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Assistant Secretary  
Advice and Investment Branch  
The Treasury  
Langton Crescent  
PARKES ACT 2600

*By email: [FinancialAdvice@treasury.gov.au](mailto:FinancialAdvice@treasury.gov.au)*

Dear Treasury,

## **AFA Submission: Financial adviser education standards – Consultation paper**

### **Introduction**

The AFA welcomes the opportunity to provide feedback on the Financial adviser education standards consultation paper.

The AFA has long advocated for improved recognition of prior learning and experience. We have repeatedly objected to the fact that FASEA failed to address the factors that were referred to in the 2017 Professional Standards Bill Explanatory Memorandum, such as CPD and prior courses. Put simply, there are some extremely experienced and competent advisers who are getting no recognition for their years of experience and previous qualifications.

We also recognise that it is essential that, in the context of the substantial (43%+) decline in financial adviser numbers over the last three and a half years, with projections of further declines in the lead up to the education deadline on 1 January 2026, the Government takes some action to address this.

As we set out in our 1 February 2022 submission to Treasury on the former Government's consultation paper on changes to the education standard, we are torn between the objective of holding onto as many of the existing quality advisers as possible and the risk of undermining the recognition of financial advice as a profession. The advisers within the advice profession are deeply divided on this point, which is one of the consequences of such a substantial change of direction at such a late stage. As we proposed in February, there is an opportunity for a compromise outcome that achieves both objectives.

We do, however, believe that it is essential that advisers have the choice between doing a sensible amount of further study (where their prior learning and experience is recognised) that they believe will be relevant to them, or take the Experienced Adviser Pathway. We would like to see that they are presented with a genuine option, and there is some incentive for advisers to do further study.

We have recently been working with the other members of the Joint Associations Working Group and support the experienced adviser proposal that has been made as part of this group. In summary, we propose an Experienced Adviser Pathway based upon an existing adviser with 10 years full time experience as at 1 January 2022 (assessed over the last 15 years), who has a clean record, but subject to the completion of the Ethics unit and subject to a 10 year sunset clause (through until 1 January 2032). We believe that this will help to retain a significant number of experienced advisers, but also put an end date on these transition arrangements.

The assessment of qualifying full-time experience is an important part of this proposal. It is essential that this is implemented in a fair manner, and does not disadvantage someone who previously worked for a business that no longer exists, or in other cases where the records are inadequate. We also believe that getting the mechanism right for the assessment of a clean record is critically important. We believe that this needs to be based upon material misconduct, and not just relatively minor matters and that it needs to be able to be applied in a consistent and fair manner. The outcome needs to be practical and objective.

We will continue to argue for greater recognition of prior learning and experience for those existing advisers who choose to pursue the qualifications pathway and greater flexibility in the study that needs to be undertaken for both existing advisers and new entrants. We believe that this could be achieved for experienced advisers by either reducing the minimum course requirement from an eight subject Graduate Diploma to a four subject Graduate Certificate. Alternatively, if the Graduate Diploma is maintained, then it would also be practical to provide subject credits, based upon years of experience (discussed in detail below).

We remain committed to higher education standards across the financial advice sector, including in the event of the changes that have been proposed in the Quality of Advice Review consultation paper.

## Response to Consultation Paper Questions

### A. Experienced Pathway

#### 10 years' experience

##### **1. Is the proposed window for determining 10 years' experience (between 1 January 2004 and 1 January 2019) appropriate? If not, what alternative period could be considered?**

In assessing this, we are conscious that the consultation paper issued by the former Government had proposed 1 January 2026 as the cut-off date for the experience test. We felt that this was overly generous, in that it would have included some advisers who had very little experience at the time the regime started on 1 January 2019. There is seven years difference between that and what has been proposed in this consultation paper. In the context of the sunset clause that we have proposed and the requirements to do the one ethics unit, we have suggested that the assessment date could be moved back three years to 1 January 2022.

It is important to note that a significant number of existing advisers who thought they would be covered under this Experienced Adviser Pathway, based upon the former Government's consultation paper, will no longer be captured within this proposal.

