

Secretariat, Quality of Advice Review
Financial System Division
Treasury
Langton Cres
Parkes ACT 2600

25 March 2022 - 03 June 2022

Consultation Type

Issues Paper

Email

AdviceReview@treasury.gov.au

Quality of Advice Review - Issues Paper

My name is Phillip Brady, I'm a Financial Planner with 30 years experience, including as a small practitioner and as an executive with larger advice businesses, and as a Director of AFSL's. We currently provide advice to retail clients across a broad range of client types and wealth. I am a sole practitioner. My current Licensee is a large institution. I am FASEA compliant, a CFP, and have a Masters in Applied Finance.

Initially I am simply going to provide you with a workflow requirement from a Compliance point of view given most Licensee's approach to the provision of advice. At the end I will comment on some solutions and notes re the advice process.

New Client Advice process

Simple or Comprehensive needs – there is little distinction in work required by a Licensee to meet Best Interests duties

- Personal Information fact find and meeting (5 to 20 pages) (1 hour)
- Client Engagement agreements (30mins)
- Risk Profile (5-6 pages) (30mins)
- Discovery File Note showing key discussion points and scoping (8 pages) (30mins)
- Information gathering – precise and documentary evidence from the base source is required to be gathered relating to tax, super contributions, insurances, income, properties, Centrelink, other investments etc from various Institutions and government agencies (2-3 hours)
- Adviser strategy notes required to validate confirmed strategy or product recommendations including alternatives considered (4-6 pages) (1-3hours)
- Product comparisons for up to 3 alternative products required across features and costs – (3-4 Pages) (1 Hour)
- Statement of Advice preparation and checking time (60 Page document)
Preparation time (3-4hours), Checking time/adjustments (1Hour)
- Statement of Advice Presentation meeting (1 hour)
- File Notes regarding the Statement of Advice presentation meeting (2 Pages) (30mins) to prove Informed Consent
- Implementation of advice/paperwork (1hour)
- TMD's and PDS (download and read TMD's – File Note to confirm appropriate 30mins)
- Fee Consents – Platforms (30 mins)

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- Annual FTAA opt ins signed (30mins)
- General Admin time (30mins)

Total time: 15 hours. Total Paper Stack for Case File: 150-200 pages not including Product Disclosure Statements)

Average Bill out rate small firm, say \$200 per hour (across Professional Advice and support staff).

\$3,500 cost. Note: This would be the cost for a highly efficient process where no changes or further consultation with clients, or adjustments required, or delay in information gathering.

Ongoing Review Clients

Is essentially an annual wash and repeat of the New Client Process from a Compliance view point including:

- Confirmation and evidence of why existing strategies continue to be appropriate, and others are discarded
- Confirmation and evidence that existing products remain appropriate and comparisons
- Updates and base source evidence to support current client positions
- Evidence that fees charged are of value and fair to client, not just to that client, but in relation to other clients with similar circumstances
- Renewal of fee consents

How the regulatory framework could better enable the provision of high quality, accessible and affordable financial advice for retail clients

The government has moved the industry forward to where greater Professional judgement should be trusted, and clients should be trusted to a greater degree that they are capable of comprehending the basis for the advice they receive and whether it and the adviser can be relied on (they are currently swamped with compliance and disclosure information they understand is not practically usable by them and adding to their costs).

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Solution 1: Reduce the Evidence trail required

The evidence trail is overwhelming in terms of the input to costs, including the Statement of Advice.

Advisers are not able to accept the information provided by clients at face value but must go to source documents too frequently to satisfy compliance teams. They cannot identify information and note having identified it and the source but must print/save specific documents as proof. They cannot rely on experience in similar strategic situations (some as simple as making concessional super contributions – advice accountants can give if from a tax perspective only) but must heavily document all steps in reaching a decision. They cannot simply note their advice and reasons but prove it beyond all doubt including providing written evidence and calculations on every potential idea their advice thought process created. They cannot rely on experience in selecting products that they know to have worked through time, or the cumulative knowledge they gain as they read research continuously throughout a year to review alternative products and current client held investments but must generate written and noted proof of why the recommendations are appropriate each and every year. They must exhibit through Cash flow models and asset projections why or how a minor adjustment to insurance or super or savings effects long term wealth, despite it being highly intuitive even to clients that a recommendation to a client to reduce some insurance, will clearly lead to higher net cash flow and end wealth, or a recommendation to increase super contributions will enhance super assets long term.

Solution 2: Licensing and Cost reductions

The delivery of advice could be broken into what would be notionally understood as Simple or Complex Financial advice. Simple Advice could be reasonably defined as single issue advice solutions, or advice that is relatively immaterial, to a reasonable person, to the clients end goals.

In that case the delivery mechanism could be:

Simple Financial Advice (adviser judgement) – Letter of Advice or File Noted Advice. This is what accountants currently do and their clients accept.

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Complex Financial Advice - SOA (adviser judgement on simple/complex advice outcome but mandatory when a Financial Product is used for the first time or upon material change).

For Advisers unrelated to a Product Provider, then remove the need to hold an AFSL but still subject to Corporations Law requirements in terms of provision of advice.

This places a higher onus of proof of advice on conflicted advice. It also allows clarity on the grey area surrounding FASEA's Standard 3 and creates not a level playing field, but two distinct playing fields – currently, there are mixed business models with parts of Advice businesses still being subsidised by their associated Product arms, creating an uneven single playing field for those who don't offer associated Products.

The abandonment of the AFSL structure would allow greater employment of new advisers under existing practices, as an additional Licensing cost is prohibitive to most small to medium practices.

Professional Associations and various Codes of Ethics can oversee advisers choosing the non AFSL advice channel. Professional associations can significantly increase their fees to members and therefore their professional support, because the advisers will no longer be funding AFSL fees (which are on average around 50K per annum).

The movement to Professional Association oversight also removes a level of political interference which has undoubtedly led to the current profession complexity and disfunction.

Abandon General Advice – clients make no distinction and have no understanding of what it means, they understand all advice to be personal.

Final Position:

It should be noted that some of the delivery mechanisms above are currently able to be implemented, but due to overreach or fear, many compliance processes have ballooned to the point I've described above – if the movement to a principles based regime for compliance is the new mantra, it is yet to be witnessed at the practitioner level.

In the absence of reform, the notion that financial advice can be provided to more Australians should be abandoned, as it is simply holding out false hope for advisers and clients alike.

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If you, like many that operate in the advice space find the complexity bewildering and therefore difficult to create a solution, because of the years of added complexity created and aided by out of date laws, then I would invite you to just come and sit in an advisers office for 2-3 hours (and I invite you to my office), to see physically the documentation and advice preparation minefield an adviser must mentally process, before even getting to the advice itself.

Alternatively, because I'm in Brisbane, I offer to drive to Logan to Jim Chalmers' (Treasurer) home or office and meet any Treasury official interested, and we can set up my laptop and I'll work you through the documentation process noted above.

Failing this, I believe a task force could be created to work through these changes. But it must not be crowded out by biased parties, product providers or their associations, lobbyists, academics, lawyers (who also take a risk based and literal approach to law and compliance), AFSL Licensee's (a vested interest) – but by smaller practitioners who are literally at the whip end of this process and who are best placed to expand services to regular Australians. These parties can of course be consulted in terms of change implementation, but the core solutions must come from advice practitioners to get long term buy in and change.

Rgds,

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