Initial Findings document –Morgans Financial Limited

The following is an analysis of the books produced in response to a s33 Notice dated 25 March 2015. These books will be used to select a sample of Morgans' branches for further testing of their monitoring and supervision arrangements. The Schedule of the Notice can be found in Appendix 1.

Books received

Notice Item number	Document ID	Title
[redacted]		

S 45

Analysis

Item 1 - s 45 [redacted]

This item has been requested to determine what conflicts of interest if any may exist as a result of the arrangements between Morgans and their managed offices. It also demonstrates to what extent Morgans and their managed offices are responsible for compliance including supervision and monitoring.

s 45 [redacted]

[redacted]

Of interest in the agreement are the insurance arrangements between Morgans and branches. s 45 [redacted] Interestingly, this arrangement may seem to limit Morgans' liability in relation to insurance arrangements or matters leading to claims such as breaches and complaints.

Item 2 – s 45 [redacted]

A key document for monitoring and supervision is the s 45 [redacted].

The issues observed with this document include:

- It doesn't appear to be scaled for branches of different sizes (larger branches with over 10 advisers review the same amount as a branch with just one adviser)
- Smaller branches may not have the necessary competency to review certain product areas
- There exists an opportunity for branches to cherry pick files that they know to be compliant and overlook others. This is particularly of concern due to the conflicted position of Branch Managers
- There is no systematic review process of these reports.

Some of these issues are a result of the conflicted position Branch Managers hold. The Quarterly Supervision Reports should be requested for the branches selected in the sample and possibly related documentation.

Item 3 – s 45

s 45

s 45 Evidence of this kind of testing would be useful to obtain as part of the in-depth review of sample branches.

Item 4 – s 45

s 45 .

s 45 The documents created during these site visits would offer some insight into the robustness of Morgans' supervision and monitoring activities and should be requested under Notice for the sample branches.

Item 5 – s 45

s 45

Item 6 – s 45
s 45
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Item 7 – s 45
s 45
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Branches with a high frequency of breaches and breach to adviser ratio will be considered higher risk and selected for further testing.

s 45

In addition to the quantitative analysis of the breaches overall each breach was also reviewed individually in order to determine its nature and if any patterns were present. For example if a high proportion of breaches related to options trading this may prompt further investigation.

s 45
. One observation noted is s 45
s 45 . It does not appear to conform with RG 78 Table 5. Information is often repeated while material information is missing and there appears to be a large

degree of inconsistency in recording breaches. Furthermore, it appears the escalation process is being applied inconsistently – for example the comments for two breaches recommended reporting to ASIC yet the 'reportable' column indicates 'no' without explanation (see s 22 and s 22 breaches) These issues warrant raising with Morgans as part of any recommendations.

Item 8 – s 45

The complaints register for the period 1 January 2014 to 25 March 2015 was also requested, however, s 45 were received. Similar to the s 45 a high frequency of complaints attributed to a particular branch increases its risk profile. However, more scrutiny may need to be applied in relation to the substance of the complaint and whether it is of concern. For example s 45. This rate appears very high but in reality all but one of the complaints are in relation to the same issue which lessens the risk profile of that branch. Similarly a number of entries in the s 45 are not formal complaints but only recorded where dissatisfaction was expressed. Therefore, it is necessary to consider the substance of these complaints and not only their number. Similar to the s 45 there was no product area overrepresented in such a way to warrant specific investigation.

s 45

Item 9 – s 45

s 45

. Although the incidents involving the Authorised Representatives were already known they highlight the

importance of effective monitoring and supervision at a branch level. From investigating these s 45 it appears compliance culture at this branch was very poor. This intelligence will be utilised when selecting a sample of branches for further review.

Findings

The initial Notice has uncovered s 45 [redacted]. These branches will be selected for further testing. s 45 [redacted] will also be taken into consideration when selecting branches. The number of branches to be tested will be 4.

Proposed branches for further testing

s 45

[redacted]

Proposed Books to be requested

1. Quarterly Supervision Reports
2. Weekly checklists as referred to in P60.0010.0002.00333.
3. Training registers
4. Documents relating to complaints and breaches including correspondence, outcomes, branch complaints/breach registers, etc.
5. Reviews of the branch carried out by Legal and Compliance.
6. Latest management agreement for each branch (if different from template).
7. Wall crossing documents for each branch.
8. Documents related to PI Claim Notifications.
9. Requests to deal in products outside Morgans' approved product list.
10. Insurance details such as the excess payable, premiums, and terms and conditions.
11. Spreadsheet of Legal and Compliance's comments on the Quarterly Supervision Reports as outlined in P60.0010.0002.0058 page three.
12. Evidence of ad-hoc testing of Quarterly Reports as per P60.0010.0002.0058 page four.
13.

Appendix 1

SCHEDULE

Definitions

The following definitions apply for the purposes of this Schedule:

'**Authorised Representatives Register**' means the register containing the names of Authorised Representatives of the Company including their Authorised Representative number, branch they work in, and their competencies as discussed in the Email.

'**Branch Manager Quarterly Supervision Report Template**' means the document used to prepare Quarterly Reports as discussed in the Email.

'**Company**' means Morgans Financial Limited ACN 010 669 726 and its Representatives.

'**Financial Services Laws**' has the meaning given by s761A of the *Corporations Act 2001*

'**Internal Audits Summary Report**' means the document detailing the matter and outcome of Internal Audits as discussed in the Email.

'**Legal and Compliance Board Report**' means the document that forms part of the monthly Board Report which contains details of compliance activities as discussed in the Email.

'**Legal and Compliance Staff Register**' means the register of legal and compliance staff maintained by the Company as discussed in the Email.

'**Management Agreement and Schedule**' means the agreement setting out the terms and conditions between Managed Offices and the Company.

'**Managed Office**' means the offices where a service entity employs all staff who then work as Authorised Representatives of the Company.

'**Relevant Period**' means from 1 January 2013 to the date of this Notice.

'Representatives' has the meaning given by s910A of the *Corporations Act 2001*.

'**Rule**' means the relevant rule in the *ASIC Market Integrity Rules (ASX Market) 2010* unless otherwise stated.

'**the Email**' means the email sent from ASIC to Jennet Butler on 20 March 2015 summarising details of the Company's compliance arrangements and Jennet Butler's response dated 22 March 2015.

Books Required

Management agreement and schedule

1. A copy of the last Management Agreement and Schedule arranged or renewed between the Company and a Managed Office.

Supervision and monitoring

2. A copy of the Branch Manager Quarterly Supervision Report Template as of the date of this Notice.

3. Copies of the Internal Audits Summary Reports from the period 1 January 2014 to the date of this Notice.

4. Copies of the Legal and Compliance Board Reports from the period 1 January 2014 to the date of this Notice.

Registers

5. A copy of the Authorised Representatives Register as of the date of this Notice.

6. A copy of the Legal and Compliance Staff Register as of the date of this Notice.

7. A copy of the breach register, howsoever named evidencing potential or alleged breaches of a Financial Services Law during the Relevant Period.

8. A copy of the complaints register, howsoever named that records or relates to complaints relating to potential breaches of Financial Services Laws by the Company or its Representatives from persons who dealt with the Company during the Relevant Period.

9. A copy of the suspicious activity register, howsoever named evidencing review, assessment and consideration of potential suspicious activity in accordance with Rule 5.11.1 for the Relevant Period.