We support the 15 year period to gain the 10 years full time experience. This better caters for people who have had career breaks (i.e. maternity leave) and those who have spent time working on a part-time basis. This is an important equity measure.

We also propose that all existing advisers who choose the Experienced Adviser Pathway and were not exempt from the requirements to complete specified courses under the Corporations (Relevant Providers—Education and Training Standards) Determination 2021, should have access to an exemption until the end of the sunset period. This should apply to all advisers who were not eligible to the exemption under Sections 3-170 and 3-171 (i.e. registered tax (financial) advisers) of that determination. This would address advisers who were not TFAs, who currently have an extension until 31 December 2025 to complete these courses, and those who were temporarily not on the Financial Adviser Register as at 31 December 2021 (i.e. career breaks or changing licensee). This should also apply to tax agents, who were not tax (financial) advisers and were therefore not eligible to the transition arrangements made available through this Determination.

**2. If required (for example, due to an audit of their eligibility), how can advisers prove they have 10 years' full-time equivalent experience?**

This is a challenging situation. There are two key challenges in addressing this:

- Employed advisers, or representatives, were not included on any register until the Financial Adviser Register (FAR) was created in March 2015. Authorised representatives have been included in a register since the commencement of FSR.
- Neither the FAR, nor the Authorised Representatives register records whether someone has been working as an adviser on a full-time or part-time basis.

We presume that there is no intention to differentiate for a person who has performed multiple functions within the one business at the same time, for the time that was spent as an adviser in a business, or time spent on other functions, such as licensee management.

In the absence of proof from a publicly available register, advisers will need to have a look at their employment records and employment agreements and any certificates of appointment that may have been provided by their licensee. This is more likely to be available for larger licensees that are ongoing, however it may be more difficult for smaller licensees or licensees that have since closed down. It should also be noted that it is extending back a long way, and there are no guarantees that records have been retained. It will also be much more difficult for an adviser who has been employed by multiple licensees to prove that they comply. A practical and fair model needs to be determined, that does not unfairly disadvantage those advisers who worked in smaller licensees.

**Clean record**

In looking at the issue of a clean record, we are focussed on issues such as practicality, simplicity, consistency and fairness. Each of these are key factors.

We think that the objective should be to exclude advisers who have demonstrated serious misconduct. It should not focus upon relatively minor matters, or unintentional and administrative mistakes.

We accept that people who have been banned or are the subject of an enforceable undertaking prior to 1 January 2022, would need to be excluded. As they would for anyone who is subject to these outcomes from 1 January 2022 onwards. We would also support the exclusion of someone who has been suspended or prohibited under the new FSCP regime. We are less certain about the other disciplinary outcomes, given that they could be for a more minor outcome, even if the recording of an outcome on the register suggests that it is not their

first disciplinary outcome. There are substantial consequences for this assessment, and we should therefore ensure that the bar is set at a sensibly high level, to minimise the risk of unfair outcomes.

### **3. Are the proposed sources for determining a clean record appropriate? Why/why not?**

Adverse findings from AFCA could be a determinant, however we are cautious about this as some complaints are vexatious, and the licensee may have settled a matter to avoid the cost of fighting. Also, and very importantly, how and where is the line drawn in terms of assessing the severity? It is also important to ensure that there is adequate delineation between a complaint that is attributable to a licensee process or policy, versus individual adviser actions. We also have reservations as to whether an AFCA decision, which is not a disciplinary matter and is not subject to appeal, should be used for this purpose. It may also be the case that the complaint was received after the adviser left the licensee and was not given the option to defend their actions.

We strongly oppose the inclusion of a CPD breach as grounds to exclude an existing adviser from the Experienced Adviser Pathway. Firstly, a CPD breach could come for a failure to achieve the target for one of the categories (i.e. nine hours of professionalism and ethics), despite achieving the overall 40 CPD hours target. Such matters are more administrative, and do not hit the required misconduct threshold. Beyond that it gets too arbitrary as to what level of non-compliance with the CPD standard would warrant such action, and then there would need to be consideration of the cause, such as health, natural disaster or family tragedy reasons.

