



Compliance One

Morgans Financial Limited

Report Pursuant to Licence Conditions

Final Implementation Plan Review - Summary Report

28 February 2018

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Background and scope

1. Morgans operates a traditional stockbroking and wealth management business providing execution and settlement services, as well as personal and general financial advice services, to over 60,000 active clients. Morgans also conducts corporate transactions such as capital raisings and advisory services.
2. In November 2015, ASIC and Morgans agreed to the imposition of new licence conditions on Morgans' Australian financial services licence.
3. The action followed a number of activities, including an ASIC surveillance of Morgans' compliance with financial services laws and in particular, the general obligations of financial services licensees.
4. ASIC identified concerns relating to Morgans' arrangements for monitoring and supervising its representatives after a number of serious breach incidents over recent years, which in Morgans' case, is compounded by its extensive representative and branch network.
5. ASIC was also concerned about Morgans' internal controls for the handling of confidential market-sensitive information such as restrictions on staff trading, information barriers and managing conflicts of interest in relation to corporate transactions.
6. Morgans consented to the licence conditions and appointed Compliance One as the independent compliance consultant to review and evaluate its compliance measures.
7. Compliance One undertook a review of Morgans' Risk Management and Compliance framework between August 2015 and March 2016 (noting the commencement of the review preceded the finalisation of the licence conditions but was undertaken in anticipation of those conditions). A written report was delivered to Morgans and ASIC on 20th March 2016 containing 37 Recommendations for areas to be addressed.
8. Morgans submitted a plan to ASIC on 29th April 2016 containing proposed courses of action to address the Recommendations. Following further discussion with ASIC and the compliance consultant, Morgans submitted a revised plan to ASIC on 24th June 2016 detailing the licensee's response to the Recommendations. The plan also detailed the measures that would indicate that each response had been successfully implemented. This plan is identified as the *Final Implementation Plan*.
9. The Final Implementation Plan detailed 106 Actions to be implemented in response to the report.
10. Throughout the Final Implementation Plan, Compliance One periodically reviewed the implementation of each of the Actions and provided reports to ASIC over a period of two years.

About the recommendations

11. The Recommendations from the first review required Morgans to implement additional processes and procedures or strengthen existing ones.
12. Morgans divided the original Recommendations into six categories and assigned working groups to each category. Those were:

| Working Group | | Recommendations Addressed |
|---------------|--------------------------------|---------------------------|
| 1 | Risk Management and Compliance | R1-R7, R23 |
| 2 | Document and Record Management | R8-11 |
| 3 | Branch Supervision | R12 - R22 |
| 4 | Advice | R24 – R25 |
| 5 | Corporate | R26 – R36 |
| 6 | Additional specific matters | R37 |

Timeline for carrying out the final implementation plan

13. The anticipated timeline for fully implementing all Actions extended into 2018. Some Actions were discrete and capable of being implemented quickly. This included examples such as making amendments to an existing form or policy or undertaking additional background checks prior to appointing new advisers.
14. Other Actions took longer to complete. Examples included making network-wide changes to IT systems, recruiting additional compliance staff and undertaking audits of previous changes.
15. The Actions were grouped by completion date and allocated to review periods. A total of four periodic implementation reviews were conducted by Compliance One between 2016 and February 2018. These were:

| | Review Period | Report Date |
|---|-------------------------------------|-------------------|
| 1 | 01 June 2016 – 31 October 2016 | 30 November 2016 |
| 2 | 01 November 2016 – 28 February 2017 | 30 April 2017 |
| 3 | 01 March 2017 – 31 July 2017 | 08 September 2017 |
| 4 | 01 August 2017 – 31 January 2018 | 28 February 2018 |

16. The majority of Actions were acted on by the end of 2016 with many of them requiring a period of time post implementation to assess their effectiveness.

