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Preamble

1. Compliance with the general obligations under s912A of the *Corporations Act 2001(Cth)* (the Act):

   (a) financial services being provided efficiently, honestly and fairly;

   (b) arrangements relating to the management of conflicts of interest;

   (c) compliance with licence conditions;

   (d) compliance with financial services laws;

   (e) ensuring representatives comply with financial services laws;

   (f) the adequacy of resources to carry out supervisory arrangements;

   (g) maintaining the competence to provide financial services;

   (h) ensuring representatives are competent and adequately trained; and

   (i) the adequacy of risk management systems.

2. Compliance with Part 7.10 of the Act, including, but not limited to:

   (a) s1042G – Information in possession of officer or body corporate;

   (b) s1043A – prohibited conduct by person in possession of inside information; and

   (c) s1043F – Chinese wall arrangements by body corporate

3. Compliance with Australian Financial Services Licence No:235410, including, but not limited to:

   i. Condition 3: Compliance Measures to Ensure Compliance with Law and Licence

   ii. Condition 4: Training Requirements for Representatives

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The following section repeats the comments made in relation to the specific work-streams contemplated for the Consultant Scope of Review (provided 11/09/2015) and is provided for continuity purposes:

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1. Document reference: "*1. The proposed review scope*", "*1.1 Background*"

This section should be restricted to 'concerns identified by ASIC', combined with expansion of scope definitions for "*potential issues*" (1.1), incorporating:

i. "*Advice*" component requires:

a. review of a selection of SOAs issued to retail clients within the last 12 months involving options/derivatives, SMSFs, tax effective schemes, hybrid and other high risk products (selection criteria to consider, non-exclusively, volumes, geographic, product and adviser concentrations and to be agreed by ASIC).
b. assessment of product suitability considering clients' personal circumstances (limited to selection under **a.**).
c. assessment of adviser competence in respect of Morgans' policies and Corporations Act requirements (limited to selection under **a.**).
d. assessment of compliance reviewer competence (inclusive of branch, managed office and head office - limited to selection under **a.**)
e. assessment of adequacy of compliance review criteria, process and response (limited to selection under **a.**).
f. assessment of adequacy of group-wide risk management and compliance framework concerning SOAs.

ii. "*Unauthorised discretionary trading*" component requires:

a. review of a selection of incidents, breaches and complaints involving or alleging unauthorised discretionary trading within the last 12 months (selection criteria to consider, non-exclusively, volumes, geographic, product and adviser concentrations and to be agreed by ASIC).
b. assessment of adequacy of compliance reviewer competence (inclusive of branch, managed office and head office – limited to selection under **a.**).
c. assessment of adequacy of the compliance response including escalation, remediation, regulatory obligations and consequences management (limited to selection under **a.**).
d. assessment of adviser understanding of policies and circumstances of unauthorised discretionary trading , disciplinary and penalty regimes (as part of 'selection' reviews).

e. assessment of adequacy of specific risk management tools for compliance monitoring and detection.
f. assessment of adequacy of consequences management (in policy and practice).

iii. "*Staff trading*" component requires:

a. review of a selection of staff trading incidents for the last 12 months (selection criteria to include, non-exclusively, volumes, geographic and adviser concentrations and to be agreed by ASIC).
b. assessment of adequacy of compliance responses, including escalation and consequences management (limited to selection under **a.**).
c. assessment of adequacy of adviser understanding of policy and consequences management (as part of 'selection' reviews).
d. assessment of adequacy of risk management and compliance framework, including approval and compliance controls involving confidential information.

iv. "*Managing conflicts of interest*" and "*insider trading – degree of controls*" component requires (at head office and selected branch / managed office levels):

a. review of a selection of corporate finance product promotion and distribution activities for the last 12 months (selection criteria to include, non-exclusively, geographic and product concentrations and to be agreed by ASIC).
b. assessment of adequacy of corporate finance controls and compliance monitoring, including physical access barriers, internal and external/3rd party document and information handling protocols (inclusive of selections under **a.** and 'selection' reviews).

v. "*PI Arrangements with Branch Offices*" component requires:

a. review of Management Agreement arrangements with branches and managed offices to include, non-exclusively, PI insurance arrangements, fee/cost and liability splitting.
b. assessment of the practices of branches and managed offices in the context of Management Agreement arrangements and compliance deliverables (as part of 'selection' reviews).
c. assessment of suitability of Management Agreement arrangements, in an ongoing context, to influence and deliver adequate compliance outcomes.

vi. Compliance supervision and monitoring of advisers requires, non-exclusively:

a. assessment of the adequacy of adviser on-boarding due diligence practices.

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b. assessment of the adequacy of adviser personal disclosures including, non-exclusively, conflicts and ownership or involvement in related entities.
c. assessment of the adequacy of adviser compliance review processes including, non-exclusively, selection criteria, composition and frequency (considering the size, nature and location of branches / managed offices).
g. assessment of the adequacy of risk management tools for general compliance monitoring and detection.
d. assessment of the adequacy of compliance elements in adviser employment arrangements including, non-exclusively, assessment criteria, compliance components in performance assessments, earnings recourse in respect of defaults, sanctions, penalties and disciplinary actions.

vii. Compliance resources and culture requires:

a. assessment of the adequacy of compliance resourcing at head office, branch and managed offices (considering the size, nature and location of branches / managed offices).
d. assessment of the adequacy of compliance competence of all staff interviewed as part of 'selection' reviews.
b. assessment of the adequacy of adviser, compliance reviewer and executive management appreciation and application of compliance culture.

2. Document reference: "*1.2 Areas for Review*"

Redundant – replaced by specific elements addressed above.

3. Document reference: "2*. How the Review will be conducted*", "*From Morgans' Eagle St premises in Brisbane*" and "*On-site Branch reviews*"

a. "*Review Morgans' policies and procedures..*" and "*Review committee structures,…*" components should be limited to high-level assessment of demonstrated adequacy.

4. Document reference: "3*. Proposed review timeframe*"

a. Restrict to in-principle timetable and deliverables as discussed.
b. Provide for progress report(s) to be submitted, as agreed by Morgans and ASIC.