Disciplinary action taken by a professional association could be included as a determinant, however the inclusion of this creates a point of inconsistency, given that advisers who are not members of a professional association are not exposed to this risk. We would once again recommend that this is reserved for the most severe of disciplinary action, such as termination of membership.

The only other consideration would be significant breach reports that have previously been submitted to ASIC, where ASIC chose not to take banning action or pursue an enforceable undertaking. This would depend upon the quality of the records and the completeness of the assessment. Where there are multiple clients impacted and client detriment is demonstrated, then this could be warranted.

However, this is made to work, it would need to be objective and be applied to advisers who are the subject of action that has been taken on the grounds of serious misconduct and client detriment.

Most of these additional sources have material complications related to them. We favour limiting this measure to objective and readily available sources.

### **4. What other sources could advisers rely on to indicate that they have a clean record?**

Proving that someone has a clean record will be a difficult task, and the onus should not be on an adviser to prove that they have a clean record, but instead on someone else to prove that they do not have a clean record.

In most cases they should know if there is an issue with their record, however an adviser may not have been informed where they were the subject of a significant breach report, or if a complaint against them went to either AFCA or ASIC (if they were a former employee adviser).

**5. If required, what evidence can advisers rely on to prove they have a clean record?**

As mentioned above this is very difficult. For this reason, we would favour a model based upon the public registers, where someone can assert that there is no evidence on the FAR of disciplinary action taken against them (or possibly instead no serious disciplinary action taken against them).

**6. What threshold should be adopted to identify whether conduct is minor, trivial, and isolated?**

In our view the threshold should be reasonably high, and this would be based upon client detriment, intentional conduct, or alternatively negligent lack of care. We are not expecting this to include administrative matters, or situations where there has been no client detriment.

We believe that it also needs to be based upon proven misconduct, and not just allegations of misconduct or the submission of complaints.

**7. Is the non-time limited clean record requirement appropriate? If not, for what period should an adviser be expected to maintain a clean record to access this pathway?**

This is a challenging issue in the context of the concept of spent convictions, where matters over 10 years old are not reported. We would support a 10 year timeframe for less substantial matters, however with respect to bannings and enforceable undertakings, where there is a public register, it may be reasonable to extend this back until the start of the FSRA regime. This once again is a more straight forward approach to take, given that the bannings and enforceable undertakings register is publicly available, whereas other evidence of historical misconduct is much more challenging to locate and rely upon.

**Assessment of Eligibility**

**8. What should self-declaration of eligibility require? For example, should an adviser have to make a statutory declaration?**

As expressed above, we have reservations about an existing adviser's ability to definitively declare that they have a completely clean record. To the extent that they could declare this, to the best of their knowledge, based upon their understanding of how it applies, then it could be done through a statutory declaration. Equally a declaration that they have met the 10 years full time experience over a 15 year period could be done via a statutory declaration. We would not oppose the use of statutory declarations, particularly in cases where definitive proof may be more difficult to provide.

**Future Misconduct**

**9. Are new tools required to specifically deal with advisers accessing the experienced pathway whose future conduct amounts to misconduct? Why/why not?**

It is important to clarify that this is a question relevant to misconduct that occurs after 1 January 2026, which is beyond the point at which the existing adviser would have needed to demonstrate that they qualify to meet the Experienced Adviser Pathway requirements.

We would suggest that the sunset clause proposal that we have put forward, which limits the time that they are able to continue to practice, may remove the necessity to consider the need to demand the completion of further education as a result of future misconduct. They will still be subject to disciplinary action under either ASIC or the Financial Services and Credit Panel.

In considering this, should the ongoing Experienced Adviser Pathway, as recommended in this consultation paper eventuate, then it is more problematic to work out what further expectations might be placed on the adviser. This would need to consider what the additional education requirements should be and what timeframe would they have to comply with this? This is seemingly quite complicated.

## **Other**

**10. For existing advisers not eligible for the experienced pathway but who have a foreign qualification at AQF 7 level or above, is it practical and appropriate for education providers or licensees to assess how these qualifications meet the education standard and what additional study may be required, rather than the Minister? Why/why not?**

Assessing the merits of an overseas qualification is an area that requires particular knowledge and capabilities. This would be a significant challenge for licensees to perform. Higher education providers would be better placed to consider these qualifications, however assigning the role to them would also not be without complication and could end out with inconsistency, or candidates shopping around to see where the additional education would be the least.

