



FINANCIAL  
SERVICES  
COUNCIL

# Education Standards for Financial Advisers

FSC Submission

February 2022



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## 1. About the Financial Services Council

The FSC is a peak body which sets mandatory Standards and develops policy for more than 100 member companies in one of Australia's largest industry sectors, financial services.

Our Full Members represent Australia's retail and wholesale funds management businesses, superannuation funds, life insurers and financial advice licensees. Our Supporting Members represent the professional services firms such as ICT, consulting, accounting, legal, recruitment, actuarial and research houses.

The financial services industry is responsible for investing \$3 trillion on behalf of more than 15.6 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.

## 2. Executive Summary

The FSC welcomes the bi-partisan commitment that has emerged on the need to ensure advice is affordable and accessible, while at the same time ensuring it is done in a way that has the appropriate professional standards.

The experience pathway should apply to financial advisers with ten years of experience from 1 January 2022, who have a recognised historical qualification (eg Diploma in Financial Planning, Advanced Diploma in Financial Planning (**DFP**) or a designation such as a Certified Financial Planner (**CFP**)) and completed 2-4 subjects that meet the education standard. The change should include a sunset provision to ensure this exemption only applies to existing members of the profession who satisfy these requirements.

To avoid unintended consequences, ensure an appropriate and level playing field, and maintain market confidence in the profession, further consultation on these proposals is needed.

Consultation should consider changes to the professional framework including but not limited to:

- A principles-based method of determining suitable qualifications that meet the education standard
- Better supporting the recognition of prior learning and experience, and an assessment of the role of universities and registered training organisations (**RTOs**)
- Models that would enable *experienced* financial advisers to have professional experience appropriately recognised by universities and RTOs
- An increased role for industry bodies in determining and enforcing professional requirements and professional standards, in particular the specialised provision of personal advice.

The primary issue facing the sector is the cost to produce advice driven predominantly by unnecessarily high volumes of complex legislation and regulation. These increased costs are worn by consumers. The FSC's *White Paper on financial advice* outlines several reforms of priority for industry, including:

- Removal of the safe harbour steps for meeting the Bests Interests Duty
- The abolition of the Statement of Advice
- The simplification of the definitions of advice through legislated 'personal advice' and 'general information';

The FSC would welcome the opportunity to discuss its submission in detail with Treasury.

### 3. FSC Recommendations

1. The FSC welcomes bi-partisan commitment that has emerged on the need to ensure advice is affordable and accessible, whilst at the same time ensuring it is done in a way that has the appropriate professional standards.
2. The experience pathway should apply to financial advisers with 10 years experience from 1 January 2022, who have a recognised historical qualification and who have completed 2-4 subjects that meet the education standard. The change should include a sunset provision to ensure this exemption only applies to existing members of the profession.
3. The current proposal to introduce an experience pathway and modifications to the qualification pathway in order to meet professional standards requirements are well intentioned, and the FSC supports amendments in this direction. In executing such amendments, we believe more consultation is required to determine the best path forward so as to avoid unintended consequences and ensure appropriate outcomes. Further consultation should test models that emerge from this initial consultation process, including but not limited to:
  - a. Principles-based process for determining qualifications suitable for meeting the standard
  - b. Better recognising prior learning and experience along with more formalised means of accrediting courses that meet the education standard
  - c. Allow for greater inclusion of industry developed courses and qualifications that meet the FASEA education and continuing professional development standard offered by a tertiary institution.
  - d. Enable increased role for industry bodies in setting standards and requirements for specialised provision of personal financial advice
  - e. Whether a requirement of 2-4 subjects for experienced advisers would better realise Treasury's policy intent.
  - f. Allowing experienced financial advisers to re-enter the profession after completing the Financial Adviser exam without need to complete a Professional Year in recognition of their experience subject to financial advisers meeting the standard.
4. The existing requirements for Recognised Prior Learning and equivalent pathways are sufficient. Treasury should consider whether industry developed courses and qualifications meet the financial adviser standards for education and continuing professional development standard offered by tertiary institutions and provide clarity on how the requirements apply to new entrants to the industry versus existing participants.

