



Building best practice advice - A compliance view

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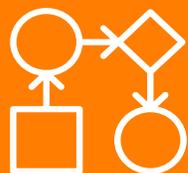
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What are we covering off on today



Best Interest Duty

How to demonstrate it
has been met



SoAs

What makes a good
SoA



File Notes

Evidence you have
documented your
process

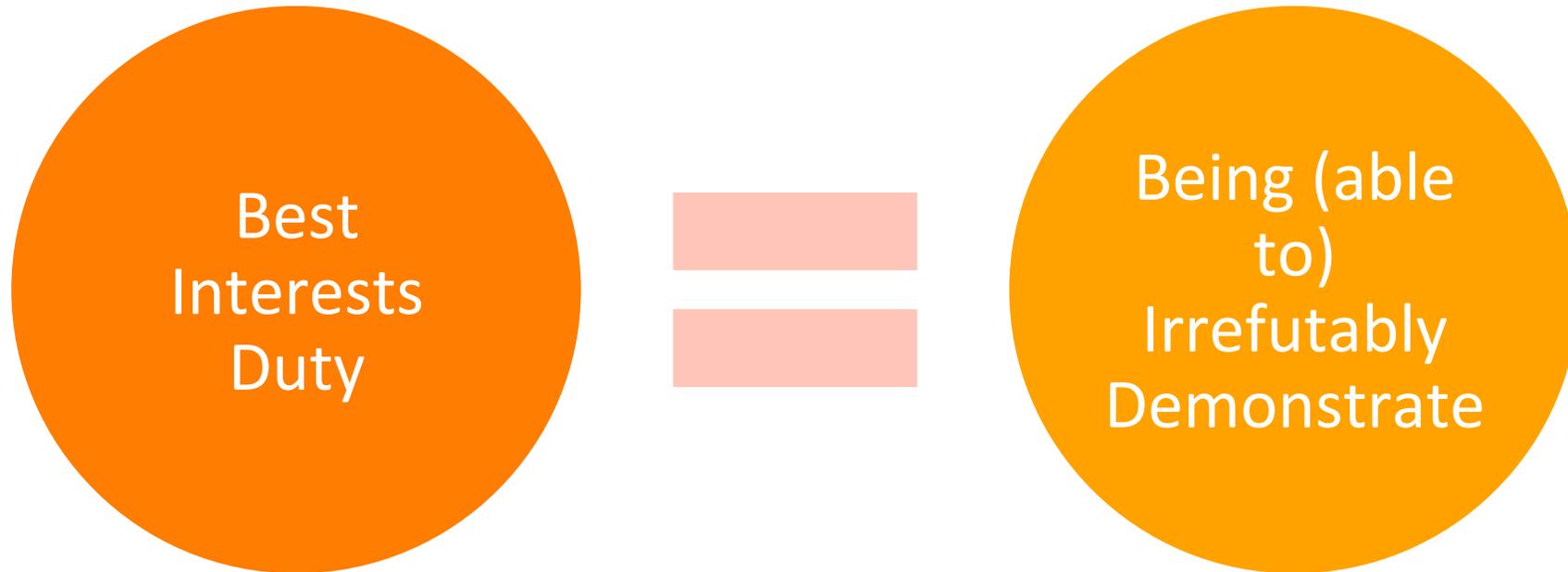


Reviews

How to continue to
meet the best interests
duty and add value



What does BID stand for?



Section 961B(2): 'the provider satisfies the [best interests duty] if the provider **proves** that the provider has done each of the following...'



The BID Cycle





So where does it all go wrong?

5 key areas where we see the most common mistakes;

1. Goals and objectives
2. Subject matter and scope
3. Is the relevant information correct
4. Product investigations
5. Based judgements on relevant circumstances



Goals and objectives – the bad

1.2 Needs and Objectives

For example, needs and objectives may include a comfortable retirement with the ability to travel annually

Needs and Objectives

Priority

- 10 year plan
- Insurance advice ①
- 70-80c PA: (in retirement) ②
- Salary sacrifice ③

What does this even mean? 🙄



Goal and objectives – the good

- You do not actively wish to be engaged in the investment process for your superannuation and you are looking for a simple solution with ease of management being a high priority;
- You want to align your super investments to your ethical convictions and you understand that this may cost more to achieve this goal;
- Look at strategies to boost your super in preparation for retirement using your surplus cash flow of \$12,000 pa;
- You are looking to retire at age 65 on an income of \$70,000pa but would like to know if it is possible for you to retire earlier.