**11. How many existing advisers do you expect to access the experienced pathway? How many of those have already started to undertake formal education to align with the current existing adviser requirements?**

This is a complicated question that we are not capable of answering. It might be possible to work out roughly how many advisers it would apply to, based upon data that is included in the Financial Adviser Register, such as year first provided advice, or the record of specific authorised representative appointments.

The other key dimension to understand is how many of the advisers who would qualify for the Experienced Adviser Pathway have already qualified under the existing FASEA education pathway, and would therefore not need to leverage the Experienced Adviser Pathway. The party best positioned to answer this question would be Kaplan, who are the largest provider of postgraduate education to financial advisers and will best know the status of their education and the numbers who have chosen not to undertake further study. We understand that a majority of existing advisers have already commenced their education journey.

**12. What else may be required to ensure an appropriate level of consumer protection is maintained and any potential harm is minimised?**

In our proposal, that we have set out above and discussed with other members of the Joint Associations Working Group, we have suggested that all advisers should need to complete the Graduate Diploma Ethics unit. This, alongside the clean record obligation, and their years of

experience and other education should provide sufficient consumer protection, particularly where it might be subject to a sunset clause.

**13. Would any further requirements be necessary for the experienced pathway to ensure the professionalisation of the industry is maintained?**

As set out above, we believe that this Experienced Adviser Pathway should be dependent upon the completion of the Ethics unit and also subject to a 10 year sunset clause. We would also like to see changes made to provide improved recognition of prior learning and experience so that advisers have a genuine option between accepting the Experienced Adviser Pathway and pursuing the necessary further study, that would enable them to continue to advise without any time or other limitations applying.

**B. Formal education and exam**

It is important to be clear on the objectives of this proposal. We recognise that the objective is to provide more flexibility in the courses that are studied and to remove the necessity for Treasury to approve each individual course. These are quite separate issues.

We are conscious that only a limited number of Australian universities have been approved by FASEA to operate financial advice programs. Given that many students do not decide their chosen career until later in their studies, the current model of FASEA approved courses is overly limiting in terms of pathways into the program. We are also conscious that it currently excludes the graduates of many of the nation's leading universities. A significant level of change is important, however, at the same time, it is important not to undermine the integrity of the programs or the universities that have already invested in financial advice programs.

**1. Are the proposed core knowledge areas appropriate for the financial advice profession? If not, what is missing and why is that area important?**

This is a matter that requires very careful consideration and expert opinion.

We are unclear why these five core knowledge areas have been selected and why five is the right number.

We accept that financial advice regulatory and legal obligations and ethics and professionalism should be included in the core knowledge areas. It is less apparent that Behavioural financial and client engagement should be mandatory.

One thing that is notably missing is a subject that includes technical superannuation knowledge, which is central to much advice, including life insurance that is placed through the vehicle of superannuation. There is also an argument for the inclusion of content on financial plan construction.

The inclusion of taxation and commercial law is obviously addressing the specific requirements for qualification as a Qualified Relevant Tax Provider, however these requirements are set at the AQF 5 level, and would not necessarily need to be done as separate standalone AQF 7 or higher level subjects.

**2. Are there any specific areas under each core knowledge area that should be prioritised or emphasised? For example, a particular element of taxation or commercial law?**

Taxation law knowledge necessarily needs to be broad, given the different impact it may have to different clients. Commercial law, on the other hand, could be a more high level explanation of the key structures and commercial law concepts.

The eleven core areas as part of a 24 subject bachelors degree made sense. Three of the eleven were identified as “new” mandatory subjects covering – Financial Advice, regulatory and legal obligations; Ethics and professionalism and Behavioural finance, client and consumer behaviour engagement and decision making. The other subjects relating to Superannuation and retirement planning, Insurance, Investments, Financial Plan construction and financial advice principles are suited to provide the new entrant with grounding in these core areas in which they will be providing advice to clients.

