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Cc: Mark Lamonica; Leisa Bell
Subject: Submission to Treasury on the Stamping Fee Exemption
Attachments: 20191218 Advisers and investors in the dark on LITs and LICs.docx; 20200108 1 January is a moment of truth for the wealth industry.docx; 20200108 Authorities reveal disquiet over LIC fees.docx; 20200122 Three overlooked points on the LIC-LIT fee battle.docx; 20200129 Just for Josh Survey on attitudes to LIC fees.docx; 20200205 LIC-LIT stamping fees survey results.docx; Firstlinks Poll - Commissions on LICs-LITs - Feb2020.docx

Sir

This is a submission to the targeted public consultation that Treasury is undertaking on the role of the financial advice stamping fee exemption as it relates to listed entities.

I am the Managing Editor of the Firstlinks newsletter, a leading financial publication read by market professionals, financial advisers, SMSF trustees and individuals. Firstlinks has its own subscriber base of about 27,000, and it is also distributed to parts of the Morningstar readership.

We have been active in the stamping fee debate, publishing articles written by myself and third parties. On the Firstlinks website, as linked below, please see six articles on the stamping fee issue, plus comments from our readers.

In particular, I draw your attention to a survey conducted last week which received 730 responses, 16% of which were financial advisers. It has been referenced twice in The Australian Financial Review. This is a rare example of some data on the debate, although respondents self-selected and we did not qualify them.

My views are best summarised in the article of 18 December 2019.

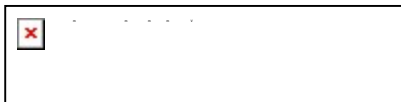
We also attach Word versions of each article as instructed.

5 Feb 2020: [LIC/LIT stamping fees survey](#)
29 Jan 2020: [Survey on attitudes to LIC fees](#)
22 Jan 2020: [Three overlooked points on the LIC/LIT fee battle](#)
8 Jan 2020: [Authorities reveal disquiet over LIC fees](#)
8 Jan 2020: [1 January is a moment of truth for the wealth industry](#)
18 Dec 2019: [Advisers and investors in the dark on LITs and LICs](#)

Regards

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1 January is a moment of truth for the wealth industry

Paul Heath

8 January 2020

For investors who poured \$925 million into the listed KKR Credit Income Fund (ASX:KKC) during October 2019, the opening weeks of trading would have provided a sobering insight into the pitfalls of a Listed Investment Trust (LIT) structure.

The experience also highlighted an important ethical question for the wealth advice industry to answer.

KKC upsized the deal to \$925 million following a flood of demand, but since listing, the shares have consistently traded below the \$2.50 issue price. And when the shares sank to \$2.43, the decline in capital value had eaten into nearly half of the expected total annual income return.

Problem of trading at a discount

One of the major challenges of a LIT structure is that the underlying shares can trade away from the value of the units in the trust. Occasionally, the shares trade at a premium to the underlying value, but of the 114 Listed Investment Company (LICs) and LITs trading on the ASX at the time of writing, 72% trade at a discount to Net Tangible Asset (NTA) value. The average discount is 12.6%.

While there is always a risk of capital loss when investing, the possibility of a discount to NTA amplifies that risk significantly.

The risk of variance to NTA is just one of the pitfalls of investing via a LIC/LIT structure. Another major risk for investors is the lack of liquidity. In the first three weeks of listing, only around 3% of KKC changed hands. The total value of KKC bid for in the market at time of writing is a mere \$270,000. The harsh reality of a LIT such as KKC is that even if an investor decided to exit their investment, it will be difficult to sell volume without driving the price down further.

The toxic pairing of a discount to NTA and a lack of liquidity is a value-destroying combination that is unique to LIC and LIT structures.

Why do so many investors line up to participate?

Depending on the specific LIC/LIT, there can be a variety of reasons for the massive demand. However, our view is that a loophole in FoFA regulations that allows fund managers to pay incentives to advisers who sell LICs and LITs to their clients is a major contributor.

Under the 2012 Future of Financial Advice (FoFA) regulatory reforms, fund managers are banned from paying sales commissions to advisers who sell their products. But in 2014, listed funds were exempted from this rule, and the extent to which that exemption has been exploited is eye-popping. Nearly \$45 billion of capital is now invested in LICs and LITs, mostly on behalf of mum and dad investors.

And advisers are being paid lucrative incentives, called 'stamping fees' by fund managers, to sell their clients these funds. Initially these structures were used to buy portfolios of listed shares, similar to a managed fund. However more recently, as in the case of KKC, the structures have been used to acquire portfolios of unlisted, high yield, fixed income securities that are more difficult to value. We can now add another risk into the mix: opacity.

There are several more similar strategies queued up to come to market in 2020.

Can an adviser be impartial when paid to sell a product?

Good advice is always important, and that importance is only increasing as the risks keep rising. The key question to consider is how can an adviser who is receiving a significant fee for selling a product be in a position to offer good, impartial advice to their client? The truth is, they can't.

As Kenneth Hayne noted in his final report of the recent Royal Commission,

"Experience shows that conflicts between duty and interest can seldom be managed; self-interest will almost always trump duty."

The advice industry in Australia has evolved around the idea that it is acceptable for an adviser to have an interest that is in conflict with the interests of their client. There has been a view that the conflicts could be adequately managed, or adequately disclosed. The case studies of the Royal Commission graphically revealed why the current situation cannot be allowed to continue.

We have taken a public position against the exploitation of the stamping fee loophole. You can read the article we published ([There Are Still Dangerous Loopholes In Financial Advice Rules](#)) on the topic earlier this year [here](#).

Good advice means conflict-free advice. We took a stand that we would only accept fees that were paid by our clients to ensure our advice would never be compromised.

A shift in what is acceptable

Importantly, conventional wisdom is slowly shifting for the better. The Financial Adviser Standards and Ethical Authority (FASEA) Code of Ethics came into force on 1 January 2020, and Standard 3 states:

"You must not advise, refer or act in any other manner where you have a conflict of interest or duty."

The guidance notes attached to the Code specifically call out stamping fees on Initial Public Offerings. However the disciplinary body charged with monitoring and enforcing adviser's adherence to the code has not yet been established. Whilst ASIC has provided relief for the requirement that advisers are registered with a compliance scheme, they have also stated that:

"AFS licensees will still be required to take reasonable steps to ensure that their financial advisers comply with the code from 1 January 2020, and advisers will still be obliged to comply with the code from that date onwards. ASIC may take enforcement action where it receives breach reports."

So it is at this point that we reach the fundamental ethical question for the industry.

We know where the regulator stands on this issue. Will fund managers follow the lead of Magellan and voluntarily call time on the practice of paying lucrative incentives to advisers to place private investors into risky structures? Will advisers voluntarily call time on accepting fees that compromise the advice they give to the clients who trust them?

Or will the industry continue to exploit the loophole before it finally closes?

1 January 2020 is a moment of truth for the wealth advice industry. How the industry responds will say a great deal about integrity and intent.

Paul Heath is a Founding Partner and Chief Executive Officer at [Koda Capital](#). This article is general information and does not consider the circumstances of any individual.

Advisers and investors in the dark on LITs and LICs

Graham Hand

18 December 2019

(This article was updated on 28 January 2020 to reflect developments subsequent to the original publication. Other articles on this subject are published [here](#) and [here](#)).

A record amount of over \$4 billion was invested in new Listed Investment Trusts (LITs) and Listed Investment Companies (LICs) during 2019, up from \$3.3 billion the previous year. Fixed interest LITs were one of the success stories of the year, with \$2.2 billion raised in four issues.

The overall sector now holds \$52 billion across 114 issues, and while the fixed income LITs are trading close to the value of their Net Tangible Assets (NTAs) value, most equity LICs are struggling at price discounts to NTA.

But suddenly, there is also a cloud hanging over all new issuance, with financial advisers and stockbrokers unsure whether they can accept selling fees under the [Financial Planners and Advisers Code of Ethics 2019 Guidance](#) (it is a guide, not legislature). Amid the uncertainty, well-known global managers such as PIMCO, Neuberger Berman and Guggenheim are hoping to issue in early 2020.

Will advisers participate? Prominent columnist and fund manager, Christopher Joye, opened his *Australian Financial Review* article on [13 December 2019](#) in no uncertain terms:

"From January 1 commissions on listed investment companies and trusts will be banned, opening the way to huge compensation claims for losses incurred by any clients other than sophisticated institutional investors."

The Financial Adviser Standards and Ethics Authority (FASEA) has advised me that Chris Joye's interpretation is incorrect, and this article will explain why. However, a high level of confusion over the proposed Code remains.

Are financial advisers caught in another trap?

In the worst position of all, financial advisers are unsure whether they will breach their Code of Ethics from 1 January 2020. The selling fee for placing clients into new LITs was one of their few bright spots in a tough 2019. The uncertainty arises just when it seemed there was little more that could be thrown at advisers already reeling from:

- the Royal Commission identifying conflicts of interest and not acting in the best interests of clients
- a mountain of compliance and paperwork at every client interaction
- the early removal of grandfathered commissions
- the exit of the major banks which were once big supporters, and
- new education standards pushing thousands out of the profession.

FASEA has produced detailed obligations *"that go above the requirements in the law"*. It includes five values and 12 standards, and they are imposed on financial advisers personally:

"You have a fundamental, personal, professional obligation to understand and to adhere to your ethical obligations under the Code. You cannot outsource this responsibility ... You will need to keep appropriate records to demonstrate, if called upon, your compliance with your obligations under the Code."

With responsibilities that are almost impossible to quantify and judge, the five values are Trustworthiness, Competence, Honesty, Fairness and Diligence, followed by pages of definitions.

Advisers will not be able to pick up the phone to a client without worrying if they have met all potential requirements. The concern is that costs are rising so much that financial advice will increasingly become the domain of the wealthy.

Where do LICs and LITs come into it?

The impact of FoFA on funds and listed vehicles

The Future of Financial Advice (FoFA) regulations prohibit payments from product manufacturers to financial advisers. However, in 2014, the Coalition granted an exemption from FoFA for financial advisers and brokers to continue to receive commissions in the form of 'stamping fees'. Under [Corporations Regulations 7.7A.12B](#):

*"A monetary benefit is **not** conflicted [remuneration](#) if it is a stamping fee given to facilitate an approved capital raising."*

And an 'approved capital raising' includes:

"interests in a managed investment scheme that are, or are proposed to be, quoted on a prescribed financial market."

In addition, on 27 January 2020, Treasurer Josh Frydenberg issued a media release:

"The Morrison Government is today announcing that Treasury will undertake a four week targeted public consultation process on the merits of the current stamping fee exemption in relation to listed investment entities."

Stamping fees are an upfront one-off commission paid to financial services licensees for their role in capital raisings associated with the initial public offerings of shares."

Public consultation will allow the Government to make an informed decision on whether to retain, remove or modify the stamping fee exemption in order to ensure that the interests of investors are protected and capital markets remain efficient and globally competitive."

Does the Code apply to both financial advisers and brokers?

At first glance, as the Code Guidance addresses 'Financial Planners and Advisers', it looks like another attack only on financial advisers. At the Royal Commission, the stockbroking industry barely rated a mention while advisers were hammered.

But the examples in the Code Guidance, discussed below, also apply to stockbrokers and every other Australian Financial Services (AFS) licensee. I checked this point with FASEA, who replied:

"The Code of Ethics is a compulsory Code for all relevant providers (as defined in the Corporations Act) when providing personal financial advice or services to retail clients on relevant financial products. Stockbrokers fall within the definition of a relevant provider and therefore must comply with the Code when providing personal financial advice or services to retail clients on relevant financial products."

Brokers have become major supporters of LICs and LITs in recent years as they receive fees similar to the rewards of floating a new company. When a new LIT or LIC comes to market, the issuer (manager) selects a syndicate of brokers with the ability to market and sell this type of transaction. A welcome development in recent deals is that the managers cover the up-front costs, enhancing the potential for the issue to trade around its issue price. The manager pays a selling fee, as noted in the recent KKR offer (the largest of 2019 raising \$925 million) document:

"the Manager will pay to each Broker a selling fee of 1.25% (exclusive of GST) of the amount equal to the total number of Units for which the relevant Broker procured valid Applications."

KKR also states that:

"The Responsible Entity does not intend to pay commissions to financial advisers in relation to an investor's investment in the Trust under this Offer."

There is nothing to stop brokers paying fees to financial advisers who place their clients into the funds. In some cases, the commission may be refunded to the clients. In the case of KKR, half the transaction was placed by brokers and half by financial advisers, with the adviser receiving most of the selling fee from the broker.

What does the Code of Ethics say about fees and commissions?

The FASEA Code of Ethics Guidance addresses ethical issues facing financial advisers, and is also relevant to investors want to know what happens to the selling fee.