5. The FSC welcomes a principles-based approach to the Professional Year. The Professional Year Australian Qualifications Framework 8 module should be left to the new entrant or AFSL-holder to determine and not prescribed in the Standard.
6. From 2023, the Government should prioritise consumer-centric reforms outlined in the FSC's *White Paper on financial advice* that include:
  - a. the repeal of the safe harbour steps for meeting the Best Interests Duty;
  - b. the introduction of the FSC's proposed Letter of Advice;
  - c. and the legislated definitions of 'personal advice' and 'general information'.

## 4. Policy objective

### **Recommendation**

The FSC welcomes bi-partisan commitment that has emerged on the need to ensure advice is affordable and accessible, whilst at the same time ensuring it is done in a way that has the appropriate professional standards.

### **Recommendation**

The experience pathway should apply to financial advisers with 10 years experience from 1 January 2022 and who have a recognised historical qualification and completed 2-4 subjects that meet the education standard. The change should include a sunset provision to ensure this exemption only applies to existing members of the profession.

### **Recommendation**

The current proposal to introduce an experience pathway and modifications to the qualification pathway in order to meet professional standards requirements are well intentioned, and the FSC supports amendments in this direction. In executing such amendments, we believe more consultation is required to determine the best path forward so as to avoid unintended consequences and ensure appropriate outcomes. Further consultation should test models that emerge from this initial consultation process, including but not limited to:

- Principles-based process for determining qualifications suitable for meeting the standard
- Better recognising prior learning and experience along with more formalised means of accrediting courses that meet the education standard
- Allow for greater inclusion of industry developed courses and qualifications that meet the FASEA education and continuing professional development standard offered by a tertiary institution.
- Enable increased role for industry bodies in setting standards and requirements for specialised provision of personal financial advice
- Whether a requirement of 2-4 subjects for experienced advisers would better realise Treasury's policy intent.
- Allowing experienced financial advisers to re-enter the profession after completing the Financial Adviser exam without need to complete a Professional Year in recognition of their experience subject to financial advisers meeting the standard.

The proposal to enable a concession for those with long term experience has significant merit and in an environment in which financial advisers are exiting the sector.

Conversely, the proposals would be implemented as the advice sector transitions to significantly more rigorous professional standards and education requirements by 2026, that it is well on track to meeting. In December 2021, FASEA noted 82 per cent of active financial

advisers in Australia (ie15,500) had passed the Financial Adviser Exam.<sup>1</sup> A concession of 10 years for financial advisers with a recognised historical qualification and 2-4 subjects, with an appropriate sunset clause to limit the concession to existing participants in the sector balances Treasury’s intent and the need for retaining the shared body of learning defining the financial advice profession.

Nevertheless, consideration of additional proposals and alternate models drawn from this initial phase of consultation will ensure unintended consequences are avoided and complement the work done by the sector to achieve a shared body of learning in recent years. Changes to the framework should also be made in a manner that is fair on financial advisers who have met, or are in the process of meeting, the requirements of the education standard.

The FSC supports changes to deliver a professional framework that is more inclusive of different qualifications or development pathways that reflect the education standard. A detailed discussion on alternative ways to meet the policy intent should be prominent part of further consultation, supported by the prioritisation of reforms to the advice process to meet that intent.

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<sup>1</sup> Financial Adviser Standards and Ethics Authority (**FASEA**) Media Release. 10 December 2021.  
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## 5. Impact of the proposals for industry

Certainly the proposals would provide some short-term benefit to the sector at a time when the number of financial advisers available is contracting. Offering an additional pathway for existing advisers that recognises the “on-the-job” experience may allow those who had planned to exit due to having to meet the education pathway to stay within the industry. This increases (or at least does not shrink) the pool of financial advisers and would ensure the value experienced financial advisers offer is retained.

Future changes should not reverse the work that has been undertaken by the sector or attract further unnecessary cost (eg licensees having to determine or re-determine whether an adviser meets the new requirements, for example reassessing academic transcripts). Since the introduction of the existing framework, advice licensees have reconfigured their own pathways for complying with the existing standard.