If you are purely looking to reduce the number of core knowledge areas a new entrant needs to complete as part of their degree, it is reasonable to ask why taxation and commercial law would be given priority over superannuation, life insurance and investments.

In our view, a new entrant to the financial advice profession should also be able to demonstrate that they have knowledge in the core areas of – Ethics and professionalism, Superannuation and retirement planning, Insurance planning & risk management, Investments, financial plan construction, and Financial advice, regulatory and legal obligations.

**3. Would proposed changes to core knowledge areas necessitate changes to the exam content? Why/why not?**

Further to comments below about the continued existence of the exam, it is our view that the exam needs to focus on the standard areas that apply across financial advice, such as legal obligations and ethics, which would also be included in the focus of the core knowledge areas. We continue to believe that the exam should not focus on technical knowledge.

It is reasonable to ask what is the purpose of the exam, once all existing advisers have completed it? The exam was to test the existing advisers to ensure that all were at least at a minimum level. New entrants have a different set of course entry and professional year requirements, which leads to questions about why it is necessary to continue with the exam.

**4. Is it practical and appropriate to allow education providers to self-declare that their degrees teach the core knowledge areas? Why/why not?**

We have reservations about this. There are some well established financial advice programs in the marketplace, who have a number of years of teaching experience. There are other programs that are less established, and may have less expertise behind them. With relatively low student numbers, it is a challenging market.

It would not be unusual for the professional associations to play a role in the oversight of professional qualification courses. It might be that this is a preferable way to move forward.

Whilst we have reservations about self-declaration, we note that the higher education providers are governed by the Tertiary Education Quality and Standards Agency (TESQA) and all higher education providers must be registered by TEQSA. The system already in place allows higher education providers to self-assess their courses and for those who are not granted self-accrediting authority, they must have their course accredited by TEQSA.

Assessment by TEQSA, is however somewhat different from an assessment that their course meets the expectations for graduates to complete the course with all the necessary skills and knowledge required to become a financial advice professional.

**5. What form should education providers' assurance to Government take?**

We are not convinced that this is the most appropriate solution, and whilst it may be an important element, we would favour a model where there was a third party assessment, which could be provided by professional associations.

**6. If self-declaration is not appropriate, what alternatives could be adopted to streamline the degree approval process?**

As discussed above, and noting the apparent reluctance of Treasury to take on this responsibility, it may be something that can be assigned to the professional associations.

**7. Is it practical and appropriate for education providers or licensees to evaluate a new entrants completed tertiary courses against the new core knowledge areas to assess whether they have met the education standard or what additional study may be required? Why/why not? What oversight of education providers or licensees making this assessment, if any, is necessary?**

Whilst historically, it is the case that Higher Education Institutions would undertake this type of assessment, we do have reservations about it, given the importance of graduates having the required level of knowledge and skills. We are also conscious that it may not be practical or appropriate for education providers or licensees to evaluate a new entrants completed tertiary course against the new core knowledge areas because education providers could have a conflict of interest in this approach.

Most licensees would lack the capability to undertake this assessment. Only large licensees would have the resources and capability to complete this function. In addition, it is not appropriate to go back to a world where this assessment would be undertaken, each time an adviser moves to a new licensee.

**8. Is it practical and appropriate for education providers or licensees to also evaluate foreign qualifications against the new core knowledge areas and assess what additional study may be required, rather than the Minister? Why/why not?**

It is not practical nor appropriate for education providers or licensees to evaluate foreign qualifications as this is a specialised area of expertise. This work was previously done by FASEA, however it is necessary to have the required level of knowledge to undertake this work, and given the potential complexity, it would be appropriate to do it in a standardised way, possibly through a single provider.

**9. Should new entrants whose existing qualifications don't fully meet the education standard be able to 'top-up' their qualification by completing individual units, rather than a full qualification? Why/why not?**

We strongly agree that new entrants should be able to 'top up' their qualification by completing individual units. We would like to see a model developed where educational institutions were encouraged to do this. It should be recognised that a formal process should

be undertaken to complete this assessment, and it may be appropriate that it is undertaken by an independent party, such as a professional association (which is the case for accountants).