Christopher Joye sees FASEA's position as clear:

*"In one of the biggest shake-ups of the financial advice industry in years, the government's Financial Adviser Standards and Ethics Authority has blanket-banned conflicted sales commissions, including previously acceptable "stamping fees", for advisers recommending listed investment funds to both retail and wholesale clients ... **The ban on stamping fees for LICs and LITs for all advisers is therefore black and white** (my bolding)."*

Joye quotes from Examples 6 and 9 of Standard 3, including from page 17:

"The option to keep the stamping fee creates a conflict between [the adviser's] interest in receiving the fee and his client's interests. Standard 3 requires [the adviser] to avoid the conflict of interest. It is not sufficient for him to decline the benefit as it may be retained by his principal. Either the firm must decline the stamping fee altogether, or [the adviser] must rebate it in full to his clients."

Joye says there's "no room for confusion" there. In fact, there is plenty.

There's no outright ban on 'stamping fees' to advisers

Example 6 concerns a stockbroker, Yasmin, who is motivated to do the transaction because she needs the extra brokerage income to meet her monthly target and earn a bonus. FASEA says:

"the actual reason for advising the clients was to earn an increased proportion of total brokerage by 'churning' client accounts."

The Code does not say she cannot accept the commission (stamping fee), it says it cannot be her primary reason for the deal. In fact, FASEA says the usual practice is:

"Her firm takes advantage of the carve out from the conflicted remuneration provisions introduced by the Future of Financial Advice reforms".

Example 9 is the same. This is headed, 'Selling IPOs'. It starts: *Scott works for a securities dealer which specialises in advising in small cap stocks.* Again, it's not a financial adviser, it's a broker. Scott's firm allows its advisers to either keep the stamping fee or rebate it to the client. However, on this occasion, Scott keeps the stamping fee to pay for school fees whereas he usually rebates to the client. This is how the conflict of interest arises, as it is a change of behaviour. It's not that keeping the stamping fee is prohibited.

From 1 January, investors who pay an annual fee to their adviser should ask what happened to the stamping fee on new LIT and LIC transactions as a check on potential conflicts of interest.

The Code of Ethics offers flexibility

Outside of these examples, on page 17, FASEA allows financial advisers to receive *"Income derived from ancillary products and services"*. It says:

"You will not breach Standard 3 if you share in profits generated by the provision of ancillary products and services to clients providing that:

- the ancillary products and services are merely incidental to the adviser's dominant purpose in providing advice, and*
- the ancillary products and services recommended are in the best interests of your client – conferring on the client value that is equal to or greater than that offered by any other option."*

The reason Examples 6 and 9 breach the Code is because of the change in behaviour, such that:

"You will breach Standard 3 where the dominant purpose of providing advice to clients is to derive profits from selling those clients ancillary products or services from which you personally benefit."

As a further nod to flexibility, page 6 of the Code says to financial advisers:

"Individual circumstances will differ in practice and, as with every profession, there is allowance for differences of professional opinion on how the ethical rules of the profession should apply in a particular case. Doing what is right will depend on the particular circumstances and requires you to exercise your professional judgement in the best interests of each of your clients."

The Listed Investment Company and Trusts Association (LICAT) argues in a recent release:

"We note, however, that there are significant gaps and differences between the explanatory wording provided in FASEA's Code of Ethics Guidance and ASIC's Regulatory Guide RG 246."

The first significant difference is how conflicts of interest can be avoided in practice while continuing to ensure that investors receive the best possible advice. ASIC's Guidance recognises that there are practical ways in which conflicts may be eliminated including a client authorising a fee to be paid to their adviser for services that have been provided. At this time, FASEA's Guidance has not explicitly addressed this important point."

What would a disinterested person, in possession of the facts, conclude?

At this point, it seems fine for both brokers and financial advisers to accept a selling fee from a fund manager, but what about conflicted remuneration and best interests?

Is there a difference between a fund manager with an unlisted fund paying commissions to an adviser (banned under FoFA), and a fund manager listing a fund and paying a selling fee to a broker, who then shares it with an adviser?

FASEA says there are overarching principles which should dominate decision-making by advisers and licensees, such as on page 17:

"You will breach Standard 3 if a disinterested person, in possession of all the facts, might reasonably conclude that the form of variable income (e.g. brokerage fees, asset based fees or commissions) could induce an adviser to act in a manner inconsistent with the best interests of the client or the other provisions of the Code."

We cannot avoid the elephant in the room. How does a relatively unknown fund manager raise nearly a billion dollars in a month when there are plenty of similar managed funds readily available? For example, there are dozens of fixed interest funds on the ASX's mFund service offered by leading global managers (Janus Henderson, Legg Mason, Aberdeen, PIMCO, UBS) which struggle for attention, and there are many fixed income ETFs which are cheaper than LITs.

Have financial advisers and brokers really considered whether these are better for their clients than a new LIT which happens to pay a 1.25% selling fee (and in some cases, invests in [non-investment grade securities](#))?

Consider this: PIMCO has long offered the 'PIMCO Australian Focus Fund', a fixed interest fund holding asset types that LIT investors have scrambled into in 2019. Let's say they offer it in four formats:

1. A managed fund on various platforms. Commissions are banned under FoFA.
2. A managed fund accessed using the ASX mFund service. Again, commissions are banned under FoFA. This fund has raised less than \$1 million over the years of its availability on the mFund service.
3. An active ETF listed on the ASX, with no selling fees (ETFs do not pay selling fees).
4. A new LIT with a selling fee of 1.25%.

It's the same fund from the same manager with the same strategy, and three of the vehicles can be accessed directly on the ASX. Money would trickle into the first three, but it would flood into the

Can anyone deny that many brokers and advisers are motivated by the selling fee? Some of the advisers rebate the fee but what about the rest? Was a LIT offered in a particular month the best fixed interest fund available, and so much so, it deserved a billion dollars? That's a stretch.

When I asked a financial adviser how he can justify taking a fee for placing a client into a LIT when he can't on a managed fund, he said it was to offset his risk that the client does not proceed. What about KYC, or Know Your Client?

Wait a minute. Didn't Magellan recently raise \$860 million on a LIT that paid no commissions? Yes, but Magellan is a unique case, having spent a decade developing its own distribution channels and gathering the direct contact details of 200,000 investors.

LICs Premium / Discount to NTA as at 30 October 2019



"ASIC's Guidance (but not FASEA's Guidance) recognises the practical differences in the capital raising process for coordinated blocks such as listed entities which is done at a single point in time"

and that of the continuous raising of capital for other investment products such as managed funds and ETFs.”

These examples simply emphasise the problem. Financial advisers and brokers are accepting payments from product manufacturers to place investments with their clients. Every adviser and licensee will have to judge their motivations and whether their actions are a contravention of the Code of Ethics.

It matters little if it's legal when it's not ethical

As at the end of January 2020, the Code of Ethics does not ban financial advisers and brokers from receiving commissions on LITs and LICs, but there's another issue. Consider how advisers receiving grandfathered commissions were treated at the Royal Commission, although these commissions were legal. Commissioner Hayne lambasted advisers for their behaviour in retaining the fees five years after the implementation of FoFA that made them legal.

Similarly, the advice industry has reacted with horror at CBA's recent decision to demand advisers obtain a signed form from fee-paying clients to give trustees comfort that clients are aware of the fees. This is not a legal requirement but was recommended by Hayne. Fees are already disclosed annually and the client has agreed to the fees in the Statement of Advice. Advisers are calling CBA's decision 'virtue signalling', but that's what the big players are doing under pressure from regulators and the government.

ASIC Commissioner Danielle Press recently wrote an email to industry participants advising:

"ASIC does not expect advisers or licensees to change remuneration structures to comply with Standards 3 and 7 (of the Code of Ethics) until there is certainty with respect to these standards and how they impact on remuneration. This applies to existing remuneration streams such as asset-based fees and commissions that might be considered in doubt."

The review announced by Josh Frydenberg is likely to ban financial advisers (but not brokers) from accepting selling fees on new issues by investment trusts. While new LIC and LIT issuance will continue with broker support, it will reduce demand and probably result in smaller transactions.

Graham Hand is Managing Editor of Firstlinks. FASEA has also released a [Preliminary Response to Submissions](#) paper intended to clarify the application of the Code. For the moment, it confirms that financial advisers are allowed to accept selling fees. However, it does not change my opinion that advisers and brokers offered a 1.25% selling fee are incentivised to distribute LICs and LITs to clients which may not be the best available fund at the time.

Authorities reveal disquiet over LIC fees

Graham Hand

8 January 2020

The ethical and business dilemmas about whether financial advisers should accept 'selling fees' from fund managers took a dramatic twist last week with the release of documents under a Freedom of Information (FOI) request. Although the internal memos from the regulator, ASIC, are not released publicly on their website, they are available on request following the FOI inquiry by *The Australian Financial Review*.

We have written extensively on this subject, such as [here](#), as it is crucial for the future success of Listed Investment Company (LIC) and Listed Investment Trust (LIT) issuance. Investors have pumped \$4 billion a year into the sector in the last two years, and so settling the debate has major implications for thousands of investors, especially those whose investments are guided by a financial adviser.

It's a fact that it is impossible to raise a billion dollars in a month for a relatively unknown fund manager without paying selling fees (officially, 'stamping fees') to financial advisers and brokers. In the wake of the Royal Commission and the industry's new Code of Ethics, the advice industry must answer the question:

Why would an adviser put clients into a new LIC or LIT when there are hundreds of similar choices readily available if not for the incentive of earning the selling fee?

The 'made things and provided services' exemption

The FOI release (a zip file of emails and documents) shows the regulator feels the scope for conflicted advice is amplified by section 7.7A 12B of the Corporations Act, which allows financial advisers to collect a stamping fee. The most telling section comes from Anna Dawson, Senior Specialist, Financial Advisers at ASIC, who says:

*"The initial carve-out was given because of an argument that companies would not be able to raise capital. The carve-out was restricted to companies that **'made things and provided services'** – hence investment companies were excluded unless they were investing in infrastructure, so, **the initial carve-out for stamping fees did not apply to LICs and REITs.**"* (my emphasis)

This is a fascinating revelation. The carve-out from FoFA which has encouraged billions of dollars of LICs and LITs to be issued was not initially available.

And here's the sting in the tale, as ASIC continues:

"ASIC was consulted on the 'streamlining' package which extended the stamping fee carve-out by including investment companies. In December 2013, ASIC wrote to Treasury again opposing the expansion of the carve-out for the following reasons ...

*Broadening the exemption will **expand the scope for conflicted advice and corresponding consumer detriment.** It will also cause an undesirable market distortion by preventing conflicted advice in the secondary market (transfer acquisitions) but **permitting conflicted advice** for the whole primary market (issue acquisitions). From a consumer protection perspective, we do not see any policy rational for this distinction.*

*We are also concerned that any broadening of the exemption will lead to arguments by other industry sectors that they have been put at a competitive disadvantage by the uneven playing field that the exemption creates. **Subsequent relaxing of the FoFA reforms will inevitably lead to consumer detriment.**"* (my emphasis)

So what happened? ASIC's advice was ignored under intense lobbying from sections of the financial services industry which benefit from allowing advisers to receive selling fees.

Why do the businesses that rely more on unlisted funds, including many of the major platforms, not object to this special treatment which allows a competitor product (in the listed market) a special ability to pay a fee to an adviser?

In Item 20 from the ASIC file, this time written by David Dworjanyn, Senior Specialist (Legal & Policy), Markets, ASIC, he says:

"The poor performance of the majority of these funds don't justify the fee structure generally and it makes me question any advice to go into these products, particularly at the issuance stage."

Meetings between ASIC and Treasury

It's also fascinating to see how many resources Treasury and ASIC have devoted to this problem. The emails include detailed analysis of the LIC and LIT market. The email below shows David Dworjanyn copying 10 people into the analysis on stamping fees in August 2019.