The goals and objectives should demonstrate that the adviser has more than a superficial understanding of their client.

Assumptions – you know what they say about them



Assets	Owner	Asset Value
Bank Account	Joint	\$1,000
Home	Joint	\$400,000
Home Contents	Joint	\$100,000
Motor Vehicle - Xr6	Joint	\$15,000
Motor Vehicle - Hilux SRS	Joint	\$60,000
Motor Vehicle - Nissan Patrol	Joint	\$30,000
Total		\$606,000

Annual Tax Estimate	Owner	Amount
Living expenses	Joint	\$70,000
Total		(\$90,039)
Net Cashflow		\$13,961



Switching Advice

ASIC expects that where an adviser provides a client with switching advice:

- The advice must leave them in a better position having regard to their individual situation and objectives, the existing product's characteristics and costs.
- Improving the client's financial position: *... any higher fees will be offset by improved benefits that the client requires*
- Relevant to circumstances: where the basis for the advice is the benefits of a new product, such as a broader choice of investments, does the client require the benefit?

(4 Keys to Switching Advice, Louise Macaulay, Senior Executive Leader, Financial Adviser's team, ASIC, Money & Life, May 2018)



Switching Advice

Consider the following scenario:

- Client A has a super balance of \$100,000 within an industry fund invested in the default balanced option
- Client A sought advice to review their existing super
- The adviser gives advice to roll over the existing super fund into an account with super fund X and invest the balance in accordance with the adviser's philosophy and model portfolio.
- The advice will result in an increase in costs of client A's super account.



