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Knowledge is power

Sunitha Chamala CFP® talks about our global designation

THIS ISSUE

PLACING ALTERNATIVES IN A PORTFOLIO / STUDENT ENGAGEMENT PROGRAM STARTS / SMAS COME OF AGE

FINANCIAL PLANNING ASSOCIATION *of* AUSTRALIA

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Creating a better future for all

This month it felt fitting to write about the Future2 Foundation. Over the past couple of years in particular, Future2 has become an integral part of the Financial Planning Association. From climbing Mt Kilimanjaro, to cycling around the country, Future2 offers an active channel through which the FPA community can give back. I have always believed giving back is the hallmark of a profession and I am delighted to see support from FPA members increase year on year.

Last financial year, FPA members raised $508,000 for not-for-profits and charities that work to help disadvantaged young Australians. With so many activities taking place, there has never been a better time to get involved.

Make the Difference! grants

Between 2007 and 2015, Future2 has made grants totalling $613,000. The funding for new grants in 2016 will be decided later this year, and will be in addition to the $77,500 already committed for the funding of the nine three year grants awarded in 2014 and 2015.

I encourage you to nominate a local not-for-profit that is doing incredible things to ensure young people in need get the help they deserve. You may already be involved with a not-for-profit as a mentor, board director or volunteer, but that is not necessarily a requirement for nomination.

Ideally the organisation has a strong track record and high quality programs for young people aged 12 to 25 years. The organisation may focus on youngsters who have experienced financial hardship, dysfunctional family life, juvenile justice detention, drug or alcohol dependence, disability or lack of access to mainstream education. With your support, a community organisation in your area could be in the running for a grant later this year.

Grant applications are now open and grant recipients will be announced at the 2016 FPA Professionals Congress, being held between 23 and 25 November in Perth. You can read more about the program on page six.

2016 Wheel Classic

A few weeks ago registrations opened for the 2016 Future2 Wheel Classic. Having done the Classic myself, I can personally recommend it as a fulfilling achievement. This year, the flagship fundraiser heads to Western Australia, with a circular route starting and ending in Perth for our Congress.

This year marks the seventh Future2 Wheel Classic, an endurance cycle ride that has raised more than $585,000 to date. To members on the west coast in particular, I ask that you consider this fitness challenge a chance to make a lasting difference to those who need it.

Making a donation

Of course, there are plenty of ways to make a financial contribution to Future2. You can make a donation through your 2016/17 membership renewal, at your local chapter event or at this year's FPA National Roadshow where we will be raising funds at each location. If you haven't yet registered, visit www.fpa.com.au/roadshow.

If you're not familiar with the work of Future2, I highly recommend visiting the website at www.future2foundation.org.au. There's nothing more rewarding than helping those in need and together, we can make a bigger and better impact.

Thanks for your support.
Enjoy the edition.

Dante De Gori CFP®
Chief Executive Officer

Follow Dante on Twitter @ddegori10

With your support, a community organisation in your area could be in the running for a grant.

Future2 2016 grants program opens

The FPA's charitable foundation, Future2, has opened applications for the 2016 Make a Difference! grants to support deserving charities around Australia. The series of grants will add to the $613,000 grants the foundation has awarded since 2007.

The FPA is calling on members to invite charities that have a track record delivering programs to disadvantaged youth aged between 12 and 25 to apply for a grant. Not-for-profit organisations that are eligible to apply for a grant can request a single year, $10,000 or grant, or a multi-year grant valued at up to $30,000.

Applications are open until 1 August. The Future2 board will make final recommendations for grants in October, and successful applicants will be announced on 24 November at the gala dinner of the FPA Professionals Congress in Perth.

Find out more about Future2 grants at www.future2foundation.org.au/grants.

Grant recipients at the Esther Cafe in Como, WA.

FPA raises concerns about royal commission

The FPA believes financial advice should be excluded from any royal commission into the financial services sector, arguing that the profession has been through 54 inquiries and reviews since 2009. Subsequently, five major legislative regimes have been introduced to address industry issues and enhance consumer protection.

As FPA CEO, Dante De Gori CFP®, said in a statement: "All financial planners are now subject to a best interest duty and conflicted remuneration has been banned. Since the implementation of the ASIC Financial Adviser Register, all licensed financial planners are also listed on a national register. Additionally, all financial planners must be personally registered, or supervised by, a registered individual with the Tax Practitioners Board (TPB).

"Together, these changes are leading to significant improvements in consumer outcomes. Many of these measures are less than three years old and are still in implementation phase. It is important that we allow time for the full impact of these changes to be felt."

Given the profession is on the cusp of implementing additional legislation, including the introduction of a degree entry requirement for new financial planners, a professional year, and a code of ethics, the FPA claims a royal commission would jeopardise the significant headway made so far.

"We have come a long way in setting strong foundations for a financial planning profession that will truly serve and protect the interests of Australian consumers in the next decade and beyond. Not only would a royal commission put this on hold, it would also mean millions of tax payers' dollars would be wasted," said De Gori.

"What we need to do now is focus on what has already been achieved and move forward with workable legislation that we have in place. Only then will we be in a position to evaluate the success of these significant measures," he said.

ASIC focused on structural changes in financial services

The Australian Securities and Investments Commission (ASIC) has released its *ASIC enforcement outcomes: July to December 2015 report*, which details its enforcement activities across the period.

The report outlines four areas on which the regulator focused its activities in the latter half of 2015. It looked at organisational culture in financial services, given culture is a significant driver of conduct, concentrating its investigation on gatekeeper culture. It also looked at retail margin foreign exchange trading, including proactive surveillance to ensure brokers are meeting their licensing requirements. Phoenix companies were also an area of focus, and ASIC targeted directors who have a history of being involved in failed companies.

The regulator also looked at electronic evidence and technology, given its increasing access to large volumes of data. By 2020 it estimates it will receive 425 terabytes of data a year.

ASIC has said it continues to look at balancing a free market system with consumer protection. During the period 105 investigations were started and 86 were completed. It was involved in laying 42 criminal charges, its activities led to 27 individuals being removed from financial services and its activities led to $149 million being paid out in compensation.

Regulator consults on robo advice

ASIC has started a consultation process on digital advice, releasing a draft consultation paper and regulatory guide.

ASIC Commissioner John Price said in a statement, "ASIC is keen to see a healthy and vibrant digital advice sector. We see digital advice as having the potential to offer Australian consumers access to good quality, low-cost, financial advice."

The regulator has said businesses that offer digital advice will benefit from further guidance about the regulations that govern its use. As ASIC drafts a final regulatory guide it has said it will investigate the entire advice supply chain from licensing to the provision of advice to consumers.

It is seeking specific feedback on:

- The organisational competence obligation that applies in a digital advice context.
- The ways in which digital advice licensees should monitor and test their algorithms.

FPA Western Australia Chapter Sundowner - Meeting the Regulators Seminar

The FPA Western Australia Chapter held a Meet the Regulators member seminar on 17 February at Frasers Function centre.

During this session members heard from our keynote speakers Dante De Gori CFP®, FPA CEO, Ian Taylor, chair of the Tax Practitioners Board and Dr June Smith, Lead Ombudsman, Investments & Advice at the Financial Ombudsman Service (FOS) Australia who each provided guests with tips on how to bulletproof their business.

Dr June Smith addresses attendees at WA


Sydney Chapter chair, Marisa Broome with George Lytas and Craig Day

Sydney Chapter Member Breakfast

The Sydney Chapter hosted a sell-out CPD member breakfast seminar on 30 March, supported by Colonial First State and CommInsure.

At this event members heard from guests speakers Craig Day, executive manager technical services at Colonial First State and George Lytas, head of annuities at CommInsure.

Craig and George presented on asset test changes and retirement income strategies.

The event helped raise more than $700 towards Future2, FPA's charitable foundation that supports underprivileged youths aged between 12 and 25 in Australia.

Brisbane Chapter Masterclass – with Neil Kendall

On 24 February the Brisbane Chapter held a member Masterclass session with Neil Kendall CFP®, managing director of Australia's most awarded financial planning practice, Tupicoffs.

Neil presented the next stage of the process, and held a presentation on the professional statement of advice, where guests learned how to gain maximum value in limited appointment times.

During this event the FPA Brisbane Chapter also awarded the FPA Chapter Griffith University award to Ria Trivedi who was awarded a prize of $300.

Ballarat Chapter Golf Day

The FPA Ballarat Chapter committee hosted its annual Golf Day on 11 March at the Ballarat Golf Club.

The weather was fine, as well as the course and our players. A big thank you to all our event partners on the day, who provided the chapter with amazing prizes and merchandise to giveaway.

Congratulations to all the winners.

We look forward to seeing our members at the next local chapter event.
Visit www.fpa.com.au/events to see upcoming events at your local chapter.

THANK YOU
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- PM Capital
- Prime Value
- RARE Infrastructure
- Sentinel
- Shadforth Financial Group
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- UBS
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- Zurich

ACT
Monday 20 June

Albury Wodonga
Wednesday 18 May

Ballarat
Thursday 28 April

Bendigo
Friday 29 April

Brisbane
Thursday 14 July

Cairns
Thursday 9 June

Far North Coast
Tuesday 17 May

Geelong
Monday 11 July

Gippsland
Tuesday 7 June

Gold Coast
Friday 3 June

Goulburn Valley
Thursday 19 May

Mackay
Wednesday 4 May

Melbourne
Wednesday 13 July

Mid-North Coast (Coffs Harbour)
Friday 29 April

Mid-North Coast (Port Macquarie)
Thursday 28 April

New England
Monday 2 May

Newcastle
Tuesday 21 June

Northern Territory
Thursday 23 June

Riverina
Tuesday 17 May

Rockhampton
Thursday 5 May

South Australia
Thursday 16 June

South East Melbourne
Wednesday 27 April

Sunraysia
Thursday 9 June

Sunshine Coast
Thursday 2 June

Sydney
Wednesday 20 July

Tasmania (Hobart)
Monday 6 June

Toowoomba/Darling Downs
Wednesday 18 May

Townsville
Tuesday 3 May

Western Australia
Wednesday 15 June

Western Division (Dubbo)
Tuesday 3 May

Western Division (Orange)
Wednesday 4 May

Wide Bay
Friday 6 May

Wollongong
Friday 22 July

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2016 FPA ROADSHOW

DELIVERING EXCELLENCE

For a superior client experience

Get ready to tackle the issues that matter to you and your business at the 2016 FPA National Roadshow.