From: David Dworjanyn
Sent: Monday, 5 August 2019 3:04 PM
To: Hallyburton, Stephen; Pai, Neena; Moore, Ruth; Storer, Aidan; kate.o'rouke@treasury.gov.au; Quinlivan, Ciaran
Cc: Calissa Aldridge; William He; Kate Metz; Anna Dawson
Subject: RE: ASIC/Treasury meeting re LICs [DLM=Sensitive]
Attachments: Review of LICs and LITs and Stamping Fees Aug 2019.pptx

Dear all

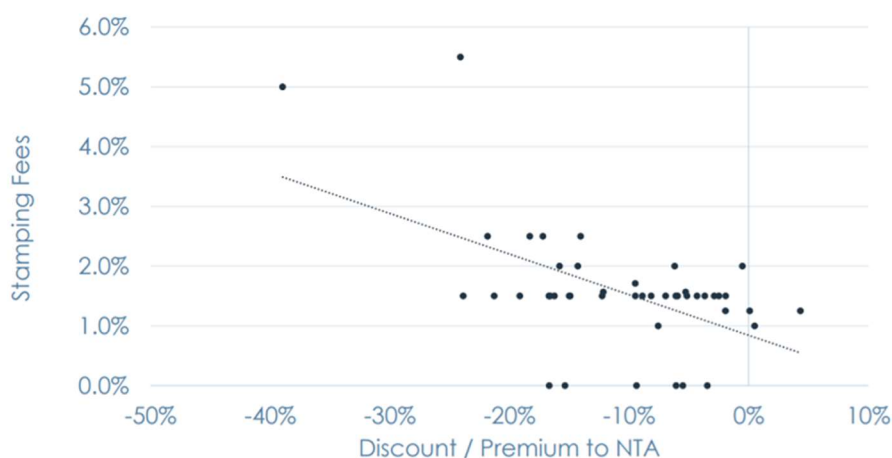
Please find attached a slide presentation of the analysis of LIC and LIT issuances since the beginning of 2015. There is no particular sensitivity in the document as we have compiled information that is generally available. The key findings are:

- **Poor performance** of LICs and LITs: a significant proportion had negative returns (including two delisted due to fraud). Overall -6.1% cumulative since inception, -6.3% for recent year.
- **Large discounts to NTA**, averaging -10.7%. 42 out of 48 LICs and LITs issuances since 2015 trade at discount to NTA.
- **Higher management fees** charged by LICs and LITs than ETFs and ETMFs, while significantly underperforming on average.
- **Conflicted selling incentive**, 42 out of 48 LICs and LITs issuances since 2015 involved stamping fees (selling fees paid to the broker or advisor that are directly proportional to the volume sold)
- Higher stamping (selling) fees for LICs and LITs are **correlated with worse investment returns and bigger discount to NTA**
- LICs and LITs with **stamping (selling) fees underperform** LICs and LITs without stamping (selling) fees on average

However, these results are not as clear cut as ASIC suggests. For example, some of the LICs that did not pay fees were not new issues, but rather, LICs involved in some internal restructuring that did not involve funding. Furthermore, analysis of LIC prices is fraught as discounts and premiums change almost daily, and prices are affected by modest amounts of supply and demand.

Nevertheless, regulator opinion of the market is shown by the following charts from the slide presentation. They indicate the higher the stamping fee, i) the greater the discount to NTA and ii) the worse the investment outcome.

Conflicted Selling Incentives and Discount to NTA



Conflicted Selling Incentives and Investment Outcome Since Inception



With the dispute on adviser selling fees growing in the media, Treasurer Josh Frydenberg recently wrote to ASIC saying:

"I am sure you share my concern that ASIC's analysis revealed some correlation between higher stamping fees and underperforming LICs. Can you please provide me with details as to how ASIC is monitoring LICs and other investments to which the stamping fees exemption applies to ensure that the interests of consumers are not being compromised."

Advisers don't know how much will be issued

The float of a company that 'made things and provided services' differs from an investment company. When a company such as Afterpay or Xero is floated, there is a set amount of stock available, valuing the floated company at a specific price. There is often a scramble for the limited supply.

With a LIC or LIT, the fund manager can accept every dollar offered and then simply buy more assets. There is an enormous incentive to 'back up the truck', as L1 Capital did with its \$1.3 billion raise and KKR did with its \$925 million issue. Both then struggled in the secondary market under the weight of supply and traded at discounts to NTA.

Yet financial advisers and brokers put \$2 billion into these two issues, readily accepting the selling fees, even after the originally-advised minimum transaction amounts were massively exceeded, with the inevitable oversupply issues.

How can an advice licensee assessing whether an adviser's action was motivated by the selling fee argue that a LIC or LIT that trades at a discount is in the best interests of the client?

What is the relevance for investors?

Many SMSFs and more sophisticated retail investors assemble their portfolios using ASX-listed investments, and Exchange-Traded Funds (ETFs) have now reached \$60 billion, while LICs and LITs are about \$50 billion.

But there's a difference between the two. Demand for ETFs is primarily driven by cheap and easy access to index exposure, with many funds available for less than 10 basis points (0.1%). ETF providers devote considerable resources to investor education rather than paying promotional fees to financial advisers and brokers (there are no stamping fees paid on ETFs).

How can LICs and LITs charging active fees of 1% or more compete with such low fees? Some such as Magellan rely on the long-term reputation of the manager, with a direct client base built over a decade of success, engagement and marketing effort. But managers with lower market profiles must pay selling fees to advisers to promote their products. From the manager's perspective, this is fair enough as it rewards the adviser for their distribution.

Without the selling fees, many of these transactions will not come to market. If the latest review by ASIC and Treasury, and the ethical questions raised by FASEA's Code of Ethics, lead to a change in treatment of selling fees, then ETFs will receive a boost, and investors and advisers may need to focus more on unlisted funds.

Graham Hand is Managing Editor of Firstlinks. This article does not consider the circumstances of any investor.

Any financial adviser or industry participant is welcome to provide a constructive article explaining why selling fees are appropriate for new issues.



Just for Josh: Survey on attitudes to LIC fees

Graham Hand

29 January 2020

The Federal Treasurer, Josh Frydenberg, has announced a brief public consultation into whether financial advisers should receive 'stamping fees' for distributing listed vehicles to their clients. The results of this Firstlinks survey will be provided to Treasury as input to its decision. Please take a moment to share your views and we will publish the results next week.

A changing landscape for listed entities

After \$4 billion of issuance in Listed Investment Trusts (LITs) and Listed Investment Companies (LICs) in each of the last two years, the regulatory landscape is about to change. Although two fixed income LITs are currently raising money under the old rules allowing stamping fees to be paid to financial advisers, it is likely that the Federal Treasurer will ban the practice in future and bring listed funds and trusts in line with unlisted vehicles under FoFA.

For those who require more background, we have published several articles on the subject, including:

[Advisers and investors in the dark on LITs and LICs](#), a detailed background paper explaining the current regulations and why they are unsustainable.

[Authorities reveal disquiet over LIC fees](#), following the FOI revelation that ASIC argued the payments should be banned.

[1 January is moment of truth for the wealth industry](#), a financial adviser argues good advice must be free of conflicts.

[Three overlooked points on the LIC/LIT fee battle](#), offers the same conclusions we expect Treasury to reach.

Here is Josh Frydenberg's announcement:

"The Morrison Government is today announcing that Treasury will undertake a four week targeted public consultation process on the merits of the current stamping fee exemption in relation to listed investment entities.

Stamping fees are an upfront one-off commission paid to financial services licensees for their role in capital raisings associated with the initial public offerings of shares.

Public consultation will allow the Government to make an informed decision on whether to retain, remove or modify the stamping fee exemption in order to ensure that the interests of investors are protected and capital markets remain efficient and globally competitive."

In addition, the CEO of the Financial Planning Authority (FPA), Dante De Gori, responded with support to ban payments:

"At this point in Australia, all other forms of product-directed payments that a financial adviser receives from clients have been banned, leaving most financial planners only receiving fee-for-service payments. The FPA supports the government's efforts to improve the quality of financial advice that all Australians receive."

Let us know your opinion including comments and we will ensure the survey is presented to Treasury. The survey is only a few questions and no identities will be revealed.

Complete the survey using [this web link](#).

LIC/LIT stamping fees survey results

Leisa Bell

5 February 2020

A summary of the survey on attitudes to stamping fees (commissions) paid to advisers on LICs and LITs is presented below, including a selection of comments. For a review of the issues, see the articles [listed here](#).

As the Survey Monkey software experienced some problems shortly after the poll was published last week, some of you may have had problems completing it. *[Note: This survey is now closed]*

The results will be shared with Treasury as part of the public consultation into stamping fees.

The survey split respondents into adviser and non-adviser groups. Of the 670 respondents so far, 16% were advisers.

If you are a financial adviser, do you accept stamping fees?

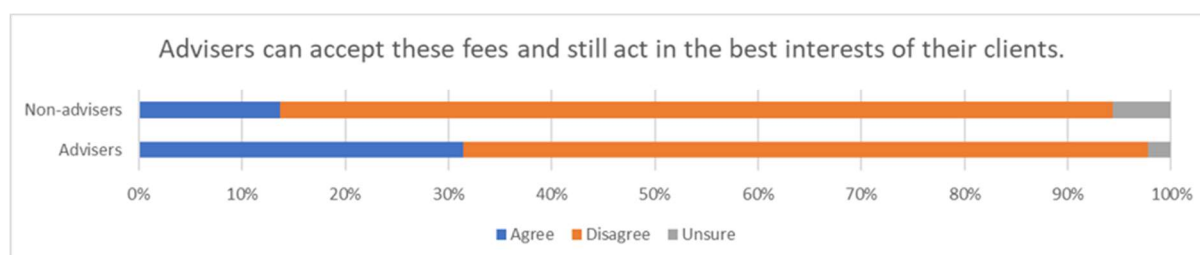
Among the advisers, asked if they accepted stamping fees, 17% said yes, 74% said no, and 9% said it depends.

Here are some of the comments from this question:

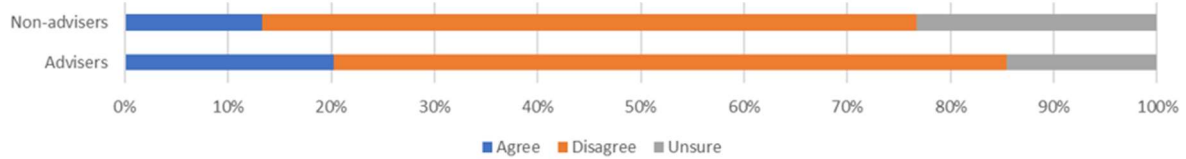
- It is a clear sales commission to sell a product to clients. I have seen it in operation in many businesses, where they target the selling of these products purely to generate revenue.
- Absolutely unethical. No justification for ever accepting such fees.
- Neither are products I would recommend
- We are a 100% fee for service firm
- We need a fair playing field. I can't accept stamping/commission on a regular unlisted managed funds, so why the difference with listed LIC's/LIT's.
- We rebate all stamping fees and any other commissions/rebates to clients accounts. You can even get 0.20% from some term deposit providers, just crazy. Keep it simple, clients should be the only ones paying for the advice, not the product providers to be put higher up on Advisor radars.
- It simply is a conflict of interest
- I think this remuneration is conflicted which causes a conflict of interest under the new FASEA code of ethics.
- I support a cap in stamping fees of 0.50% which is fair and reasonable.
- We rebate the fee to clients
- we charge flat \$ retainers, so rebate all commissions

Reactions to different statements

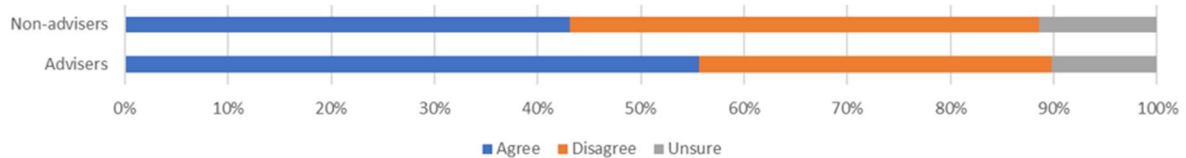
The first five of the following statements were shown to both groups, the differences in their responses are shown together, in each chart. The remaining five statements were shown to just one group, as indicated.



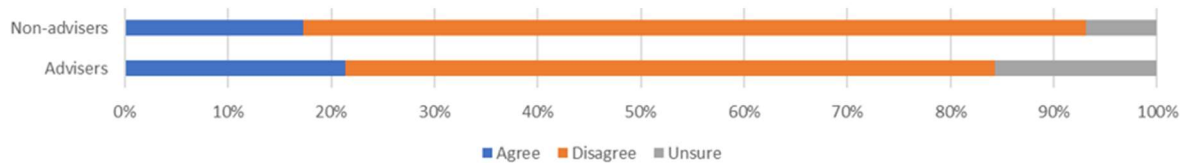
The carve out from FoFA obligations for listed entities is legitimate.



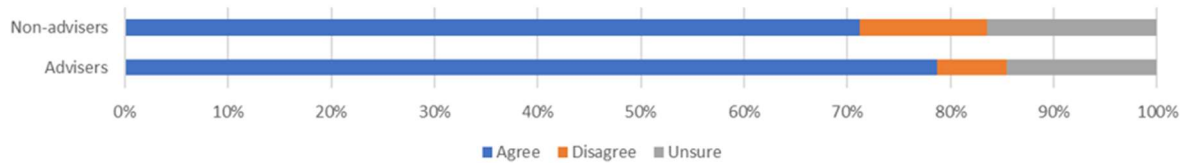
There is a lot of work involved and advisers should be paid for the effort.



