



ASIC

Australian Securities & Investments Commission

REPORT 37

ASIC verification visit program

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Background

Between December 2002 and July 2004, ASIC conducted verification visits on 353 Australian financial services (AFS) licensees. The licensees were randomly selected to cover a wide range of sectors within the financial services industry.

The purpose of ASIC's program of verification visits was to:

- check that certain statements made in a licensee's AFS licence application (primarily Part B of the application) were true; and
- ensure that the licensee's procedures covering: compliance; supervision of representatives and authorised representatives; financial resources; risk management; internal dispute resolution; and compensation were in place and operating in practice.

The verification visits were made only to licensees who were not legally required to provide ASIC with any proofs as part of their application process for an AFS licence.

Key findings

Geographical coverage

The majority of verification visits were conducted in the major metropolitan areas of New South Wales, Victoria, Queensland, South Australia and Western Australia.

Figure 1 illustrates the percentage of visits in each State while Table 1 illustrates the geographical spread of the visits.

Figure 1: Percentage of visits in each State

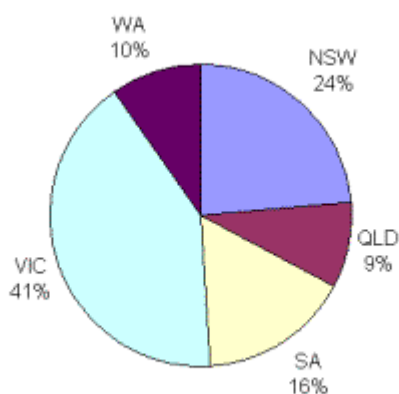


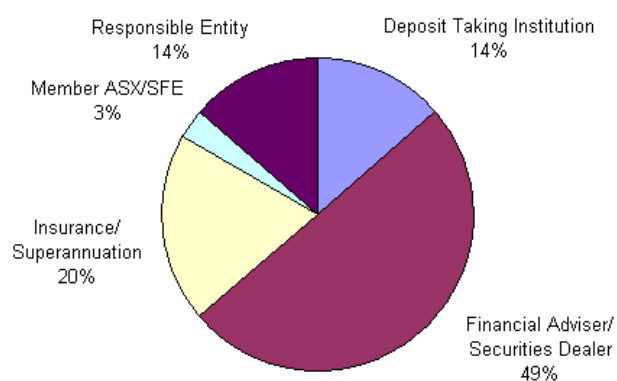
Table 1: Geographical spread of visits

State	Region			Total visits	Percentage
	CBD	Metropolitan	Regional		
NSW	55	28	0	83	24%
Vic.	63	75	8	146	41%
Qld	18	11	4	33	9%
SA	29	28	0	57	16%
WA	14	20	0	34	10%
Total	179	162	12	353	100%
Percentage	51%	46%	3%		

Industry groups

A wide range of industry participants were visited as part of the program. Figure 2 illustrates the industry groups covered.

Figure 2: Industry groups



Size of licensees visited

Table 2 illustrates the size of the AFS licensees visited (as measured by their net assets). The majority fell into the ‘less than \$5m net asset’ category.

Table 2: Visits by size of licensee

Net assets	Number of licensees	Percentage
Less than \$5m	286	81%
\$5m to \$20m	28	8%
Greater than \$20m	39	11%
Total	353	100%

Outcome of visits

Table 3 provides a national summary of the outcomes from the verification visits.

Table 3: Summary of outcomes

Outcome	Number of licensees	Percentage of licensees
No further action	164	46%
Changes to procedures recommended	159	45%
Referral for follow-up compliance review	30	9%
Total	353	100%

In 46% of visits, the AFS licensees demonstrated they had established procedures and that the procedures were being followed in practice. Approximately 9% of the AFS licensees visited were referred for a follow-up compliance review, as their procedures were either non-existent, of poor quality or not being followed.

In the remaining 45% of cases, some deficiencies were found and the AFS licensees were advised to improve their procedures in accordance with ASIC’s written recommendations. The types of issues that were identified are summarised in Table 4. Confirmation was subsequently sought from these licensees that the ASIC recommendations had been adopted.

Table 4: Summary of issues identified

This table summarises issues identified in relation to those licensees that were recommended to change their procedures. Some licensees had more than one issue identified.

Type of issue	Common findings	Number of licensees
Compliance arrangements	Compliance procedures or measures were not documented, not tailored to the licensee's business or did not adequately cover all aspects of the licensee's business	26
	Formalised processes had not been established and/or implemented to monitor compliance, particularly with AFS licence obligations and financial requirements	40
Monitoring and supervision of representatives	Procedures relating to the supervision and monitoring of representatives were incomplete and/or out-of-date (including absence of training plan)	44
Adequacy of resources - financial	Cash flow projections, required as part of the licensee's base level financial requirements, had not been prepared, were incorrectly calculated or were not maintained	65
Risk management	Breach registers had not been established	53
	Risk management plans were not documented and/or the plan did not adequately cover all types of risks affecting the licensee's business	44
Dispute resolution	Internal dispute resolution procedures were not documented and/or were inadequate to meet dispute handling requirements	19
Compensation arrangements	Licensee was unable to confirm whether professional indemnity cover was adequate or the excess was too high	25