Join us to hear the latest updates on legislative changes and ways to strengthen your client relationships through further advice.

In partnership with Challenger, learn how innovation in retirement income advice can help you build your practice.

Open to FPA members and non-members, this year's event provides 2 CPD hours and an opportunity to network with peers over a complimentary breakfast or lunch.

Register now at fpa.com.au/roadshow

Getting the balance right

Q: What's the best way to achieve work/life balance as a financial planner?

MARK LOCKHART AFP®

Principal planner
All Financial Services (South)

A good work life balance starts by deciding it's important. Like any sort of planning, if you don't put a premium on it you won't do it.

In general financial planners are lucky. We're mostly self-employed so we have control over our business and our diaries and the financial resources to look after our family and ourselves. We tend to be dedicated to our clients and our business, but it's too easy to prioritise our businesses over ourselves. Which is why we need to make a conscious decision to aim for a good work/life balance.

There will always be times when we need to prioritise the business or the clients and have to sacrifice our personal lives. But it's important those times are the exception, rather than the way the business is structured.

I have a knock off time, which is usually 5.30 pm and I try to go straight home. Even when I'm busy I go home and have dinner with the family and I can work after dinner if I need to.

My children are grown up and if I go to a conference I take Tanya my wife with me and we try to take a couple of days off either side of the conference.

Also, when I'm doing something with the family I try to be present and not have other things on my mind. You don't go into a client meeting half focused but you often do that at home, so I try not to focus on work too much at home. So challenge yourself because you shouldn't do at home what you wouldn't do in the office.

SUSIE ERRATT CFP®

Financial adviser
Authorised representative and credit representative
Charter Financial Planning

Although I'm not always totally successful in achieving a good work/life balance, I find what helps me achieve balance is exercise. If I don't exercise everything suffers. I don't exercise because I like it or because I'm particularly good at it; but if I don't the wheels fall off. I generally exercise in the morning. If I go to the gym after work I don't get home until 6.30 pm or 7.00 pm, which cuts into family time.

I'm also married to my iPad. It's fantastic because I can delete messages I don't need to attend to at home in the morning, before I get to work. I'm a newshound, so my iPad is great for reading Twitter and there are many apps I can read world news on for free.

I also find participating in FPA events is a great way to break up the day. Keeping the local chapter kicking along and going to events adds excitement to the day.

My partner works shift work, so if he's not home I'm the responsible parent and I have to be home, which means I have to be organised.

So work/life balance is not just one strategy, it's a combination of things. I also take regular breaks and we go on holidays or go camping. We all evolve the way we work most efficiently.

GAVIN RUNDE CFP®

Financial adviser
Journey Financial Group

I'm a big believer in making technology work for me, so I use remote access often. I can access the network when I'm offsite to access client data. It means I can be at home when I need to be and I can dial back in when I need to attend to work.

I've also learned how to manage my emails more effectively. I've set up my email so that it only syncs a couple of times a day, so I'm not constantly interrupted by messages.

I also rely on the functionality of my phone to help me achieve a good work/life balance. I frequently set my phone to flight mode when I'm having personal time.

FPA kicks off student engagement program

The FPA has commenced a comprehensive program to raise awareness of financial planning as a desirable career choice. Designed to increase the number of students studying financial planning, the activity will highlight the opportunity to join a growing profession and the personal rewards that come with helping others.

Andrew Cooper, FPA member engagement executive at "The Big Meet" in Sydney

Focusing initially on education providers offering Financial Planning Education Council (FPEC) approved degrees, the activity includes the following elements:

Awards program

Following on from the newly introduced *FPA University Student of the Year* award last year, the FPA has made $1,500 available to each FPEC educational provider, as a prize pool to allocate to final year students.

The winners of these prizes will be invited to apply for the 2016 *FPA University Student of the Year* award. The award recognises students who have demonstrated exceptional performance and have been put forward for the award by their respective accredited educational institution. From here, the FPA will invite candidates around the country to apply for the award.

Student societies

The FPA is sponsoring several business-related student societies and participating in careers fairs, information and networking evenings around the country. A case study challenge with FINSOC (Finance student society) involving the University of New South Wales, University of Sydney and Macquarie University was launched on 18 March, and will be judged in two rounds.

University lectures

At university lectures, the FPA is presenting to students studying accounting and finance core units before they choose their major, to raise awareness of financial planning and to encourage students to consider financial planning as a career. The lectures take place on an ongoing basis throughout the year. As part of this initiative, the FPA is also presenting to financial planning students to educate them on the pathway and benefits of becoming a CFP® professional.

Careers fairs

As part of the program, the FPA has developed a student brochure to take to careers fairs around the country. The brochure includes information about the role of a financial planner, case studies from FPA members and information about the globally-recognised CFP® designation.

In March, the FPA hosted a stand at 'The Big Meet' in Sydney, Australia's largest career fair. The day provided an invaluable opportunity to meet with students from a variety of backgrounds and talk to them about financial planning. In March, the FPA also attended careers fairs at University of the Sunshine Coast and Adelaide University.

SCHEDULE OF ACTIVITY	
Career Development Association of Australia (CDAA)	Exhibiting at CDAA annual conference
Charles Sturt University	Webinar with *Accounting and Finance* students Careers Fair Webinar with prospective students
Deakin University	Presentation to *Accounting* students
Griffith University	Presentation to *Introduction to Financial Planning* students
La Trobe University	Presentation to *Introduction to Financial Planning* students
Sydney Town Hall	The Big Meet Careers Fair
University of Canberra	Presentation to *Introduction to Finance* students
University of New England	Presentation to *Accounting and Finance* students
University of NSW	FINSOC Case Study launch and judging rounds
University of Sunshine Coast	Accounting and Finance Careers Fair Presentation to *Introduction to Financial Planning* students awards ceremony Presentation at *Networking for Success*, Enactus student society event
University of Western Sydney	Presentation to *Finance* students
University of Wollongong	Presentation to *Introductory Principles of Finance* students

Making a real difference

The work of the 2015 winner of the FPA's Future2 Community Service Award has transformed the lives of numerous disadvantaged people right around the world, writes **Alexandra Cain**.

Christopher Moore CFP® from Optimum LifeFocus Financial Planning in Adelaide, is the winner of the 2015 Future2 Community Service Award. The award recognises FPA members who have through pro-bono, volunteering or community service work made an outstanding contribution to improving the circumstances of the most socially excluded or financially disadvantaged members of the community.

Moore and his wife Kerrie's incredible work with their charity, Container of Hope (COH), make him an extremely fitting winner of this award. The not-for-profit organisation sends 40-foot shipping containers full of donated and recycled goods to assist poor and vulnerable communities. The idea is to bridge the gap between needy communities overseas and communities in Australia who have too much.

"It all began five years ago after a couple of short-term missionary trips to India and one 40-foot shipping container sent to Vanuatu. I have since been involved in 24 container projects to various destinations, such as Burundi, Uganda, Israel, Ghana, Sierra Leone, Vanuatu, and South Sudan," says Moore.

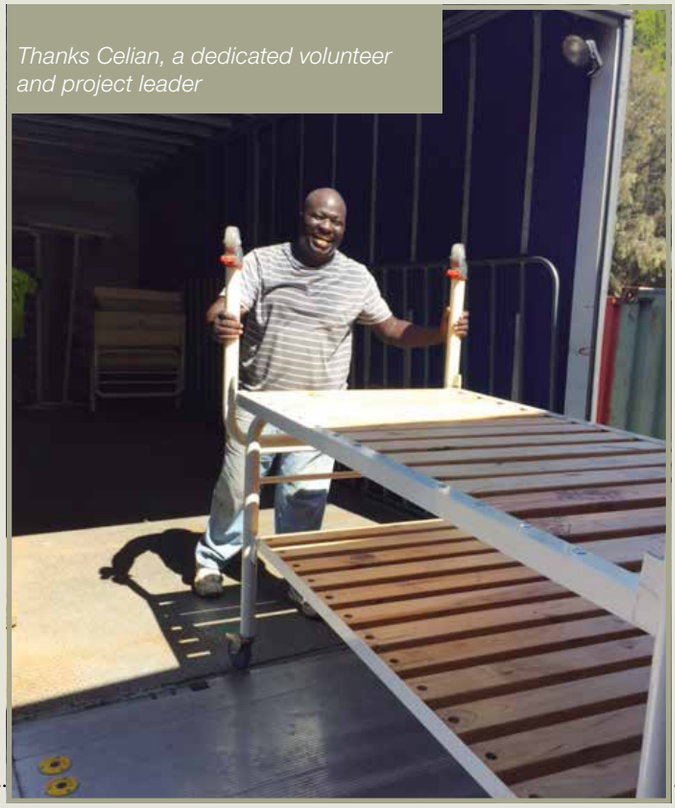
"We work in partnership with sponsors who are usually a part of an organisation in Australia or overseas that has a contact with an overseas project in need of items, either for the project or to distribute to a community in need," he explains.

As might be imagined, the process is an involved one. It means raising funds, buying the container, as well as locating, collecting and sorting goods. This is in addition to liaising with the recipients to come up with a wish list of items, loading the container with the assistance of a sponsor, and shipping the container to its destination.

"Items we send vary greatly from 150 kilogram wool bales full of clothing, medical consumables,

Christopher and Kerrie accept the award from FPA Chair Neil Kendall CFP®

Almost done! Containers are packed to the hilt



Thanks Celian, a dedicated volunteer and project leader

linen and hospital beds and mattresses, to things like toys, books, building supplies and vehicles. The type and balance of goods that go into a container will vary depending on where the container is going, for instance to an orphanage, school, hospital or refugee project. The beneficiary wish list will also determine the items with which the container is loaded. COH attempts to meet the wish list of the recipients if it can, to ensure the items that are sent are actually used. "We also donate the empty container to the overseas project at the project's completion," says Moore.

In the past six months, COH has sent nine 40-foot high cube containers to overseas destinations, mostly in Africa. "We are now in the process of completing another seven new projects. We have a pipeline of a further 20 requests for containers." he says.

COH makes every effort to ensure the container and its contents get to the intended beneficiaries. It relies on contacts Moore has developed through Rotary representatives overseas, as COH is also a project of the Rotary Club of Salisbury and Rotary Australia World Community Service (RAWCS).

Providing real support

COH's work has allowed it to support widows, orphans and those less fortunate (WOLFs) living in compromised communities overseas.