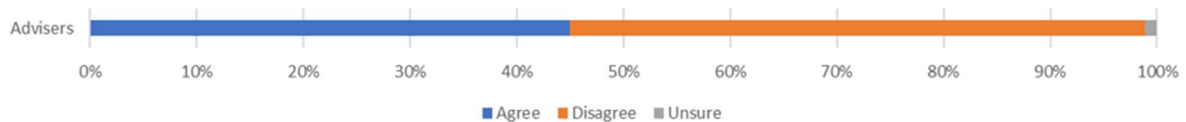
It is a matter between adviser and client, authorities should not become involved.



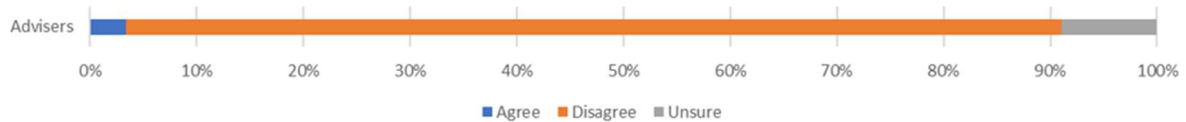
The issue is not only about LICs and LITs but other securities such as hybrids.



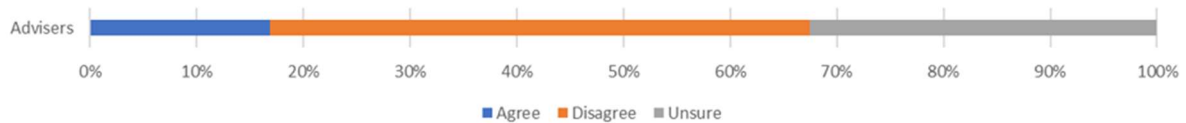
I have both annual fees for advice and transaction fees for specific investments.

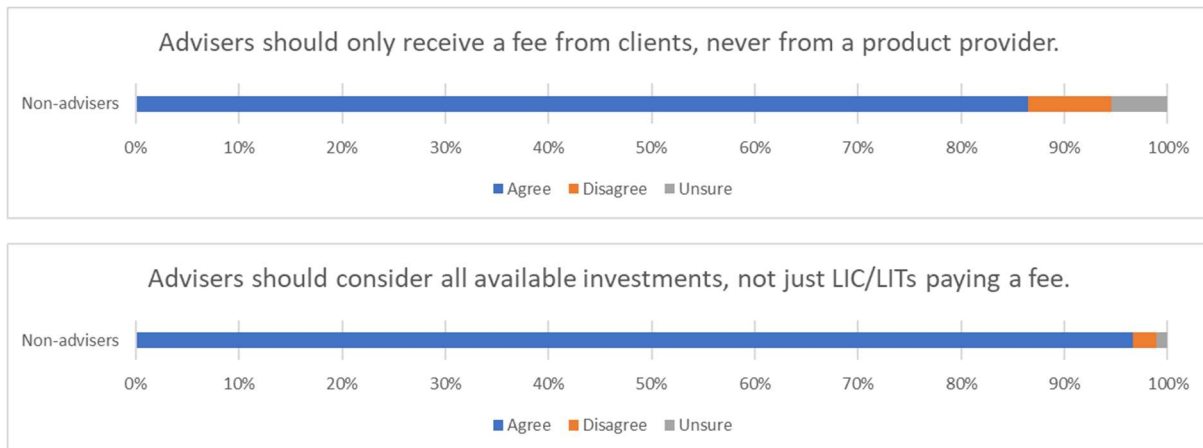


I have lost other forms of revenue and I need stamping fees for business viability.



The FPA Code of Ethics 2019 Guidance is open on these fees.





Selected comments from advisers:

- These fees should absolutely be stopped immediately to stop the selling of what can be inappropriate investments to clients. The motivation is nearly always the sales commission... if it wasn't then there would be no opposition to it being removed.
- No commissions, stamping fees or even any percentage-based fees can be justified.
- Serious consideration is taken into account when deciding to recommend any investment, whether that be an LIT, LIC or Hybrid. Each client's personal circumstances are considered, and work is put into discussing to each client how it suits their investment goals and why I recommend it for them specifically. Therefore, we should be paid for such work.
- It's not simply black and white. There is extra work involved. Advisers offering this service either need to price it into their fees or charge one off fees (although this is a pain). But better to do either of these than have the conflict (where payment is linked to value of placement rather than time/effort).
- I am not opposed to stamping fees but concerns with those Institution with in-house products and promoting these to their private clients.
- Stamping Fees cause many advisers to recommend investments that in most cases they would not otherwise recommend and a lot of these LIC/LIT's then trade at a discount to NAV.
- If stamping fees are removed I will be forced to increasing my fee structure.
- I think you have to get paid for the work you are doing one way or another. I would prefer that it be a visible fee rather than an invisible one, but so long as the overall fee is not excessive and service is being provided then I'm ok with it.
- Definite conflict and should be banned. Much better to charge the client a flat fee for doing it.
- While the wording of the code of ethics is really poor, the worked examples make it clear that the fees can be received. Where they cannot be received is where they cause a change in the adviser's behaviour e.g. when the adviser chases stamping fees because he needs to pay his kid's school fees. I don't understand how there are still any questions around this.
- Get rid of them so the underlying investment stands on its merits. Equally with the maddening compliance world to process a LIC IPO many will just go its too much work which is rightly so.

Selected comments from non-advisers:

- Remuneration that is not obvious to the client is always going to be an incentive to succumb to temptation or self-justification.
- Like most of these issues, the fee-paying bias occurs frequently but not everywhere - some advisers genuinely seek recovery for the extra work involved in a raise, where they deem the product appropriate - HOWEVER, the potential conflict should be eliminated to ultimately protect investors!
- Advisers should on all occasions be acting in the best interest of their clients and not on the amount of stamping of commissions that a product provides.
- No commissions, only fee for service paid directly by client should result in better outcome for clients
- All commissions, whether fixed fee or % or best estimates thereof must be disclosed to the clients in writing before they commit to any investment.

- I don't use an advisor, so I'm not fully around this issue, but I am really against the LICs market price being inflated by the laziness of advisors.
- Disgraceful that this issue has not been actioned before now - asleep at the wheel again
- Government should set an upper limit for commission to prevent overcharging the clients. Financial advisers already receiving fees from clients, fees on Lic and Lit only adding another layer of fee.
- It's a conflict of interest which has no place when advice is given
- Conflicted remuneration has the potential to distort advice in every circumstance. There is absolutely no reason why this exemption should exist.
- Transparency is the key. Honesty is then on show.
- Any form of incentive from providers of products is prone to cause conflict of advice.
- Incentives provided to sellers of products never results in the best interest for the buyer. Also as a customer you cannot be sure that the advisor acted in yours or their best interest. So it brings into disrepute the industry.
- clients will never pay a fee for advice enough to make advice a viable business. If the stamping fee was a fixed amount for all securities, there would be no conflict of interest.
- The problem seems overblown to me. It only applies to new issues and floats, so why is the media demonising all LIC's. Brokers have always got a fee for new floats, so would they no longer be allowed to suggest new floats to clients. How else are clients going to know the floats are available?
- Happy to pay fee for service. Will never use adviser I know is getting a commission! (by whatever name!!!)
- Fees should be based similarly to other professionals such as accountants and solicitors - nominally on a time basis and hourly rate
- Stamping fees ultimately lead to lower returns for clients and is often not obvious to them due to a lack of transparency.
- Advisors should be paid a portfolio management fee however that can be structured, not a fee for recommending a product that is for sale.
- Some advisers do no work and just recommend based on payment but others do a lot of research and evaluation work prior to recommending. Better education of investors and a capacity to recognise return on investment will make investors more discerning.
- Advisers must be impartial and give totally independent advice. It must be free of any perks.
- Clients should pay for the services they receive. Advisers should never receive a payment from a product provider.
- We pay annual fee for advice and management, as do all the other clients. The job is to keep an eye open for opportunities for all clients. That is their day job.
- Advisers' should only be paid by their clients.
- It is quite clearly a conflict of interest and various reports on this have shown the link conclusively between commissions and how they have affected a planner's advice to their clients
- If you are taking a sales commission, you are a salesperson not an adviser.
- As long as fees and commissions are explicit and known to clients and are taken into account in the justification of the investment recommendation, then I do not see an issue.
- Removal of stamping fee long overdue
- The fees for rights issues and placements should also go
- Stockbrokers have always been conflicted by these fees but that is just the way it has always been. Seems too hard to change.

Do you think the ban on receiving stamping fees should extend to stockbrokers?

The final question, asked of all respondents, showed that over 70% believe stamping fees should be banned completely: Yes 71%, No 18%, Depends 11%.

Here are some of the comments regarding this issue:

- the broker is recognised as a seller, buyer beware
- Clients believe that their advisers and stockbrokers are providing them with advice. Due to the conflicted payments in most situations client are being 'sold' something rather than being provided advice.

- If it's a conflict for us then it's a conflict all around: stockbrokers, real estate agents, general insurance brokers, doctors accepting paid conferences from drug companies...
- I do not believe a ban should be implemented for anyone
- Investors can't differentiate between "advisers" and "stockbrokers" - they all believe that their adviser/broker acts in their best interest so let's ensure they do!
- advisers & brokers have a fiduciary duty to their clients, any commissions etc. should be refunded to the client.
- It is like commission which they receive anyway
- Same rules (whatever they may be) should apply to both.
- All advice should be subject to the ban otherwise it distorts the market
- Definitely not. Stamping fees are an integral part of the capital raising process and removing it in LIC/LIT will create market distortions.
- A Stockbroker is a salesman not an adviser.
- I believe the level of fiduciary duty is less than for financial advisers, as clients understand the stockbroker is there to buy and sell securities. The concern would be if the stamping fees became way over the top compared to other issuances, this would create a disproportionate incentive.
- Depends on if you are using the broker as an advisor or just an access point to the market
- stockbroking clients should pay for advice directly to advisor
- Brokers are salespeople. Advisers should act in the best interests of their clients
- Any incentive to steer a client towards a particular investment which benefits the stockbroker or financial advisor should be eliminated in favour of a time/project-based fee paid by the client.
- Complicated issue. Probably should if the broker is providing advice to a client about how to construct an equities portfolio. In that sense the broker is acting as a financial advisor rather than as a provider of stock broking services and products to enable clients to access the Stock Market
- As long as they are disclosed I don't see any issue in receiving these type of fees. I just don't agree with different rules for Brokers
- Provided no personal financial advice relationship exists.
- Unless a Broker is also an Adviser, he/she has no other way of being remunerated.
- Depends on how clear it is to the stock broker's clients that the broker is a sales person not an adviser. The public should clearly understand this point but I suspect many do not.
- No, but only if this is their only source of income and it is explicit
- brokerage is sufficient on its own
- The sooner that brokers are remunerated as employees the better all round
- The model for brokers is long established and appropriate given the amount of work that is required to assess products.

Firstlinks poll - Survey of attitudes to commissions on LICs and LITs – Feb 2020

Question 1

Are you a financial adviser? (Your answer determines the next set of questions)

Answer Choices		Responses	
Yes		19.56%	143
No		80.44%	588
Answered		731	
Skipped		0	



Firstlinks poll - Survey of attitudes to commissions on LICs and LITs – Feb 2020

Question 2

Do you accept stamping fees (commissions) for distributing LICs or LITs to your clients?

Answer Choices

Yes

No

Depends

Please add any comments on this issue.

