relate to different types and classes of financial products and support consumers being able to access different forms of information and advice.

> The banking industry believes that a new education and professional standards model is needed to rebuild trust in financial advice and generate consumer confidence in the industry. Furthermore, a new model needs to generate industry confidence in the system so that new standards are not merely compliance obligations, but are embedded in the culture of the financial services industry. The banking industry is committed to raising standards and supporting the professionalisation of the financial advice industry.

A new education and professional standards model

The banking industry strongly supports raising the professionalism of the financial advice industry, and more broadly standards across the financial services industry. We consider that the policy intent underpinning the design and implementation of a new education and professional standards model should be based on a number of principles, including:

- Co-regulatory and driven by both the Federal Government and the financial advice industry. The role of Australian Financial Services Licensees (**AFS Licensees**) as well as professional associations and regulators is critical within the new model.
- Integrate a new model focusing on financial advisers providing personal advice on Tier 1 financial products to retail clients as well as ensuring the streamlining of obligations for financial product advice on Tier 2 financial products, general advice and tax (financial) advice to avoid potential conflict and multiple sources of obligations.
- Strive to create a new model which is comprehensive and raises the behaviour standards and professional conduct of financial advisers and promotes a broad professionalism framework for the financial advice industry. Additionally, the new model should meet the needs of the Australian market, yet seek international recognition as international regulators focus more on the conduct of intermediaries like financial advisers and the culture of financial institutions.
- Build on existing systems, leverage existing compliance structures of AFS Licensees and other financial services providers, minimise regulatory and operational impacts and compliance costs, and improve efficiencies while establishing and promoting appropriate standards of professional conduct and behaviour on an ongoing basis across the financial services industry. Administrative and business efficiencies should be maximised in the new model.
- Improve the consistency and quality of education, qualifications, training, and competency of financial advisers, including revising core competencies, streamlining requirements, adopting practice, supervision and assessment mechanisms, and establishing a minimum entry qualification standard. Greater consistency of standards across the industry and better quality should aim to deliver 'qualifications portability'.
- Improve the quality, accessibility and affordability of financial advice for consumers and improve trust and confidence in the financial advice industry. The new model should be consumer-focused.
- Ensure the standards setting model is based around independence, accountability, transparency and inclusiveness.

The design of the education and professional standards model should draw from the Professional Standards Councils' (**PSC**) "5 Es model" of professionalism: education; ethics; experience; examination and entity.[1] Each of these elements is important to ensure a comprehensive approach to building a profession for financial advisers. Beyond raising benchmark education and competency standards for financial advisers the evolution of a profession should remain the overarching goal of a new education and professional standards model.

[1] Professional Standards Councils (2014). *White Paper: Professionalisation of Financial Services*. p9.

A new education and professional standards model will be important in improving engagement across the financial services industry as well as building on the changes to the industry as a consequence of the FOFA reforms and the implementation of the FAR. However, any changes should not impose unnecessary barriers to innovation in product and service delivery, must accommodate evolving technology and new media, and should not add unnecessary expense for Australians, create unreasonable barriers to entry into the financial advice industry, or inhibit the provision of information and advice to consumers.

The banking industry believes that:

- Financial advice should be a profession with higher education, ethical and professional standards;
- Financial advisers providing personal advice on Tier 1 financial products to retail clients should have sufficient knowledge and skills (competence) and demonstrate appropriate professional and ethical standards (conduct);
- New and existing financial advisers should demonstrate the requisite knowledge and skills and ethical standards to be a financial adviser before they can be registered;
- AFS Licensees are central to the co-regulatory model and have a critical role in promoting and codifying the new standards, and therefore, need to be embedded throughout the model; and
- The new model should be comprehensive and contain elements which work together to raise education, ethical, and professional standards and promote ongoing professional improvement.

Response to the PJC Report

The banking industry is broadly supportive of the implementation of the 'PJC model' set out in the report of the PJC on Corporations and Financial Services inquiry into proposals to lift the professional, ethical and educational standards in the financial services industry (the PJC Report).

While in principle the banking industry supports the underpinnings of the PJC Report and the recommendations, there are some practical issues in relation to the design and implementation of the main elements of the PJC model. We have set out the identified issues and related recommendations below.

In making our comments, the banking industry is seeking to overcome practical issues and demonstrate industry leadership by outlining a model which sets out the vision for increased education, ethical and professional standards across the financial advice industry.

The model is centred on the establishment of the Independent Council (standards setting body) to oversee the setting of standards across the industry. We have also indicated timings which we believe are achievable yet fast-track the professionalisation of the financial advice industry. Unfortunately, a number of the timings in the PJC Report would not provide sufficient time for the financial advice industry or others, including professional associations and educational providers, to develop the frameworks and capabilities necessary for implementation.

The ABA's proposed education and professional standards model is set out in **Attachment 1.**

Roles and responsibilities

The PJC model does not completely describe the roles and responsibilities of key participants, including the AFS Licensee and the Australian Securities and Investments Commission (**ASIC**). We have provided comments on the possible roles of the AFS Licensees and ASIC in relation to each of the main elements of the model. We have also provided comments on the possible role of professional associations, where relevant.

Specifically, we have set out proposals for how we envisage the AFS Licensee will operate as part of the new education and professional standards model and how the model should link to the existing legal obligations of AFS Licensees, in particular, the way AFS Licensees must meet their general obligation to ensure their representatives are adequately trained and competent. It is important to ensure that AFS Licensees are able to meet their legal obligations clearly without relying on other parties, such as professional associations.

Model element	Role of the AFS Licensee
Education and training standards for financial advisers	AFS Licensees should be required to ensure their financial advisers meet the education and training standards in order to satisfy their general licence obligation to ensure their representatives are adequately trained and competent (section 912A(1)(f)). Conversely, failure to implement these standards could be a breach of that general licence obligation.
Registration	AFS Licensees should remain responsible for lodging information and registering their financial advisers on the FAR and Authorised Representative Register, where relevant.
Registration exam	Completion of the exam as part of transition for existing financial advisers and by new financial advisers should be taken into account by the AFS Licensee in determining whether the financial adviser is trained and competent to provide personal financial advice on Tier 1 financial products to retail clients. Where completion of the exam is required to be provisionally registered on the FAR, the AFS Licensee will need to put in place a compliance process to ensure this obligation is met.
Graduate professional year	AFS Licensees should be required to ensure their financial advisers complete the graduate professional year as part of the minimum education and competency standard and in order to satisfy the requirement to attain full registration on the FAR. Where completion of the graduate professional year is required to be registered on the FAR, the AFS Licensee will need to put in place a compliance process to ensure this obligation is met.
Ongoing professional development	AFS Licensees should be required to ensure their financial advisers meet the continuing professional development (**CPD**) standards in order to satisfy the general licence obligation to ensure their representatives are adequately trained and competent. Conversely, failure to implement these standards could be a breach of that general licence obligation.
Professional and ethical standards	AFS Licensees should be required to ensure their financial advisers meet the standards in order to satisfy general licence obligations and other relevant conduct and disclosure requirements set out in the Corporations Act.
Independent Council (standards setting body)	AFS Licensees should be represented through advisory committees to the Independent Council (see details below).