"COH's mission is to donate items that we have, but don't want or need, but which recipients do need. Two highlights have been sending a generator to a village in Burundi in Africa, and donating a shipping container in Sierra Leone that became a computer classroom," Moore notes.

Aside from running COH, Moore also helps Australian communities fundraise and collect donated goods, while also donating items to op shops in Australia such as clothing, books, furniture and bric-a-brac. COH shares a warehouse with Rotary Donations in Kind (DIK) which allows for a partnership of item sharing between container projects of both organisations. This helps to broaden the range of items that can be sent; for example, COH looks after clothes and smaller items such as toys, stationary and household, items, whereas DIK specialises more in medical equipment and consumables and office ware.

Incredibly well networked, Moore is also the president-elect of the Rotary Club of Salisbury, and is involved in the Rotary Donations In Kind District Committee. He is also a member of the City of Salisbury's Strategic and International Committee and the campaign manager for his local mayor. "I was also selected to be a part of the delegation to Salisbury's sister city of Mobara in Japan."

If that's not enough, he also provides pro bono services to WOLFs through mentoring and personal support. He has provided financial and personal mentoring to 33 couples and individuals over the past 12 months.

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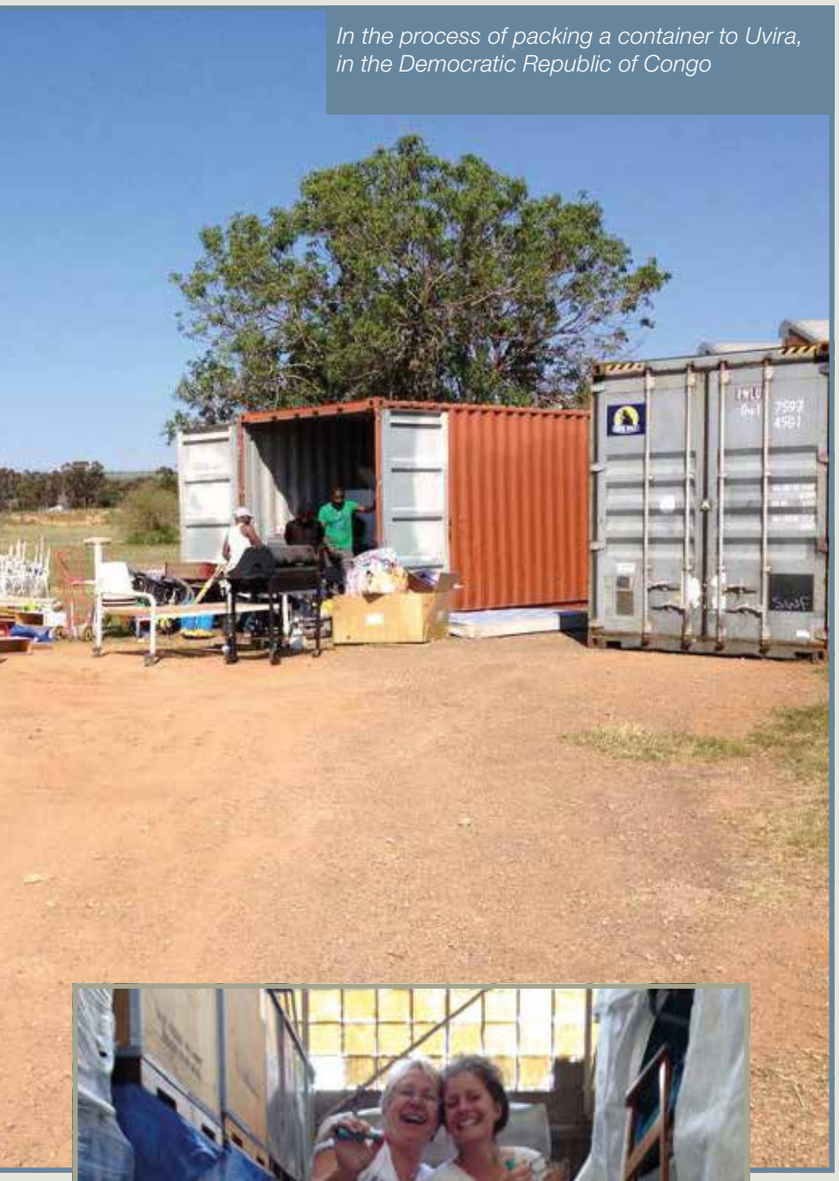
When it comes to financial planning clients, money has never been a motivator for the work that I do and I believe financial advice should be open to anyone who wants it.

Items destined for Fiji

Donations ready for sorting

Seventy-six push bikes thanks to the City of Salisbury



In the process of packing a container to Uvira, in the Democratic Republic of Congo

Not all work, work, work – volunteers also enjoy themselves

Continued from page 13

"When it comes to financial planning clients, money has never been a motivator for the work that I do and I believe financial advice should be open to anyone who wants it. So a client's inability to pay fees is never a reason for me not to assist them. Rather, we discuss what they can afford and I adjust my fees accordingly."

Benefits galore

COH's work has direct impacts and benefits, both tangible and intangible, for the people it helps.

"On a very tangible level, the benefits of the pro bono work I am involved in can be seen largely in the effect the items we send through COH have on the people who receive them. We fill a need in communities that often have many great needs such as refugee camps in the north of South Sudan as well as schools in Uganda, and poor communities and villages in the Democratic Republic of Congo," says Moore.

A good example is the aforementioned generator sent to in Burundi. "To give more context to this, rebels had blown up the power source in Rweza village and the people had no money to pay for a new power source. Thus, we sent a 300-kilowatt generator, the biggest one we could find, to them so they might have power back," he explains.

Back home, Moore's donations of goods to two op shops allowed them to start-up and function. His work also has an environmental benefit given the goods he has saved for container projects end up put to good use, rather than in landfill. "It's truly incredible how much we waste in our throwaway society," he laments.

In terms of intangible benefits, Moore says when he helps one community, the people spread the word, allow him to extend the reach of his work. "It is amazing how quickly we went from having only one container project to having ten. And we are always receiving requests for containers."

Finally, Moore is also keen to highlight another of COH's cornerstone principles: pay It forward. "We encourage all people who become involved with us, particularly project sponsors and beneficiaries, to respond to the kindness shown to them by being kind to someone else," says Moore.

"One of the manifestations of this is that sponsors are required to attend at least six COH monthly working bees. Beneficiaries are also encouraged to share the items they receive with as many people as they can, so that kindnesses might continue to flow on. We want the benefits to continue on after the container project is completed," he says.

I find clients are looking for advisers to not only guide them through the ups and downs of investing, but also to help guide them through life.

The power of the designation

The winner of the 2015 Gwen Fletcher Memorial Award is testament to why the CERTIFIED FINANCIAL PLANNER® designation is now a must-have for all financial planners, writes **Alexandra Cain**.

Sunitha Chamala from professional services firm BDO was the winner of the 2015 Gwen Fletcher Memorial Award. The award recognises the CERTIFIED FINANCIAL PLANNER® (CFP) certification student who achieves the highest mark in all three required assessments each semester. Here, we find out about why Chamala chose a career as a financial adviser, her perspective on the profession, the role of women in it and the future of financial planning.

Fresh out of university and filled with enthusiasm, Chamala entered the profession initially providing administration support to BDO's advisory team. This role enabled her to understand the ins and outs of the financial advice profession from a broader perspective, and allowed her to establish a sound foundation for her move into an advisory position.

"My initial role highlighted how integral the administration role is in the provision of exceptional client service and high quality advice. It takes a whole team, not just the adviser. Experience is invaluable and there is much to be learned in every role, each step of the way," she says.

Chamala credits her family background as one reason why she chose to become a financial planner.

"Growing up, my family would speak openly about financial matters and I would be encouraged to participate in discussions and in making decisions. To teach me about different companies and how the stock market works, my grandfather used to buy small parcels of shares in my name under the agreement that if I made a profit, it was mine and if I made a loss, it was his. If only real life worked that way. Regardless, it sparked an interest," says Chamala.

"I believed that I was destined to become an accountant and initially secured a role as an auditor. I happened to fall into financial planning, of which I had little knowledge. But eventually through this career, I would be able to combine my interest in finance and my passion for helping people and understanding what makes them tick. I learnt quickly that the provision of personal, tailored advice and a high level of client service was only part of an adviser's role. Perhaps the most important and most challenging aspect is to establish and maintain strong, lasting client relationships," she adds.

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While it can certainly be challenging, completing the program has been extremely rewarding and has provided a sound foundation for the rest of my career.

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Chamala says advisers are well positioned to establish personal relationships and make valuable differences to their clients' lives by helping them determine what really matters.

"Clients' trust needs to be earned and is often something that builds over time. But in my experience, showing genuine interest and having frank and sometimes difficult conversations when they need to be had, go a long way to establishing a long term relationship," she advises.

Chamala notes her current employer, BDO Private Wealth Advisers, is not affiliated with any financial institutions and does not have any products of its own.

"This allows me to be confident that I can provide my clients with comprehensive, holistic advice that is truly in their best interests. My goal is to place each and every client in a better position than they were in before we met. While this is often of a financial nature, it is also about assisting clients to gain control and a greater understanding over their situation and life choices.

"The aspect that I find most rewarding is providing clients with the peace of mind that they are on track and if not, supporting them in understanding what may or may not be achievable and helping them re-establish or achieve their goals. Often going through this process results in clients' rethinking their goals more in terms of lifestyle pursuits and following their dreams rather than purely on securing their future in monetary terms."

According to Chamala, focus must remain on continuing to build the reputation of the financial planning profession to encourage more Australians to seek advice: "particularly younger generations that could benefit from cash flow advice, financial goal setting and establishing a strategic financial plan earlier in their lives, rather than later down the track when they have a lump sum of money to invest, for example."

Being disciplined

Undertaking the CFP® program while working full time takes commitment and at times requires students to make compromises in their personal and social lives. "While it can certainly be challenging, completing the program has been extremely rewarding and has provided a sound foundation for the rest of my career," says Chamala.

The CFP® program comprises five units and takes two-and-a-half years to complete. "Completing the program is certainly manageable and achievable and you are ultimately rewarded with a meaningful designation," she adds.