Responses

13.49% 17

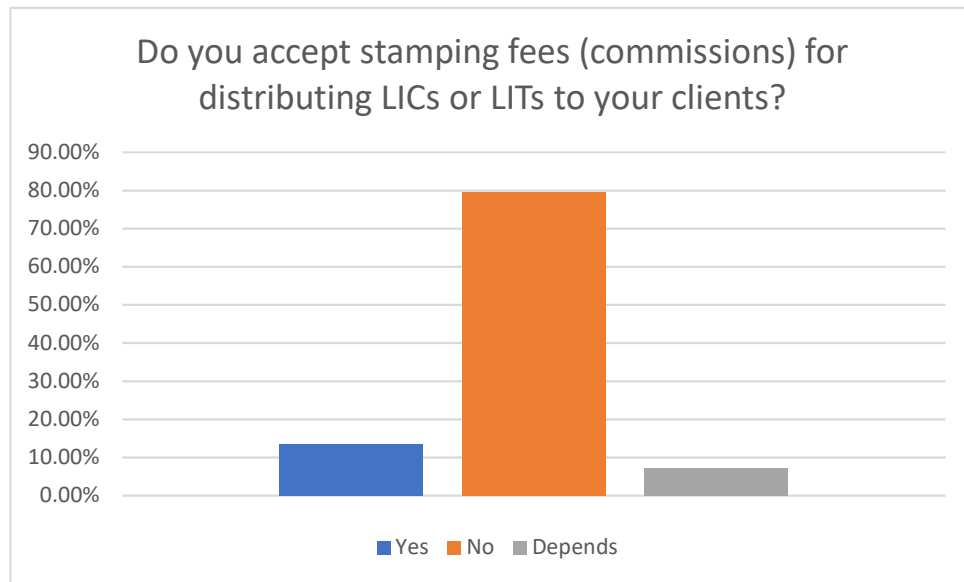
79.37% 100

7.14% 9

29

Answered 126

Skipped 605



Firstlinks poll - Survey of attitudes to commissions on LICs and LITs – Feb 2020

	Please add any comments on this issue.	Response Date
1	My firm does, but I am not paid based on such commissions	Feb 09 2020 01:35 PM
2	It's a conflict	Feb 06 2020 06:28 PM
3	It creates a conflict of interest that is unacceptable. Advisers should be paid by their clients for advice, not by someone else for distribution.	Feb 06 2020 05:56 PM
	Stamping fee? Please! It's a bribe, plain and simple.	
4	If paid, then rebated in full to the client	Feb 06 2020 05:36 PM
5	Rebate if possible	Feb 06 2020 12:21 PM
6	Do not agree with them, they are absolutely a conflict of interest. No issue where Adviser accept them and rebate them to the client though.	Feb 06 2020 11:59 AM
7	I wouldn't have anyway, but I was genuinely stunned to learn these things still existed.	Feb 06 2020 11:47 AM
8	unethcial	Feb 06 2020 09:12 AM
9	Fee for service only	Feb 04 2020 02:43 PM
10	It is a clear sales commission to sell a product to clients.	Feb 04 2020 12:38 PM
	I have seen it in operation in many businesses, where they target the selling of these products purely to generate revenue.	
11	Absolutely unethical. No justification for ever accepting such fees.	Feb 04 2020 12:29 PM
12	Neither are products I would recommend	Feb 04 2020 12:18 PM
13	Generally the Fee reduce the asst base so teh first clietns have a lower asset value. So I do not accept them as I have advised the clietn and recieve the fee direct from teh client.	Feb 04 2020 12:11 PM
14	We are a 100% fee for service firm	Feb 04 2020 09:06 AM
15	I accept fees as I am	Feb 03 2020 04:01 PM
16	We rebate back to clients if we do receive.	Feb 03 2020 09:37 AM
17	We need a fair playing field. I can't accept stamping/commission on a regular unlisted managed funds, so why the difference with listed LIC's/LIT's.	Feb 03 2020 06:25 AM
18	We rebate all stamping fees and any other commissions/rebates to clients accounts. You can even get 0.20% from some term deposit providers, just crazy. Keep it simple, clients should be the only ones paying for the advice, not the product providers to be put higher up on Advisor radars.	Feb 01 2020 05:25 PM
19	Conflicted revenue obviously.	Jan 31 2020 10:23 PM
20	It simply is a conflict of interest	Jan 31 2020 08:55 AM
21	I think this remuneration is conflicted which causes a conflict of interest under the new FASEA code of ethics.	Jan 30 2020 04:10 PM

Firstlinks poll - Survey of attitudes to commissions on LICs and LITs – Feb 2020

- 22 I have not see in ANY press article, the amount of time and work that Financial Planners put it in doing due diligence on an IPO, preparing allocations, recommending it to clients and arranging settlement. In addition to this, when bidding for "frim stock" the Adviser might end up having to take any shortfall than cant be filled. If there is ONE factual message that could be passed on to Treasury it is this. I support a cap in stamping fees of 0.50% which is fair and reasonable. Jan 30 2020 03:42 PM
- 23 we rebate the fee to clients Jan 30 2020 12:36 PM
- 24 I have raised little money in these recently due to my dislike for current asset prices. Junk bond LITs are outrageous! Jan 30 2020 12:06 PM
- 25 Generally I only recommend traditional LICs (AFI,ARG, BKI, WLE etc) with low mgt fees. I am disinterest in "new" LICs/LITs. Jan 30 2020 10:52 AM
- I do business in Rollover of Bank Hybrids for which stamping fees apply. Usually I have to spend considerable time discussing these situations with clients, and arranging documentation. If I were not "proactive", my clients may not take action.
- 26 we charge flat \$ retainers , so rebate all commissions Jan 30 2020 10:44 AM
- 27 and pass on to clients Jan 30 2020 10:38 AM
- 28 dealer prohibits this Jan 30 2020 10:30 AM
- 29 And rebate them in full to clients Jan 30 2020 10:25 AM

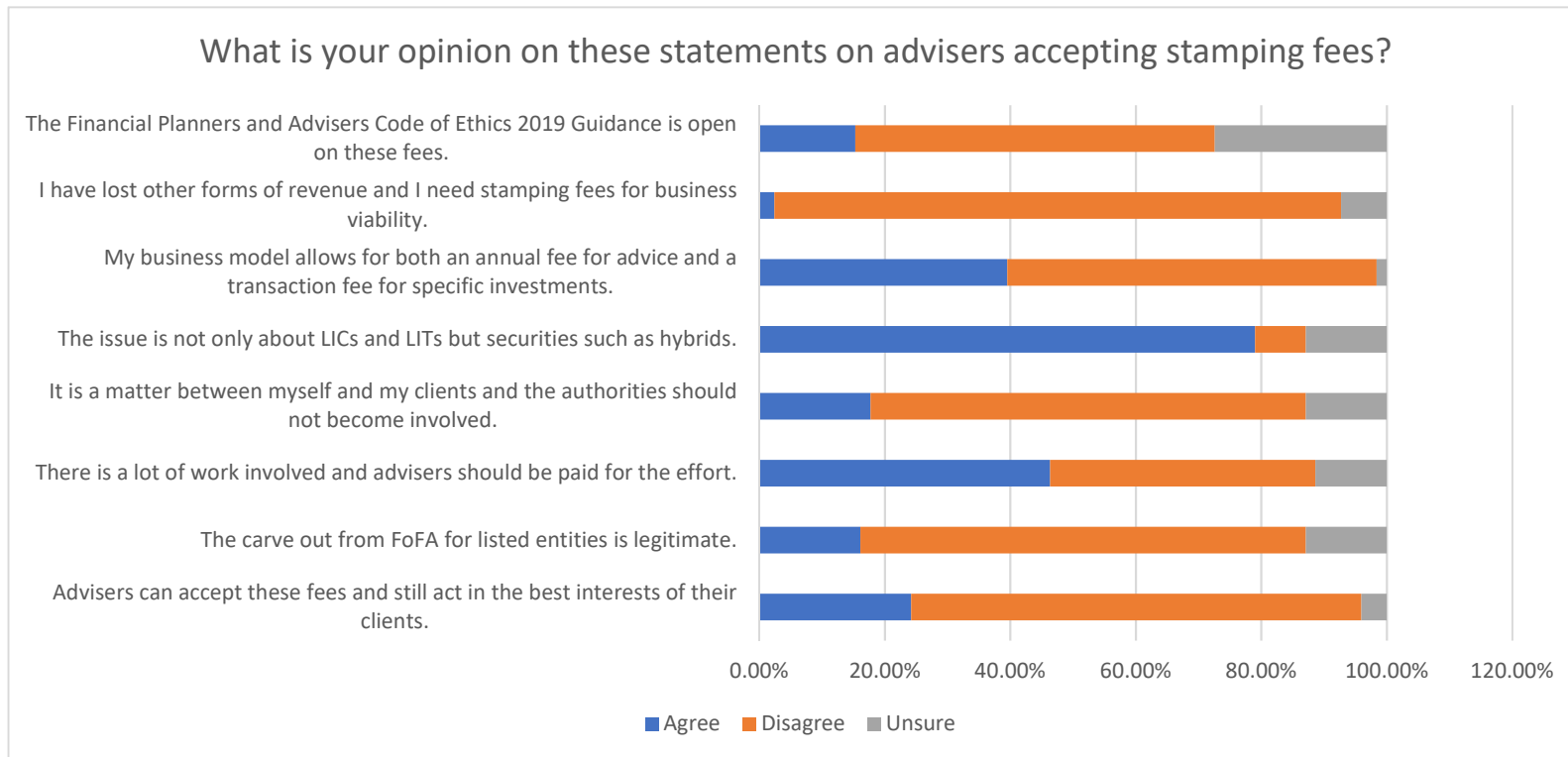
Firstlinks poll - Survey of attitudes to commissions on LICs and LITs – Feb 2020

Question 3

What is your opinion on these statements on advisers accepting stamping fees?

	Agree		Disagree		Unsure		Total
Advisers can accept these fees and still act in the best interests of their clients.	24.19%	30	71.77%	89	4.03%	5	124
The carve out from FoFA for listed entities is legitimate.	16.13%	20	70.97%	88	12.90%	16	124
There is a lot of work involved and advisers should be paid for the effort.	46.34%	57	42.28%	52	11.38%	14	123
It is a matter between myself and my clients and the authorities should not become involved.	17.74%	22	69.35%	86	12.90%	16	124
The issue is not only about LICs and LITs but securities such as hybrids.	79.03%	98	8.06%	10	12.90%	16	124
My business model allows for both an annual fee for advice and a transaction fee for specific investments.	39.52%	49	58.87%	73	1.61%	2	124
I have lost other forms of revenue and I need stamping fees for business viability.	2.42%	3	90.32%	112	7.26%	9	124
The Financial Planners and Advisers Code of Ethics 2019 Guidance is open on these fees.	15.32%	19	57.26%	71	27.42%	34	124

Answered 124
Skipped 607



Firstlinks poll - Survey of attitudes to commissions on LICs and LITs – Feb 2020

Question 4

Any other comments welcome

Answered

30

Skipped

701

	Responses	Response Date
1	Any adviser that receives a commission for selling a product is not acting in accordance with the FASEA Code of Ethics and Best Interests Duty. It is called a Conflict of Interest & it is unlikely that the adviser is acting in the best interest of the client. Monetary incentives drive human behaviour. Being a truly independent adviser is the only way forward.	Feb 07 2020 11:31 AM
2	Having worked as an adviser for over a decade in a large financial services firm full of conflicts of interest, and now five years as a Partner in an independent firm totally free of those conflicts , there is one thing I can attest to unequivocally - monetary incentives drive human behaviour. The clear intent of FOFA reforms and the Best Interests Duty was to eliminate the inevitable - that monetary incentives motivate people to act in self-interest rather than for the clients whose trust they are supposed to have. Any adviser remuneration which could reasonably be expected to influence the choice of a financial product for a client, is conflicted, and is banned. Period. If the Royal Commission laid bare that FOFA hadn't quite done the job, the new FASEA Code of Ethics certainly makes it clear - "You must not advise or act in any other manner where you have a conflict of interest.....". Its time the still-conflicted advisers stop hiding behind these sorts of fees, and base their remuneration on a fair exchange of value with clients. I really don't care for those advice businesses which will suffer as a result. They are preventing the financial advice industry from being regarded as a profession.	Feb 07 2020 11:27 AM
3	Code of Ethics has had to put this carve out into it because it exists in law. But it also says to act in best interests and with integrity and competence. Researching these investments should be the same level of DD as researching any other and therefore is not ""extra work"", its just standard work	Feb 07 2020 09:22 AM
4	I agree advisers (or licencees more accurately) need to earn a fee but it cannot be a fee that creates a conflict, nor does the cost have to be recouped immediately. We would have to do the research on the security anyway once it is in the secondary market to decide whether to include it in portfolios and so I'd rather we recoup the cost of the initial research over time against the income we earn from advising clients regarding trades in the stock. That avoids the conflict (and perception of conflict).	Feb 07 2020 07:35 AM

Firstlinks poll - Survey of attitudes to commissions on LICs and LITs – Feb 2020

- | | | |
|----|--|----------------------|
| 5 | Change ASAP in the interests of retail investors | Feb 06 2020 06:28 PM |
| 6 | Hybrid sales are just a big if not bigger problem | Feb 06 2020 05:43 PM |
| 7 | I think there is excessive focus on LICs - if the principle is valid it should apply equally to hybrids etc. | Feb 06 2020 12:21 PM |
| 8 | They should not be allowed, it is as simple as that. | Feb 06 2020 11:59 AM |
| 9 | I'm yet to see a reasonable argument for keeping them beyond 'I want to keep them because it's good money without charging a client a fee'. | Feb 06 2020 11:47 AM |
| 10 | Conflicted Manager's should stay out of this debate | Feb 06 2020 11:20 AM |
| 11 | no loopholes should be allowed. explicit client fees are best | Feb 06 2020 09:12 AM |
| 12 | These fees should absolutely be stopped immediately to stop the selling of what can be inappropriate investments to clients. The motivation is nearly always the sales commission... if it wasn't then there would be no opposition to it being removed. | Feb 04 2020 12:38 PM |
| 13 | No commissions, stamping fees or even any percentage based fees can be justified. | Feb 04 2020 12:29 PM |
| 14 | We all know how this story ends...years from now the Governing authorities will finally realize the TRUE taxpayer cost burden associated with having a country significantly underinsured and there will be a reversal of the current FOFA decrease of upfront commissions from 125% to now 60%...Its plain as the day is long that the general public is the biggest loser here...Govt make changes before doing a proper analyst and investigation into the true impacts to our society. | Feb 04 2020 12:21 PM |
| 15 | Charlie Munger once said, "Show me the incentive, I'll show you the outcome". This is absolutely true with these types of arrangements in place. | Feb 04 2020 09:06 AM |
| 16 | Serious consideration is taken into account when deciding to recommend any investment, whether that be an LIT, LIC or Hybrid. Each clients personal circumstances are considered and work is put into discussing to each client how it suits their investment goals and why I recommend it for them specifically. Therefore, we should be paid for such work. | Feb 03 2020 04:01 PM |
| 17 | It's not simply black and white. There is extra work involved. Advisers offering this service either need to price it into their fees, or charge one off fees (although this is a pain). But better to do either of these than have the conflict (where payment is linked to value of placement rather than time/effort). | Feb 03 2020 09:37 AM |
| 18 | I am not opposed to stamping fees but concerns with those Institution with in house products and promoting these to their private clients. | Feb 03 2020 07:36 AM |
| 19 | Stamping Fees cause many advisers to recommend investments that in most cases they would not otherwise recommend and a lot of these LIC/LIT's then trade at a discount to NAV. | Feb 02 2020 11:13 PM |
| 20 | I cannot believe stamping fees still exist and have not come up in debate before. They definitely influence a Planner/Stockbroker's decision. | Feb 02 2020 02:16 PM |