Education and training standards for financial advisers

The banking industry supports introducing new education and competency standards for financial advisers. We believe that new education and competency standards should include the following elements:

- Minimum entry qualification;
- Registration exam;
- Graduate professional year; and
- Ongoing professional development.

It will be important to ensure that these elements are coordinated and sequenced to ensure that financial advisers are able to attain the necessary qualifications as well as practical experience to achieve full registration.

Minimum entry qualification

Consistent with recommendation seven of the PJC Report and the first element of the PSC "5 Es model", the banking industry supports increasing the mandatory minimum educational standard for financial advisers to a degree or degree equivalent qualification at Australian Qualification Framework level seven (**AQF 7**), with core and sector specific requirements set by the standards setting body. We envisage that AFS Licensees will encourage, and financial advisers will seek to attain, additional and/or higher educational standards and enhanced experience (noting that many financial advisers employed by banks currently hold higher qualifications, such as a masters qualification).

<u>Implementation and transition</u>

Implementation of the minimum education standard will require transitional arrangements to allow for the development of curriculum standards by the standards setting body, development and offer of complying degree courses by universities and other tertiary educational providers, and to provide reasonable timeframes for AFS Licensees and existing financial advisers to put in place the necessary support systems to enable compliance. <u>For these reasons, the minimum entry qualification (educational standard) should apply to all financial advisers from 1 January 2020</u>.

The PJC Report contemplates the availability of approved AQF 7 courses from 1 January 2017 and transitional arrangements for existing financial advisers, and those that commence study prior to 1 January 2017, to be developed by the standards setting body by 1 July 2016. This timeframe would be insufficient to move the financial advice industry from the current requirements to a new education and professional standards model.

The banking industry believes that the standards setting body should set the minimum entry qualification, including education and competency standards and transitional arrangements. Without seeking to pre-empt the decisions of the standards setting body, the banking industry proposes the following transitional arrangements and pathways be adopted for new and existing financial advisers:

1. By 31 December 2019, all financial advisers will hold an approved qualification, at a minimum of AQF 7, as a result of attaining one of:
   - An approved degree;
   - Other degree together with an approved financial advice bridging course at AQF 7;
   - Other degree together with an approved bridging course at AQF 9 (e.g. professional association designation or masters qualification); or
   - Other approved learning pathway at AQF 7, AQF 8 or AQF 9, as deemed appropriate by the standards setting body.
2. From 1 January 2020, all new entrant financial advisers registering on the FAR will hold an approved qualification.

As part of determining an appropriate transitional pathway for existing financial advisers, it will be important to ensure that access to financial advice is not adversely impacted. Transitional arrangements will need to be set to recognise there are existing financial advisers within the industry with varied experiences and circumstances. Therefore, transitional pathways might include the qualification level of the exam, formal recognised prior learning, vocational experience, business succession planning, and/or a combination. The standards setting body will need to determine appropriate arrangements which do not undermine the overall transition of the financial advice industry to a new and higher qualification, but also recognises the challenges most present especially for older financial advisers and/or financial advisers located in rural or regional areas.

<u>Role of the AFS Licensee</u>

The banking industry believes that AFS Licensees must be required to ensure their financial advisers demonstrate the necessary minimum entry qualification by the agreed timeframe. As part of their existing obligation to notify ASIC of the commencement of a financial adviser for the purposes of the FAR, licensees should provide details to ASIC of the education and qualifications of their advisers. Based on clear criteria from the standards setting body, the AFS Licensee should be responsible for implementing a compliance framework to ensure information on the FAR is correct and maintained accurate.

<u>Role of professional associations</u>

The banking industry believes that the professional associations will continue to deliver programs and member support services for financial advisers to attain and maintain the requisite qualifications to be a financial adviser.

Role of ASIC

The banking industry believes that the transition and adoption of the minimum entry qualification should be enforced by ASIC as part of enforcing the general licence obligation to ensure adequately trained and competent representatives.

Registration exam

Consistent with recommendation eight of the PJC Report and the fourth element of the PSC "5 Es model", the banking industry supports all financial advisers being required to pass a registration exam. The exam should be undertaken by all financial advisers, including existing financial advisers, to ensure a baseline competency across all financial advisers and as a requirement to be able to provide personal advice on Tier 1 financial products to retail clients. The exam should test basic knowledge and skills expected of a financial adviser by their client and their AFS Licensee. The ongoing role of the exam as a component of the professional pathway for all new financial advisers should be determined by the standards setting body.

Implementation and transition

Implementation of the registration exam will require transitional arrangements to allow for the development of the exam and to provide reasonable transitional timeframes for existing financial advisers.

The PJC Report does not set out a specific timeframe for availability or completion of the exam, other than aligning with the recommended cut-off date for full registration.

As the body that will develop (and administer) the registration exam, the standards setting body should ultimately determine the sequencing of the exam as part of the professional pathway for new and existing financial advisers. Without pre-empting the decisions of the standards setting body, the banking industry proposes the following transitional program for completion of the registration exam:

1. Existing financial advisers must complete the exam by 31 December 2019 (or within 12 months of release of the exam if it is released after 1 January 2019).
2. New financial advisers must complete the exam after attaining their minimum entry qualification and before commencing the professional year (or as soon as possible after commencing the professional year if the exam is not yet available).

Exam timing, structure and content

In designing the timing, structure and content of the registration exam, the standards setting body should have regard to the object of the exam, in particular, whether the exam is intended to assess technical competencies, including general and specialist knowledge topics, such as market and economic environment, regulatory environment, ethical conduct and financial advising; or test broader skills and competencies, including communication, ethical decision making, client engagement and other professional and practice skills.

The standards setting body should consider the role of the registration exam as part of the transitional arrangements for existing financial advisers as well as the sequencing of the exam for new entrants. We consider that the object of the exam is to assess technical competency, and therefore, it would be appropriate to run the exam on completion of the educational qualification.

In reality, it would be difficult, if not impossible, for a financial adviser to complete a professional year without the ability to be the provider of the advice and to gain experience in providing financial advice, with supervision and oversight. We envisage that broader competencies that may be learned through practical experience should also be assessed, but it would be appropriate to include such assessment as part of the professional year.