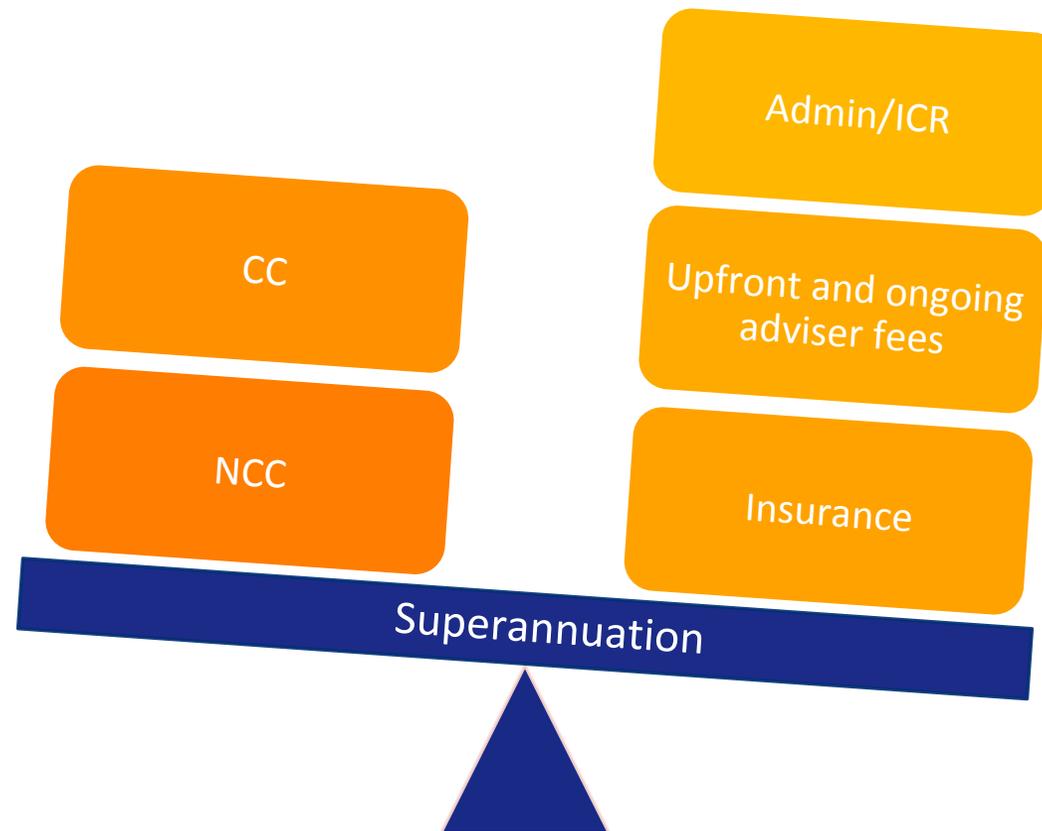
Switching Advice

How would the adviser demonstrate that they have met the best interests and appropriate advice duties in this scenario?

- Client A's goal has been identified and/or the outcome they want to achieve if they follow the advice
- The existing product cannot meet this goal
- Client A is financially literate and understands the adviser's investment philosophy
- Client A is seeking investment advice for their super and is looking to take an active approach
- Client A is willing to incur higher costs in their super fund (in exchange for added benefits) and understands that adopting the advice will potentially reduce their retirement savings.



Better Position: Inflows vs Outflows





What must be in the SoA?

- ✓ Title – “Statement of Advice”
- ✓ Name and contact details of the providing entity
- ✓ Statement setting out the advice
- ✓ Information about the basis on which the advice is given
- ✓ Information about remuneration, commission and other benefits
- ✓ Referral fees
- ✓ Details of any interests or associations
- ✓ Warnings where the advice is based on inaccurate or incomplete information



What makes a good SoA?

Clear, concise and effective – Is it a myth?

- Who is the SoA written for?
- If you were a client what would you want to see?
- Executive summaries
 - What are the clients goals
 - What are the barriers to achieving these goals
 - What your recommendations are
 - What the outcome of the advice will be



What else?

- Projections to help explain the advice
- Relevant text – they don't over rely on templated text
- Include practical alternative strategies
- Address key consequences of recommendations properly
- Use appendices that separate non essential information
- Include the ongoing service commitment



File notes





File notes

Should include but often don't:

- How you established the clients goals and objectives
- If the client has any concerns with their existing products/strategies
- A discussion around clients financial literacy
- How you established the level of service the clients require
- If the client has requested a specific product or benefit, why?
- What the clients budget is

Tip: Use prompting questions in your file notes



Ongoing reviews of value

What evidence is necessary to demonstrate that an annual review was provided?

‘The provision of an annual review typically constitutes personal advice. Therefore, if an AFS licensee has provided its client with an annual review, we expect the licensee will have either a Statement of Advice (SOA) or Record of Advice (ROA) on file to evidence the delivery of the annual review.’

INFO Sheet 232, ASIC



Ongoing reviews of value

The review should identify how your clients are tracking on their journey and whether the advice you have implemented remains appropriate.

A review must cover the following;

- Qualitative – Re-establish or confirm the clients goals and objectives
- Quantitative – Evaluate the clients current financial strategies against the confirmed goals and objectives

Does the advice still meet the 'safe harbour' test?



Ongoing reviews of value

What do we look for that the review was provided;

- SoA or RoA
- Secondary evidence;
 - Review reports – updates quarterly, half yearly
 - Reverse fact finds
 - File notes
 - Emails
 - Research
 - Projections

If relying on secondary evidence, the AFS licensee should also consider whether it has breached its obligations to provide advice documents to a client when the licensee (or its representatives) provided personal advice.



Efficient, but are they effective?

- Templates and SoA/RoA wizards
- Checklists and processes

You can't make a silk purse from a sow's ear



Questions

Contact us:

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Best Practice Advice

What is more important?