Firstlinks poll - Survey of attitudes to commissions on LICs and LITs – Feb 2020

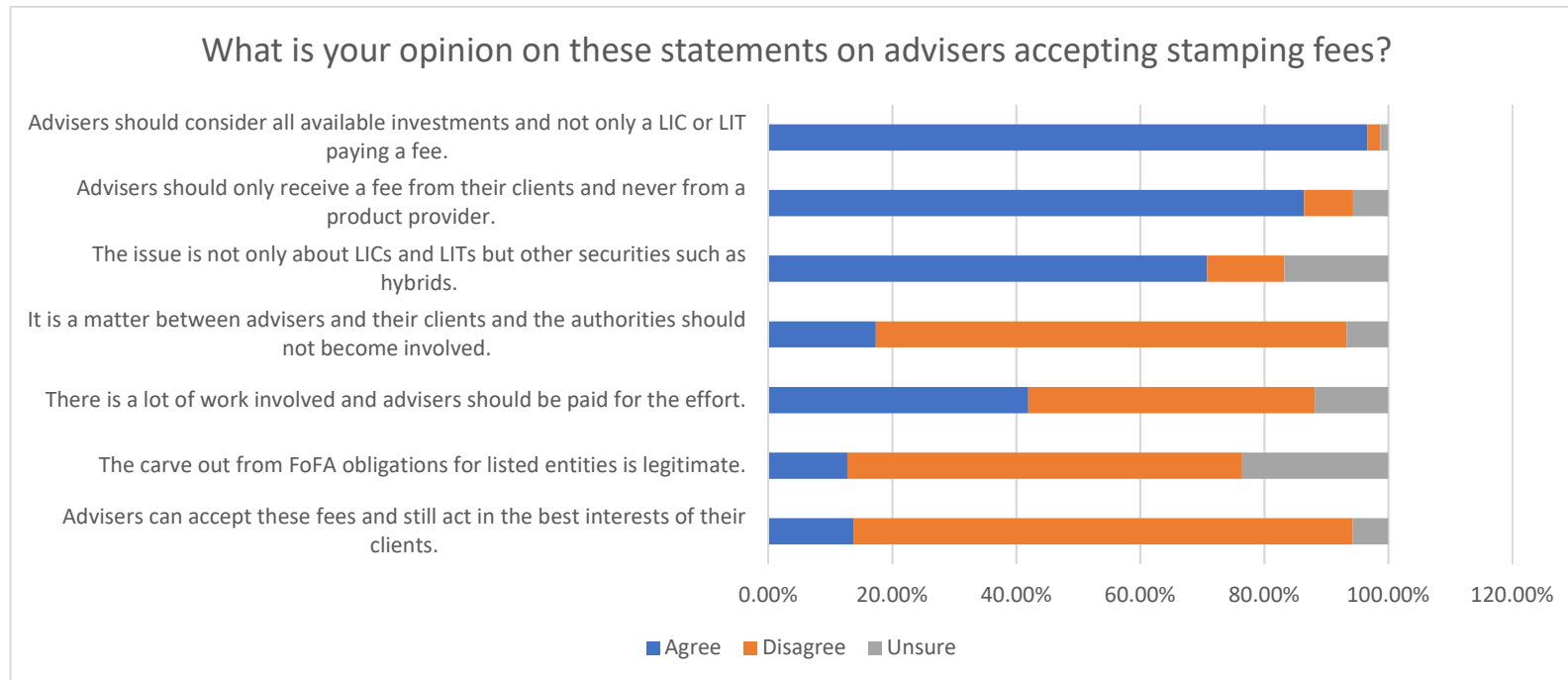
- | | | |
|----|---|----------------------|
| 21 | These should be banned and the treasurer knows it. His modus operandi when it pertains to financial services is to blindly shoot from the hip and the consequences be damned so long as he gets his headlines and appears to be acting. He has put thousands of careers up in smoke so why does he all of a sudden care about this issue? Now, all of a sudden we need pause, have consultation and thoughtful analysis about the unintended consequences! The cynicism of this man knows no bounds and he has an infinite store of it. The only reason he has stopped to think for a moment is because it is political and his party carved these out. If it were labor or if it was recommended in the RC he would be in headline grabbing, "scotty from marketing", shoot from the hip mode in an instant once again. He needs to put aside his own political problem with this issue and legislate for the community for once in his life and not for his own relentless and cold political ambition. | Feb 02 2020 11:17 AM |
| 22 | If stamping fees are removed I will be forced to increasing my fee structure. Further I anticipate access to new high quality institutional style product - particularly income - will be unavailable to my clients. | Jan 31 2020 07:51 PM |
| 23 | I think you have to get paid for the work you are doing one way or another. I would prefer that it be a visible fee rather than an invisible one, but so long as the overall fee is not excessive and service is being provided then I'm ok with it. | Jan 31 2020 12:32 PM |
| 24 | Although I don't and wouldn't accept stamping fees if other advisers do and agree with their clients that is how they are to be remunerated and obviously still act in best interests of clients then I don't have an issue | Jan 30 2020 09:47 PM |
| 25 | Definite conflict and should be banned. Much better to charge the client a flat fee for doing it. | Jan 30 2020 12:28 PM |
| 26 | I'm a stockbroker | Jan 30 2020 12:06 PM |
| 27 | While the wording of the code of ethics is really poor, the worked examples make it clear that the fees can be received. Where they can not be received is where they cause a change in the adviser's behaviour e.g. when the adviser chases stamping fees because he needs to pay his kid's school fees. I don't understand how there are still any questions around this. | Jan 30 2020 11:01 AM |
| 28 | Move on - a commission is a commission and should be banned | Jan 30 2020 10:44 AM |
| 29 | not a lawyer fasea hard to understand | Jan 30 2020 10:30 AM |
| 30 | Get rid of them so the underlying investment stands on its merits. Equally with the maddening compliance world to process a LIC IPO many will just go its too much work which is rightly so. | Jan 30 2020 10:02 AM |

Firstlinks poll - Survey of attitudes to commissions on LICs and LITs – Feb 2020

Question 5

What is your opinion on these statements on advisers accepting stamping fees?

	Agree		Disagree		Unsure		Total
Advisers can accept these fees and still act in the best interests of their clients.	13.71%	65	80.59%	382	5.70%	27	474
The carve out from FoFA obligations for listed entities is legitimate.	12.74%	60	63.69%	300	23.57%	111	471
There is a lot of work involved and advisers should be paid for the effort.	41.95%	198	46.19%	218	11.86%	56	472
It is a matter between advisers and their clients and the authorities should not become involved.	17.34%	82	75.90%	359	6.77%	32	473
The issue is not only about LICs and LITs but other securities such as hybrids.	70.76%	334	12.50%	59	16.74%	79	472
Advisers should only receive a fee from their clients and never from a product provider.	86.40%	413	7.95%	38	5.65%	27	478
Advisers should consider all available investments and not only a LIC or LIT paying a fee.	96.63%	459	2.11%	10	1.26%	6	475
Answered							480
Skipped							251



Firstlinks poll - Survey of attitudes to commissions on LICs and LITs – Feb 2020

Question 6

Any other comments welcome

Answered

78

Skipped

653

	Responses	Response Date
1	This is the last critical article of compromised commissions from product providers which clearly does influence stock brokers and advisers in their advice and actions for clients. About time these stamping fees, including for hybrids, are banned.	Feb 07 2020 12:51 PM
2	Time for the Treasurer to act in Australia's interest	Feb 06 2020 09:23 PM
3	Although not a financial advisor, the assumption is they (advisors) are undertaking the necessary due diligence and as such, are aiding bringing the product to market. Although not an investment banker, their role is to distribute a product/service (and should be adequately compensated within reason).	Feb 06 2020 04:34 PM
4	I stopped using advisers years ago because I felt they were not acting in my best interests, and primarily recommended investments for which they would receive a commission. My feelings have not changed, and I will never use an advisor that accepts commissions of any sort. I feel very strongly that LIC's and LIT's should NOT pay commissions to advisors.	Feb 06 2020 01:06 PM
5	no	Feb 04 2020 10:53 PM
6	There should be no conflicts, potential or actual, we continually hear what happens when they exist.	Feb 04 2020 04:27 PM
7	Remuneration that is not obvious to the client is always going to be an incentive to succumb to temptation or self-justification.	Feb 03 2020 04:54 PM
8	Like most of these issues, the fee-paying bias occurs frequently but not everywhere - some advisers genuinely seek recovery for the extra work involved in a raise, where they deem the product appropriate - HOWEVER, the potential conflict should be eliminated notwithstanding to ultimately protect investors!	Feb 03 2020 01:23 PM
9	There should not be different rules for different products - Hybrids, IPOs - why should they get fees for these really risky products? They should all be removed as it's the only way to ensure recommendations are not conflicted with commissions	Feb 03 2020 08:47 AM
10	You get what you don't pay for. The more they take the less you make.	Feb 02 2020 08:34 PM
11	Advisers should on all occasions be acting in the best interest of their clients and not on the amount of stamping of commissions that a product provides.	Feb 02 2020 04:17 PM
12	Conflicts caused by fees must be eliminated totally as per FOFA. Brokers must always disclose rebates, fees, etc. beforehand. Cut out all under-counter/underhanded incentives. Other conflicts between LIC/Ts and related brokers should be eliminated e.g. OZG/WIC and Euroz. Consumer protection is paramount incl for wholesale investors.	Feb 02 2020 03:37 PM

Firstlinks poll - Survey of attitudes to commissions on LICs and LITs – Feb 2020

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|----|--|----------------------|
| 13 | Unfortunately I have had personal experience of investing in LICs and they have by any measure underperformed (Monash and Sphera Emerging Companies). | Feb 02 2020 01:04 PM |
| 14 | No commissions, only fee for service paid directly by client should result in better outcome for clients | Feb 02 2020 12:28 PM |
| 15 | All commissions, whether fixed fee or % or best estimates thereof must be disclosed to the clients in writing before they commit to any investment. | Feb 02 2020 11:37 AM |
| 16 | Advisors have been ripping off clients for decades. | Feb 02 2020 11:22 AM |
| | It is called a conflict of interest: they are operating in their own best interests and not the interests of their clients. They have not revealed their commissions, trails or interests and their clients have been unaware. When clients discover, they are horrified at the unprofessional conduct of this group of rip off merchants, who present themselves as financial advisers and professionals. | |
| 17 | I have been stung my advisor pocketed \$180,000 from all his clients and my investment is down 30% and is trading significantly under its NTA | Feb 02 2020 09:35 AM |
| 18 | I don't use an advisor, so I'm not fully around this issue, but I am really against the LICs market price being inflated by the laziness of advisors. | Feb 02 2020 09:23 AM |
| 19 | Perhaps lit/lic fees should only be at their float. Not either ongoing or for new issuances. | Feb 02 2020 08:13 AM |
| 20 | There is a more profound need for change, an edifice of protection of deep discount LICs has been created by advisers who are repaying the promoters by not agitating for opening up discounted LICs | Feb 02 2020 07:39 AM |
| 21 | Fundies are getting paid performance fees and doing their marketing on historic investment performance using NAV, not the outcome for the investor using share price - that is not good when share price is way below NAV | Feb 01 2020 05:26 PM |
| 22 | Disgraceful that this issue has not been actioned before now - asleep at the wheel again | Feb 01 2020 04:37 PM |
| 23 | Government should set an upper limit for commission to prevent overcharging the clients. Financial advisers already receiving fees from clients, fees on Lic and Lit only adding another layer of fee. | Feb 01 2020 12:33 PM |
| 24 | It's a conflict of interest which has no place when advice is given | Feb 01 2020 10:38 AM |
| 25 | Conflicted remuneration has the potential to distort advice in every circumstance. There is absolutely no reason why this exemption should exist. | Feb 01 2020 10:36 AM |
| 26 | Transparency is the key. Honesty is then on show. | Jan 31 2020 10:20 PM |
| 27 | Any form of incentive from providers of products is prone to cause conflict of advice. | Jan 31 2020 09:08 PM |
| 28 | Commission based payments on the ASX are cheap compared to fee for service bank owned platforms costs to clients: compare the pair! | Jan 31 2020 07:37 PM |
| 29 | To the extent advisers receive a fee from product providers, it should all be passed on to the client as a reduction in fees. The adviser does not get any benefit from pushing a product, but effectively the clients get a discount on their purchase price which needs to be recorded in their cost base for that product. | Jan 31 2020 04:28 PM |
| 30 | Stop this loop hole | Jan 31 2020 03:45 PM |