The standards setting body will also need to explore whether the exam tests a standard set of competencies for every financial adviser, or is modularised to take into account different advice specialisations, or a combination. It is important to recognise that not all financial advisers are "financial planners". That said, while there are specialisations within the financial advice industry, there are core competencies and specialised knowledge needed by all financial advisers in order for them to be competent to provide advice. The exam should be set at AQF 7 level.

The banking industry supports a registration exam being a core component of the new education and professional standards model. A registration exam will ensure that all financial advisers meet a minimum education and competency standard. A registration exam will also mean that all financial advisers complete a standardised assessment, which will promote standardised learning and "qualifications portability" for the industry.

The banking industry's concerns with the existing training requirements and system is that disparate education and competency levels are achieved, and AFS Licensees are typically re-training their financial advisers to ensure they can be satisfied their advisers are competent to provide advice to their clients and that they have met their legal obligations as a licensee. This causes unnecessary costs for financial advisers and AFS Licensees.

The new education and professional standards model should minimise or eliminate the need for re-training due to compliance needs and promote business efficiencies and "qualifications portability" across the industry.

Role of the AFS Licensee

The banking industry believes that AFS Licensees must be required to ensure their financial advisers successfully complete and pass the registration exam. The licensee should be responsible for implementing a compliance framework for retaining records about their financial adviser having completed the exam to demonstrate compliance with ASIC. Upon completion, the new entrants should have a provisional registration on the FAR. Following completion of the professional year this provisional registration should be lifted to full registration on the FAR. Implementing the registration exam and notifying ASIC will be a key element of the licensee satisfying its general obligation to ensure appropriately trained and competent representatives.

Role of professional associations

The banking industry believes that the professional associations could deliver the registration exam, along with other educational providers. (This would need to be determined by the standards setting body taking into consideration the sustainable funding model and other factors.) Professional associations could provide member support services to help new entrants prepare for the exam and encourage membership of the professional association.

Role of ASIC

The banking industry believes that ASIC should enforce the completion of the registration exam as part of enforcing the general licence obligation to ensure adequately trained and competent representatives.

Graduate professional year

Consistent with recommendation eight of the PJC Report and the third element of the PSC "5 Es model", the banking industry supports the standards setting body developing the requirements for a structured professional year applicable to new financial advisers from 1 July 2016.

Commencing from 1 July 2016 will mean that, during transition, some new financial advisers may commence the professional year before completing a degree approved by the standards setting body. It is important to institute this element of the education and professional standards model as soon as possible, and this can be done prior to the availability and completion of approved degrees.

The structured professional year should apply only to financial advisers entering the industry from 1 July 2016. We consider that existing AFS Licensee monitoring and supervision programs are sufficient for existing financial advisers.

The new financial adviser should be registered on the FAR, after completing the minimum entry qualification and passing the registration exam and on commencement of the professional year.

Design of the professional year

The structure and requirements of the professional year should be developed by the standards setting body. We consider there are a number of practical matters that will need to be addressed in designing the professional year.

Issue	Banking industry proposal
Interaction with registration on the FAR and appointment as a representative or authorised representative of the licensee	Financial advisers should be registered on the FAR at the commencement of their professional year. This registration must make it clear to consumers that the financial adviser is still completing their professional year and make clear any restrictions that places on the adviser. Financial advisers should also be able to be appointed as authorised representatives during the professional year.

Suitable options for being employed during the professional year	There should be flexibility in the design of the professional year to enable supervision and oversight models that can operate practically in different advice business models, such as employed representatives, employee of corporate authorised representatives, etc. Oversight during the professional year should be clear and build on existing licensee relationships. It is important that rural and regional areas are not disadvantaged and oversight can be modified to accommodate different advice business models where an appropriate supervisor can provide this supervision and oversight.
Acting as the legal 'provider' of financial advice	It is important that financial advisers obtain experience providing financial advice during their professional year to ensure advisers obtain the necessary skills in engaging with clients, formulating strategy, and making ethical decisions while under supervision and oversight. Financial advisers should be able to act as the legal provider of the advice during the professional year, and for that reason, must be able to be registered on the FAR and act as a representative or authorised representative of a licensee. Supervision and oversight by the AFS Licensee during the professional year would involve a higher degree of monitoring than the supervision processes undertaken for experienced advisers.
Education and competency requirements for supervisors	Clear criteria will need to be established by the standards setting body to determine who can act as a supervisor during the professional year and what qualifications, competency and skills that person must have. Suitable supervisors should include appropriately senior, experienced and qualified staff of the licensee or appropriately qualified peer advisers.
Supervision model options, taking into account the advice business model	The supervision and oversight model for the professional year should be commensurate with the nature, scale and complexity of the advice business model, including direct supervision and oversight, live observations, review of advice documents (pre and post advice), feedback on both compliance and advice quality, etc. For example advice delivered in a financial planning practice will have different requirements to advice provided through a call centre.
Education and competency requirements for financial advisers	Clear requirements will need to be established by the standards setting body to determine the professional development criteria during the professional year. We envisage that regular participation in professional development and assessment will be required. AFS Licensees and other advice businesses should work closely with the standards setting body and the professional associations on the professional year requirements.
Completion	The completion of the professional year should be attested to by the AFS Licensee. AFS Licensees will need to implement a compliance process and engage with the professional association or educational provider/organisation where the professional development and assessment has been achieved. This should be reported to ASIC by the AFS Licensee as part of the information required for the FAR. The FAR should clearly state that a financial adviser is fully qualified and registered following completion of the professional year.

Role of the AFS Licensee

The banking industry believes that AFS Licensees must be required to ensure their financial advisers complete the elements of the professional year. Based on clear criteria from the standards setting body, the licensee should be responsible for implementing a compliance framework for the professional year and supporting and monitoring individual financial adviser progress. Upon completion, the financial adviser should have a full registration on the FAR. Implementing the professional year and notifying ASIC will be a key element of the licensee satisfying its general obligation to ensure appropriately trained and competent representatives.

Role of professional associations

The banking industry believes that the professional associations should take an active role in shaping the design of the professional year through representation on the standards setting body's advisory committees and in the delivery of training, assessment and access to peer mentoring services. Professional associations should provide additional member support services to assist new entrants into the financial advice industry, particularly for smaller AFS Licensees without the scale to set up and administer their own programs.

Role of ASIC

The banking industry believes that ASIC should enforce the completion of the professional year as part of enforcing the general licence obligation to ensure adequately trained and competent representatives.

Ongoing professional development

Consistent with recommendation nine of the PJC Report, the banking industry supports the standards setting body developing standardised CPD requirements for all financial advisers.