Chamala says the CFP Certification unit was the greatest challenge due to its time-consuming nature. "By blocking out a certain number of hours during the working week and on the weekends, I had spent more than 120 hours completing the final unit. Starting early, maintaining a disciplined approach and working consistently throughout the semester is key to successfully completing the final unit and the program.

Using all the available resources that you have access to and leveraging real life experience

can widen your perspective and assist in preparing well rounded responses to assessment questions. I would also strongly recommend students join a study group, particularly for the CFP Certification unit as I found doing so to be extremely beneficial. Just like in practice, each individual interprets information and client situations differently and it is likely someone else will consider aspects of the hypothetical client scenario from a different point of view than you have."

"While there are some things that can only ever be learned in practice, completing the CFP Certification Program has enhanced the quality of advice that I am able to provide and is a benchmark that reassures clients of my commitment to education, professionalism and the ethical standards that are embodied in the program," she says.

Diversity counts

Chamala is conscious of the role model she represents to other young, female financial planners and of the importance of good financial advice for women.

"Historically, the industry has been male dominated with a high emphasis on investment advice. Women continue to be under-represented in financial services but represent roughly 50 per cent of the population potentially needing and seeking advice," says Chamala.

"Clients value having a trusted relationship with their adviser. They appreciate opening up about their family, sharing traumatic experiences such as the loss of a loved one and having this received with compassion, understanding and empathy. Women often inherently possess soft skills such as these, which are integral to cultivating genuine and meaningful client relationships.

"I find clients are looking for advisers to not only guide them through the ups and downs of investing, but also to help guide them through life. Advisers that demonstrate emotional intelligence in the provision of tailored personal advice will become increasingly sought after and women in particular are well placed for these opportunities," she adds.

Instead of just directing clients on what they should or should not do, Chamala suggests female advisers are very effective in taking a consultative and collaborative approach. "Rather than focusing merely on financial outcomes, women often also place equal emphasis on clients' emotional and lifestyle needs. Businesses are increasingly recognising the benefits of diversifying their workforce and the value that female advisers can bring to their teams and clients."

She says women are sometimes thought of as more cautious or risk averse when it comes to making investment decisions. "In my experience I have not found this to be true but have observed that women can be more prudent in their approach. In the challenging economic environment and the heightened volatility that we face today, this approach is likely to serve clients well, particularly for those nearing retirement."

As Chamala notes the financial planning industry continues to evolve, with robo advice challenging the traditional advice model and threatening to replace the technical services that advisers now provide.

"If the focus of advisers remains purely on investments and technical strategy, our roles within the industry are at greater risk of becoming obsolete. But as advisers, if we harness the power of what differentiates us from an algorithmic program, being our ability to relate and empathise, we are well positioned to develop the profession and help more Australians access quality advice."

Where to from here?

We will no doubt be hearing more from Chamala, given her refreshing attitude, dedication and highly regarded skills.

"Over the last five years, I have had the privilege of working with a diverse range of clients with varying degrees of complexity in their lives. BDO has presented me with invaluable experience and opportunities and I look forward to continuing my professional development," says Chamala.

"Sound technical knowledge provides the foundation on which to build experience. As the next generation of advisers, we are expected to hold a higher level of education and are faced with the expectation that we will work to the highest professional and ethical standards. We are also faced with demographic and cultural shifts and a higher profile profession. I believe that by adapting to the changing environment, maintaining and continuing to build our education and ethical standards, we are well positioned to lead successful careers in a profession of opportunity and growth."

The rise and rise of alternatives

Financial planners have been seeking investments whose returns are genuinely unrelated ever since the financial crisis of 2007/2008. During the crisis returns from the major asset classes, once thought to be uncorrelated, all fell in tandem. **Alexandra Cain** writes that a solution appears to have been found.

Jim Fenwicke CFP®
Fenwicke Financial

Alternatives have come into their own over the past decade. Once the sole province of high-net-worth investors, they are now routinely included in many clients' portfolios.

Fund inflows demonstrate how popular alternatives are becoming. According to data from research house Rainmaker, funds under management (FUM) allocated to the alternatives segment sit at $401 billion. There was a 29 per cent rise in funds allocated to alternatives over the 12 months to 30 September 2015, which are the latest figures available.

The role of alternatives

Alternatives, by definition, start to broaden a portfolio's diversification given the investments are outside traditional asset classes of equity, fixed income, cash and property.

Tim Wedd AFP®, executive director of Crystal Wealth, explains the potential diversification benefits of alternative investments may allow investors to dampen risk in their investment portfolio without necessarily sacrificing total returns over time. "Ideally, the investments exhibit low correlation with traditional portfolio assets and indices," says Wedd.

He says it is important to be clear about whether you are looking for alternative strategies such as long/short funds, which target absolute return outcomes, or alternative beta driven strategies that offer access to asset classes such as currencies, commodities and real estate.

"More recently, the advent of liquid alternatives introduces funds that seek to offer the benefits and characteristics of hedge funds with the daily liquidity of a managed fund," he explains.

David French AFP®, managing director, Capricorn Investment Partners, says alternatives have become popular as markets have become more volatile and clients have become more nervous.

"Planners have a duty to understand the market changes going on around them and look for asset classes that don't

display high levels of volatility and still deliver acceptable levels of return. This is especially true when clients need to draw down from an account-based pension and need certainty about the future," says French.

Jim Fenwicke, director, Fenwicke Financial, has a slightly different view. He says while alternatives are excellent in theory, they can be difficult to implement from a portfolio construction point of view.

"You have to work out the optimal amount of alternatives exposure for a given portfolio. For accumulation clients you could look at alternatives making up between five to 10 per cent of a portfolio, with the balance being say 25 per cent Australian equities, 25 per cent is in international equities, 10 per cent is in listed property, 30 per cent is in cash and fixed interest," he says.

The question, says Fenwicke, is what themes to expose the client to within the allocation to alternatives. He says you would typically break the allocation into three or four different themes.

"Then if you allocate 2.5 per cent to managed futures, for instance, do you do that through one manager or do you try to diversify manager risk? There are fund of fund structures that can help you deal with manager risk," says Fenwicke.

"So alternatives do appeal, but it's hard to find the right managers to blend together particularly because a small overall exposure to alternatives will mean even smaller exposure to individual theme or funds. To get diversification you may end up with too many funds with quite small exposures which can become inefficient from a portfolio management point of view," he adds.

Alexander McNab
Blue Sky Alternative Investment

According to Alexander McNab, Blue Sky Alternative Investments' chief investment officer, advisers typically take one of two approaches when it comes to the use of alternatives.

"First, they can make targeted investments in particular alternative asset classes that suit the portfolio and return objectives of an individual investor. For example, an investor with a long time horizon, comfort with short-term volatility and desire for strong returns may allocate to private equity, which is the alternative asset class with the highest expected return profile, but also with the highest correlation to equities," says McNab.

"In contrast, a more risk averse investor seeking diversification may allocate to hedge funds or agriculture, where expected returns may not be as high, but diversification benefits are more pronounced," he adds.

According to McNab a second approach, which is becoming increasingly common among advisers, and similar to Fenwicke's method, is to focus on strategic asset allocation, determining a reasonable overall portfolio allocation to alternatives and then seeking a diversified exposure, either through one manager or multiple managers, that gives them the combined return and diversification benefits of alternatives.

> Ten years ago this level of access to alternatives would have been impossible for individual investors.

Innovation alert

There have been two major innovations in the alternatives sector recently, focused on business structure and product offerings.

Historically, alternatives were restricted to very large investors like pension funds, endowments and wealthy individuals. "Even if products had been open to smaller investors, they most likely would have been deterred by very large minimum investments and long lock-up periods," explains McNab.

This is changing. For example, Blackstone Group, the largest alternative asset manager in the world, has established a new business unit dedicated to bringing alternative investments to individual investors. Blue Sky Alternative Investments, which has $1.7 billion in assets under management, mainly manages its assets on behalf of individual, rather than institutional, investors.

"Ten years ago this level of access to alternatives would have been impossible for individual investors," he adds.

The emergence of the diversified alternative asset manager is another innovation. Says McNab: "The alternatives sector in the US has seen a long trend towards the diversified alternative asset manager. All of the major alternatives managers, including Blackstone, KKR, Carlyle and Apollo, manage investments across a range of alternative asset classes including private equity, real estate, hedge funds, alternative credit and real assets."

This trend has been underpinned by two key benefits. Investing in multiple asset classes helps investors make better decisions, as they are able to pick up macro trends, calibrate risk and return across asset classes and exploit investment opportunities at the points where one asset class merges into another. This translates to a return advantage to investors in these firms.

Sitting across multiple asset classes allows alternative asset managers to have a broader conversation with investors about their needs and objectives, and how alternatives as a whole can meet those needs, instead of a narrow conversation about one segment of the alternatives universe.

Strategies in practice

Alternatives are a broad church. They typically include hedge funds, private equity and venture capital funds, as well as infrastructure investments and managed futures. But they can include many other assets classes as well. For instance, David French has investigated instruments such as water rights, solar energy and commercial properties.

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But, unhappy with the lack of control he could effect on independent alternative funds he wanted to put his clients into, he decided to start his own fund. The fund includes commercial property and solar investments, a share in a retirement village in Melbourne, as well as other investments.

"We look for things clients can't buy themselves because they don't have the funds or they can't do the research. For instance, you might need $500,000 to invest in a truly alternative wholesale fund, or $80,000 to invest in solar. Our fund is an avenue through which we can give clients access to these investments through a trust structure," says French.

He only allocates up to 10 per cent of a client's portfolio to alternatives, adding it as an adjunct to other asset classes. "In that context you get the overall return, without the volatility."

Nicky Boustred AFP®, director, Nixon Boustred Advisory, says she includes a reasonable proportion of alternatives in her clients' portfolios. "In the last drawdown in January and February alternatives did what they were supposed to do; compared to the overall market their values did not drop. This validates the inclusion of alternatives as a standard part of a client's portfolio," she notes.

In one example, she used alternatives for a recently-widowed client, who is risk-averse. "I recommended using alternatives by accessing managed futures, which are a more liquid alternative. She's happy she gets access to investments she cannot normally reach. Although she's risk-averse, she's relatively sophisticated and understands the strategy therefore is happy to invest."

Nicky Boustred AFP®
Nixon Boustred Advisory

Wedd has used alternatives in a tactical currency strategy, targeted to take advantage of a weakening Australian dollar, producing an average 10 per cent to 15 per cent return.

