



ASIC

Australian Securities & Investments Commission

ASIC's priorities – Financial advice, licensing and supervision

Speaking notes for address by Greg Medcraft, Chairman, Australian Securities and Investments Commission to the FINSIA Financial Services Conference 2011*

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Introduction

Thank you Russell Thomas, FINSIA CEO.

Thank you for having me along to address the FINSIA conference this year.

FINSIA is an impressive institution and has had a major presence in the Australian financial services sector for many years.

FINSIA's 125th anniversary celebrations this year recognise the longstanding role of FINSIA and its predecessor bodies – the Australasian Institute of Banking and Finance, and the Securities Institute of Australia – in raising industry standards and supporting the professionalism of those working in the financial services industry.

On a personal note, when I was running the American Securitisation Forum and they were looking for a professional training framework to emulate, the model they looked towards was FINSIA's.

I know that to mark this milestone, the FINSIA Pinnacle Awards were launched to identify and celebrate the achievements of Australasia's most outstanding financial services professionals. I understand former ASIC Chairman, Tony D'Aloisio, is up for an award so we'll be watching with interest. The awards will be conferred at this evening's Gala Dinner – so I won't pre-empt that now.

Ladies and gentlemen, I would first like to outline ASIC's priorities for the next five years. I will then explain how ASIC's involvement in creating a professional financial advice industry fits in to our strategic framework.

Our three priorities are:

- 1 Confident and informed investors and financial consumers.
- 2 Fair and efficient markets.
- 3 Efficient registration and licensing.

I want to go into some more detail about our first priority and discuss how financial advisers fit into this.

Key outcome 1 – confident and informed investors and financial consumers

This has three elements:

- Education – MoneySmart, schools, new media

- Gatekeepers – Financial advisers
- Consumer behaviour – Advertising, new media, business model, suitability.

Sub-topic 2: The gatekeepers

Holding the ‘gatekeepers’ of the financial service system to account is another important aspect.

Gatekeepers, in the widest definition of the term, include accountants, directors, advisers, custodians, product manufacturers, market operators and participants.

ASIC will take action where gatekeepers do not meet their responsibilities.

Financial advisers

The developments in this area have two objectives:

1. Improving trust and confidence in the financial advisory profession; and
2. Improving consumers’ access to financial advice.

There are three ways to improve trust and confidence:

- Managing conflicts of interest;
- Improving competency and the quality of advice;
- Ethics and standards.

1. Managing conflicts of interest

The Government’s FoFA reforms will introduce the best interest test and ban many forms of conflicted forms of remuneration.

e.g. commissions (both trailing and upfront), volume-based payments, soft dollar benefits and some types of insurance commissions within superannuation.

ASIC will work closely with Government and Treasury to implement the Government’s proposed reforms. This is a work in progress – first, the FoFA legislation needs to be passed by Parliament.

2. Improving competency and the quality of advice

Background – PJC Inquiry into Financial Products and Services and ASIC review of adviser training

- Widespread concern about consistency of the quality of training and assessment of advisers – subsequently validated in the responses to ASIC's Consultation Paper (CP153).
- Training at different stages of an adviser's career
- We seek to improve the quality of advice available to retail investors by ensuring that financial advisers are adequately assessed on their ability to satisfy minimum standards of competence before providing advice.

What we propose:

- **Adviser certification:** all financial advisers who provide Tier 1 advice should pass a national entrance exam. We recognise the 2012 start date is ambitious and would consider a later start date with a three-year transition period as more appropriate. We envisage generous CPD points would be awarded in the year the exam has been completed.
- **Monitoring and supervision:** new advisers are supervised for one year by an adviser with at least five years experience.
- **Central register:** creation of an ASIC central register of results for the proposed regime.
- **Knowledge update review:** all financial advisers required to do an eLearning Knowledge Update Review every three years. Unlike the exam, no preparation is required as the material is contained within the eLearning module. We envisage generous CPD points would be awarded in the year the Knowledge Update Review has been completed.

Consultation Paper 153: Training and assessment framework

Feedback is generally supportive.

Some reservations about the Knowledge Update Review, but this is more a reflection of the lack of understanding of the Review's objective.

There is industry support for continuing professional education.

As far as possible we would like to keep the cost of the exam and Knowledge Update Review to a minimum. We are working to a target figure of \$300 for the examination sitting fee and between \$250 and \$300 for the completion of the Knowledge Update Review.

It is important that the national exam and knowledge update review is driven by, and developed with, industry.

ASIC is focused on outcomes, not micro-managing the training of advisers.

3. Ethics and standards (third part to improving trust and confidence)

Self-regulation has a significant role to play and industry standards are critical in terms of complementing regulation. They provide guidance on how to comply with the law, and go beyond the law in setting standards, particularly in areas such as ethics.

I encourage the financial advisory profession to continue to promote standards and ethics in order to complement existing regulations.

This will promote trust and confidence in financial advice.

Financial advisers – next steps

As per CP153, we indicated we will conduct cognitive task analysis research to identify the relevant skills and knowledge to be assessed in the adviser certification exam.

It is envisaged that the exam will be based on the existing skills and knowledge requirements outlined in Regulatory Guide 146.

If any new requirements arise from our research, we will consult separately on any proposed changes to the skills and knowledge requirements in RG146.

The Advisory Panel on Standards & Ethics is finalising its recommendations to the Minister on improving professional and ethical standards in the financial product advice industry. (Deadline is end October)

Financial advisers – improving access to advice (2nd objective of reforms)

In addition to improving trust and confidence in the advice profession, it is also important to improve consumer's access to quality financial advice.

One way ASIC hopes to improve access to advice is by encouraging industry to provide consumers with scaled financial advice. Our Consultation Paper 164 *Additional guidance on how to scale advice* proposes guidance about how simple, piece-by-piece advice can be provided by financial advisers. We are currently reviewing the submissions we received to CP 164 and we will wait until the drafting of the best interests duty is finalised before we finalise our guidance.

How do we set our priorities?

Those are the ASIC priorities I see over the coming five years.

We set our priorities with reference to:

- our legislative responsibilities;
- systemic or regulatory risk;
- building resilience in the financial system
- as Benjamin Franklin once said “an ounce of prevention is worth a pound of cure”
- need to be proactive and forward looking
- the expectation gap between what stakeholders expect and what ASIC is doing; and
- Government policy objectives.

Key drivers

The key drivers to achieving our priorities are:

- engagement with industry and stakeholders;
- surveillance;
- guidance;
- education;
- deterrence— we will continue to focus on taking on the big cases and pursue wrong-doers:
 - we recently decided to publish guidance on how we approach our compliance and deterrence role
 - evidence
 - cost v regulatory benefit
 - level of harm or loss;
- policy advice to Government.

Conclusion

Ladies and gentlemen, I hope you can see from what I have talked about today, ASIC will continue to work hard to meet our priorities over the next few years:

- Confident and informed investors and financial consumers;
- Fair and efficient financial markets; and
- Efficient registration and licensing.

So, thank you for the opportunity to speak to you today.

I am happy to take questions now.