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Australian Securities and Investments Commission (ASIC)
Level 5, 100 Market Street
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By email: feeandcostdisclosure@asic.gov.au

2 April 2019

Dear Ms Neilson,

AFA Submission – Consultation Paper 308 – Review of RG 97 Disclosing Fees and Costs in PDSs and Periodic Statements

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 wealth.

Introduction

We have limited our response to the issues directly relevant to the provision of financial advice and specifically the proposal to remove the advice fees (intra-fund advice costs) as a line item.

Response to Consultation Paper Questions

Changing the Superannuation Product ‘Fees and Costs Template’

B1Q1. Do you agree with our approach? If not, why not?

We do not support the proposal to remove the advice fees (intra-fund advice costs) line item. Members of superannuation funds who have access to intra-fund advice should be aware of the cost of this to them, whether they use it or not. We are very conscious that often access to this service and the cost is not very visible. In the context of the recent exposure regarding “fees for no service”, and calls for greater transparency to regain trust, we recommend that this cost is kept visible and not hidden within the administration fee.

There is a broader community issue with the lack of understanding of the cost of financial advice and therefore a lack of willingness to pay for financial advice. We are concerned that the removal of the advice fees (intra-fund advice costs) line item, will promote a view that advice is free or that it is of limited value. We support specific disclosure of intra-fund advice fees, although noting that if there is a nil cost, then it should be acceptable to exclude this line item.

Working with Industry Bodies on Choice of Product Advice

We would be very happy to work with ASIC to address any issues that financial advisers have with fees and costs disclosure in financial advice documents. As part of this process we are happy to consolidate the views of advice licensees and individual financial advisers. We also welcome and encourage engagement and collaboration with other professional associations in this process.

C3Q1. Are you aware of any particular topics within fees and costs disclosure that advisers need guidance on? Please provide details.

Whilst financial advisers are ultimately responsible for what appears in a Statement of Advice, they do place some reliance upon the financial planning software that they use for both information on the cost of any products that they are recommending and also the calculation of the total fees. To a large extent, this is pre-loaded into the financial planning software, and where the data is up-to-date, then they are typically not required to specifically adjust it. Nonetheless it is sensible to check the client’s member statement and the product PDSs to confirm that the correct fees are being applied.

The biggest issue for fees and costs disclosure for financial advisers occurs with respect to the product replacement table that is required when they are recommending that a client switch from one or more existing products to a new product. Most commonly, this relates to superannuation switching advice. This can be more complicated when multiple products are involved or where this does not involve a direct ‘apples for apples’ comparison. This is the case where the advice includes the client making an additional one-off contribution. Complications also arise where the switch is from an old product, where it is more difficult to obtain information on the fees and costs.

Recommending a new strategy, such as the commencement of salary sacrificing to superannuation, will result in an increase in total ongoing fees, which needs to be calculated and disclosed.

We believe that further guidance on the completion of product replacement tables would be beneficial.

C3Q2. Do you have any suggestions on what resources about fees and costs disclosure may be useful to advisers?

At present there is not much guidance for financial advisers preparing the product replacement table in a Statement of Advice, and the assessment of whether the switch delivers an overall benefit for clients. The following paragraph in Regulatory Guide 175 provides some direction:

“RG 175.378. The determination of whether there are overall cost savings for the client must take into account all the circumstances, including the cost of the replacement (i.e. making the switch) and the advice provider’s fees, if they are payable only if the switch is made.”

We would recommend that more guidance could be provided, including worked examples that provide specific guidance on how to address fees and costs in the product replacement table. Ideally, these examples could cover a range of different scenarios and specifically address the different types of fee and costs that need to be included in the product replacement table.

We would also support online solutions that make it much easier to find the fees and costs information for legacy products.

Concluding Remarks

The AFA welcomes the opportunity to provide feedback on Consultation Paper 308 – Review of RG 97 Disclosing fees and costs in PDSs and periodic statements. We have limited our feedback to issues directly related to financial advice, and would be happy to support ASIC with any detailed consideration of these issues.

Should ASIC require any clarification on anything in this submission, then please contact us on 02 9267 4003.

Yours sincerely,



Phil Kewin
Chief Executive Officer
Association of Financial Advisers Ltd