Mitigating risks

All alternative investments have different risk profiles – the risk attached to a commercial property, for instance, is very different to that of a basket of futures. So it's important to get an understanding of the individual investment's risk parameters. Wedd says the risks depend on the role the alternative is supposed to play and the type of alternative.

"This can include strategy, implementation, timing and manager risk. Often it can be hard to know exactly how and when a strategy is being implemented within a fund's stated absolute return objective. Accordingly, you need to understand the return drivers of the strategy carefully to see what role it will play alongside other portfolio assets," he says.

One of the first steps when introducing alternatives to the portfolio, says Wedd, is to determine whether it will be part of an existing asset class or treated as a separate investment sleeve.

> We look for things clients can't buy themselves because they don't have the funds or they can't do the research.

"This helps to then determine the percentage allocation to be made to the idea. The concept of diversification is equally important with alternatives. For example, with more illiquid investments ensure that they don't all have the same maturity profile, so consider cross-year ideas and opportunities. Make sure clients sign-off on the role and use of any hedge funds and more illiquid alternatives," he adds.

French says it's also important to check the gearing levels of any alternative investments. Because even if an alternative's attributes are not correlated to the main asset classes, if it's laden with debt and economic conditions deteriorate, the equity in the investment will diminish, causing volatility in the asset's value. This is exactly the effect investors want to avoid by taking an interest in an alternative.

Liquidity risk is another important consideration. Often the underlying investments in an alternative strategy will be relatively hard to exit. About a quarter of French's fund is liquid to allow it to help match clients' own liquidity requirements. We limit withdrawals via the constitution and via a policy set by the board. This helps ensure that investors are equally protected, but can generally get money if they really need to.

"You need to understand the exit strategy of the investment and you should only be exposed to alternatives if you can mitigate against liquidity risk," says Boustred. This can be achieved by investing in listed alternatives.

Counter indications

Alternatives are not a panacea, however, and there are plenty of times when they won't suit a client's portfolio.

Wedd wouldn't recommend alternatives when the portfolio risk/return profile can be managed effectively without them, as alternatives come with a cost in fees and access to funds.

"Less sophisticated clients will not necessarily understand the role an alternative strategy idea plays within the portfolio, raising the risk of exiting a strategy at exactly the wrong time. Above all, the cost must be more than met by the benefits obtained through portfolio inclusion, including knowing when access to funds can be reasonably expected," he says.

French says he wouldn't recommend many alternatives to clients without a long term time frame or for clients with smaller portfolios who need more ready access to their money on an ongoing basis.

While there is growing appetite for alternatives, a limitation is the dearth of product available on the market. All the financial planners

Planners come together on SMAs

Separately-managed accounts are starting to come into their own as advisers and clients recognise their many benefits, writes **Alexandra Cain**.

Separately-managed accounts (SMAs) first emerged as an investment option in the 1990s. Recently, planners have turned their attentions to these instruments because they offer ways to increase efficiencies for advisers and assist clients to meet their investment needs.

Recent research indicates the increasing popularity of SMAs. According to the JBWere Investment Trends SMA Report 2015, there are now 11 platforms offering SMAs. A total of 25 per cent of planners use SMAs and the number of advisers using SMAs through platforms has tripled since 2012. The research says it is expected that client funds in SMAs will double between 2015 and 2018.

SMAs are vehicles that allow the client to directly invest in equities and other listed securities. They are professionally managed, and generally operated within a managed investment scheme and have associated product disclosure statements (PDS).

Unlike managed funds, however, in an SMA clients' funds are not pooled in the

account with other investors' funds. Rather, investors directly own the underlying assets. SMAs are based on model portfolios and several can be blended to help clients achieve their investment goals.

They are generally offered at a relatively low minimum investment and dividends flow directly to the client, who has beneficial ownership of the underlying securities, rather than owning units in the structure, as is the case with managed funds. Moreover, investors have complete visibility of the underlying investments in the SMA.

The way they work, investors hold investments in the account in identical weightings to the model portfolio, and any deviations in weightings are corrected through regular rebalancing. When trades are made for the account, they are executed simultaneously for all clients.

They are suitable for financial planners whose clients want direct shares, but who realise they do not have the time or skill to manage a portfolio of shares. They also help ensure clients have access to a properly diversified basket of equities.

This is important, because the JBWere research cited earlier clearly indicates that although clients want to invest in stocks,

Kathy Vincent, NAB Wealth/MLC

in 2015 a total of 48 per cent of planners cited managing equities as a barrier to their further use, up from 30 per cent in the previous year.

With SMAs, there is no need for the planner to undertake extensive equities' markets research on behalf of their clients. Advisers are also not required to produce a statement of advice or record of advice should the composition of the SMA change.

There's also no need for advisers to provide recommendations to clients on how to approach corporate actions involving their direct equities held in the SMA. This offers huge efficiency gains to advisers with a large number of clients invested directly in the share market. As a result, SMAs substantially improve back office efficiencies and allow advisers to spend more time on revenue-generating activities and providing advice to clients.

Repositioning SMAs

There are a number of reasons why SMAs are becoming so popular. Increasingly, planners are finding it inefficient to buy, sell and monitor individual shares for clients. According to the JBWere research 48 per cent of the 671 planners surveyed for the research said the work required to oversee share portfolios discourages them from directly investing their clients in equities.

SMAs also deliver certain advantages to clients that managed funds are unable to, such as cost-effectiveness, transparency, and tax-effectiveness. However, the report also acknowledges planners require a better understanding of how SMAs work and how they can help both planners and their clients.

Kathy Vincent, general manager, retail wealth platforms with NAB Wealth and MLC says gone are the days when SMAs were the province of ultra high-net-worth investors.

"Now they are available on platforms and the minimum investment has been reduced. Clients can invest through us with

There are a number of reasons why SMAs are becoming so popular.

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a $10,000 minimum investment, so they are a lot more accessible," she says.

From the adviser perspective, Vincent says SMAs deliver efficiencies because professional managers make the investment decisions.

"Advisers don't have to do a statement of advice to rebalance the portfolio, because investment recommendations are made by a professional manager. There is also underlying transparency for investors, which allows them to have visibility of the capital gains tax consequences within the SMA and therefore, with their adviser, manage their overall tax position," she explains.

So if a client chooses to move a parcel of equities into a separately managed account there are no adverse capital gains tax consequences. SMAs also allow advisers to more effectively manager their compliance overheads.

One of the major benefits of using an SMA is the ability to have complete oversight of the underlying equities in the account. They also work well alongside clients' other investments including direct shares and managed funds.

Planner preferences

There have been a number of innovations to SMAs recently. For instance, accounts have been developed that deliver a tilt towards global assets or corporate bonds, for instance. Fully integrated, multi-sector offerings are also starting to emerge.

Additionally high-net-worth investors are increasingly demanding tailored SMAs and providers can customise portfolios for them.

Adam Greentree is a financial planner with TFS, The Financial Planning Specialists, which has an active management philosophy. He has recently started to increase his use of SMAs for clients, partly because of the back office efficiencies they deliver.

"We have a para-planner who last year, with all the corporate actions, spent one day a week handling these for clients with direct shares. It's a lot of admin, given we usually advise clients to take the board's recommendation. So we started to look more closely at SMAs because they handle corporate actions on behalf of clients," says Greentree.

"They are also more transparent than managed funds, which have had a good few years, but have also distributed realised capital gains. Our advice to clients is often to buy-and-hold shares for five years, which you can do with SMAs," he adds.

Our advice to clients is often to buy-and-hold shares for five years, which you can do with SMAs.

As a result, Greentree has started cycling some clients out of managed funds and direct shares and into SMAs, which he agrees can also be more cost effective than managed funds.

He says one downside is clients with smaller amounts to invest can end up with small holdings in certain shares, given that many SMAs invest in a diversified pool of around 40 stocks. Nevertheless, their tax-effective nature makes them relatively attractive.

"We have also put many clients in a fixed interest SMA, which invests in a basket of convertible preference shares. The low rate environment means clients are finding it hard to access income returns and this is a good option for clients wanting income," says Greentree.

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	MANAGED FUNDS	SMAS	DIRECT EQUITIES
Professional management	Yes	Yes	N/A
Multi-manager	Yes	No	N/A
Accessible via wrap platforms	Yes	Yes	Yes
Management fees	Yes	Yes, usually lower	No, just brokerage
Pooled investments/ unitised	Yes	No	No
Unit prices	Yes	No	No
Individual investor accounts	No	Yes	Yes
Individual cost base for calculation of CGT	No	Yes	Yes
Dividends flow directly to investor	No	Yes	Yes
Transparency	No	Yes	Yes
Investor has beneficial ownership of assets	No	Yes	Yes
In specie transfers	No	Yes	Yes
Able to decide on corporate actions	No	No	Yes

Source: JBWere Investment Trends SMA Report 2015

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"We have clients in managed funds, LICs, SMAs and directly investing in shares. They all have different admin, tax and control features, but SMAs are really the best of both worlds because they are more flexible, transparent and cost-effective," he notes.

Scott Brouwer CFP® a financial planner with Prosperum Wealth, says he has been using SMAs with smaller clients because they are an efficient way of building an equities portfolio for people without substantial wealth to invest. But he says more could be done to widen the breadth of SMA offerings in the market.

"There are only a few SMAs across the different asset classes, which is a challenge. They are a good solution for an Australian equities portfolio, but they are not necessarily a solution across all the different asset classes, so efficiency gains are lost because they are not as diversified as they should be, although the market is developing," says Brouwer.

He would like to see products developed across the different asset classes, with balanced, growth and high growth options. "It would help with portfolio construction if they were available across all asset classes."

Brouwer acknowledges this could be a challenge, given it's difficult to find an asset managers that has well-developed skills across all asset classes.

