

## TREASURY EXECUTIVE MINUTE

COPY FOR  
ASSISTANT TREASURER

Minute No.  
10/2235

16 September 2010

Assistant Treasurer and Minister Superannuation and Financial Services

## FUTURE OF FINANCIAL ADVICE REFORMS - CONSULTATION

**Timing:** As soon as practicable.

**Recommendation/Issue:**

- That you note the proposed arrangements for the peak *Future of Financial Advice* advisory panel (Attachment A), and proposed formation of two sub-groups (Attachments B and C).

**Noted**

Signature: *WJ Notes* 17.9.2010

*Want to discuss Advisory Panel briefly*

**KEY POINTS**

- On 26 April 2010, your predecessor announced the *Future of Financial Advice* reforms. This was in response to the Parliamentary Joint Committee on Corporations and Financial Services *Inquiry into financial products and services in Australia* (the Ripoll Report), which was released in November 2009 (for further information on reforms see Additional Information).

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- In July of this year, Treasury completed public information sessions as part of the implementation of the reforms. We are now focused on continuing the implementation process by initiating targeted consultation on the design details of these reforms.
- In the coming weeks, we propose establishing a peak advisory panel, comprising key industry and consumer bodies (see Attachment A). This panel would be the key contact for consultation on all aspects of the reforms and we propose that it meet monthly, with full-day meetings. The peak advisory panel would be supported by a number of sub-groups which would deal with specific issues and provide further scope for stakeholder representation.
  - We propose initially establishing two advisory sub-groups covering the accountants' exemption and platforms/dealer groups. The precise constitution of the sub-groups has not yet been finalised. However, preliminary thinking is at Attachments B and C.
- Notwithstanding the formation of the groups, there would continue to be a range of ad-hoc consultations and meetings with individual stakeholders on specific issues.
- Subject to your views, we will contact the relevant organisations and hold the first meeting of the peak advisory panel as soon as practicable.

Manager, Financial Services Taskforce

Contact Officer:

Ext:

## ADDITIONAL INFORMATION

### Consultation Groups

#### *Future of Financial Advice (FOFA) Peak Advisory Panel*

- The FOFA peak advisory panel would be the key contact for consultation on all aspects of the FOFA reforms and it is proposed that it meet on a monthly basis, with full day meetings (see Attachment A). It is representative of key stakeholders within the financial advice industry, and is intended to complement other consultations which will be taking place on the outcomes on the *Review into the Governance, Efficiency, Structure and Operation of Australia's Superannuation System* (the Cooper Review).
- Treasury has already been in close contact with these organisations prior to the election. The formation of a peak advisory panel will allow the continuation of the already productive consultation between Government and industry.

#### *Accountants Exemption Sub-Group*

- As part of the FOFA reforms, the exemption permitting accountants to provide advice on the establishment and closing of self-managed superannuation funds without holding an Australian Financial Services Licence will be removed.
- The Government has publicly committed to consulting with industry on an alternative to the exemption, including the possibility of a streamlined licensing regime. In light of this we propose establishing an Accountants Exemption sub-group (see Attachment B).

#### *Platform/Dealer Sub-Group*

- The FOFA reforms include a prospective ban on conflicted remuneration structures including commissions and volume-based payments. This is in relation to the distribution of financial advice and retail investment products, superannuation and margin loans (this ban will not initially apply to risk insurance).
- These measures will have implications for providers of platform services and dealer groups that use such products. As part of our consultation on the FOFA reforms, we propose establishing a Platform/Dealer sub-group (see Attachment C).

### Background to Reforms

- The Ripoll Report, commissioned in the wake of the collapses of Storm Financial and Opes Prime, made eleven recommendations about the financial advice industry.
- Your predecessor, the Hon Chris Bowen MP, responded publicly to the Ripoll Report on 26 April 2010 by announcing the FOFA Reforms. The response adopted (either outright or in principle) eight of the eleven recommendations, and announced four additional proposals.
  - The Government's response is yet to be formally tabled in Parliament. We will be in contact with your office shortly about the tabling process.
- The reforms include a number of changes mainly around the way in which retail consumers receive financial advice, the obligations advisers will owe to their clients, and the way financial advice fees are charged. The broad reform measures involve:

- A prospective ban on conflicted remuneration structures including commissions and volume-based payments. This is in relation to the distribution of financial advice and retail investment products, superannuation and margin loans (this ban will not initially apply to risk insurance, which is subject to consultation).
- The introduction of a statutory duty requiring financial advisers to act in the best interests of their clients. This is an important part of the reforms and will indirectly address and complement other reforms (such as the ban on conflicted payments).
- The introduction of an ‘adviser charging’ regime that will help align the interests of advisers and their clients, whereby advisers will be required to agree their fees directly with clients and, as far as practicable, disclose the fees in dollar terms. If the adviser is to charge an ongoing service, the adviser must seek an annual renewal from the client.
- A ban on percentage-based fees on geared investment products (asset-based fees on ungeared products or investment amounts will be permitted so long as it is consistent with an adviser’s fiduciary duty).
- Expanding the availability of low-cost ‘simple advice’, to provide access to affordable advice for those without the means or inclination to obtain ‘holistic’ personal advice.
- Strengthening ASIC’s powers to act against unscrupulous operators.
- The examination of a statutory compensation scheme. This would potentially compensate retail investors for particular losses (for example, claims not covered by professional indemnity insurance or where the adviser is insolvent).

### Sensitivities

- Since April Treasury has engaged substantially with stakeholders on all aspects of the proposed reform package.

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