Summary of recommendations and observations

17. Morgans has embraced the Recommendations and invested significant resources into implementing changes to address the areas of concern identified. A summary of the Recommendations and the consultant's findings against each area appears below.

| Summary of Recommendations | Summary of Observations |
|--|---|
| Risk Management and Compliance | |
| <p>1. The consultant made 8 Recommendations in relation to Risk Management and Compliance.</p> <p>Morgans proposed 28 Actions in response to the Recommendations.</p> <p>The Recommendations focussed on increased resourcing for compliance, more detailed monitoring and stronger, more consistent consequence management.</p> | <p>During the first period, the consultant assessed 2 Actions against one of the Recommendations.</p> <p>Morgans restructured its approach to adviser audits in line with the undertaking to do so. Morgans also employed additional compliance staff and introduced local compliance officers in most States (with one compliance officer for Vic/Tas and one for WA/SA). These staff are in addition to Morgans maintaining a centralised compliance function from Brisbane.</p> <p>During the second review period, the consultant reviewed a further 21 Actions against 6 of the Recommendations.</p> <p>Morgans have created a documented, consistent approach for applying consequences for breaches. They have adopted a new incident management system and made changes to account opening processes all of which strengthen its monitoring and consequence management.</p> <p>During the third review period, the consultant reviewed a further 2 new Actions against 2 of the Recommendations.</p> <p>The third review also involved interviews of branch managers and advisers which is the first time since the first licensee review in late 2015 that representatives have been interviewed. The consultant considered it necessary to allow a reasonable period to transpire between the commencement of changes and the period for testing the impact of these changes.</p> <p>The licensee has significantly strengthened its compliance framework.</p> <p>During the fourth and final review period, the consultant reviewed the final remaining Action relating to Risk Management and Compliance.</p> |

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| | | The licensee's record keeping for complaints and breaches is comprehensive and robust. |
| Document and Record Management | | |
| 2. | <p>The consultant made 4 Recommendations in relation to Document and Record Management.</p> <p>Morgans proposed 10 Actions in response to the Recommendations.</p> <p>The Recommendations focussed on ensuring the licensee had unobstructed access to client records held in branches.</p> | <p>During the first period, Morgans conducted extensive testing of their national framework and identified common, mandatory systems for use in all branches.</p> <p>Morgans put measures in place to achieve direct, unobstructed access to records stored in all branches.</p> <p>A significant amount of work was undertaken to scan paper files and introduce additional requirements for opening new accounts and providing services to retail clients.</p> <p>During the second review period, the consultant reviewed 2 Actions against 2 of the Recommendations.</p> <p>Morgans had achieved unobstructed access to client records in all branches and strengthened its requirements on branches to use approved systems.</p> <p>During the third review period, the consultant reviewed 4 Actions against 3 of the Recommendations.</p> <p>The licensee completed the introduction of strong national controls around document management and storage.</p> <p>During the fourth and final review period, the consultant reviewed the final remaining Action relating to document and record management.</p> <p>Morgans have substantially reformed its record keeping processes with significantly greater transparency and consistent use of systems on a network-wide basis.</p> |
| Branch Supervision | | |
| 3. | <p>The consultant made 11 Recommendations in relation to branch supervision.</p> <p>Morgans proposed 20 Actions in response to the Recommendations.</p> <p>Recommendations relating to branch supervision focussed on clearly defining</p> | <p>Morgans recognises the significance of branch managers as part of their supervisory network.</p> <p>Branch managers have received additional training and guidance around their supervisory role and in several instances branches have brought on additional resources to strengthen their local supervision and monitoring capability.</p> |