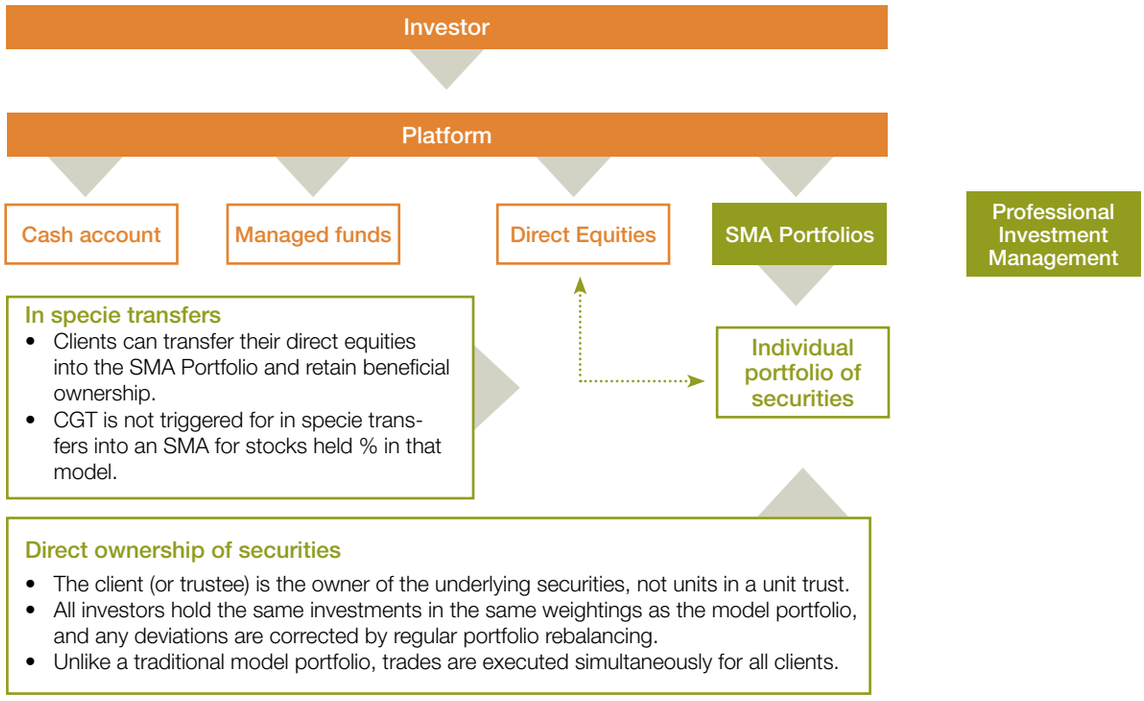
"Another issue is staying price competitive because consumers are so focused on fees. There will be different costings across different asset classes, but the challenge is attracting fees at every point," he notes.

Client and adviser interest in SMAs is likely to keep growing, especially as issuers continue to release new and different products. Adviser should look to put clients into SMAs from issuers with a good reputation and a history of putting together products that deliver the investment attributes for which clients look. Make sure the issuer publishes detailed, monthly reports, and ideally delivers a commentary on the stocks or other assets held in the structure.

Adam Greentree CFP®, TFS

There's little doubt SMAs will become an increasingly popular tool with advisers and clients as the market for these instruments continues to develop.

There are only a few SMAs across the different asset classes, which is a challenge.



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Aged care and the former home

Changes to the assessment of rental income from the former home will result in increased means tested fees for many residents who enter aged care after 1 January 2016.

Further changes to the assessment of the former home were proposed in the recent Mid Year Economic and Fiscal Outlook (MYEFO). If implemented, the combined effect of these changes will significantly reduce the benefits of retaining the former home when entering aged care.

Background

The rules for assessing the former home when a person enters aged care are complex as a number of exemptions apply for both social security and aged care fee purposes.

An important exemption when assessing the former home is the indefinite exemption. The indefinite exemption has been available to aged care residents in one form or another since 1997 and has been an important aspect of aged care advice since that time.

Residents are entitled to the indefinite exemption if they pay at least a portion of their accommodation payment periodically and rent out their former home. If satisfied, the indefinite exemption provides:

- An exemption on the asset value of the former home being included in the social security asset test.
- An exemption on the rental income being included in the social security income test.
- An exemption on the rental income being included in the aged care means tested amount.

In all cases, for residents assessed under the post 1 July 2014 rules, the capped value of the former home ($157,987.20) is included in the aged care means tested amount unless a protected person resides in the home.

New rules

Under the new rules, rental income is included in the calculation of the means tested amount when determining aged care fees for people who permanently enter aged care on or after 1 January 2016. This applies regardless of whether the person pays the accommodation payment as a lump sum or periodically.

The result of this change is that means tested fees for aged care will be higher for people who enter aged care on or after 1 January 2016 and rent out their former home. The social security assessment of the former home is unchanged.

How much will means tested fees increase?

Assuming the client's other income including the age/service pension is up to the income threshold of $25,487.80 a year (singles) or $25,019.80 a year (member of a couple) then:

- For single clients, their means tested fee will increase by approximately 50 per cent of their net rental income.
- If both members of a couple are receiving residential aged care, their combined means tested fee will increase by approximately 50 per cent of their net rental income.

Let's now look at the impact of including rental income from the former home in the calculation of means tested fees for new residents entering aged care from 1 January 2016.

Case study

Patricia is single and entering aged care. Her former home is worth $800,000 and she has other assets valued at $40,000 and a bank account balance of $200,000. The aged care facility she would like to enter has an

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advertised accommodation payment of $400,000.

Let's compare:

- Retaining the home, paying $150,000 as a Refundable Accommodation Deposit (RAD) and receiving net rent of $24,000 a year.
- Selling the home and paying $400,000 as a RAD.

The table below compares Patricia's situation if she entered/enters aged care pre or post 1 January 2016.

In this scenario, if Patricia rents her home, her means tested fee is $10,371 a year higher when she enters aged care after 1 January 2016 as her rental income is included in the means tested fee calculation. This significantly reduces her cash flow surplus to $1,124 a year.

When comparing renting the home under the post 1 January 2016 rules and selling her home, renting the home produces a higher surplus however the fee reduction advantage of retaining the former home has significantly reduced.

Home worth $800,000	**Entered care before 1 January 2016 and rents home**	**Enters care after 1 January 2016 and rents home**	**Sells home**
Age pension	$22,542	$22,542	$11,408
Rent	$24,000	$24,000	-
Interest	$1,500	$1,500	$18,000
Basic daily fee	($17,469)	($17,469)	($17,469)
Means tested fee	($2,567)	($12,938)	($17,160)
Daily Accommodation Payment (DAP)	($15,550)	($15,550)	-
Tax	($961)	($961)	-
Surplus/deficit	$11,495	$1,124	($5,221)

Assumptions: Net rent three per cent a year, interest three per cent a year, DAP interest rate 6.22 per cent a year, rates and thresholds as at 1 January 2016

	Entered care before 1 January 2016 and rents home	**Enters care after 1 January 2016 and rents home**	**Sells home**
Age pension	$22,542	$22,542	$21,763
Rent	$12,000	$12,000	-
Interest	$1,500	$1,500	$6,000
Basic daily fee	($17,469)	($17,469)	($17,469)
Means tested fee	($2,567)	($6,921)	($7,811)
Daily Accommodation Payment (DAP)	($15,550)	($15,550)	-
Tax	($300)	($300)	-
Surplus/deficit	$156	($4,198)	$2,483

Assumptions: Net rent three per cent a year, interest three per cent a year, DAP interest rate 6.22 per cent a year, rates and thresholds as at 1 January 2016.

Impact of house prices and rental returns

In the example above, Patricia's home is worth $800,000.

However let's examine the impact if her home was worth $400,000 or $1,200,000. In these cases we have assumed net rental income of three per cent a year and the accommodation payment for the aged care facility is $400,000.

Assumptions: Net rent three per cent a year, interest three per cent a year, DAP interest rate 6.22 per cent a year, rates and thresholds as at 1 January 2016

If Patricia had entered aged care before 1 January 2016, she would have a very small cash flow surplus of $156 a year if she retained and rented her home. If she enters aged care after 1 January 2016, she now has a cash flow deficit of $4,198 a year. As a result of the changes, selling her home now produces a better result from a cash flow perspective with a surplus of $2,483 a year.

If Patricia had entered aged care before 1 January 2016, she would have a substantial cash flow surplus of $18,967 a year if she retained and rented her home. If she enters aged care after 1 January 2016, her surplus has reduced to $5,858 a year.

Under this scenario, selling the home produces a cash flow deficit of $13,200 a year, which would need to be funded from the home's sale proceeds.

The examples above demonstrate that for clients with lower house prices and rental income, the changes from 1 January 2016 have made retaining and renting

the home more problematic from a cash flow perspective. For those with higher rental income, retaining the former home may still be affordable.

MYEFO announcement

In the MYEFO released on 15 December 2015, the federal government proposed further changes to the assessment of the former home for aged care residents.

Under the proposed changes, the indefinite exemption will be removed entirely for new residents entering aged care from 1 January 2017.

This means that for social security purposes:

- The asset value of the former home is an assessable asset after two years from the date of entry.
- Rental income is included in the income test.

The assessment for aged care means tested fees will remain unchanged with:

- Rental income included in the aged care means tested amount.
- The capped value of the former home ($157,987.20) included in the aged care means tested amount unless a protected person resides in the home.

Pension assets test changes

The proposed commencement date of the MYEFO proposals is 1 January 2017, which coincides with the commencement of legislated changes to the pension's assets test.

In summary, the pension asset test changes are:

- Increase in the 'asset free areas' for both homeowners and non-homeowners.
- Increase in the assets test taper for the pension assets test from $1.50pf to $3pf per $1,000 of assets over the asset free area. This results in a significant reduction in the upper assets test threshold.

When considering the impact of the proposed MYEFO changes to the assessment of the former home, we also need to consider the impact of the asset test changes. Potential impacts include:

- If the former home is sold, the post 1 January 2017 pension asset test may result in a reduction or cancellation of their pension.

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Home worth $1,200,000	**Entered care before 1 January 2016 and rents home**	**Enters care after 1 January 2016 and rents home**	**Sells home**
Age pension	$22,542	$22,542	-
Rent	$36,000	$36,000	-
Interest	$1,500	$1,500	$30,000
Basic daily fee	($17,469)	($17,469)	($17,469)
Means tested fee	($2,567)	($18,954)	($25,731)
Daily Accommodation Payment (DAP)	($15,550)	($15,550)	-
Tax	($5,488)	($2,211)	-
Surplus/deficit	$18,967	$5,858	($13,200)

Assumptions: Net rent three per cent a year, interest three per cent a year, DAP interest rate 6.22 per cent a year, rates and thresholds as at 1 January 2016

Home worth $800,000	**Entered care before 1 January 2016 and rents home**	**Enters care after 1 January 2016 and rents home**	**Sells home**
Age pension	$23,218	$12,950	$8,398
Rent	$24,000	$24,000	-
Interest	$1,500	$1,500	$18,000
Basic daily fee	($17,995)	($17,995)	($17,995)
Means tested fee	($12,676)	($7,654)	($15,280)
Daily Accommodation Payment (DAP)	($15,550)	($15,550)	-
Tax	($ 974)	($ 617)	-
Surplus/deficit	$1,523	($3,366)	($6,877)

Assumptions: Net rent three per cent per year, interest three per cent per year, DAP interest rate 6.22 per cent per year, includes pension assets test changes from 1 January 2017, rates and thresholds indexed at three per cent to 1 January 2017.

