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Australian Securities and Investments Commission (ASIC)
Level 5, 100 Market Street
Sydney, NSW, 2000

By email: policy.submissions@asic.gov.au

Dear ASIC

AFA Submission – Consultation: Cost Recovery Implementation Statement (CRIS)

The Association of Financial Advisers Limited (**AFA**) has served the financial advice industry for over 70 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

The Board of the AFA is elected by the Membership and all 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.

Introduction

From our review of Sections H (Financial Advice Sector) and I (Insurance Sector), it is apparent that there have been adjustments for new policy measures, however in neither case is this clearly explained. It has been reported that ASIC has obtained additional funding as a result of the recommendations from the Royal Commission, however it is not clear in what way and how much this will impact the 2018/19 year, as opposed to the 2019/20 year. It would be beneficial for further explanation to be provided on the impact of the Royal Commission on what the industry will be paying as part of the ASIC levy.

We believe that the tables illustrating the budgeted costs for each sector should show the amount that was actually incurred in the previous financial year (2017/18).

Financial Advice Sector

We have reviewed the financial advice sector in Section H, with a particular focus upon financial advisers who provide personal advice to retail clients on relevant financial products. In this respect, we provide the following feedback:

- We would like to see ASIC increase the focus upon guidance and education on the legal obligations for financial advisers. We note that the spend on Education (\$155,000) and Guidance (\$248,000) comes to a total of \$403,000, which is less than \$15 per adviser and therefore only about 1.5% of the annual per adviser charge. This is a small fraction of the amount spent on enforcement and also supervision and surveillance. In our view, an increased focus upon guidance and education could result in a reduction of the need to undertake enforcement activity.
- We would like to know more about the \$1.017m that is spent on Financial Capability Work. We assume that this relates to increasing the financial capability of the general public, which is a good thing, however we are keen to better understand how this is to be allocated and whether it is appropriate for it to be paid for by industry participants.
- We note in paragraphs 265 and 269, a reference to the five largest financial advice firms. We assume that this is a reference to all the licensees involved with the five largest groups, rather than the five largest licensees.
- Paragraph 265(f) almost sounds like ASIC is giving financial advice. We assume that this is more to do with providing information to assist members of the public in gaining an improved understanding of SMSFs.
- Paragraph 272 discusses the calculation of the graduated levy and refers to this being based upon the total number of advisers registered on the financial advisers register, however it does not specifically state whether this will be calculated as at the end of the year. Table 60 more specifically states that this is as at the end of the year. In the 2017/18 year it was based upon the number of advisers at the end of the year. Paragraph 272 needs to be more specific.
- Table 60, in the Number of entities column sets out the number of licensees that provide personal advice to retail clients on relevant financial products (2,987) and the number of financial advisers (22,769). We have checked this against the April 2019 Financial Adviser Register, which shows 2,275 licensees and 27,688 current financial advisers. We understand that there may be a number of licensees that do not have any current advisers, however we are surprised about the significant difference in the number of financial advisers. We request that ASIC explains this difference.

Insurance Sector

Our primary point of feedback on this section is with respect to insurance product distributors and comes down to the following two questions:

- In terms of financial advisers, why do licensees who are authorised to provide financial advice on life insurance products, get charged a separate amount for life insurance distributors, when they are not charged a separate amount for being distributors of superannuation or investment products? It is not apparent to us why they should have this additional charge.
- The insurance product distributor charge of \$377 is the same for very large licensees and also for single person licensees. We question whether this is equitable, particularly given that these advisers are already being supervised by the financial adviser team at ASIC.

Concluding Remarks

The AFA supports the disclosure approach demonstrated through the publishing of the Cost Recovery Implementation Statement for the 2018/19 year and whilst we have raised some questions above, we are broadly supportive.

The AFA welcomes further consultation with ASIC, should it require clarification of anything in this submission. If required, please contact us on 02 9267 4003.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'P. Kewin', written in a cursive style.

Philip Kewin
Chief Executive Officer
Association of Financial Advisers Ltd