INDUSTRY FUNDING MODEL FOR ASIC

An equitable model is needed

Political action required:

Call for:

1. The commencement of the industry funding model for ASIC to be delayed by at least 12 months due to the uncertainty of:
   a. implementation of the Financial System Inquiry (FSI) and PJC Inquiry recommendations, and ASIC Capability Review, and
   b. the impact of the current reform agenda on ASIC’s surveillance and education activity.

2. The development of a more equitable funding model that is aligned with government policy and consistent with small business exemptions of other regulators.

Why?

Proposed model hits small business hardest

- Under the proposed levy, small licensee businesses (those with 5 advisers or less) will pay at least twice as much per adviser as medium and larger licensee businesses.

<table>
<thead>
<tr>
<th>Levy type</th>
<th>Description</th>
<th>Amount</th>
<th>Levy for single-adviser licensee</th>
<th>Levy for small licensee of 5 advisers</th>
<th>Levy for medium licensee of 50 (authorised representative) advisers</th>
<th>Levy for large licensee of 250 advisers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Company levy</td>
<td>Small proprietary company</td>
<td>$5</td>
<td>$5</td>
<td>$5</td>
<td>$5</td>
<td>$5</td>
</tr>
<tr>
<td></td>
<td>Large proprietary company</td>
<td>$350</td>
<td></td>
<td></td>
<td></td>
<td>$350</td>
</tr>
<tr>
<td>2 A levy for authorisations</td>
<td>a) a flat base levy for the license authorisation</td>
<td>$250</td>
<td>$250</td>
<td>$250</td>
<td>$250</td>
<td>$250</td>
</tr>
<tr>
<td></td>
<td>b) levy for each advice authorisation held by an AFSL</td>
<td>$250 x number of advice authorisations</td>
<td>$1500</td>
<td>$1500</td>
<td>$1500</td>
<td>$1500</td>
</tr>
<tr>
<td></td>
<td>c) levy for each dealing authorisation held by an AFSL</td>
<td>$250 x number of dealing authorisations</td>
<td>$1500</td>
<td>$1500</td>
<td>$1500</td>
<td>$1500</td>
</tr>
<tr>
<td>3 A levy for the business activity</td>
<td>Levy for providing Tier 1 Financial Advice</td>
<td>$1,350</td>
<td>$1,350</td>
<td>$1,350</td>
<td>$1,350</td>
<td>$1,350</td>
</tr>
<tr>
<td></td>
<td>Levy for each financial adviser on the Financial Adviser Register (FAR)</td>
<td>$470</td>
<td>$2350</td>
<td>$23,500</td>
<td>$117,500</td>
<td></td>
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<tr>
<td>4 Additional annual levy</td>
<td>Securities Dealers (flat annual levy)</td>
<td>$1,600</td>
<td>$1,600</td>
<td>$1,600</td>
<td>$1,600</td>
<td>$1,600</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>$6,675</td>
<td>$8,333</td>
<td>$29,705</td>
<td>$124,070</td>
<td></td>
</tr>
<tr>
<td>Cost per Adviser</td>
<td></td>
<td>$6,675</td>
<td>$1,666</td>
<td>$594</td>
<td>$496</td>
<td></td>
</tr>
</tbody>
</table>
• This will¹:
  o create a barrier to entry for small licensee businesses and single-adviser licensees
  o push small licensee businesses and single-adviser licensees to cancel their license and join a dealer group
  o compel financial advisers to remain with large financial institutions rather than seek their own independent licence
  o restrict trade and negatively impact on the ability of small licensees to compete in the advice market
  o limit client service offerings and unfairly restrict business growth of small licensees.

Proposed model does not reflect ASIC activity or risk-based approach to regulation

• The proposed funding model is not consistent with ASIC surveillance and education activity.
• It will have a much greater impact on small licensee businesses, but the Regulator’s focus is typically on larger licensees.
• ASIC rarely engage with small licensees – research shows most small licensees had no interaction with ASIC for more than 12 months.
• ASIC have understandably allocated substantial resources to large licensee businesses over the last few years. This can be seen through Enforceable Undertakings, ongoing surveillance activity and submissions to various Parliamentary committees and inquiries.
• ASIC’s focus is on those businesses that pose the highest risk to consumers. This is not reflected in the proposed funding model.
• ASIC Corporate Plan for financial advice states: ‘…will act to address conflicted advice, misaligned incentives and risk management, particularly in large vertically-integrated institutions.’

Proposed model is inconsistent with Government funding policy

• From the introduction of its industry funding model, AUSTRAC has provided an exemption for small licensee businesses. This exemption was extended further in the May 2014 Federal Budget.
• This clearly demonstrates the Government’s policy position in relation to imposing industry levy’s on small business.

Financial services reform agenda

• Uncertainty in relation to: implementation of FSI and PJC Inquiry recommendations; and Government’s response to ASIC Capability Review means ASIC’s costs are unknown. In turn, the proposed model’s objectives of ensuring costs are borne by the right users is not achieved
• The proposed model is inconsistent with the PJC Inquiry recommendation “to increase fees for organisational licensees to reflect the scale of their financial advice operations……” (Recommendation 6) as small licensees will have to pay twice as much as large institutions.

¹ FPA survey respondents indicated that:
  • 46% would cost the levy directly into the fees charged to clients;
  • 29% would not be able to employ new people;
  • 20% would potentially reduce staff numbers;
  • 54% said they would have to restrict business growth;
  • 37% said they would have to restrict their client offering;
  • 7% said their business would become unprofitable/unviable; and
  • 7% would cancel their license and join a dealer group