The banking industry supports the standards setting body mandating that financial advisers complete a minimum of 40 CPD hours per year, with 5 hours attributed to ethics competencies[2]. This requirement should apply to all financial advisers from 1 January 2017, which would allow professional associations and educational providers sufficient time to develop material to meet the higher standard, financial advisers sufficient time to complete their annual CPD requirements to the higher standard, and AFS Licensees sufficient time to upgrade systems and internal policies.

Furthermore, the standards setting body should develop requirements for attaining CPD hours (eligible activities) and further mandatory attribution of CPD hours to specialist advice competencies. Additionally, CPD requirements relating to the provision of tax (financial) advice under the *Tax Agent Services Act* (TASA) should be integrated into the new education and competency model.

The CPD requirements developed by the standards setting body should operate as the industry minimum, however, we envisage that professional associations may choose to develop additional CPD requirements or specifications for their members. Additionally, we envisage that AFS Licensees and financial advisers will seek to attain additional and/or higher professional standards and enhanced experience. Pathways for higher education and additional specialisations should be considered by the standards setting body as part of the evolution of the profession.

Role of the AFS Licensees

The banking industry believes that AFS Licensees should be required to ensure their financial advisers meet the CPD requirements in order to ensure continuing eligibility to be registered. Financial advisers also have a responsibility to ensure they maintain their ongoing professional development and notifying their licensee upon completion of ongoing professional development.

Financial advisers, with the agreement of their licensee and in accordance with the internal systems and programs (including training plan, performance assessment, etc.), should identify their ongoing professional development needs.

Role of professional associations

The banking industry believes that the professional associations should provide training, assessment and peer mentoring services for their members and provide input into the development of the ongoing professional development standards through their involvement on the standards setting body's advisory committees.

Role of ASIC

The banking industry believes that ASIC should enforce the completion of the CPD requirements set by the standards setting body as part of enforcing the general licence obligation to ensure adequately trained and competent representatives.

[2] Some accommodation will be needed to deal with particular financial adviser circumstances, such as temporary departure from the industry. In these circumstances, accumulation of total hours over a three year period, not annual period, may be appropriate.

The banking industry believes that all financial advisers should be required to meet higher education and competency standards than currently required under ASIC's *Regulatory Guide 146: Licensing: Training of financial product advisers* [RG 146].

The standards setting body should set the new minimum entry qualification for all new financial advisers as well as the education and competency standards for existing financial advisers, being a comparable standard as new advisers while embedding recognition of prior learning and vocational experience.

Furthermore, the standards setting body should implement improved CPD requirements, a graduate professional year and a registration exam. All these elements should be required before a financial adviser can be granted full registration on the FAR.

RG 146 should be replaced by the new education and professional standards model designed and implemented through the new standards setting body.

Ethical competencies

Consistent with the second element of the PSC "5 Es model", the banking industry believes that ethical competencies and practices should be embedded across the education and competency standards for financial advisers, as well as other conduct and professional practice standards.

The banking industry supports the standards setting body mandating that financial advisers complete a compulsory ethical literacy program or course. This requirement should apply to all financial advisers from 1 January 2018, which would allow professional associations and educational providers sufficient time to develop the program or course material, financial advisers sufficient time to complete the course, and AFS Licensees sufficient time to upgrade systems and internal policies.

It should be noted that this timeframe is contingent on the new ethics competency being settled and the program or course being available and mandated by the standards setting body by mid-2016, allowing 18 months for existing financial advisers to complete the program or course.

Significant progress has already been made by a number of banks and financial institutions, professional associations, and the St James Ethics Centre, to design and develop a new ethics competency. Without seeking to pre-empt the decisions of the standards setting body, the banking industry proposes this ethics competency should be endorsed and mandated, whether it be a standalone course or included within other education programs and/or the professional year requirements and assessment. We envisage this program or course could be included in the professional year for new entrants. This competency is separate to ongoing ethics competencies within CPD requirements.

Professional and ethical standards

The banking industry supports a new education and professional standards model going beyond raising benchmark education and competency requirements for financial advisers. It should also include the development of professional, ethical and practice standards to drive the professionalisation of the financial advice industry. We envisage that ultimately the standards setting body should be responsible for developing principles for ethical behaviour and professional conduct that apply as a benchmark across the financial services industry.

That said, we also recognise the role of the professional associations in establishing professional standards for their members. The banking industry supports requiring financial advisers to be members of a practitioner-based association in a financial advice related discipline or specialist advice area.

Diligence and verification of professional associations

To fast-track the professionalisation of the financial advice industry, it is important for the industry and consumers to be able to rely on the role of professional associations within the co-regulatory model. It will be important for professional associations to be approved. The veracity and integrity of professional associations should be assessed having regard to its organisational capacity, operation of a code of conduct and relevant professional practice standards, and disciplinary function.

This assessment could be achieved in a number of ways, including a form of recognition from the PSC or through code approval by ASIC.

Professional Standards Councils (**PSC**)

The banking industry believes that the PSC has the capabilities and methodologies for assessing the veracity and integrity of professional associations. Additionally, the PSC works with associations to:

- Develop self-regulation initiatives;
- Improve their professional standards;
- Meet their self-regulatory commitments;
- Comply with their legislative obligations; and
- Protect Australian consumers of professional services.

However, the PSC function is discharged in the context of establishing limited liability schemes for certain classes of members of the professional association. We are concerned that utilising the PSC scheme approval process may not best meet the policy intent of the PJC Report given that the primary focus of that process is the establishment of a professional scheme, rather than the approval or validation of the relevant professional association. We do not support the establishment of a professional scheme for financial advisers, at this time. It may be that in the future, and once financial advice is an established and recognised profession, that re-visiting the appropriateness of a limited liability scheme may be suitable.

Furthermore, this process can run over a number of years, and therefore, under the PJC model, the standards setting body would not be able to be established until there were approved professional associations able to control and fund the body. It is unlikely that a number of professional associations will be in a position to obtain the PSC approval as contemplated by the PJC model in the immediate future and this will delay the establishment of the standards setting body, implementing higher education and competency standards for financial advisers, and the professionalisation of the financial advice industry.

Despite our concerns with the PSC function and the practical timing limitations, if the PSC is able to perform the function of approving a professional association without a limited liability scheme, we would support this process as important in promoting professional associations for financial advisers. Where the PSC is able to adjust its primary function, we consider that concurrent to the establishment of the standards setting body, professional associations should seek approval from the PSC. Eventually, financial advisers should be legally required to be members of approved professional associations. Financial advisers may become members of other associations for other support services and benefits.

In the meantime, the banking industry is committed to mandating membership of a professional association for their bank financial advisers and will establish an industry-recognised list of relevant professional and industry associations for member banks by 31 December 2015.

