

14 June 2011

Mr Richard St John  
Statutory Compensation Review  
PO Box 6295  
Kingston ACT 2604

Dear Mr St John

### **Compensation arrangements for consumers of financial services**

van Eyk Research welcomes the opportunity to comment on this consultation paper. My position is CEO of a research ratings house which employs a 'user pays model' in which advisers and dealer groups pay for research subscriptions and product providers do not pay for ratings.

Whilst we are in agreement with a ban on commissions and volume bonuses aimed at removing conflicts that may arise, we suggest the reform falls short in terms of disclosure of the use of ratings on products where the product manufacturer is paying for the rating.

At van Eyk it has been our strong belief, and one that has been in place since our establishment in 1989 the subscription based model for product/manager research best serves both the end consumer and those that advise them. The role of research houses is straightforward and vitally important and must not only be free from conflict but importantly to be perceived to be free from conflict. With this in mind we strongly support the disclosure of any related payments for product ratings in the Statement of Advice.

Our role is assist advisers in delivering above average returns for their client's investment strategies. We do this by being selective and discerning through all components of our research process. Philosophically this cannot be achieved when the product manufacturer is the paying client and not the adviser or ultimate beneficiary of our research and recommendations.

It is a mathematical certainty that above average returns cannot be achieved if greater than 50% of the available strategies are reviewed and receive an investment grade rating. So to meet and exceed our promise to advisers one must be selective and at the very least recommend less than half the funds on offer. In over 21 years of operating in this market van Eyk believes that in most cases no more than one third of the talent on offer is talented enough to be recommended.

I refer to the submission made by Claude Santucci, President of Boutique Financial Planning Principal's Group on 27 May 2011, outlining concerns that the fiduciary duty requirement would not require planners to look beyond their own Approved Product List (APL). In the same vein as suggested by Mr Santucci, We at van Eyk suggest that, as part of the arrangement where a client will opt-in to advice fees every two years in the form of annual disclosure statements, any related payments for product ratings listed in the Statement of Advice should also be disclosed. This would



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be akin to a wealth warning to unsuspecting investors whose default assumption is independence between product promoter/ manufacturer and the adviser providing recommendations under the Statement of Advice.

Yours sincerely



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**Eyk**

