FINANCIAL PLANNING
ASSOCIATION of AUSTRALIA

Financial Planner Remuneration Policy

| FIRST ISSUED: OCTOBER 2009 (UPDATED MARCH 2012)

Background

In 2008, the FPA formed a remuneration policy committee to review our current remuneration policy, which included our Principles to Manage Conflicts of Interest, and develop a uniform set of principles and definitions that could be applied to all financial planning services.

In April 2009 the FPA released its Consultation Paper "Financial Planner Remuneration" seeking feedback from members and the community. We received a total of 250 responses, the majority of which supported the paper's recommendation that the financial planning profession adopt the six principles for financial planner remuneration and transition to a fee based, client directed payment model for the financial planning profession.

In September 2009, the FPA Board approved this policy, and determined that it would be effective from 1 July 2012 for all new advice.

In February 2012, the FPA undertook a minor review this policy in anticipation of the implementation date of 1 July 2012. Changes apply new FPA branding and take into account the removal of the 'Principal Member' category of membership (after 1 July 2011).

Preamble

It is important that remuneration in the financial planning profession is clear, concise, comparable, and more than anything else, is aligned to a service that delivers value. This policy sets out the principles, definitions and guidelines upon which the Financial Planning Association (FPA) of Australia's members will achieve these objectives.

This policy sets out a high level framework for remuneration. It does not establish the amount of remuneration a professional receives, nor does it stipulate which model a member should progress as long as the model, from 1 July 2012, is a client directed payment model which meets with the overall principles and definitions.

This policy also only applies to remuneration paid for by the client to the financial planner, and it does not address payments made by product providers to AFSL's or financial planners. This continues to be addressed through the two Codes on Alternative Remuneration and Rebates and Related payments that we have in place with FSC (formerly IFSA).

Initially the Board also determined that risk products would not fall within this policy until further consideration was given to the appropriateness of applying the six principles to risk products. It appointed a committee to advise on this issue. Likewise, the Board considered there are practical issues that apply to corporate superannuation that required further discussion. It established a committee to provide clarity to members on the application of the FPA policy, and FSC's Superannuation Charter, to corporate superannuation.

To support members to transition to requirements of the policy, the Board also established a transition committee to develop information, education, training and other necessary tools and programs to enable members to transition to the new remuneration policy. Since the introduction of the Policy in October 2009 Members continue to be made aware of progress in regular communications, and by visiting the Professional Services section of the website on www.fpa.asn.au

In March 2010, following consideration of the Life Risk and Corporate Superannuation committees' reports, the FPA Board confirmed that the first five of the FPA's six Financial Planner Remuneration Principles should apply to risk products, but agreed that Principle 6 which prohibits payments from product manufacturers cannot reasonably be applied without potential consumer detriment. In so doing the FPA Board confirmed that commissions can continue to be paid by product providers to FPA members for risk products.

At the same time the FPA Board re-affirmed that the six Financial Planner Remuneration Principles should apply to corporate superannuation.

Six Principles for financial planner remuneration

1. Clients must be able to understand the fees they are paying

2. Clients must be able to compare the fees they are paying

3. Clients must be presented with a fee structure that is true to label

4. Clients must be presented with fees that are separated between advice and product

5. Clients must agree the fee with their financial planner and can request that the fee is switched off if no on-going advice is required

6. Clients, rather than product providers, should pay for financial planning services, so as to remove potential for bias.