Continued from page 31

- If the value of the former home counts as an asset after two years, the post

1 January 2017 pension asset test may result in a reduction or cancellation of their pension.

Example
Let's apply the proposed MYEFO rules and pension assets test changes to Patricia's situation.

In the table below we have compared Patricia:

- Entering care after 1 January 2017 and renting her home (MYEFO not implemented).
- Entering care after 1 January 2017 and renting her home (MYEFO implemented).
- Entering care after 1 January 2017 and selling her home.

We have assumed Patricia's home is worth $800,000. For the first two years after entering aged care her cash flow situation is as follows:

In this scenario, if she rents her home Patricia's age pension reduces to $12,950 a year under the proposed MYEFO rules as her rental income is included in the age pension income test. Interestingly her means tested fee is less under the proposed MYEFO rules due to her age pension reduction.

Patricia has a cash flow deficit of $3,366 a year under the proposed MYEFO rules if she retains her home.

After two years, under the proposed MYEFO rules the asset value of her home will become an assessable asset for age pension purposes and cause her age pension to be cancelled.

Alternatively she could sell her home, however her age pension reduces to $8,398 a year under the assets test as a result of the sale proceeds being assessed under the new assets test rules and she will have a cash flow deficit of $6,877 a year.

Impacts on aged care advice

While the MYEFO announcements are only proposals at this stage, the 1 January 2016 changes are now law.

The decision as to whether to retain or sell the former home has become more complex and in all cases modelling needs to be performed based on the client's specific circumstances.

Cash flow planning has become even more important for clients entering aged care post

1 January 2016 and retaining their former home due to increased means tested fees. For clients with cash flow deficits, strategies such as drawing down their DAP from their RAD may assist in meeting aged care costs.

Kim Guest, senior technical manager, Colonial First State FirstTech

QUESTIONS

1) John permanently enters residential aged care on 2 January 2016. He pays a portion of his accommodation payment periodically. Which of the following correctly describes the assessment of rental income from his former home?

a. Rental income is included in the social security income test.
b. Rental income is included in aged care means tested amount.
c. Rental income is included in both the social security income test and aged care means tested amount.
d. Rental income is excluded from both the social security income test and aged care means tested amount.

2) Jane is single and entered aged care on 1 February 2016. She has assessable income of $25,487.80 a year in addition to rental income from her former home. How much will Jane's means tested fee increase as a result of the rental income?

a. 50 per cent of the net rental income.
b. 25 per cent of the net rental income.
c. 100 per cent of the net rental income.
d. 10 per cent of the net rental income.

3) Doris permanently enters residential aged care on 2 November 2015. She pays a portion of her accommodation payment periodically. Which of the following correctly describes the assessment of rental income from her former home?

a. Rental income is included in the social security income test.
b. Rental income is included in aged care means tested amount.
c. Rental income is included in both the social security income test and aged care means tested amount.
d. Rental income is excluded from both the social security income test and aged care means tested amount.

4) Which of the following correctly describes the federal government proposal in the recent MYEFO concerning the assessment of the former home for aged care residents?

a. Asset value of former home will be an assessable asset for social security purposes after two years from the date of entry and rental income will be included in the social security income test.
b. Full asset value of former home will be an assessable asset for aged care fee purposes after two years from the date of entry and rental income will be included in the social security income test.
c. Asset value of former home will be an assessable asset for social security purposes from the date of entry and rental income will be included in the social security income test.
d. Asset value of former home will be an exempt asset for social security purposes after 2 years from the date of entry and rental income will be included in the social security income test.

To answer questions **www.fpa.com.au/cpdmonthly**

To answer questions
www.fpa.com.au/cpdmonthly

JOHN PERRI
SENIOR TECHNICAL MANAGER
AMP

This article is worth
0.5 CPD HOURS
CRITICAL THINKING

Includes

- Discussion of homeownership versus non-homeownership.
- Discussion of land use test.
- Worked examples.

Centrelink treatment of the principal home

For Centrelink purposes, a person is assessed as either a homeowner or a non-homeowner. This has significance in working out the amount of a person's pension or allowance entitlement under the assets test – particularly as the principal home is the most significant asset for many people.

Broadly speaking, if the person is a homeowner, in most circumstances the value of their home is exempt from both the assets and income test. If the person is a non-homeowner, they benefit from a higher assets test threshold and may be eligible for rent assistance.

Who is considered a homeowner?

A person is considered a homeowner if they, or their partner, have a right or interest in the place they occupy, and that right or interest gives them reasonable security of tenure.

Examples of where a person is considered a homeowner includes when they are living in:

- A home owned or partly owned by themselves or their partner.
- A home to which they have legal title.
- A campervan, caravan, transportable home or boat owned or partly owned by themselves or their partner.
- A granny flat arrangement or retirement village where certain conditions are met.
- A residential aged care facility where the former home has been retained and certain conditions are met.
- A home resulting from a life interest from a deceased estate.

If a person is a non-homeowner, they will be assessed under a higher assets test threshold. They may also be eligible for rent assistance.

How much of the home and adjacent land is exempt?

A person's principal home, including adjacent land, is exempt under the assets test, regardless of its value.

The term adjacent land, broadly describes the land surrounding the principal home that is held under the same title document. There are two tests used to determine whether adjacent land is exempt:

1. Private land use test
This is the most common test applied. The maximum amount of land adjacent to the principal home that can be exempted under the private land use test is two hectares (five acres). To qualify, the adjacent land must be held on the same title document and used primarily for private or domestic purposes.

2. Extended land use test
This test, where applicable, allows a 100 per cent asset test exemption on the home and land over two hectares.

For this test to apply, the person (or their partner) must meet all of the following conditions:

- Be of age pension age or service pension age and eligible for age pension/ carer payment or DVA service pension.
- Has lived in the principal home on the land for 20 years. Broadly speaking, to meet this test, the home must have been the principal home of the person (or their partner) for 20 years or more continuously.
- Make effective use of productive land to generate an income (discussed below).

The requirement that the person or their partner has lived in the

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principal home on the land for 20 years does not necessarily mean that the person has owned the land for 20 years. This could cover situations where the person has rented the property prior to purchase, or lived with parents who owned the property and subsequently inherited the property on death of the parents.

To meet the effective land use test, land with commercial potential must be used to generate an income.

Importantly, income generated from the land will be assessed under the income test in the usual manner unless the income generated from the effective use of the land is being paid to a close family member working the land, in which case no income will be assessed.

When determining whether a person is putting land to effective use, the following matters will be considered:

- Where the land is located and its size.
- The person's family situation and health.
- Whether the land contains a dwelling occupied by a family member of the person, or a child of a family member of the person, receiving an income support payment.
- Whether the land is being used to support a family member of the person or a child of a family member of the person.
- Any current or potential commercial use of the land.
- Whether the person's capacity to make commercial use of the land is diminished because the person, or the person's partner, has responsibility for the care of another person.
- Environmental issues relating to the land.

The effective land use test will automatically be met if it is determined that the land does not have commercial potential.

Example:
Extended land use test

John (age 65) is a farmer. He has been living on his single title, 150 hectare farm for 20 years. John leases all his viable farming land to an unrelated party.

Although John's home plus adjacent land exceeds two hectares, he can have the value of the 150 hectares of land exempted from the assets test because he meets the criteria for using the extended land use test.

That is, he is of age pension age, has lived on the farm for 20 years and is making effective use of the land by leasing it to an unrelated party.

Note: the income received from leasing would be assessed under the income test.

More than one home

If a person, or their partner, has an interest in more than one home, their principal home is the one in which they spend the greatest amount of time.

If they spend the same amount of time in each home, the most expensive home is defined as the principal home.

The property which is not the principal home will be treated as an investment property – market value (less relevant encumbrances) is assessed as an asset and net rental (if any) assessed as income.

Temporary vacation of property

There are some situations where a person can own their principal home, be temporarily away from that home and still be considered a homeowner.

If the absence is deemed to be temporary, a person is treated as a homeowner during the absence and the value of the home is typically exempt from the assets test for a maximum period of up to 12 months. The exemption applies even when the person expects to be temporarily absent for more than 12 months.

If a person does not intend to return to the principal home, i.e. the absence is not temporary, the person will immediately be treated as a non-homeowner and the value of the home counted as an asset. This will also be the case if the 12 month temporary absence period is exceeded.

If the home is rented out during the period of absence, the rental income is assessed as income.

Travelling in caravans

Some retirees take extended trips around Australia in a caravan or campervan. If a person leaves their home temporarily for up to 12 months to travel in a caravan, they will continue to be treated as a homeowner. Rent assistance will not be payable during this period.

If the person is absent for more 12 months, the caravan will be classified as their principal home and they may be eligible for rent assistance for site fees paid in respect of their caravan. The former principal home will then be counted as an asset.

Selling the home

Often people will sell their principal home but take some time to purchase or build another home. In the interim, they have the sale proceeds commonly invested in a bank account.

In these situations, Centrelink will continue to assess a person as a homeowner for a period of up to 12 months from the date of settlement. The person would be required to declare to Centrelink that they are intending to purchase a new residence.

The portion of the proceeds that the person intends to use to purchase, build, rebuild, repair or renovate a new principal home will be exempt from the assets test for up to 12 months (or 24 months if certain criteria is met), starting from the date of sale.

However, there is no exemption under the income test. That is, if the sale proceeds are invested in a bank account, they will be deemed as a financial investment. This may affect a person's pension or allowance entitlement under the income test notwithstanding that the amount does not count under the assets test.

Further, the assets test exemption only applies to the portion of the sale proceeds that the person intends to use to purchase, build, rebuild, repair or renovate a new principal home.

Example:

Judy (age 67) sells her principal home for $500,000 and intends to purchase a new principal home for $300,000. The remaining $200,000 will be used to fund her living expenses throughout retirement.