Further consultation should clarify how financial advisers who would qualify under the experience pathway would be assessed and which actors would be authorised to make this assessment. The Financial Adviser Register dates of authorisation could be a transparent tool by which this is assessed.

### Clarifying how the experience pathway applies

How experience is defined under the proposed experience pathway should also be clarified upon its implementation. For example, clarifying whether the ten years would once-off, cumulative or capture experience gained part time. It is not clear that experienced gained by financial advisers working part time would qualify (eg those whose family situation means unable to work full time). It is not clear whether the ten year period captures one year of learning or experience replicated ten times. How the proposals capture the experience of providers of incidental financial advice should also be considered.

## 6. Recognition of prior learning (RPL)

### **Recommendation**

The existing requirements for Recognised Prior Learning and equivalent pathways are sufficient. Treasury should consider whether industry developed courses and qualifications meet the financial adviser standards for education and continuing professional development standard offered by tertiary institutions and provide clarity on how the requirements apply to new entrants to the industry versus existing participants.

The FSC supports changes that recognise prior study and continuing professional development (**CPD**) following consultation. The education framework should also recognise the role of professional bodies in supporting the advice industry as a career pathway and attracting new financial advisers.

The FSC would welcome clarity on how Treasury's proposed changes apply to existing members of the profession versus new entrants to the profession as part of further consultation.

## 7. Amendment of the Professional Year standard

### **Recommendation**

The FSC welcomes a principles-based approach to the Professional Year. The Professional Year Australian Qualifications Framework 8 module should be left to the new entrant or AFSL-holder to determine and not prescribed in the Standard.

A principles-based approach to Professional Year will support the benefits derived from proceeding with the experience pathway as the FSC recommends. It enables the sector to establish a sound long-term footing for determining the suitability of courses and qualifications commensurate with a financial adviser's experience and adjusting this as the profession evolves.

## 8. Priority areas of reform

### Recommendation

From 2023, the Government should prioritise consumer-centric reforms outlined in the FSC's *White Paper on financial advice* that include:

1. the repeal of the safe harbour steps for meeting the Best Interests Duty;
2. the introduction of the FSC's proposed Letter of Advice;
3. and the legislated definitions of 'personal advice' and 'general information'.

As it consults on improvements to the professional framework, the Government should also pursue other reforms to meet policy objectives of a more streamlined profession, reduced cost, and which builds on the hard work of thousands of advice professionals to meet the education standard in recent years.

As advanced in the FSC's *White Paper on financial advice*, the FSC advocates initial reform to the advice process to reduce cost and improve the quality of advice consumers receive that include:

- the removal of the safe harbour steps for meeting the Best Interests Duty by repealing Section 961B (2) of the Corporations Act 2001 and amending the Code of Ethics
- the simplification of the documentation requirements by abolishing the Statement of Advice and introducing a shorter and more flexible Letter of Advice supported by scalable advice obligations by amending Section 947B of the Corporations Act
- Simplification of the definitions of advice (eg the consolidation of advice definitions into 'personal advice' and 'general information' and removing the nexus between product and advice.

KPMG determined that the advice process costs \$5334.64. Their analysis shows that should the FSC's core recommendations (abolition of the safe harbour steps, introduction of a Letter of Advice, and relabelling of advice definitions) be fully implemented that:

- The cost of providing financial advice will be reduced by almost \$2000 or by 35-37 per cent.
- Save financial advisers up to 32 per cent of their time when providing advice to clients.
- Allow advisers to provide advice to an additional 44 new clients each year.
- Time required to complete the advice process would reduce from 23.9 hours to under 16.8 hours per consumer, allowing advisers to focus on what they do best – support consumers.

Prioritising reform of the advice process will ease the regulatory burden on financial advisers and confront the policy challenge of a contracting number<sup>2</sup> of advice professionals. Reform could commence from 2023 next year following consultation with the sector and the completion of the Government's review of the quality of financial advice.

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<sup>2</sup> There has been an almost 10,000 drop in the number of advisers on the Financial Advisers Register since December 2018