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Definitions

Term	Meaning
Fee	An amount charged directly to the client and paid directly by the client for professional services.
Commission	An amount calculated as a percentage value of the consumer's asset or insurance premium payable by the product provider to the financial planner's licensee for recommending the product to the consumer. Commissions are not paid directly by the consumer but are paid by the product provider. A commission cannot be switched off and will be paid until such time as the client withdraws their funds or ceases life insurance cover.
Free	There is no such thing as 'free' financial advice. Financial Advice is a professional service that requires an action to be performed and costs incurred. Advice costs may be subsidised by other services, associated product providers or other clients – see definition for subsidised. It is common professional practice to offer a 'free consultation' to new clients as an introduction to the financial planning process, however this does not constitute financial planning or financial advice which is the result of the full financial planning process and typically results in the provision of a financial plan (or SoA).
Subsidised	Advice provided 'free' or at a significant discount to the consumer. The costs of providing the advice are met by a product provider such as a super fund or other institution (which may produce a potential conflict of interest). This also includes salaried advisers. Costs for advice might be borne by other members of the fund (including those who do not access advice) or paid for by an institution eg salaried advisers.
Hourly Rate/Time based charging	The consumer is billed for financial planning and related services solely upon an agreed hourly or time based rate for those services, plus disbursements.
Service Based Charging	The consumer is billed for financial planning and related services purely on the basis of an agreed price for the package of services, and agreed between the planner and the consumer. A lump sum might be agreed based on services, savings to the client by adopting a strategy, or performance related.

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Asset Based Charging	The consumer is billed for financial planning and related services by any initial or recurrent fee calculated as a percentage of the consumer's asset(s) where the rate of the fee is specifically agreed between the planner and the consumer. In the case of recurrent fees the consumer has the ability to switch off the fee.
Client directed charging model	A model that requires all payments to be provided directly by the client, irrelevant of the charging model used. This can typically include: asset based, service based or time based. If a client's investment or insurance choices only allow for commission or planner based payment then the planner rebates all income received from any product provider to the client and charges the client directly for the financial planning services they provide.
Indirect charging model	Any model where the full costs of the financial planning services are not paid directly by the client. This can typically include commission based, subsidised costs or free advice.
Financial Planning Services	Financial Planning is a service whereby the Member or his or her associates do one or more of the following for a client: (a) Provide a recommendation, an opinion or a report, that is intended to influence a prospective or existing client in making a decision in relation to: i. a particular product or class of products, or an interest in a particular product or class of products; and/or ii. a particular strategy in the management of the client's financial circumstances. (b) Deal in a product or products as a result of a recommendation, opinion or report provided by the Member or his or her associates; and (c) Deal in a product or products pursuant to an authority provided by the client and includes the authority or power of attorney to operate managed discretionary accounts.
Transaction-only Service	A service provided by a Member or his or her associate in the dealing in a product as directed by the client and that no recommendation, opinion or report has or had been provided by the Member or his or her associate in relation to the specific dealing(s).
Code of Professional Practice	The six principles and definitions will be captured in the FPA's Code of Professional Practice, which is the set of rules and professional expectations that govern members of the financial planning profession. Breaching the professional expectations can result in disciplinary action.

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Proposed disclosure model to encourage comparability and transparency

The following fee disclosure table separates the costs of product from the costs of advice and uses terms defined earlier

Whilst this precise disclosure model is not mandatory, we would expect SoA's and other advice documents to focus on clarifying the disclosure of costs between product, administration and advice costs in a way that accords with the policy principles of Clarity (Principle 1), Comparability (Principle 2) and Transparency (Principle 3).[1]

Stage	Item	Definition	Industry sector
Product costs	**Product costs**	These are the costs charged by the product manufacturer for the creation and management of the investment/product/service.	Recommendation for **Simplified Product Cost disclosure**. **This is outside the jurisdiction of the FPA and is included here only as an indicator of complete disclosure.**
	Product administration costs	These are the costs charged by the product manufacturer for the administration of the investment on behalf of the client (this may be incorporated in platform costs)	
Financial Planning Fees	**Costs for the initial development and provision of advice**	The initial financial planning fee is associated with the initial services provided to the client and reflects the FPA Practice Standards including: • Initial client consultation (often free) • Initial client investigations • Identification of client objectives, needs and circumstances • Analysis of client objectives • Identification, Research and development of suitable strategy recommendations • Identification, research and	**Financial Planner requirement**

[1] Members and Licensees are encouraged to meet the intent of this disclosure requirement. The FPA intends developing examples of templates for SoAs to assist members to meet the intent of the policy.