**10. What other changes should be made to the education requirements for new entrants? How do your proposed changes support the professionalisation of the financial advice industry and ensure consumer protection?**

We cannot understate the importance of changing the current model to strongly encourage an increased flow of new entrants into the financial advice profession. To achieve this there needs to be some reduction in the constraints and significantly more flexibility in terms of where the study can be undertaken.

**C. Professional Year**

The concept of a professional year is a good one, that should be supported, with new advisers being coached and mentored by experienced advisers. The program in its current form is very prescriptive and can create a longer time frame, particular due to the requirement to have passed the exam before being able to commence the final two quarters. The timing of the exam means that a new entrant could be waiting some weeks or months to sit the exam, then another four to six weeks before knowing the result. Then if a new entrant did not pass the exam, this timeframe is further extended. Advice practices, must employ a professional year candidate, invest time into training them and there is nothing to prevent the PY candidate moving elsewhere as soon as they complete the PY and are authorised. This is a disincentive to practices to invest in a PY candidate, and has become a key roadblock in terms of getting new entrants into the advice profession.

**11. How else could the professional year be amended to ensure it remains fit for purpose, ensuring appropriate supervision of graduate financial advisers without creating unnecessary barriers to entry?**

We believe that there are a range of options to improve the professional year program:

- Remove the requirement for 100 hours of structured training. The current program requires 100 hours of structured training to be met via formal study. All PY candidates have already completed years of formal structured study as part of their degree, making this requirement unnecessary and costly for advice practices and students.
- Allow the exam to be sat at any time before or during the PY, or remove the requirement for a PY candidate to sit the exam.
- Reduce the number of unstructured hours or give credit for previous relevant experience.
- Provide greater flexibility in terms of the role of supervisors, so that retired advisers could provide some of the supervision and mentoring. This would be a good solution to reduce the impact on the nominated supervisor and to encourage former advisers to remain active in the advice profession.

**12. In what ways do the professional year requirements create a barrier to entering the financial advice profession?**

It is an expensive exercise for a small advice business to have a professional year adviser. Under current arrangements the Licensee is responsible for registering the new entrant, implementing the program of supervision, and then managing that quarter by quarter. It is also important to take into account the cost and opportunity cost of the supervisor. Then after investing time in the PY candidate there is no incentive for that individual to remain in that

business. Also, there is no financial assistance available to a small advice business to provide an incentive to hire a PY candidate.

From the perspective of potential new entrants, they are faced with the cost of completing an undergraduate degree, the uncertainty of obtaining a Professional Year spot and then the additional cost of completing the exam. The requirements and complications to get into the financial advice profession are significant and could easily be a factor in discouraging new entrants from considering joining the financial advice profession.

### **13. What are the risks and benefits of the possible amendments?**

It could be seen as a watering down of the requirements for a new entrant, and to introduce greater variability in the approach and therefore differences in the outcomes. Minimum standards are important and ongoing support and guidance for new entrants is essential.

The Professional Year program is a significant cost for a small business to undertake and thus there appears to be limitations on the opportunities that are available for Professional Year candidates. It does not really matter how many new entrants are coming through the university system, if positions are not available for candidates to undertake the Professional Year. Changes that reduce the cost and complexity to appoint a Professional Year candidate and which increase the number of available spots would be a good outcome for increasing the number of new entrants. Other factors to assist with this could be the introduction of a targeted apprenticeship funding solution for financial advice. Getting the balance right in the changes to the Professional Year system is critically important.

### **14. Will allowing integration of the professional year with tertiary study streamline the transition between education and work? Why/why not?**

The practicalities of this are how would this be managed and assessed. How would the supervision of the PY candidate take place if parts of the PY were included into the tertiary study? We assume that this would largely be achieved by students being placed into advice practices for work experience. This is most likely to work if it is done at no cost to the practice. As the student gains greater experience, they may become more attractive to the practice and could then be in a better position to obtain a formal PY candidate opportunity.

Whilst we do not consider that work experience obtained during a program of tertiary study could fully address the need for a professional year, we do believe that it could be given credit of as much as half of the requirements for the PY year.