How well you know your client

OR

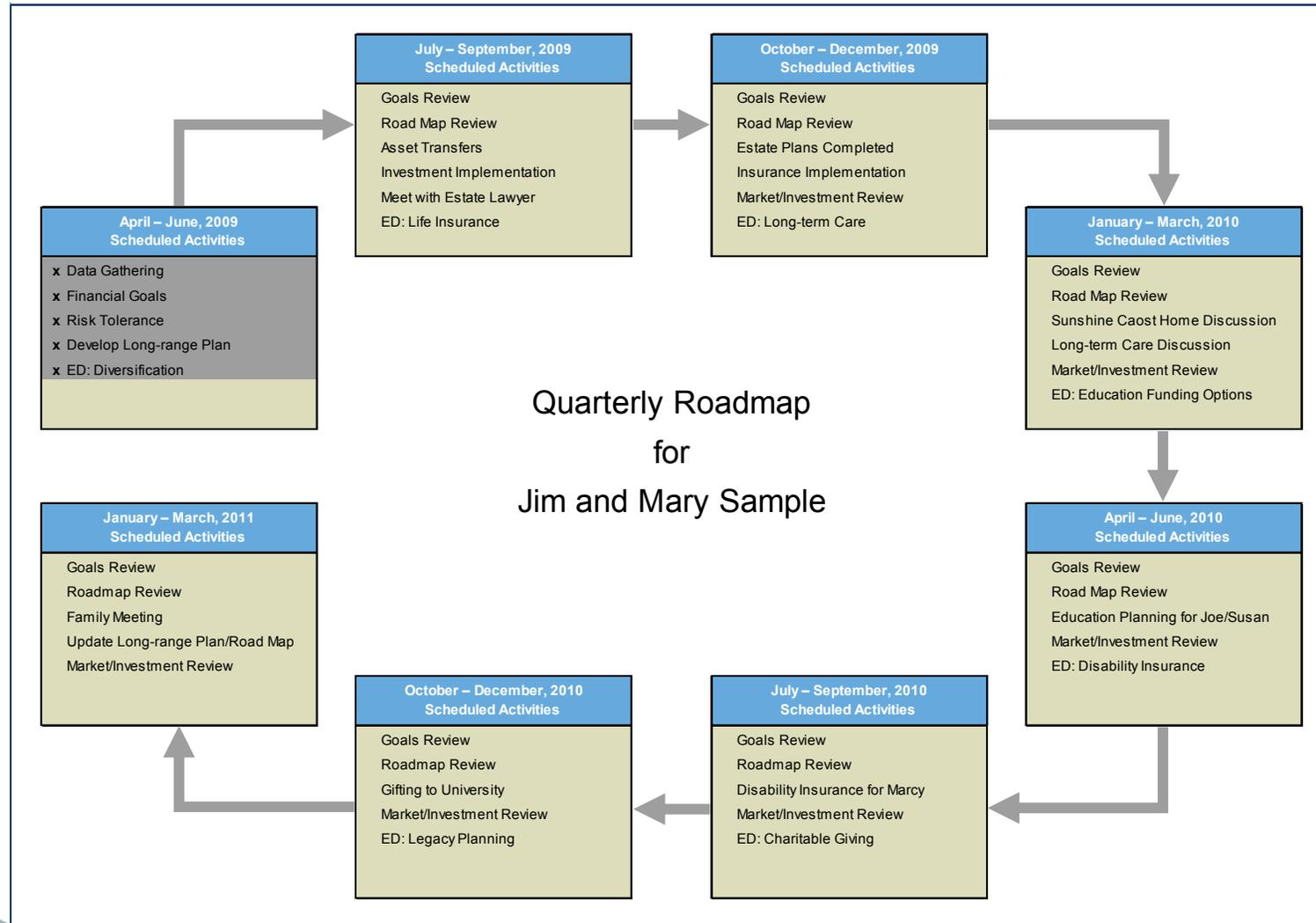
How well you know your solutions



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What's A Review?



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8 Great Questions

1. What are you trying to accomplish? What goals require money and planning to achieve? What's important about money to you?
2. Why is achieving <the objective> important to you?
3. What would be the consequences if <the objective> were not achieved?
4. How would you rate your progress so far?
5. Where should you be?
6. What has been holding you back?
7. How would you like to see this problem solved?
8. What can we be doing to help get you to where you want to be?



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