

24 January 2018

MEDIA RELEASE: FSC response to ASIC Report 562, “Financial advice: Vertically integrated institutions and conflicts of interest”

ASIC’s review shows there is still work to be done to address community and regulator concerns about the quality of advice in Australia.

In relation to the 130 files reviewed by ASIC that did not meet the regulator’s high standard for record-keeping, we will work with the regulator to put in place processes for licensees to improve. For the 19 out of 200 files reviewed where ASIC indicated significant concerns, individual licensees will work with the regulator to compensate clients and make things right.

There is already further work underway to improve advice. This includes better monitoring and supervision; improvements in the advice process; and ASIC banning advisers with serious compliance failings.

In recent years there has been considerable legislative reform to address a number of concerns about the quality of financial advice in Australia. Chief among these are the Future of Financial Advice Reforms which place an obligation on financial advisers to act always in their clients’ best interests, and impose a prospective ban on commissions for investment products. Separately, a register of licenced financial advisers has also been introduced.

ASIC has acknowledged in this review that these reforms have resulted in an improvement in the quality of advice and expects that it will take some time for all reforms to have their full intended effect on the financial advice industry.

Further reforms to raise ethical and education standards in the advice industry have already been passed and will be phased in from 1 January 2019. These higher standards, as well as a proposed Code of Ethics for advisers, should also lead to improvements.

In the report ASIC has adopted its own interpretation of how the best interest duty should be applied. In drawing conclusions regarding ‘non-compliant advice’, ASIC has considered file documentation alone; it has not consulted with individual clients or advisers. It is the FSC’s view that, before drawing definitive conclusions about the appropriateness of advice, the client and the adviser should be consulted.

As stated by ASIC, vertical integration can provide economies of scale and other benefits for customers. Consumers are attracted to the convenience and safety of a relationship with a large, vertically

integrated institution which facilitates easier access to financial services and stands behind their advisers as an extra layer of protection if things go wrong.

The FSC and its members welcome regulatory scrutiny to ensure that consumers are receiving the highest standard of advice, and to ensure conflicts of interest are managed in a way that puts consumers first. We look forward to working with ASIC on its proposal to introduce more transparent public reporting on approved product lists.

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For further information please contact FSC Media Manager Mark Smith on 0434 566 764 or msmith@fsc.org.au.

About the Financial Services Council

The Financial Services Council (FSC) has over 100 members representing Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks and licensed trustee companies. The industry is responsible for investing almost \$3 trillion on behalf of more than 14.8 million Australians. The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange and is the fourth largest pool of managed funds in the world. The FSC promotes best practice for the financial services industry by setting mandatory Standards for its members and providing Guidance Notes to assist in operational efficiency.