ASIC

The alternative is to measure the veracity and integrity of professional associations having regard to whether the association operates a code of conduct that has been approved by ASIC under section 1101A of the Corporations Act.

There are advantages to this option. Code approval leverages an existing ASIC power, does not require law reform, and does not introduce a new party to the regulation of financial advice. We envisage that the Code being approved would be a general code covering the behaviour and professional conduct of members of the professional association.

However, there are a number of substantial practical problems with this approach, which may ultimately compromise the effectiveness of code approval for the purpose of verifying a professional association in the financial advice context, including:

- As a result of the drafting of section 1101A, the codes that may be approved relate to the activity of those persons regulated by ASIC. This will include AFS Licensees and Authorised Representatives but will be limited in relation to employed representatives who are only directly regulated under the requirements of the best interests duty and related provisions (as "advice providers"). Currently the law is structured around the AFS Licensees obligations. Legal advice will be needed to understand how far ASIC's code approval power extends to advice providers.
- ASIC has indicated that the primary role of a financial services sector code is to raise standards and to complement the legislative requirements that already set out how product issuers and licensed firms (and their representatives) deal with consumers.[3] This does not necessarily reach to setting out codes of ethics, pro bono activity, ethical behaviour between financial advisers, and other matters relevant to the behaviour and professional conduct of individual financial advisers (which is the level at which such a code of ethics should be targeted).

[3] RG183.4 *ASIC Regulatory Guide 183; Approval of financial services sector codes of conduct.*

- While ASIC guidance on code approval sets out the criteria for code approval, it does not set out minimum code content or standards. Even though there may be standard criteria for approving a code, there will be difference and divergence on code content, which will mean there may still be no true minimum standard across the industry.

Standards setting body

The banking industry does not support the standards setting body having a role in approving professional associations. That said, the standards setting body should establish principles for behaviour and professional conduct, which allows the professional associations to each develop a Code of Conduct for their members within a consistent framework.

Registration

Consistent with recommendations three and five of the PJC Report, the banking industry supports the public registration of all financial advisers. All financial advisers should be registered on the FAR in order to provide personal advice on Tier 1 financial products to retail clients. All financial advisers should meet the full requirements for registration (including completion of the registration exam) by 31 December 2019.

The FAR should include:

- The fields set out in the *Corporations Amendment (Register of Relevant Providers) Regulation 2015* (subject to certain parts that are not published (e.g. date and place of birth) by ASIC and ASIC's agreed timing on provision of education and professional membership information);
- A unique identifier that follows every individual financial adviser throughout their career;
- Any higher qualification awarded by a professional association or educational provider to the financial adviser;
- Any censure or limitation placed on a financial adviser by a professional association, ASIC or an AFS Licensee, subject to appropriate procedural fairness protocols; and
- Annotation highlighting that a financial adviser is no longer authorised to provide financial advice if the adviser has their membership of the nominated professional association suspended or revoked, subject to appropriate procedural fairness protocols.

Currently, all existing financial advisers are on the FAR and new financial advisers will be registered by their AFS Licensee without being required to complete the registration exam or the professional year. Over time, we envisage that the registration processes will need to be updated to include the provisional and full registration requirements, however, the AFS Licensee should continue to manage and be responsible for registering financial advisers.

The banking industry also supports enshrining the terms "financial adviser" and "financial planner" for use only by persons registered on the FAR. This will provide an important consumer protection and ensure that those purporting to act as a financial adviser or financial planner meet the legally required education, competency and professional standards.

Role of the AFS Licensees

The banking industry believes that AFS Licensees should be required to notify ASIC when their financial adviser has completed the minimum entry qualification and registration exam to attain provisional registration and when the professional year has been completed to attain full registration.

While we consider that the professional associations should be involved in supporting their members through the professional year and potentially providing training, assessment and peer mentoring services during the professional year, we do not believe that the professional associations should have the responsibility to lodge information with ASIC and register financial advisers on the FAR. This would create a conflicting legal obligation and cause administrative and business complexities and inefficiencies.

AFS Licensees have an existing legal obligation to ensure their financial advisers are trained and competent and must maintain the ability to satisfy this requirement having regard to their own compliance systems and processes without interference from a third party.

The banking industry supports the FAR and has been working closely with ASIC to ensure that individual banks satisfy their legal obligations to provide the necessary information. The FAR is a significant advancement for the financial advice industry. In principle, we consider that some additional changes could be made to the FAR to address some additional matters, including continuing eligibility (such as achievement of CPD requirements), cessation notification (such as notification of reason for an adviser's departure from an AFS Licensee), and compliance with the statutory definition of "independence". Further consideration of these matters will be needed.

Role of ASIC

The banking industry believes that ASIC should maintain the responsibility to administer and publish information provided by AFS Licensees on the FAR, however, this function could transfer to the standards setting body in the future.

Standards setting body – Independent Council

Mandate and functions

Consistent with recommendation ten of the PJC Report and the fifth element of the PSC "5 Es model", the banking industry supports establishing a standards setting body. We believe this body should be referred to as an Independent Council.

The Independent Council should:

- Set curriculum requirements at the AQF 7 standard for core subjects and sector specific subjects;
- Develop (and administer) a registration exam;
- Develop a standardised framework and standard for the graduate professional year; and
- Establish and maintain the professional pathway for financial advisers, including minimum entry qualification (including degree and degree equivalent for existing financial advisers), recognised prior learning and vocational experience provisions, and CPD requirements.

However, it should be noted that the banking industry does not support a standards setting body only for "financial planners" or controlled and funded by the professional associations. While we recognise that the Financial Planning Association's (**FPA**) existing Financial Planning Education Council (**FPEC**)[4] could form a good basis, this body would need to be substantially reconstituted and its mandate and functions modified. That said, it is understood that the FPA has indicated a willingness to provide the intellectual property of the FPEC to the industry to help support the development of a new Independent Council. This should be welcomed and commended.

Importantly, a new Independent Council should be implemented and named to represent its mandate and functions, which we consider to be broader than contemplated by the PJC Report, and should cover "financial advice".

The banking industry believes that the establishment and operation of the Independent Council should drive and contribute to the broader professionalisation of the financial advice industry. To that end, the Independent Council should also:

- Operate a broader mandate than education standards for financial planning, and be a body capable of developing a broader advice competency and capability framework, applicable to various financial advice models;
- Develop and prescribe principles for ethical behaviour and professional conduct (noting that professional associations would retain the role and responsibility for developing and setting professional standards for their members, including via their Codes of Conduct);
- Maintain an approved educational courses register to assist AFS Licensees and financial advisers identify programs and courses which satisfy the educational standards established by the Independent Council;
- Manage streamlined minimum training requirements for persons providing personal advice on Tier 2 financial products and general advice based on the existing RG 146 requirements being transferred to the Independent Council;
- Operate other functions eventually, such as potentially the development of financial advice practice standards and the administration of the FAR; and
- Assume responsibility over the educational requirements under the TASA such that a holistic framework for financial advisers is set. This may require amendment to the TASA and regulations.