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| | <p>the supervisory role of branch managers and ensuring local staff were adequately experienced to monitor their advisers.</p> | <p>The frequency of reporting and openness of communication between branches was observed to be very good. Recommendations focussed on making additional inquiries to verify the integrity of the information being received from branches.</p> <p>Written agreements between the licensee and branches have strengthened and clarified the mutual obligations of the parties.</p> <p>During the second review period, the consultant reviewed 9 Actions against 6 of the Recommendations.</p> <p>Morgans continued to work with branches to improve adviser induction and supervision. Adviser onboarding has also improved through extended background checks.</p> <p>During the third review period, the consultant reviewed 6 Actions against 5 of the Recommendations.</p> <p>The licensee provided clear guidance around its expectations of local supervision across the branch network with excellent support demonstrated by the branches in implementing the improved standards.</p> |
| <p>Advice</p> | | |
| <p>4.</p> | <p>The consultant made 2 Recommendations in relation to Advice.</p> <p>Morgans proposed 9 Actions in response to the Recommendations.</p> <p>The Recommendations urged greater focus on adviser understanding and application of the distinction between personal financial product advice and general advice and on effective monitoring of the provision of general advice.</p> | <p>One Action was considered during the first period.</p> <p>Morgans engaged an external facilitator to deliver network-wide training on the personal advice/general advice distinction.</p> <p>Additional measures were also introduced to monitor the provision of general advice to retail clients.</p> <p>During the second review period, the consultant reviewed 4 Actions against the 2 Recommendations.</p> <p>Morgans introduced stricter controls around account opening. This was coupled with closer compliance oversight and imposing meaningful consequences for advisers where the requirements were not met.</p> <p>During the third review, the consultant assessed the impact of network-wide training delivered by external experts on financial product advice. The training has had a positive impact on advisers</p> |

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| | | and branches in their understanding of, and attitudes towards the provision of advice. |
| Corporate | | |
| 5. | <p>There were 11 Recommendations made in relation to Corporate. Morgans proposed 27 Actions in response to the Recommendations.</p> <p>The Recommendations for Corporate focussed on improved record keeping, longer exclusion periods for staff trading either side of corporate activity and monitoring of trading activity (for Morgans staff and clients) all in companies the subject of corporate actions.</p> | <p>All 11 Recommendations relating to Corporate were addressed with many of the substantive changes being made whilst the licensee review was being undertaken and shortly thereafter.</p> <p>The consultant reviewed 23 Actions in the first review period. The remaining four Actions related to ongoing audit activities and the effectiveness of these activities was reviewed in subsequent review periods.</p> <p>The Corporate department has introduced measures for better, more consistent record keeping.</p> <p>Additional trading blackout periods were introduced for staff involved in corporate actions.</p> <p>Staff received additional training on Chinese Walls, Conflicts of Interest and Handling Confidential Information.</p> <p>The consultant determined that changes implemented by Corporate have improved record keeping for individual corporate activities and have been effective in strengthening monitoring of trading in securities including any restricted securities.</p> |

18. Compliance One made a total of 6 additional Recommendations during the course of the following three implementation reviews. The Recommendations were straightforward, aimed at fine-tuning a new process or procedure to produce more robust results.

Summary of additional recommendations and observations

| Summary of Additional Recommendations | | Summary of Observations |
|---------------------------------------|---|--|
| 1. | Modify the Breach Register to capture detail of compliance programs. | Morgans new breach register is capable of capturing significant detail against individual matters. |
| 2. | Disseminate the Breach Register and Reporting Policy to the network. | This was completed. |
| 3. | Continue evaluating the adequacy of penalties levied against advisers for | This was agreed. |

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| | SOA breaches to ensure an adequate deterrent effect. | |
| 4. | Provide advisers with copy of their monthly performance report. | This was agreed and completed. |
| 5. | Corporate to review its file closure processes to ensure the files are being correctly finalised. | The Corporate team agreed to continually monitor and audit closed files to ensure new processes were being adhered to. |
| 6. | Revisit controls around external companies presenting to advisers. | Morgans introduced additional measures to brief external parties prior to presenting and to vet presentation material. |

Final assessment and conclusions

19. Compliance One has closely monitored and assessed Morgans' design and implementation of additional measures to address shortcomings identified in the first licensee review undertaken in 2015.
20. Morgans is a large, geographically dispersed network which presents particular challenges for monitoring uptake of new processes and procedures and achieving consistency.
21. Improved use of systems, more monitoring and layers of oversight and stronger consequence management have all played a part in the effectiveness of the changes introduced by Morgans over the past few years. To their credit, the Morgans network embraced the review and demonstrated genuine commitment to adopting changes that flowed from it.
22. The licensee provided full co-operation throughout the review and subsequent implementation plan reviews and support was evident from all levels of management.
23. The consultant is satisfied that Morgans adequately designed and implemented responses to the 37 initial Recommendations and 6 further Recommendations delivered in the consultant's licensee review reports. The 106 Actions proposed by Morgans have been completed to the consultant's satisfaction.

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