<table>
<tr><th>Stage</th><th colspan="2">Item</th><th>Definition</th><th>Industry sector</th></tr>
<tr><td rowspan="2"></td><td colspan="2"></td><td>development of suitable product recommendations
• Presentation of recommendations to client
• Confirming instructions to implement advice
•</td><td rowspan="2">Recommendation for Client Administration Cost Disclosure</td></tr>
<tr><td colspan="2">Client / product administration costs – Licensee</td><td>These are the costs incurred by the Licensee for the administration of the client portfolio/service or the product. All clients incur portfolio administration costs (often as platform costs) and “best practice” requirements suggest these should be captured separately.</td></tr>
<tr><td>Financial Planning Ongoing Service Fee</td><td>Costs for the provision of ongoing Advice and Services</td><td>SAMPLE ITEMS
Monthly review
Portfolio maintenance
Quarterly seminar
Premium Access</td><td>These are the charges incurred by a client for a range of services from the financial planner (or their Licensee). These charges may be incorporated in platform costs. The services should be detailed, and agreed to by the client.
The services should be able to be turned off (either as individual components or as a group) with agreement by client and financial planner.</td><td>Financial Planner requirement</td></tr>
</table>

Indirect costs would be disclosed as follows:

Indirect Costs to the Client				
Bonuses and other incentives paid by Financial Planning Licensee and/or product providers		SAMPLE ITEMS Professional conference sponsorship by xxx and yyy product company ltd passed on by licensee to planner for the products recommended in this SOA Practice support payments by financial planning licensee for the products recommended in this SOA	This would incorporate any other form of remuneration or benefit whether direct or indirect flowing to the adviser or any associated entity from their licensee associated with the recommendation of a particular strategy or product. [see Rule 4.12] These forms of remuneration may not be cash based. They have the capacity to influence advice or may create the perception of bias.	**Financial Planner requirement**

Previous position on remuneration

In 2006, the FPA released the Principles to Manage Conflicts of Interest. That policy stated that financial planners should offer their clients a choice in remuneration and that as long as the remuneration complies with our conflict of interest principles then we would support a percentage or dollar based arrangement.

The policy also stipulated important professional obligations around managing and/or avoiding conflicts. The four Conflict of Interest principles are outlined below[2]:

Principle One	The cost of financial planning advice should be separately identified as a financial planning advice fee in the Statement of Advice provided by FPA Members to clients, and the total fees paid for ongoing advice should be disclosed to clients on a regular basis.
Principle Two	Where it is appropriate to recommend a product to a client, all FPA Members will undertake the due diligence necessary to offer products which suit the needs of the client and do not bring the industry into disrepute.
Principle Three	No Remuneration or benefits paid by a FPA Principal Member to one of their financial planners should be biased against or not in the interests of the client
Principle Four	Separate corporate governance arrangements should govern FPA Principal Members and all or any related financial services provider and/or entity.

The Principles to Manage Conflicts of Interest will be subsumed by this Financial Planner Remuneration Policy and the specific expectations of conflict management have now been incorporated into the body of the Code of Professional Practice to ensure their correct place as part of the formal professional regulation that applies to members of the FPA.

Transitioning to 2012

This remuneration policy will apply to all NEW financial planning advice issued from 1 July 2012.

After that date, this policy requirement will be the subject of professional obligation and it is anticipated that financial planning advice that does not meet this will be subject to enforcement action.

