



The Treasury
Langton Cres
PARKES ACT 2600

24 August 2020

Dear Treasury

Pre-Budget submission 2020-21 – supplementary

The Financial Planning Association of Australia (FPA) made a Pre-Budget submission in January 2020 in anticipation of the 2020-21 Budget being delivered in May 2020. Thank you for the opportunity to provide an update to the FPA's submission, ahead of the rescheduled 2020-21 Budget in October 2020.

FPA's January 2020 submission

The FPA's submission from January 2020 remains wholly relevant. In the submission, the FPA highlighted the Government's focus on implementing the recommendations from the Financial Services Royal Commission. The FPA's key concerns were regarding the increased cost to practice as a financial planner, the disruption to the delivery of financial advice as a result of the busy reform agenda, and the impact these factors are having on the affordability and accessibility of financial advice for ordinary Australians.

The FPA continues to support its recommendations from its January 2020 submission, including:

- that ASIC monitor the cost to practice as a financial planner (recommendation 1);
- that the Government considers the cost of regulatory compliance when evaluating options for reform in financial services (recommendation 2);
- that ASIC monitor the operation of the professional indemnity insurance market and consider options that would constrain the growth of premiums (recommendation 3);
- that, prior to establishing a compensation scheme of last resort, the Government investigates and addresses the underlying causes of unpaid determinations including the role of professional indemnity insurance (recommendation 4); and

- that the Government provides a tax deduction for the fees associated with the preparation of an initial financial plan and subsequent reviews of a financial plan (recommendation 5).

Covid-19 pandemic

Since the FPA made its submission in January 2020, the health and economic crisis caused by the COVID-19 pandemic has posed challenges for all Australians. Financial planners have found themselves on the frontlines of this crisis, helping their clients to manage the impact of the pandemic on their employment, their businesses and their retirement savings.

The FPA has worked closely with ASIC as it rolled-out regulatory relief measures intended to make it easier for financial planners to help their clients with their immediate financial advice needs. These relief measures include the ability to provide advice through a Record of Advice (ROA) only, where otherwise a full Statement of Advice (SOA) would be required.

These measures are due to conclude on 15 October 2020. ASIC has indicated that it is open to requests to extend these measures or introduce other relief measures if there is a case to do so in aid of supporting Australians accessing financial advice during the pandemic or assisting the economic recovery. The FPA is conducting research among its members and partner practices to provide feedback to ASIC on these measures.

Update on increasing costs

The FPA's primary concern in the regulation of financial advice is the impact on increasing costs on the affordability of advice and the sustainability of the financial planning profession. Since January 2020, the cost to practice as a financial planner has continued to rise, including through direct government charges and levies and through the indirect cost of compliance.

ASIC has provided an estimate for its industry levy for 2019-20. The figure for financial advice is expected to rise 38 percent compared with 2018-19 and a whopping 68 percent increase over the two years from 2017-18. While ASIC has provided some justification for these increases in the form of a bigger work program, the rate of increase in the industry levy is fundamentally unsustainable.

Rising costs like these will continue to impact the sustainability of financial planning businesses and, as these costs are passed on to clients through advice fees, they will continue to push financial advice out of reach for many Australians.

The FPA has made a formal submission to the ASIC consultation on its industry levy estimates. In this submission, the FPA has called for more transparency on ASIC's expenditure and more-targeted recovery of costs where they are incurred in the supervision of specific financial institutions.

Update on Royal Commission implementation

In May 2020, the Government announced a six-month deferral in implementing the recommendations from the Financial Services Royal Commission as a result of the Covid-19 pandemic. While this deferral is understandable and may be necessary to ensure recommendations are implemented carefully and effectively, the FPA notes that there remains some urgency in establishing a single disciplinary body for financial planners under recommendation 2.10.

The single disciplinary body has been identified as the best chance to bring certainty to the application of the FASEA Code of Ethics. The Code of Ethics has been in place since 1 January 2020, however there remains significant confusion among financial planners over how some elements of the Code apply in practice. FASEA has undertaken to provide additional guidance to address these issues, but this has yet to occur. ASIC has indicated that it is not appropriate for ASIC to provide this guidance. The creation of a single disciplinary body, which will have responsibility for receiving, investigating and adjudicating complaints against financial planners, is likely to be the quickest path to providing certainty over the application of the Code.

In creating the single disciplinary body, the FPA has strongly recommended that the Government use it as an opportunity to reform the regulatory framework for financial advice. In particular, the Government should combine key functions from ASIC, FASEA and the Tax Practitioners Board into the new disciplinary body, thereby streamlining and focusing the oversight of financial advice. The FPA has provided further details of these recommendations in its new policy platform - Affordable Advice, Sustainable Profession.

Supporting fintech integration

Finally, since January the FPA has appeared before and made a submission to the Select Committee on Financial Technology and Regulatory Technology. One of the critical challenges in realising the potential benefits of fintech in financial advice is ensuring proper integration between different fintech offerings.

In its submission to the Select Committee, the FPA has suggested that ASIC or the ACCC should be empowered to create an integration standard for fintech and manage the security and privacy issues relating to integration. This would support the

effectiveness of fintech in Australia, make it a more attractive investment for financial planning practices to implement, and assist with supporting the Australian fintech sector.

Thank you for the opportunity to update the FPA's Pre-Budget submission for 2020-21. Should you have any questions, please don't hesitate to contact me at ben.marshan@fpa.com.au or 02 9220 4544.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Benjamin Marshan". It is followed by a solid blue horizontal line.

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