The proposed broader mandate and functions of the Independent Council will:

- Allow the development of broader ethical behaviour and professional conduct standards in addition to education and competency standards;
- Demonstrate the professionalism of financial advice;
- Ensure an improved platform for the development and setting of professional standards by the various professional associations; and
- Allow flexibility in design of education and competency standards for different advice business models and specialties, while ensuring the same quality and rigour of standards for all financial advisers.

[4] http://fpa.asn.au/cfp/financial-planning-education-council-fpec/

Governance – structure, control, reporting and funding

The banking industry proposes an alternative approach to the establishment and governance of the Independent Council, in particular, the structure, control and funding of the Independent Council than put forward in the PJC Report. It is important to ensure that the establishment of the Independent Council meets the principles of independence, accountability, transparency and inclusiveness.

The banking industry supports an Independent Council with a Board and advisory committees.

The Board should be selected through an independent process and be comprised of an independent chair, a retired industry expert, an education/academic expert, a consumer representative, and an ethicist. We envisage a governance and legal expert assisting with the establishment of the Independent Council.

Board members should act in their individual, expert capacity to further the aims of the Independent Council and the goal of professionalisation of the financial advice industry. This approach will avoid possible or perceived conflicts of interest associated with professional associations or people representing other organisations sitting on the Board and will reduce complexity by decoupling the board selection process from other processes run by the PSC. Additionally, it would ensure equal and fair representation on the Board.

The advisory committees should cover the various elements of the new education and professional standards and allow stakeholders and other interests to be appropriately represented. The advisory committees should comprise expert representatives from across the financial services industry, consumer groups, educators and regulators and support the Board. Importantly, the advisory committees should allow involvement of AFS Licensees, financial advisers, professional and other industry associations, and other stakeholders to provide input into the development of standards. AFS Licensees and financial advisers maintain an important role in ensuring implementation of the standards and compliance with their respective responsibilities and legal obligations. Regulators, being ASIC and the Tax Practitioners Board (**TPB**), also maintain an important role in administering and enforcing the laws which require financial advisers to be adequately trained, skilled and competent.

The Independent Council should be required to report publicly, in particular, during the establishment phase about the progress it is making towards setting the various standards and putting in place the various elements of the new education and professional standards model within agreed timeframes. We envisage that annual review and reporting would be necessary.

The banking industry recognises that the funding of the Independent Council will ultimately be a cost to the consumer and industry, and therefore, appropriate consumer protection outcomes and efficiencies in other areas will need to be delivered in order to offset and justify the funding for the creation and operation of the Independent Council.

The Independent Council will require seed funding to cover establishment costs and initial operating expenses. Funding will be needed for administration and operation. Given the substantive work needed to establish the Independent Council (even where this builds on the FPA's existing FPEC), we envisage that the governance and legal expert, Board members and secretariat support would need to be funded.

Over time, the Independent Council should become self-funding. Possible options for a sustainable and enduring funding model include:

- Revenue generating activity, such as AFS Licensees and financial advisers registration fees, administration charges for the registration exam, etc;
- Administration funded by contributions from AFS Licensees, financial advisers and others (such as professional associations), received directly by the Independent Council; and/or
- Registered training organisations (**RTO**) registration fees.

The banking industry notes that under all scenarios, appropriate governance and transparency arrangements for the receipt and use of Independent Council monies will be required. Financial contributions should be managed carefully so as to avoid conflicts.

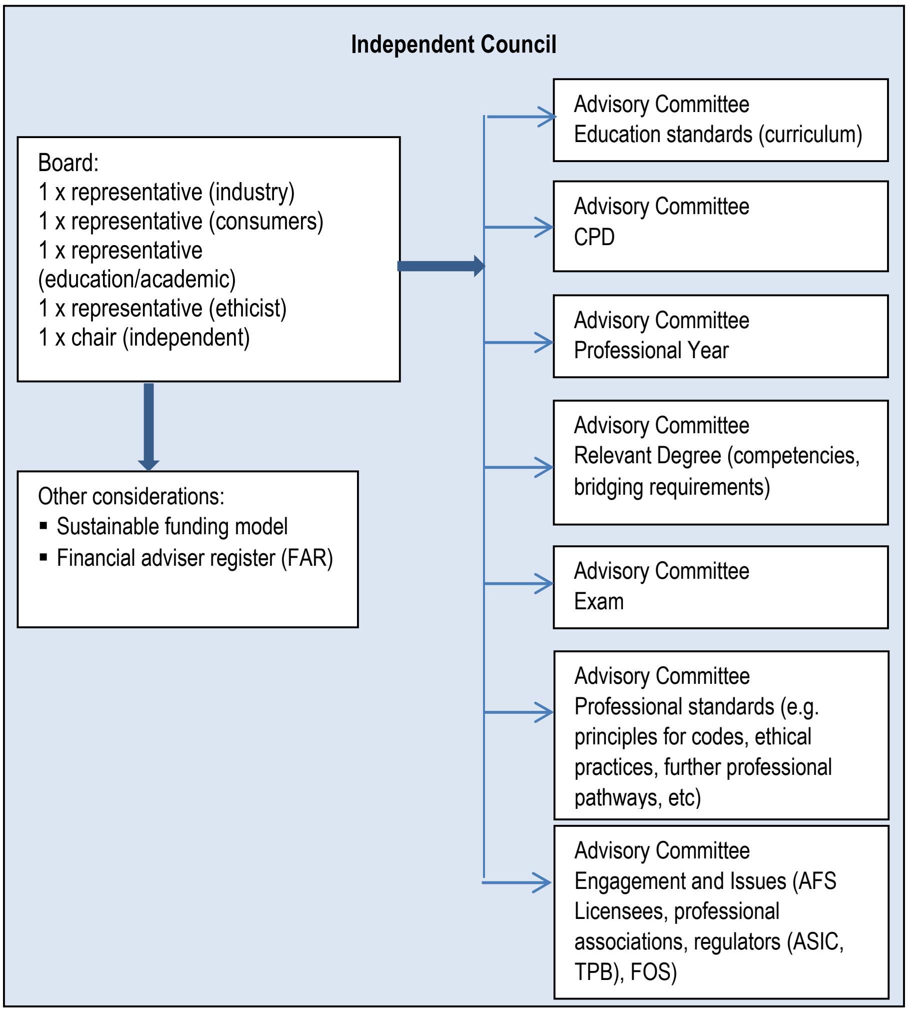
Process for establishment of the Independent Council

The banking industry believes that the establishment processes for the Independent Council and the initial Board appointments should be run by a working group supported by an independent governance and legal expert (consultant), overseen by an independent working group chair, and involving interests across the financial advice industry and other stakeholders.