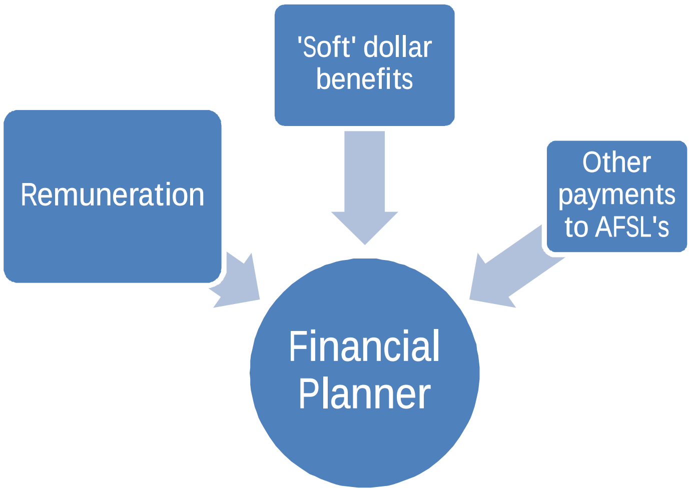
The FPA Board acknowledges that many members are already operating under this arrangement and encourages all members to apply this policy in their business prior to 1 July 2012.

The Board also acknowledges that there are existing client and product arrangements that cannot be unwound without considerable cost, tax implications, and systems implications. It has therefore been determined that product arrangements in place prior to 1 July 2012 will be quarantined from this policy.

[2] References in the table to Principal Members reflect wording in the original Guidance to FPA Members on Principles to Manage Conflicts of Interest (June 2006).

The remuneration spectrum

There are three broad types of remuneration at work in financial planning, as described in the diagram below:



1. Remuneration refers to payments made by the client for services provided by the financial planner
2. 'Soft' dollar (referred to as 'alternative remuneration' or non-monetary) benefits are provided to the financial planner by a product provider or licensee (often as conference support or entertainment)

3. Other Payments might be made to the licensee for funds under management, sponsorships or other benefits that may or may not be paid to the financial planner.

This paper relates to the first component, which is remuneration payable to the financial planner[3].

The FPA has established rules and processes to deal with the other forms of remuneration and in joint Codes with the FSC (formerly IFSA) manages these benefits through the Alternative Remuneration Code and the Rebates and Related Payments Code. These codes are the subject of frequent review to improve the transparency of remuneration across Financial Services[4].

[3] Note that under Corporations Law only the Australian Financial Services Licensee can receive payments for remuneration, which it then pays to financial planners.

[4] As at February 2012 it is anticipated many forms of alternative remuneration and payments identified in the Joint Rebates and Related Payments Guide will be prohibited by amendments to the Corporations Act 2001 (Cth) contained in two tranches of legislation before the Federal Parliament referred to as the Future of Financial Advice legislation.

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Background to the Principles

Principle 1 - Clients must be able to understand the fees they are paying

1.1. Consumers who are well informed and well educated make better decisions about their finances. Fees have long been complex and difficult to understand, largely because products have become complex, but also because of competition and the need for competitive differentiation.

1.2. The FPA already requires its members to provide information about fees to clients at the point of engagement, [Rule 1.5] and for comprehensive fee disclosure including dollar disclosure to be provided to clients in conjunction with any recommendation [Rule 4.12].

1.3. These requirements complement Corporations Act requirements[5].

1.4. The FPA has also embarked on work to simplify the Statement of Advice (SoA), including an effort to simplify fee disclosure in the SoA which includes a sample fee table, to assist members.

1.5. Simple and consistent fee disclosure should extend to all documents given to a client.

1.6. All future improvements in disclosure should be focused on consumer friendly language.

1.7. The value of the advice, and the associated cost of that advice, should be clearly conveyed to ensure the client understands the value and the cost.

Principle 2 - Clients must be able to compare the fees they are paying

2.1 Improving consumer understanding of the fees they are paying is improving comparability in fee disclosure across charging models.

2.2 Disclosure which allows comparability between charging models places consumers in a better position to choose the remuneration model that is best suited to their needs and circumstances, and is consistent with the financial planning recommendations being made.

