



FINANCIAL PLANNING
ASSOCIATION *of* AUSTRALIA

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Dear David

Growth/defensive asset categorisation: proposed solution for consultation

The Financial Planning Association of Australia (FPA) welcomes the opportunity to provide input into the Conexus Institute's consultation on Growth/Defensive Asset Categorisation.

The FPA congratulates the Conexus Institute on leading this important work. Clarity, comparability and true labelling are critically important to consumers to enable the appropriate selection of products to meet a consumers financial objectives. The paper does a good job highlighting the issues faced by consumers today and the gaming of categorisation by product manufacturers to confuse and distort the true characteristics of financial products. It is worth noting this is a point ASIC also recently made in their media release 20-218MR¹ "ASIC tells fund managers to be true to label". As the paper points out, while this doesn't solve all the issues with labelling of financial products, it does address a first critical step.

For this reason the FPA is broadly supportive of the proposed solution and the expertise which has been brought together to solve the issue. We would encourage the Conexus Institute to continue this work by tackling both a true assessment of product risk as well as true to label naming/categorisation of financial products as a second and third step.

As stated, the FPA supports the proposed solution. While complex, it does address long standing practices to hide the growth/defensive mix of products and misclassification of assets being more defensive or less risky than the asset class is in reality. This misclassification has been used to suggest products are both less risky and better performing than peers who use more accurate growth/defensive labelling. A standardised risk rating in particular is well overdue and will only enhance the work being undertaken in this recommended categorisation. Consideration could ultimately also be given to standardising how funds describe the specific goals which will be met for consumers, for example the difference between a balanced fund designed to focus on income rather than growth and visa versa.

In saying this, we highlight the following three concerns with the proposals made:

¹ <https://asic.gov.au/about-asic/news-centre/find-a-media-release/2020-releases/20-218mr-asic-tells-fund-managers-to-be-true-to-label/>

1. The solution proposed is still complex. There is a need for the working group to consider once the categorisations are implemented, how tools can be developed to assist both consumers and financial planners in understanding how the new classification protocols operate. This should include standardisation of comparison tables.
2. We highlight that there is a need for policing the classification system. It is critical that ratings providers ensure all products follow the protocol and call out products who attempt to subvert it through misclassification of assets.
3. It is critical that regulators require accurate disclosure by products against a finalised and agreed categorisation protocol as part of their regulatory settings.

The benefits of these outcomes is an assurance for consumers and their advisers that investment solutions are swimming between the flags. This will see the current dispersion of growth/defensive categorisation narrow considerably for the benefit of consumers.

Outside of this, we do not offer specific views on the categorisation of each asset class as the FPA considers the working groups expertise sufficient to determine an appropriate protocol.

The FPA would welcome the opportunity to discuss with the Conexus Institute the issues raised in our submission. Please contact me on 02 9220 4500 or ben.marshan@fpa.com.au if you have any questions.

Yours sincerely



Ben Marshan CFP® LRS®
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² The Financial Planning Association (FPA) has more than 14,000 members and affiliates of whom 11,000 are practising financial planners and 5,720 CFP professionals. The FPA has taken a leadership role in the financial planning profession in Australia and globally:

- Our first "policy pillar" is to act in the public interest at all times.
- In 2009 we announced a remuneration policy banning all commissions and conflicted remuneration on investments and superannuation for our members – years ahead of FOFA.
- We have an independent Conduct Review Commission, chaired by Dale Boucher, dealing with investigations and complaints against our members for breaches of our professional rules.
- The first financial planning professional body in the world to have a full suite of professional regulations incorporating a set of ethical principles, practice standards and professional conduct rules that explain and underpin professional financial planning practices. This is being exported to 26 member countries and the more than 175,570 CFP practitioners that make up the FPSB globally.
- We have built a curriculum with 18 Australian Universities for degrees in financial planning. Since 1st July 2013 all new members of the FPA have been required to hold, or be working towards, as a minimum, an approved undergraduate degree.
- CFP certification is the pre-eminent certification in financial planning globally.
- We are recognised as a professional body by the Tax Practitioners Board.