The consultant and the independent working group chair will establish the working group governance processes and composition with representation from AFS Licensees; professional associations (FPA, Association of Financial Advisers, Self Managed Super Funds Association); education associations; consumer representatives; and government. We envisage that the independent working group would be responsible for developing the following, for final approval by the independent working group chair:

- Board position mandates;
- Board candidates;
- Permanent secretariat;
- Process for future Board resignations and appointments;
- Independent Council governing constitution and objects;
- Advisory committee structure and terms of reference;
- Seed funding governance model; and
- Consultation and public reporting requirements.

The banking industry believes that to fast-track the professionalisation of the financial advice industry and to lift standards, the process to establish the Independent Council should be completed by 31 December 2015, to enable the Independent Council to operate and commence standards setting from 1 January 2016. This timing is ambitious, however, the banking industry believes that lifting standards is imperative and the establishment of the Independent Council should be prioritized by the industry.



Interaction with the financial advice regulatory framework

The Independent Council is proposed to operate autonomously in setting education and competency standards for financial advisers. While the Board will receive input from government and regulators through the advisory committees, its activity can be seen as self-regulatory (within a co-regulatory model). The Independent Council makes up a component of the overarching regulatory framework for financial advice which is driven by *Corporations Act* obligations for both individual financial advisers (for example, the best interests duty and related provisions) and AFS Licensees (for example, their general obligations).

Importantly, the standards developed by the Independent Council must link to the broader regulatory framework to ensure they are mandatory for all financial advisers under the *Corporations Act* and enforceable by ASIC. For example, initial and ongoing compliance with the standards must be linked to registration of a financial adviser. The standards should also take account of a tax (financial) advisers obligations under the TASA and enforceable by the TPB.

The Independent Council standards must also link to the discharge of obligations of AFS Licensees. For example, implementation of education, competency and CPD standards set by the Independent Council should satisfy a licensee's general obligation to ensure their representatives are adequately trained and competent to provide the financial services. Similarly, failure by the AFS Licensee to implement the Independent Council standards should indicate a breach of the licensee's obligations, which are enforceable by ASIC. This will require amendments to the law to meet these objectives.

The banking industry believes that the Independent Council should be underpinned by statute. This could be achieved via primary legislation or regulations, however, we consider that it would be desirable to amend section 912A of the Corporations Act by specifying that AFS Licensees are required to comply with the Independent Council standards in order to demonstrate compliance with their general obligation to ensure their representatives are adequately trained and competent to provide financial services[5].

The Independent Council should not be responsible for enforcing the education and professional standards, receive complaints or maintain a disciplinary function, however, it would refer relevant matters to ASIC, external dispute resolution (**EDR**) schemes (such as the Financial Ombudsman Service (**FOS**)) and professional associations, as appropriate.

Streamlining Tier 2 financial products and general advice – withdrawal of RG 146

The banking industry believes that the existing training requirements applicable to Tier 2 financial products and general advice contained in RG 146 should be maintained and transferred to the Independent Council. In doing so, the Independent Council standards should replace the requirements of RG 146 and set the standards for all financial services professionals.

It is important to ensure that there is a single new education and professional standards model. We consider that the existing RG 146 training requirements for persons providing financial product advice on Tier 2 financial products and general advice are appropriate. Over time, we support the inclusion of formal ethics competencies for financial product advice on Tier 2 financial products and general advice, as determined by the Independent Council.

Furthermore, to enable the withdrawal of RG 146, the existing "Tier 1" and "Tier 2" definitions would need the be enshrined elsewhere.

Role of the AFS Licensee

The banking industry believes that AFS Licensees will need to ensure that the curriculum and standards set by the Independent Council are embedded into their compliance systems, including recruitment, training, supervision, monitoring and mentoring, audit, assessment, performance management, etc. These AFS Licensee compliance systems play an important role within the co-regulatory model. It is critical that the existing responsibilities and legal obligations of AFS Licensees are not disrupted, rather are leveraged to deliver the main elements of the new model.

Role of professional associations

The banking industry supports the role of professional associations in continuing to set professional standards and associated obligations (e.g. Codes of Conduct) that sit above the minimum standards and are tailored to the activities and advice specialisations of their members. Codes of Conduct play an important role within the co-regulatory model. We consider that professional associations should also take a major role in the development of education and

[5] Section 912A(1)(f) of the Corporations Act.

competency standards through the Independent Council's advisory committees and assist their members to meet those education and competency standards through the delivery of training programs and courses, professional year assessment, and peer mentoring services.

Role of ASIC

The banking industry believes that ASIC should continue to administer and enforce the law. ASIC would have oversight to ensure that AFS Licensees and financial advisers maintain the requisite systems and processes to ensure compliance with the standards set by the Independent Council, in order to meet their legal obligations. We also envisage that through the Independent Council's advisory committees, ASIC would provide advice on domestic and international trends and best practices to inform ongoing review and development of the curriculum and standards, and thereby, ensure that regulatory concerns and/or evolving consumer and industry expectations can be reflected in the evolution of the standards and of the profession.

Role of the ABA

The banking industry believes that the Independent Council we have outlined above builds on the underpinning policy intent of the PJC model, but recognises the practical limitations of aspects of that model. It also acknowledges the important role of AFS Licensees and positions the industry, more broadly, to demonstrate leadership in professionalisation of the financial advice industry. We believe that banks and other AFS Licensees have an important role to play in working with the Federal Government to deliver the new education and professional standards model.

The banking industry's commitment to increasing and improving the education, ethical and professional standards of financial advisers is contingent on the Government and other stakeholders agreeing to the establishment of the Independent Council and the implementation of the main elements of the new education and professional standards model we have outlined as well as the Government mandating the standards across the financial advice industry.

If the ABA's proposed model was supported, the major banks and institutions would be willing to contribute the necessary funding to support the establishment and initial operating expenses of the Independent Council. This funding would allow the financial advice industry and Government to move quickly on the design and implementation of new industry-wide standards and assist in fast-tracking the professionalisation of the financial advice industry. This funding would also be necessary before a sustainable and enduring funding model can be identified and agreed by the Independent Council.