2.3 Comparability in disclosure assists to manage the inherent conflict of interest between the professional's need to be remunerated for their services and the client's interest in receiving services

[5] As at February 2012, Future of Financial Advice legislation to amend the Corporations Act 2001 before the Federal Parliament includes provisions to require financial advice providers to give an annual disclosure statement to clients to whom they provide on-going services. Whilst the detail of the disclosure required is likely to be incorporated into subsequent Regulations, it is anticipated the disclosure of services required in the Code will continue to compliment Corporations Act requirements.

at the least cost possible. It should enable the client to compare the value they may receive from one professional with that offered by another.

2.4 Remuneration practices which involve the undisclosed subsidisation of financial planning services by a third party such as a product issuer, may be confusing to consumers and prevent fair cost comparisons between remuneration models.

2.5 We have proposed standard definitions that describe the main charging models so that we achieve greater clarity and comparability.

2.6 Consistently with the FPA's existing Conflict of Interest Principles, consumers should be able to understand and determine:

- 2.6.1 The scope and nature of the financial planning services they will receive;
- 2.6.2 The (actual) total cost of the financial planning services they will receive;
- 2.6.3 The estimated cost of financial planning services they would receive under different remuneration models;
- 2.6.4 The fees charged for financial planning services as opposed to the costs of a product.

Principle 3 - Clients must be presented with a fee structure that is true to label

3.1 We have identified the elements of the major remuneration charging models that are currently operating in the market, and the key features of each model.

3.2 We have identified the advantages and disadvantages of each model from both a financial planner and a consumer perspective.

3.3 To encourage our members to accurately self-identify with the appropriate charging models for their business we have improved standards of representation in marketing and promotion of member businesses though the Code of Professional Practice and will enforce these standards.

3.4 Rules have also been written to extend existing requirements [old Rule 101] to include 'not likely to mislead or deceive' [see Rule 7.2, 7.14] and to add requirements for specific clarity when making claims of 'independence', and when identifying with a particular remuneration charging model [Rule 7.21].

3.5 In recommending a strategy or a financial product to a client members should consider and disclose to the client the likely consequences to the client of the use of a particular charging model for the client if the client were to implement the recommendation.

3.6 Members utilising commission based charging models might be required to provide additional information directly to consumers on the impacts of commission based charging. Such information might include:

3.6.1 Comparative information on charging models;
3.6.2 Questions to ask your financial planner about how they charge for financial planning services including the difference between up front and ongoing commissions and associated services;
3.6.3 The potential influences on advice and potential for conflicts of interest that may apply to different charging models.

3.7 The proposed charging models are clarified in the definitions section of this policy.

Principle 4 – Clients must be presented with fees that are separated between advice and product

The fee disclosure table has been proposed which separates the costs of product from the costs of advice. Whilst this precise model is not mandatory we would expect that Financial Plans and SoA's should reflect this clarity of disclosure.

Principle 5 – Clients must agree the fee with their financial planner and can request that the fee is switched off if no on-going advice is required.

5.1 As with the FPA's Principles to Manage Conflicts of Interest, charges for financial planning services should be determined between the financial planner and the consumer.

5.2 If a client wishes to terminate their agreement with their financial planner, or the financial planner wishes to withdraw their services, the fee should be switched off.

Principle 6 – Clients should pay for financial planning services, not product providers

6.1 Payment for professional financial planning services should come from the client not the product provider.

6.2 Payment should come from the client's account (or the clients own funds) rather than through other means from the product provider.

6.3 In the case of payment for on-going charges these should be matched to regular deductions from the client's account and 'factoring' an upfront payment to the adviser or advice licensee would not be permitted.

6.4 This approach to planner remuneration is designed to reduce the potential for providers to influence planners' remuneration, reducing the potential for bias (and the perception of bias) and improving overall industry sustainability and consumer confidence.