

FINA2209 NOTES

WEEK 1 - THE FINANCIAL PLANNING INDUSTRY

ROYAL COMMISSION – FINANCIAL PLANNING INDUSTRY

WHAT ARE SOME OF THE PROBLEMS?

- **Approved products lists/vertical integration**
- **Appropriateness of advice** – Limited to a certain list that has been imposed on the financial planner by the company they work for.
- **Remuneration** – Base salary + Commission → Unstandardised
- **Culture/Ethics**
- **Education standards** – Low standards for financial planners

WHAT CAN A FINANCIAL PLANNER HELP A CLIENT WITH?

- Building Wealth
 - Investing (inside and outside of superannuation)
 - Debt management, expense management, etc.
- Using Wealth in Retirement
 - Retirement planning
- Protecting Wealth
 - Asset protection
 - Estate planning

FINANCIAL PLANNING

A process whereby a client's financial position is analysed, and a set of strategies/recommendations put in place through a *financial plan* (Statement of Advice) that will assist the client in meeting their goals and objectives.

- A *people-oriented* business helping people achieve their financial goals.
- A major part of the financial of the financial planners' role is *education*.

EVERY CLIENT HAS DIFFERENT:

- Needs
- Objectives
- Requirements
- Financial circumstances
- Family circumstances
- Motivational factors – Investment preferences – risk tolerance, ESG, supporting local economy
- Perception of financial planning and financial planners

BENEFITS OF FINANCIAL PLANNING IN PRACTICE:

Clients will require assistance with regards to...

- How do I support myself in retirement?
- What happens if I was to die, become disabled or sick and unable to support myself and my family?
- What's the best way to invest my funds?
- How can I minimise tax?
- What's the best means to create long-term wealth?
- What arrangements can be put in place to look after my family upon death?
- What social security arrangements am I eligible for?
- How do I manage debt?
- What's the best way to save for and buy a home?

THE NEED FOR FINANCIAL PLANNING

- Demographic Trends
 - Aging population – living longer & retiring earlier
- Political Trends
 - Government encouraging retirees to self-fund – superannuation (9.5%), tax concessions for personal contributions, lump sum withdrawals or pensions received from super after the age of 60 are tax free.
- Shift away from providing the full age pension to retirees.
- Complexity of Legislation
 - Acts and Laws
- Complexity and Choice of Investment Products
 - Retirement Income Stream Products
 - Gearing Products
 - Derivatives

REASONABLE BASIS FOR THE ADVICE

Advisers need to be client-centric rather than product-centric.

- Know your client rule
- Know your product rule

TO BE CONSIDERED WITH THE PROVISION OF ADVICE

- Each client is different
- The needs of a client change over time
- Assessing the risk profile of the client
- What type of investment is appropriate for the client
 - Term deposits, managed funds, property, direct shares, international shares, bonds
- What type of investment structure is appropriate
 - Individual name, company, superannuation
- The impact of economic variables
- Changes in government legislation

THE REGULATORY ENVIRONMENT

- Strict regulations – ASIC, APRA, ATO, ACCC
- Strong financial association – Financial Planning Association
- A client/advisor fiduciary relationship
- Professional associations and training requirements

Australia Securities and Investment Commission (ASIC)	Principle regulator of the Financial Services Industry – banning of advisors, audit programs, licensing regime for AFSL. Responsible for consumer protection.
Australian Prudential Regulation Authority (APRA)	Principle regulator of the Superannuation and Insurance Industries. Responsible for compliance with SIS (Superannuation Industry (Supervision)) Legislation; regulation of professional superannuation trustees.
Australian Taxation Office (ATO)	Responsible for administering tax legislation. Responsible for administering self-managed superannuation funds.

LICENSING REQUIREMENTS – AUSTRALIAN FINANCIAL SERVICES LICENCE (AFSL)

Provide financial product advice or deal in a financial product.

- Covers banks, credit societies, managed funds, superannuation funds, financial planners, stock brokers, etc.

Exemptions from holding a licence:

- Authorised representatives (people who work in financial planning but do not give advice – admin)
- Real estate agents
- Providers of health insurance

Large, highly controlled dealer groups holding an AFSL (financial institutions, banks, insurance companies)

→ Financial advisor (Authorised representatives)

ASIC – POLICY STATEMENTS

Policy statements outlining how certain provisions of the *Corporations Act 2001* are to be applied to the FP discipline.

Three of the more important Policy Statements:

- [RG 168] – Disclosure: Product Disclosure Statements (and other disclosure obligations)
- [RG 175] – Licensing: Financial product advisers – Conduct and disclosure
- [RG 146] – Licensing: Training of financial product advisers

STATEMENT OF ADVICE (SOA)

- The providing entity must provide a retail client with a SOA where the client is given personal advice.
- Must be provided at the same time as, or as soon as practicable after, the advice is provided.
 - This must be before the provider arranges for anything connected with the advice.
- The SOA is a disclosure document that helps a retail client understand and decide whether to rely on personal advice.
 - Must be clear, concise and unambiguous.
- The SOA must clearly identify all conflicts of interest that may affect the advice.