Consistent with the co-regulatory model, the ABA would also be willing to assist the Government in setting up the necessary structures in order to establish the Independent Council, recognising the importance of maintaining robust governance and transparency arrangements and ensuring other stakeholder interests are reflected in this process.

Summary

The following outlines the main elements of the ABA's position and proposed education and professional standards model as well as the associated commitments and implementation timeframe for the Independent Council.

<table>
<tr><th>Framework element</th><th>Standard</th><th>Timing</th></tr>
<tr><td>Educational qualifications – Existing advisers registered from 1 July 2016</td><td>Approved degree or degree equivalent qualification (AQF 7) (including approved pathways)</td><td>Completed by 31 December 2019</td></tr>
<tr><td>Educational qualifications – New advisers from 1 July 2016</td><td>Approved qualification (AQF 7) (approved degree)</td><td>From 1 January 2020</td></tr>
<tr><td colspan="3">It should be noted that 1 July 2016 is an appropriate cut-off date for distinguishing between existing and new financial advisers. This approach allows a year for those new entrants already undertaking certain formal qualifications to complete under the existing regime without disadvantage and transition the industry to the new education and professional standards model.</td></tr>
<tr><td>Registration Exam – Existing advisers</td><td>Completion of registration exam</td><td>Completed by 31 December 2019, or within 12 months if available after 1 January 2019</td></tr>
<tr><td>Registration Exam – New advisers</td><td>Completion of registration exam</td><td>On completion of the minimum entry qualification, or within 12 months of the exam being available</td></tr>
</table>

Graduate professional year – New advisers	Establishment of professional year program	1 July 2016
Continuing professional development – All advisers	40 hours, including 5 hours ethical competencies	Programs commencing 1 January 2017
Ethics competencies – All advisers	Completion of ethics and responsible decision making course	Completed by 31 December 2017, or within 18 months of competency being available
Registration – Existing advisers	Completion of pre-registration requirements (e.g. qualification or equivalent and exam)	Completed by 31 December 2019
Independent Council	Establishment and operation of the Council	1 January 2016

In addition to the above model, the banking industry supports encouraging the professional associations to pursue avenues for being "approved" concurrent to the establishment of the Independent Council and the implementation of the new education and professional standards model.

The banking industry does not support the implementation and transitional schedule outlined in recommendation fourteen of the PJC Report. This timing is insufficient for the financial advice industry and other participants required to play a role in implementing the new education and professional standards model, including educational and training providers, professional associations, etc.

It should be noted that the above implementation timeframe is contingent on the Federal Government, the financial advice industry and other stakeholders working together to build the new education and professional standards model, in particular, establishing the Independent Council by the end of 2015 and other main elements being settled by mid-2016.

The implementation timeframe is intended to provide the required time for the financial advice industry to meet the higher standards, however, the banking industry is committed to working towards earlier implementation for their employed financial advisers and aligned financial advisers, where possible.

Concluding remarks

The banking industry is committed to rebuilding consumer trust and confidence in financial advice.

Building on recent reforms to the financial advice industry, banks are seeking to raise standards through higher education and competency standards for their financial advisers and by taking responsibility for the conduct and practices of their financial advisers and other financial services professionals.

The ABA will continue to work constructively with the Federal Government and other stakeholders on implementing a new education and professional standards model. Banks support delivering additional reforms which build on the FOFA platform of improved consumer protections, raising education and competency standards of financial advisers, and driving the professionalisation of the financial advice industry.

We look forward to the opportunity to discuss these matters with you. It would be appreciated if your office could contact Ms Leonnie Steen on [redacted] to arrange a suitable time for us to meet.

Yours sincerely,

Steven Münchenberg

Attachment 1: New Education and Professional Standards Model

The ABA's proposed education and professional standards model represents a substantial shift from the existing set of regulatory obligations applying to financial advisers. The model moves on from a set of prescribed knowledge competencies based on product class (as set out in RG 146) and will put in place of comprehensive framework aligning with the PSC "5 Es model": education, ethics, experience, examination and entity, and will drive the professionalisation of the financial advice industry.

Overview of the main elements of the new education and professional standards model:

Independent Council (Standards Setting Body)

- Council of experts acting in their individual capacity to further the aims of the Independent Council and professionalisation of the financial advice industry.
- Supported by advisory committees representing AFS Licensees, ASIC, TPB, professional associations, educational and training providers, consumers, FOS.
- Set curriculum requirements at the AQF 7 standard for core subjects and sector specific subjects.
- Develop (and administer) a registration exam.
- Develop a standardised framework and standard for the graduate professional year.
- Establish and maintain the professional pathway for financial advisers.
- Established and operational by 1 January 2016.

Minimum entry qualification

By 31 December 2019, all financial advisers will hold an approved qualification, at a minimum of AQF 7, as a result of attaining one of:

- An approved degree;
- Other degree together with an approved financial advice bridging course at AQF 7;
- Other degree together with an approved bridging course at AQF 9 (e.g. professional association designation or masters qualification); or
- Other approved learning pathway at AQF 7, AQF 8 or AQF 9, as deemed appropriate by the Independent Council.

From 1 January 2020, all financial advisers registering on the FAR will hold an approved qualification.

Registration Exam

- The exam should test basic knowledge and skills expected of a financial adviser by their client and their AFS Licensee.
- The ongoing role of the exam as a component of the professional pathway for all new financial advisers should be determined by the Independent Council.
- Existing financial advisers must complete the exam by 31 December 2019 (or within 12 months of release of the exam if exam is released after 1 January 2019).
- New financial advisers must complete the exam after attaining their minimum entry qualification and before commencing the professional year (or as soon as possible after commencing the professional year if the exam is not yet available).

Graduate Professional Year

- Structured professional year applicable to new financial advisers from 1 July 2016.
- The structured professional year should apply only to financial advisers entering the industry from 1 July 2016. Existing AFS Licensee monitoring and supervision programs are sufficient for existing advisers.
- The new financial adviser should be registered on the FAR, after completing the minimum entry qualification and passing the registration exam and on commencement of the professional year.

Ongoing Professional Development

- Minimum 40 CPD hours per year, with 5 hours attributed to ethics competencies.
- Applies from 1 January 2017.
- Independent Council should develop requirements for attaining CPD hours (eligible activities) and further mandatory attribution of CPD hours to specialist advice competencies.

Ethical Competencies

- New ethical competency course or program.
- Completed by all financial advisers by 31 December 2017 (or within 18 months of competency being available).
- The course or program could be standalone or embedded (noting progress in the design and development of a new ethics competency by a number of banks and financial institutions, professional associations, and the St James Ethics Centre.

Ethical and Professional Standards

- Mandatory membership of an approved professional association.
- Professional associations approved through new PSC mechanism or through ASIC code approval processes.

Registration