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- | | | |
|----|--|----------------------|
| 31 | Incentives provided to sellers of products never results in the best interest for the buyer. Also as a customer you cannot be sure that the advisor acted in yours or their best interest. So it brings into disrepute the industry. | Jan 31 2020 02:03 PM |
| 32 | Financial Advisers should be transparent but hide the information that they receive fees in the mountain of paperwork they give to clients. | Jan 30 2020 10:18 PM |
| 33 | clients will never pay a fee for advice enough to make advice a viable business. If the stamping fee was a fixed amount for all securities there would be no conflict of interest. | Jan 30 2020 09:54 PM |
| 34 | The problem seems overblown to me. It only applies to new issues and floats, so why is the media demonising all LIC's. Brokers have always got a fee for new floats, so would they no longer be allowed to suggest new floats to clients. How else are clients going to know the floats are available. | Jan 30 2020 09:06 PM |
| 35 | It became too easy for LICs to start up | Jan 30 2020 06:39 PM |
| 36 | So long there is choice for the customer, i.e product available without adviser fees. only want to pay fees where value is added. | Jan 30 2020 05:58 PM |
| 37 | My recommendation here: http://www.etfwatch.com.au/opinion-active-etfs-are-the-answer-to-lic-mis-selling-issues/ | Jan 30 2020 05:16 PM |
| 38 | The adviser has to have a fee for HIS ADVICE TO HIS CLIENT. No other back-handed fee is acceptable | Jan 30 2020 05:07 PM |
| 39 | Happy to pay fee for service. Will never use adviser I know is getting a commission! (by what ever name!!!) | Jan 30 2020 05:01 PM |
| 40 | Fees should be based similarly to other professionals such as accountants and solicitors - nominally on a time basis and hourly rate | Jan 30 2020 03:38 PM |
| 41 | Advisers should charge a fixed fee for advice based on time spent, not a percentage of FUM | Jan 30 2020 03:38 PM |
| 42 | Josh Freydenberg must be sacked | Jan 30 2020 03:36 PM |
| 43 | How can there be any debate whether this is conflicted. A man can not have two masters. | Jan 30 2020 03:36 PM |
| 44 | Get real and manage these issues, the banks have demonstrated that the financial operators cannot be trusted, why are we still going through this nonsense | Jan 30 2020 03:09 PM |
| 45 | This is a disgrace | Jan 30 2020 02:59 PM |
| 46 | Stamping fees ultimately lead to lower returns for clients and is often not obvious to them due to a lack of transparency. | Jan 30 2020 02:30 PM |
| 47 | How much work is involved in buying LICs/LITS & Hybrids for those who are financially literate, when there is so much in-depth information available. | Jan 30 2020 02:23 PM |
| 48 | Only when all conflicts are removed can we move forward. These last few are way too tempting | Jan 30 2020 02:15 PM |
| 49 | So long as the stamping fee is clearly evident then I should expect to pay for the initiative. This is on the basis that I do not have a permanent/annual relationship with my advisor ie they are not on a retainer payment and so is paid on a per transaction basis. | Jan 30 2020 02:01 PM |
| 50 | what about IPOs and capital raisings are they next ? | Jan 30 2020 01:22 PM |

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- 51 No problem with an advisor receiving a fee from the product provider provided that the advisor provides a written statement comparing the product to at least three other similar products and gives a reasonable rationale as to why the advisor is recommending this product over the other three products. In the same comparison the advisor must indicate the fee to which they would obtain from the recommended provided plus the fees if any that they would be entitled to had they recommended any of the other three products. My quick read of the legislation suggests that advisors who represent the product as employees are exempt from disclosing commissions. Where an advisor publicly advertises that they market a particular set of products prior to any interaction with clients and reports this annually (perhaps to ASIC), I don't see a need for them to disclose commissions. This is the situation that applies in real estate where the agent makes it publicly clear prior to interaction with possible clients (i.e. buyers) the product (real estate) that they are selling. There is no obligation for them to disclose to the buyer the commission that they will receive from the sale of the property. It should be noted that they are guidelines for setting of commissions and buyers and sellers can gain a sense of what the real estate agent will receive. Jan 30 2020 01:13 PM
- 52 Advisors should be paid a portfolio management fee however that can be structured, not a fee for recommending a product that is for sale. Jan 30 2020 12:51 PM
- 53 Such obvious conflicts-of-interest are an abuse, and should not be allowed under the law or regulations. Jan 30 2020 12:48 PM
- 54 Question. If no stamping wasn't allowed how much take up would there have been. Not 41bn. If comparing Active ETF v LIT why would you not choose the one that is actually valued according to underlying investments (ie no premium or discount in the value) Jan 30 2020 12:18 PM
- 55 I was unaware of these fees until much latter I purchased a LIC Jan 30 2020 12:16 PM
- 56 Some advisers do no work and just recommend based on payment but others do a lot of research and evaluation work prior to recommending. Better education of investors and a capacity to recognise return on investment will make investors more discerning. Jan 30 2020 12:12 PM
- 57 In my late 60's and have experienced lot's of self interest by advisors & accountants which forced my to manage my own affairs. Where commissions are involved ethics often absent Jan 30 2020 12:07 PM
- 58 Advisers must be impartial and give totally independent advice. It must be free of any perks. Jan 30 2020 11:55 AM
- 59 LICs and LITs should have management sunset clause that provide for windup. Jan 30 2020 11:52 AM
- 60 Clients should pay for the services they receive. Advisers should never receive a payment from a product provider. Jan 30 2020 11:50 AM
- 61 We pay annual fee for advice and management, as do all the other clients. The job is to keep an eye open for opportunities for all clients. That is their day job. Jan 30 2020 11:46 AM
- 62 Many other industries adopt payment methods and incentives by companies that they are selling their product. Many of these their client relies on the representatives advice. So if brokers and financial advisers make it known to their clients I cannot see the problem after all most businesses are underwritten in some of its major suppliers which smooths out the bumps in their finances. Jan 30 2020 11:37 AM

If financial advisers rely solely on a fee when someone knocks on their door the service will cease to exist.

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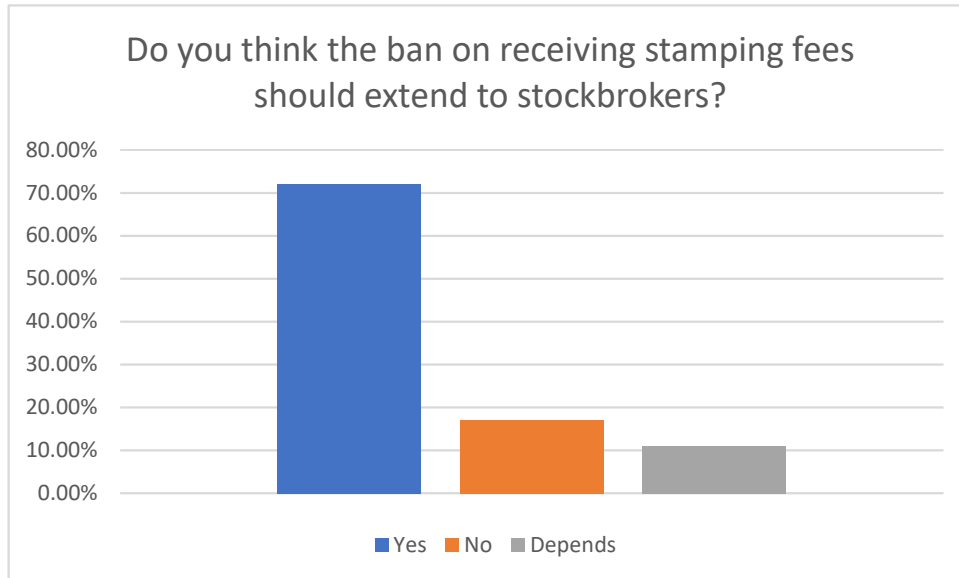
- | | | |
|----|--|----------------------|
| 63 | Human nature is what is behind these advisers in seeking these fees. Advice MUST be impartial !!!!! | Jan 30 2020 11:34 AM |
| 64 | Would like to know why government changed the rules in the first place. Have not hear a reasonable explanation. | Jan 30 2020 11:29 AM |
| 65 | Advisers' should only be paid by their clients. | Jan 30 2020 11:25 AM |
| 66 | It is quite clearly a conflict of interest and various reports on this have shown the link conclusively between commissions and how they have affected a planners advice to their clients | Jan 30 2020 11:06 AM |
| 67 | Other types of remuneration like overseas seminars/holidays should be proscribed, but express or preferential service by funds ought to be allowed. | Jan 30 2020 11:00 AM |
| 68 | If you are taking a sales commission you are a sales person not an adviser. | Jan 30 2020 10:51 AM |
| 69 | As long as fees and commissions are explicit and known to clients, and are taken into account in the justification of the investment recommendation, then I do not see an issue. | Jan 30 2020 10:48 AM |
| 70 | We have first hand experience of this. Our FA said the commission they got was to a separate part of their business therefore 1. No conflict, and 2. They did not have to rebate it to us as per our agreement. The LIC tanked on opening and our FA told us to get out when it was 15% down. I have lost most of my faith in them as FA's. | Jan 30 2020 10:43 AM |
| 71 | Removal of stamping fee long overdue | Jan 30 2020 10:43 AM |
| 72 | I am a 40 year investor in both LIC's and equities | Jan 30 2020 10:43 AM |
| 73 | Fees for work at an hourly rate is sufficient reward | Jan 30 2020 10:43 AM |
| 74 | The fees for rights issues and placements should also go | Jan 30 2020 10:32 AM |
| 75 | If they were not getting a fee you would be more reassured that they were acting in YOUR best interest. | Jan 30 2020 10:28 AM |
| 76 | I have some sympathy for commissioned products with full disclosure | Jan 30 2020 09:58 AM |
| 77 | <p>There is a danger that investors will revolt against necessarily expensive advice</p> <p>LICs are not different to any other company..if BHP pays fees for capital raising why shouldn't AFIC or Argo. Merely because a company(LIC) invests in a group of businesses or a single business line (ordinary listed company) should not alter the rules for capital raising ie responsibility of Directors. The criticism is an artificial distinction driven at least in part from fund managers wanting to stop other fund managers getting funds listed on the ASX. The poor performance of some LICs/LITs is a different issue which is the same as the poor performance of other investment classes eg mining shares, when supply runs hard. Existing Corporations Law requirements can deal with any illegalities. A possible area of useful review is in relation to disclosure of and assessment of market values of unlisted and particularly illiquid securities held by LITs. LICs holding liquid equities and having regular reporting of accurate market asset values are not a market problem irrespective of whether they are internally or externally managed.</p> | Jan 30 2020 09:55 AM |
| 78 | Stockbrokers have always been conflicted by these fees but that is just the way it has always been. Seems too hard to change. | Jan 29 2020 11:16 PM |

Firstlinks poll - Survey of attitudes to commissions on LICs and LITs – Feb 2020

Question 7

Do you think the ban on receiving stamping fees should extend to stockbrokers?