### **15. If the professional year is integrated into tertiary study, how many professional year work hours should be completed as part of a degree?**

This is an interesting question. The current requirement of 1,600 hours, of which 100 hours must be structured, should be assessed to understand how this number was determined. Then secondly, to consider, the purpose of the professional year and whether it is to ensure new entrants have a structured mentoring program, noting the new entrant is developing technical knowledge through the completion of a tertiary qualification, but not obtaining the skills necessary to apply that knowledge to real life examples. Thus, it is appropriate that a period of supervision and mentoring is required. However, this raises another question, that if the technical knowledge is reduced to the suggested “five core areas”, the PY candidate could have material gaps in technical knowledge as it relates to superannuation and investment

advice (and other areas) that would be difficult for an advice practice to cover off through mentoring and supervision.

This is an important question, however it is difficult to come up with a simple answer, as it would depend upon the manner in which the professional year is integrated into tertiary study. Nonetheless, as discussed above, we would suggest that the hours required to complete the professional year, could be 50% met by workplace integrated learning during the student's tertiary study.

The FASEA PY model is largely a one size fits all model, with some flexibility for fast-tracking. In the real world, each new entrant looks different. Some might come straight out of university, whereas others may have been working already in the financial advice sector in roles such as paraplanning or customer service, or alternatively somewhere relevant in the broader financial services industry. Given the importance of client management in the financial advice role, people who have already got extensive client management skills, may have different needs during the professional year program. The Professional Year model should not be built on the basis of a one size fits all approach, and allow more flexibility.

#### **16. What role does industry play in encouraging new entrants into the industry?**

One important factor that we routinely advocate is for calling financial advice a profession, and thus we should be talking about encouraging new entrants into the profession, not the industry.

The financial advice profession and the financial services industry could play a much more significant role in promoting financial advice as a profession. Unfortunately, in the context of the recent tsunami of reforms, it has not been possible for sufficient focus and energy to be directed towards this.

Another key consideration is the exit of the big banks from financial advice. In the past they were an important pathway into financial advice, with people coming through their graduate programs into financial advice roles. Since the Banking Royal Commission this has disappeared. Financial advice is largely now a small business sector, and it is more difficult for small business to support a large recruitment program. Unlike accounting, where there are a number of large firms who undertake graduate recruitment programs every year, and large law firms that do the same thing, or hospitals where new doctors start their careers, financial advice is a very different sector. We believe it is appropriate for the Government and the profession to consider alternative solutions to address this issue.

#### **17. Should the exam format be changed for new entrants? If so, how?**

There are a range of opinions in this space, including those who think that a separate largely multi-choice exam should not be required for people who have completed a full undergraduate degree. There are others who would demand a level playing field and suggest that if existing advisers have been forced to do the exam, then so should new entrants.

To answer this question, we really need to go back to the primary objective for having the exam, which presumably was that in the context of it taking much longer for existing advisers to complete the required additional study, the completion of an exam would assist to demonstrate that an existing adviser was adequately competent to continue to provide financial advice. This does seem less relevant in the context of new entrants, who have needed to pass a series of exams in order to pass their degrees.

Another important factor in the consideration of the existing exam is the fact that the pass mark was actually a credit (typically – 65% – 74%). The logic of this is unclear, if most tertiary qualifications are subject to a 50% pass mark. It would be interesting to understand the exam pass rate for new entrants, to enable us to understand if there are a cohort of people who have been able to pass an approved undergraduate degree, however have not been able to pass the financial adviser exam.

### **Other Recommendations to Recognise Prior Learning and Experience**

The AFA supports the changes to introduce an Experienced Adviser Pathway with minimal additional education requirements as an option to seek to address the ongoing substantial loss of existing advisers from the market. We would also like to see changes made to encourage the completion of further study. It would not be surprising for an older experienced adviser to choose the new Experienced Adviser Pathway, if they were faced with the prospect of doing a six or eight subject Graduate Diploma. Our response, however is that it did not need to be a Graduate Diploma and there could have been substantially greater recognition for prior learning and experience.