Given Judy only intends to use $300,000 of the sale proceeds to purchase a new principal home, the total amount of sale proceeds that can be exempt from the assets test is $300,000. The $200,000 is not exempt from the assets test.

Judy invests the whole $500,000 in a bank account to protect the funds from volatility until she purchases her new home. The entire $500,000 is deemed for income test purposes.

There is no exemption under the deeming rules (income test) for the $300,000 she intends to use to purchase her new home.

Some people may seek to shelter the sale proceeds in superannuation (where under pension age) until a new home is built or purchased. Where a person has not reached Age Pension age, superannuation in accumulation phase is exempt from both the assets and income test.

Care situations

A person may also continue to be assessed as a homeowner and have their home treated as an exempt asset when they enter a care situation.

If a person vacates their principal home to enter a care situation, the home continues to be an exempt asset under the assets test for two years. This provision applies irrespective of whether the person intends to return to their principal home.

If, after two years, the person has not returned to their principal home, they are treated as a non-homeowner and principal home is an assessable asset. However, there are some circumstances where a person in an aged care facility can be considered a homeowner beyond the two year period.

Retirement villages and granny flats

Whether a person is considered a homeowner or non-homeowner when they enter a retirement village or establish a granny flat interest depends on the amount of entry contribution paid upon entry to the facility or for the interest.

The entry contribution is compared to the "extra allowable amount". The extra allowable amount is the difference between the non-homeowner and homeowner lower assets test thresholds at the time the entry contribution is paid. For the 2015-16 financial year this figure is $149,000.

Using part of the home to produce income

There are two situations where a person may use part of their home to produce Centrelink assessable income as follows:

- A person operates a business from their home.
- The home contains a self-contained living area (an area with a private or separate sleeping, cooking and bathroom facilities) that is rented out.

Business operating from the home

Where a person is operating a business from their home, each case needs to be considered individually. However,

- If part of the property is used for both business and domestic purposes, then this part of the property is part of the principal home and is exempt, or
- If there are distinct areas of the property used exclusively for business purposes, these areas are not part of the principal home and are not asset test exempt.

Self-contained living area being rented out

If the self-contained living area is left vacant or let to a near

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ENTRY CONTRIBUTION	CENTRELINK TREATMENT
Equal to or less than $149,000	– Non-homeowner – Entry contribution treated as asset, but exempt under income test – Rent assistance may be payable
More than $149,000	– Homeowner – Entry contribution not treated as an asset nor counted under income test – Rent assistance not payable

Continued from page 35

relative, it is treated as part of the person's principal home. And, where let to a near relative, no income will be assessed for social security purposes.

However, if the self-contained living area is let to a person other than a near relative, it does not form part of the person's principal home and an amount relating to the living area will be assessable as an asset.

Further, a percentage of the gross income received will be assessed under the income test depending on what is provided with the room(s).

SITUATION	TREATED AS INCOME
Lodging (accommodation only)	70%
Bed and breakfast	50%

John Perri, technical services manager, AMP.

QUESTIONS

1. Which of the following clients are likely to be assessed as non-homeowners by Centrelink?

a) Randy lives in the home he jointly owns with his partner Roberta.

b) Josephine lives in a retirement village. She paid $200,000 to get into the retirement village.

c) Fabian sold his home last month and is seeking to use the proceeds to purchase another home.

d) All these clients will be treated as home owners.

2. Peter is renting out a room in his home to his sister, Silvana. The rent is assessed as income for Social Security purposes.

a) True.

b) False.

3. Andrew sold his home for $800,000 and is looking to buy a new home for $600,000. How will the proceeds be assessed by Centrelink under the assets test?

a) $600,000 is exempted from the assets test for 12 months. $200,000 is assessed.

b) The whole amount is assessed.

c) The whole amount is exempt.

d) $600,000 is exempted from the assets test for 36 months. $200,000 is assessed.

4. Andrew sold his home for $800,000 and is looking to buy a new home for $600,000. He places the total amount in a term deposit. How will the proceeds be assessed by Centrelink under the income test?

a) The whole amount will be deemed.

b) Only $200,000 will be deemed.

c) Only $600,000 will be deemed.

d) The whole amount will be exempt.

To answer questions **www.fpa.com.au/cpdmonthly**

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Quarterly Complaints and Discipline Report

– December 2015 to March 2016 –

The Financial Planning Association (FPA) is committed to informing members and the community of the trends and outcomes of complaints and disciplinary action in the financial planning profession. It is important for members and the community to be confident that the profession takes a strong position on the protection of the reputation of financial planners by responding to breaches of its professional expectations.

As well as communicating the activities of professional accountability, our goal is to assist members in appreciating the types of complaints received, to encourage members to consider their own practices, and to provide guidance for complaint protection.

Disciplinary activity summary

In the four months from 1 December 2015 until 31 March 2016, the FPA received eight new complaints, finalised nine complaints and has four ongoing complaints. Of those ongoing complaints:

- A hearing date is to be set for a Disciplinary Hearing before a Conduct Review Commission (CRC) panel.
- We are awaiting further information from a member in one matter.
- One matter is in the process of being finalised after discussions with the member.
- One matter is in the process of being reported to the CRC chair.

COMPLAINTS AND DISCIPLINARY REPORT

01 December 2015 to 31 March 2016

Complaints ongoing as at 1 December 2015	5
New complaints	8
Complaints closed	9
Complaints ongoing as at 31 March 2016	4
Members suspended	0
Members expelled (CRC)	0
Members terminated (Constitution)	3
• Craig Read	
• Associates (2)	
Other Sanctions (CRC)	0
Referred to Professional Designations Committee for sanction	4

Complaints

Terms of engagement

The FPA received a complaint about a member who is a principal of a financial planning business. The complaint consisted of various different elements and stemmed from, and was complicated by, the acrimonious breakdown of business relationships and the resulting separation of clients.

One of the elements related to the member's decision to decline client requests for a pro-rata refund, in varying amounts, of 12-months' financial planning fees paid in advance. The decision was made on the basis that clients agreed to pay those fees on a non-refundable basis.

While clients had agreed in writing at engagement to pay fees in advance, it was not on the basis of being non-refundable at that time. The member was of the view clients had been informed of, and agreed to, a subsequent decision to make the fees non-refundable by the practice's representatives providing a copy of an updated Financial Services Guide (FSG) to them at the time of their most recent ongoing review. There was contention around whether the clients were referred to the particular variation in the FSG and there was no written variation to previously agreed terms of engagement.

As a result of seeking external advice in response to a number of clients complaining about this decision, the member was of the view the approach was adequate for the purposes of consumer law. However, other than where there is a conflict with a legal obligation, members have a duty to abide by the professional obligations of FPA membership. In this particular case there was not considered to be any such conflict. (Where such conflicts may arise, the FPA encourages members to seek guidance from FPA Professional Standards Team from suitably experienced peers, or from other qualified professionals).

The FPA Code of Professional Practice July 2013 requires a member to provide a copy of the documented terms of the engagement to a client prior to providing any professional services. A written document ensures mutual understanding and agreement between the member and the client about the terms of the financial planning engagement. Mutually defining the engagement establishes realistic expectations for both the client and the member.

The code also identifies a number of elements that must be included in (but not limited to) the written terms of engagement, including duration of the engagement, remuneration, fees and billing arrangements. Significantly to this particular matter, circumstances may change after the commencement of the engagement and there must be provision for terminating the agreement, or for varying the agreement. (The code also sets out professional obligations that may be of relevance).

In consideration of the above, would you consider that providing a client a copy of

an FSG is consistent with the expected professional norms for varying an engagement?

For further information, refer to *Practice Standard 1* and associated rules of the code relating to engagement, as well as more broadly *Practice Standard 7* and related rules relating to professional obligations.

Academic misconduct

With the increased emphasis on education, the FPA has seen a growth in enrolments in the CERTIFIED FINANCIAL PLANNER® Certification Program. This means it is even more important for the FPA to maintain the high standards expected of those completing the CFP program.

In the current financial year we have investigated concerns of academic misconduct relating to six individuals involving collusion, plagiarism and cheating (all of which are defined in the *Academic Misconduct Policy)*. This compares to investigating three individuals in the previous financial year.

The findings of each of the six investigations have been reported to the Professional Designations Committee, two of which have been considered and four of which will be considered in the near future.

The committee is board-appointed. Its purpose includes maintaining the integrity of FPA designations, programs and certification. In circumstances where the committee does not dismiss an academic misconduct matter it can impose one or more of a range of sanctions, including:

- Reprimanding the student.
- Recording a failure, for all, or any part of the assessment.
- Requiring the student to repeat the unit.
- Suspending the student from enrolling for a certain period.
- Suspending the student from enrolling in a certain course.
- Advising that a student discontinue the program.

The committee may also be of the view that the complaint should be further investigated for potential breach of the FPA's *Code of Professional Practice*, which if proven may result in broader sanctions.

For the two matters that have been considered by the committee, sanctions were imposed and the matters referred for further investigation. One individual subsequently had their association with the FPA terminated and one matter is ongoing.

Following are some tips for members when completing studies, not necessarily limited to the CFP Certification Program:

Generally:

1. Make sure you are familiar with the *Academic Misconduct Policy* (don't just sign the declaration).

More specifically:

2. First and foremost, ensure any work you submit is your own.
3. To avoid possible plagiarism, all sources should be referenced at the appropriate point in the text, as well as form part of a list of references or a bibliography at the end of the assignment.
4. Study groups form an important part of distance education and are encouraged to facilitate discussion of the topics. However, you should never share answers you have prepared for an assignment with other members of a study group.
5. If you encounter personal problems that impede your ability to adequately complete an assignment or prepare for an examination, speak to the FPA Education Team immediately. They are here to help you.

Feedback and guidance – statements of advice

The Professional Accountability Team will be providing members with additional feedback and guidance from the many advice documents reviewed in the course of its activities.

It is intended to build on feedback provided in our most recent Annual Report on Professional Standards (www.fpa.com.au/professionalism/professional-accountability) and to provide participants with a different and practical perspective to those they may be familiar with from non-FPA compliance activities. One of our key observations is that while there are legal obligations about when to provide a statement of advice and what to include, these obligations don't need to drive the advice document. Ironically, over-emphasis on legal obligations may not only result in the risk of not meeting legal obligations but also be counter-productive to the aim of placing the client(s) in a position to understand the advice and to make an informed decision.

It is intended that one of the forums will be a webinar accredited for CPD, including ethics.

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