Answer Choices		Responses	
Yes		71.99%	424
No		16.98%	100
Depends		10.87%	64
Please add any comments on this issue.			69
		Answered	589
		Skipped	142



Firstlinks poll - Survey of attitudes to commissions on LICs and LITs – Feb 2020

	Responses	Response Date
1	Absolutely! Stock brokers who provide an investment advice service are even more influenced by stamping fees than financial advisers	Feb 07 2020 12:52 PM
2	Stockbroking as an industry is and has always been conflicted, because the business model relies on the volume of turnover in a client portfolio. So what happens? Clients get churned and advised to undertake transactions that are not in their interests, but prioritise the interests of the adviser. That's no different to any other form of conflicted remuneration, which relies on value turnover.	Feb 07 2020 11:31 AM
3	If they wished, they could charge their standard brokerage fee for facilitating the trade. This is more transparent and paid by the client.	Feb 07 2020 09:22 AM
4	But only on LICs and LITs and not equity capital raisings etc	Feb 06 2020 07:44 PM
5	The ban should relate to those providing personal advice only. General advice providers such as brokers should still be able to take a fee, but a cap (the lower of a % of capital or a fixed dollar amount) should also be considered.	Feb 06 2020 05:55 PM
6	Perhaps charge a fixed \$ fee for the work involved	Feb 06 2020 05:37 PM
7	Brokerage is OK. Commissions and Trailing Commissions are not OK.	Feb 06 2020 01:07 PM
8	Again, why not ALL listed assets? Ban all stamping there's no IPOs. It's a stretch	Feb 06 2020 12:22 PM
9	They are no different to a financial adviser in this sense, they are providing investment advice to clients, it should be in the best interest of the clients. Stamping fees encourage them or at least provide an incentive to act contrary to this.	Feb 06 2020 12:01 PM
10	Hang on - would it not? They fall under FASEA, don't they?	Feb 06 2020 11:47 AM
11	the broke is recognised as a seller, buyer beware	Feb 04 2020 10:25 PM
12	Clients believe that their advisers and stockborkers are providing them with advice. Due to the conflicted payments in most situations client are being 'sold' something rather than being provided advice.	Feb 04 2020 12:39 PM
13	If it's a conflict for us then it's a conflict all around: stockbrokers, real estate agents, general insurance brokers, doctors accepting paid conferences from drug companies.....	Feb 04 2020 12:18 PM
14	I do not believe a ban should be implemented for anyone	Feb 03 2020 04:01 PM
15	How does a company push itself without help.	Feb 03 2020 02:10 PM
16	Investors can't differentiate between "advisers" and "stockbrokers" - they all believe that their adviser/broker acts in their best interest so let's ensure they do!	Feb 03 2020 01:24 PM
17	advisers & brokers have a fiduciary duty to their clients, any commissions etc. should be refunded to the client.	Feb 03 2020 10:27 AM
18	See previous comment re Euroz.	Feb 02 2020 03:38 PM
19	I would have thought majority of stamping fees are paid to stockbrokers	Feb 02 2020 02:17 PM

Firstlinks poll - Survey of attitudes to commissions on LICs and LITs – Feb 2020

- | | | |
|----|---|----------------------|
| 20 | Stockbrokers should be lumped in with financial advisers in the first place. They need their own regime. However these should not be allowed to sell funds, they should stick to stocks. | Feb 02 2020 11:18 AM |
| 21 | As before, I don't use a stockbroker, so am out of touch with this issue. | Feb 02 2020 09:24 AM |
| 22 | It is like commission which they receive anyway | Feb 02 2020 09:12 AM |
| 23 | Same rules (whatever they may be) should apply to both. | Feb 02 2020 08:14 AM |
| 24 | All advice should be subject to the ban otherwise it distorts the market | Feb 01 2020 10:39 AM |
| 25 | It creates distortion in advice particularly when conflicted remuneration bans are applied to some products and not others. | Feb 01 2020 10:37 AM |
| 26 | Stock brokers are just as prone to subtle prompting as everyone else. Let alone outright payments. | Jan 31 2020 09:10 PM |
| 27 | Definitely not. Stamping fees are an integral part of the capital raising process and removing it in LIC/LIT will create market distortions. | Jan 31 2020 07:53 PM |
| 28 | So long as it is made clear to clients there should be no issue with an adviser receiving a commission. By in large, I believe advisers act in the best interest of clients. A 1% commission on \$20k is hardly worth having a complaint brought against an adviser or business. I fail to believe advisers are just 'pushing product' at the risk of their entire business given the scrutiny of the entire planning and broking industry in the past few years. | Jan 31 2020 07:45 PM |
| 29 | A Stockbroker is a salesman not an adviser. | Jan 31 2020 06:20 PM |
| 30 | No matter what they say, stock brokers are never pure salesmen: a good deal of the time they are providing advice - whether overtly by suggesting particular products or shares, or covertly by not suggesting them. | Jan 31 2020 04:30 PM |
| 31 | It's a different business model and set of obligations so I think different rules are fine. Again though you have to make sure that the fee is appropriate to the service and value being provided, and the conflict of interest is appropriately managed. | Jan 31 2020 12:33 PM |
| 32 | clear really. should be no debate. | Jan 31 2020 09:47 AM |
| 33 | I believe the level of fiduciary duty is less than for financial advisers, as clients understand the stockbroker is there to buy and sell securities. The concern would be if the stamping fees became way over the top compared to other issuances, this would create a disproportionate incentive. | Jan 31 2020 09:07 AM |
| 34 | I expect independent advice from an adviser, and the conflicts are currently too great. I can buy LICs online, once the adviser has brought them to my attention. I don't need a stockbroker. If i choose to use one he is entitled to be paid. | Jan 30 2020 10:27 PM |
| 35 | I am assuming that if I had a stockbroker, he would indulge in fat fees | Jan 30 2020 06:40 PM |
| 36 | Again so long there are channel options, i.e there should be direct option available in most cases for knowledgeable customers | Jan 30 2020 06:02 PM |
| 37 | Stockbroker should NOT RECEIVE A COMMISSION. However he should receive a distribution fee where he does not recommend and leaves it up to the investor to decide | Jan 30 2020 05:19 PM |
| 38 | it makes sense to have a rule for one group and have it not apply to another group. | Jan 30 2020 05:17 PM |

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| 39 | I think stock brokers are a bit different, we know they are selling product, and I suppose those of us who use them are dare I say it, a little more sophisticate? Just a little!! | Jan 30 2020 05:05 PM |
| 40 | They should earn their salary like everyone else. | Jan 30 2020 05:04 PM |
| | End of story. | |
| 41 | Again - it is clearly conflicted remuneration. What motivates you to give good advice to clients? The stamping fees? I don't think so. I think this is an example of just another product flog tactic which only increases the bad reputation of our industry which is trying to become a profession. | Jan 30 2020 04:12 PM |
| 42 | Depends on if you are using the broker as an advisor or just an access point to the market | Jan 30 2020 03:40 PM |
| 43 | stockbroking clients should pay for advice directly to advisor | Jan 30 2020 03:37 PM |
| 44 | Conflict is conflict. | Jan 30 2020 03:37 PM |
| 45 | Isn't there one already | Jan 30 2020 03:10 PM |
| 46 | Brokers are sales people. Advisers should act in the best interests of their clients | Jan 30 2020 02:59 PM |
| 47 | Just look at the very competitive Brokerage rates, if you know where to source them. | Jan 30 2020 02:24 PM |
| 48 | I struggle to see the difference between real estate agents, car salespeople, retail sales and the product sales area of the financial advisor. Buyer beware and I end up making the buy decision. | Jan 30 2020 02:03 PM |
| 49 | Any incentive to steer a client towards a particular investment which benefits the stockbroker or financial advisor should be eliminated in favour of a time/project based fee paid by the client. | Jan 30 2020 02:01 PM |
| 50 | Clients/investors dont distinguish between a broker or a financial adviser...they think both do the same thing | Jan 30 2020 01:22 PM |
| 51 | Complicated issue. Probably should if the broker is providing advice to a client about how to construct an equities portfolio. In that sense the broker is acting as a financial advisor rather than as a provider of stock broking services and products to enable clients to access the Stock Market | Jan 30 2020 01:20 PM |
| 52 | Unsure. | Jan 30 2020 01:05 PM |
| 53 | Fee payable if the action is portfolio management not product sales. | Jan 30 2020 12:52 PM |
| 54 | As long as they are disclosed I dont see any issue in receiving these type of fees. I just dont agree with different rules for Brokers | Jan 30 2020 12:28 PM |
| 55 | unsure | Jan 30 2020 12:17 PM |
| 56 | What are stamping fees? | Jan 30 2020 12:13 PM |
| 57 | Provided no personal financial advice relationship exists. | Jan 30 2020 11:51 AM |
| 58 | Only if the fees are being absorbed by the fund manager and not by the fund. Unless a Broker is also an Adviser, he/she has no other way of being remunerated. | Jan 30 2020 11:30 AM |
| 59 | commissions of any sort are a reward for a service performed so by definition it's hard to see how the broker can avoid being conflicted selling a product to a client whilst getting a payment from a third party. There are enough problems with brokers getting paid in kind already without adding further fuel to the fire. | Jan 30 2020 11:11 AM |
| 60 | People using stockbrokers are generally fully aware of what they are doing, and the broker appear to me to be guaranteeing that a float will raise the cash. | Jan 30 2020 11:03 AM |

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| 61 | Depends on how clear it is to the stock broker's clients that the broker is a sales person not an adviser. The public should clearly understand this point but I suspect many do not. | Jan 30 2020 10:53 AM |
| 62 | No, but only if this is their only source of income and it is explicit | Jan 30 2020 10:47 AM |
| 63 | brokerage is sufficient on its own | Jan 30 2020 10:44 AM |
| 64 | If they also provide FA then they are conflicted | Jan 30 2020 10:44 AM |
| 65 | Depends if the stockbroker is recommending products | Jan 30 2020 10:36 AM |
| 66 | The sooner that brokers are remunerated as employees the better all round | Jan 30 2020 10:26 AM |
| 67 | Absolutely | Jan 30 2020 09:53 AM |
| 68 | The model for brokers is long established and appropriate given the amount of work that is required to assess products. | Jan 30 2020 09:51 AM |
| 69 | Sometimes it is nice to help your stockbroker out as a client by letting them make some money of stamping fees if they are struggling to make money. | Jan 29 2020 11:18 PM |

Three overlooked points on the LIC/LIT fee battle

Jonathan Rochford

22 January 2020

The articles have been flying back and forth over whether financial advisers can accept commissions for selling LICs/LITs to their clients. If you haven't been following this so far, Graham Hand [wrote a well-rounded article](#) recently, with Jonathan Shapiro and Christopher Joye also leading the charge in *The Australian Financial Review*.

I'm not going to rehash the main points here but want to bring three additional points to the discussion.

1. Financial advisers shouldn't be keeping any commissions

Whilst some are arguing that LIC/LIT commissions must go, they are supporting the continuance of commissions for other listed product types. There's no decent argument for this. If any commission is viewed as biasing an adviser's decision, they must pass the commission to their client or refuse it outright. Saying that an adviser has a conflict if the commission relates to a LIC/LIT but doesn't if it relates to a hybrid or equity investment is nonsensical.

For those struggling with the concept of selling hybrids or equities on their merits and without an adviser commission, look to the institutional debt markets. These have long functioned without the need for commissions. If the bond is considered poor value it receives little interest, but if it is good value, it is many times oversubscribed. There's no reason that hybrids and equities can't be distributed in the same fashion.

2. Brokers can keep commissions, subject to disclosure

Those dealing with clients need to choose whether they are sales people (brokers) or financial advisers. Whilst a financial adviser needs to adopt a best interest/fiduciary duty position and consider the wider client position, I don't see that a broker should be subject to the same restrictions. A broker should however, be clearly disclosing that they are a broker being paid for the sales they make. This could be as simple as a verbal statement such as;

"I am a salesperson not a financial adviser which means that I earn commissions by selling products and services to you. The products and services I am selling may not be in your best interest and you may want to seek independent financial advice before agreeing to purchase."

Some might argue that this is overkill and retail investors are smart enough to know who is a broker and who is an independent adviser. I think the Royal Commission showed that not only were clients confused about the distinction but many so called 'advisers' were as well.

3. LICs/LITs are an appropriate structure for illiquid investments

Some of the arguments against LICs/LITs come from a viewpoint that open-ended managed funds are the best solution for retail investors as they always offer a quick exit at close to the net tangible asset (NTA) calculation. This is fair for the most liquid sectors such as large cap equities or vanilla investment grade bonds.

However, for more illiquid assets such as sub-investment grade debt, private equity, some hedge funds and direct property, history is littered with examples of funds that ran out of cash and locked their investors in. If the assets take substantially longer to sell than the redemption period on the fund, investors and managers are playing with fire.

Given this, unlisted closed ended funds (e.g. direct property syndicates, private equity funds), individual mandates or LICs/LITs are the most appropriate vehicles for illiquid assets. As many

retail investors insist on having some form of liquidity, a listed fund is likely to be their best avenue to access these sectors.

Critics of listed funds often point to the higher fees (from listing and governance costs) for these funds compared to their unlisted equivalents. This isn't always true, with fees running at over 1% per annum for retail investors on some open-ended unlisted funds. It also ignores that higher fees could be more than offset by higher returns as listed funds do not have to hold large cash positions to offset the risk of a run on the fund that open-ended unlisted funds face.

Jonathan Rochford, CFA, is Portfolio Manager for [Narrow Road Capital](#). This article is for educational purposes and is not a substitute for professional and tailored financial advice. This article expresses the views of the author at a point in time, which may change in the future with no obligation on Narrow Road Capital or the author to publicly update these views.