We feel that this consultation paper lacks sufficient focus on fixing the issues with the current recognition of prior learning and experience. We would like to see this addressed to give existing financial advisers a genuine choice between taking up the Experienced Adviser Pathway (which may be subject to a sunset clause as we and others have proposed) or choosing to do the further study required to complete a qualification pathway.

As an important starting point in all of this, we firmly believe that all advisers should continue to have the option to complete the pathways provided by FASEA. Nothing that changes from this point should limit their ability to do what was already available to them, particularly if they are already well progressed.

Previously, the AFA has put forward two relatively straight forward models to enable greater recognition of prior learning and experience:

- The provision of subject credits for prior learning and experience based upon a simple model of 3 subjects for greater than 15 years experience, 2 subjects credit for between 10 and 15 years experience and 1 subject credit for between 5 and 10 years experience. These credits would be on top of any other exemptions for prior approved study.
- Change the education standard from the basis of an eight subject Graduate Diploma to a four subject Graduate Certificate and allow those with experience above a certain threshold, or other qualifications with up to two subjects credit. In this way, they would still receive a graduate qualification after the completion of the study, and could assert that they are tertiary qualified.

The above proposals were put forward at different times over the last few years, with the first suggested prior to the start of the FASEA regime, when the full impact was yet to be observed. The second option was proposed earlier this year, as part of the consultation exercise undertaken by the former Government.

We have also been strong advocates for greater flexibility in the required study, so that existing advisers could undertake further study in an area that was most relevant to them and also beneficial for their advice practice. This has been one of the strong objections to the current model, particularly from specialist groups such as risk advisers. To achieve this, a

change would need to be made in terms of the 11 core knowledge areas required for existing advisers.

We strongly request that a solution is found for better recognition of prior learning and experience in a manner where existing advisers have a genuine option to continue to undertake an education pathway that is both measured and beneficial for them, their business and their clients.

### Concluding Comments

The AFA strongly supports changing the financial adviser education standard to provide greater recognition of prior learning and experience and to increase the flexibility for new entrants to enter the financial advice profession. It is difficult to avoid making the statement that the financial advice profession has reached a point of crisis and without drastic action, it will continue to shrink over the next five or so years and put access to affordable financial advice out of the reach of many Australians. Many would argue that we have already passed this point and the consequences are already manifesting.

We are in a situation where drastic action is necessary, and the proposal to introduce an Experienced Adviser Pathway, subject to some suggested amendments, and to provide greater flexibility for new entrants, is to be firmly encouraged. These are the key solutions to ensure the retention of many existing advisers who are contemplating exiting the profession and to enable an increased flow of new entrants to join the profession.

We are very conscious of the deep divide in the financial advice profession on how to fix the education standard issue and the firmly entrenched views by each camp. We believe that the application of a sunset clause for the Experienced Adviser Pathway goes a long way to neutralise the fear that this would undermine the recognition of financial advice as a profession over the longer term. Fixing the adviser numbers issue is important and it is necessary to reflect upon how other professions have addressed transition arrangements. Experienced professionals in other fields have not been forced out in the way that financial advisers have been.

We thank the Government and the Minister for taking the lead on this important issue and we look forward to a solution being found in the short term.

We would be happy to discuss this matter further, or to provide additional information if required. Please contact us on [REDACTED]

Yours sincerely,

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

### About the AFA

The Association of Financial Advisers Limited (**AFA**) has served the financial advice industry for over 75 years. Our objective is to achieve *Great Advice for More Australians* and we do this through:

- advocating for appropriate policy settings for financial advice
- enforcing a Code of Ethical Conduct
- investing in consumer-based research
- developing professional development pathways for financial advisers
- connecting key stakeholders within the financial advice community
- educating consumers around the importance of financial advice

With the exception of Independent Directors, the Board of the AFA is elected by the Membership and Directors are currently practicing financial advisers. This ensures that the policy positions taken by the AFA are framed with practical, workable outcomes in mind, but are also aligned to achieving our vision of having the quality of relationships shared between advisers and their clients understood and valued throughout society. This will play a vital role in helping Australians reach their potential through building, managing and protecting their wealth.