



31 July 2018

Dr Mark Brimble
Interim Managing Director
Financial Adviser Standards and Ethics Authority

Email: consultation@fasea.gov.au

Dear Dr Brimble,

SMSF ASSOCIATION SUBMISSION ON PROPOSED FINANCIAL ADVISER EXAMINATION

The SMSF Association (SMSFA) welcomes the opportunity to make a submission on the Financial Adviser Standards and Ethics Authority's (FASEA) proposed financial adviser examination. We have responded to the consultation questions below, however, without an examination blueprint and learning outcomes it is difficult to make effective recommendations.

3.1 Do you agree with the scope of the proposed examination? If not, why not?

As indicated in our submission regarding education standards, the SMSFA understands that the requirement for advisers to pass an exam by 1 January 2021 is prescribed in law. However, we question the validity of the exercise when advisers are meeting higher education standards set by FASEA through further tertiary level study which is likely to cover content suggested for the exam. Nevertheless, notwithstanding a legislative change, the final design of the exam must be appropriate for the purpose it is to serve.

Crucially, this dictates that the exam should not be set at a level that causes damage to the industry by being irrelevant, overly complex and reassessing advisers on knowledge covered by bridging courses or qualification undertaken to meet the new education standards.

If designed correctly, the SMSFA understands how a professional exam can provide a nationally consistent minimum professional standard of education and competency for all financial advisers, regardless of whether they are new or experienced.

Recognising that the professional education standards intend to impart technical knowledge to financial advisers, the SMSFA agrees that the examination should assess the application of this knowledge, particularly in areas such as ethical and legal requirements, professional reasoning and the suitability of advice. We have expanded on a proposed curriculum in question 4.2.



3.2 Is the proposed scope of the exam appropriate for new entrants and existing advisers?

One single minimum standard

The SMSFA believes a final examination which aims to ensure consistent competency for all financial advisers, particularly in the application of financial advice and reasoning is reasonable. However, we have serious concerns that the proposed scope, difficulty and curriculum for existing advisers may be inappropriate in the final design.

We believe that the object of the examination is to create a minimum standard for all advisers, regardless of their background or experience. Factors such as the prior experience of existing entrants or the lack thereof for new entrants, and the timing of the examination as part of a new adviser's entrance to the profession, including their professional year, should not form part of this object.

Consequently, there should not be any consideration of a 'harder' bank of questions or a substantially different examination being utilised for existing advisers based on their experience. This minimum standard should be set impartially. This minimum standard should be based upon the experienced views of stakeholders through FASEA's consultations regarding an appropriate AQF7 level.

If this means that existing advisers find the minimum standard significantly easier than a new entrant because of their past experience in providing financial advice for 10 years, then that is a tribute to their knowledge. Alternatively, if a new entrant finds the exam too difficult to pass as a minimum standard, then the new entrant curriculum and assessment must be adjusted to ensure that it is providing an adequate level of education. This goes to the object of the examination as a single minimum standard across all advisers.

Duplication

While we prefer the design of a standard national standard exam for all advisers, where there may be scope for a different and reduced form of an exam is where existing advisers are required to complete a bridging course at level AQF8 on a topic that encompasses the same learning outcomes as the examination covers. This may be inappropriate because the scope of the exam is duplicated with the required bridging courses and FASEA pathways.

It is currently proposed that existing financial advisers will either need to complete an AQF8 course comprised of three bridging courses on FASEA's Code of Ethics, Behavioural Finance, and the Corporations Act or a single bridging course in FASEA's Code of Ethics before 1 January 2024 if they wish to continue providing financial advice. These specific knowledge areas are also significant parts of the proposed examination.

Therefore, individuals undertaking further education will be tested with an examination on these knowledge areas twice just to meet the FASEA standard. Given this duplication, it is difficult to understand how the exam is functioning as an effective element of the transition of existing advisers into a profession.

The SMSFA believes there is a strong argument that the curriculum for existing advisers does not need to encompass repeated learning outcomes at an AQF7 level in an examination if they are going to be required to be assessed at an AQF 8 level as part of their formal educational requirements.



A reduced exam would then only require existing advisers to be tested on the suitability of advice and applied ethical and professional reasoning and communication components learning outcomes.

This will still ensure a level of consistency regarding suitability of advice and that professional reasoning is a skill of all financial advisers. It will therefore provide value to the adviser and to consumers who can be sure that each financial adviser they see has completed this minimum standard and has addressed some of the issues that have beset the industry.

4.1 Is the type and mix of questions proposed for the exam appropriate (i.e. selected vs written)?

The SMSFA believes that the type and mix of questions proposed for the exam is inappropriate. For simplicity, logistical ease and objectivity, the examination should only contain selected response style questions.

A multiple-choice question examination ensures a simple approach can be taken to preparing for the examination. It also ensures that answers are objective and final, whereas written answers will rely on subjective assessment by the assessor.

Furthermore, a multiple-choice examination provides a logistical solution to an examination that will be supplied to thousands of financial advisers by allowing for an efficient mode of delivery and assessment.

The Association believes multiple choice examinations also allow a wide range of concepts to be tested, particularly with the use of a case study. We currently utilise a 120-question examination for our SMSF Specialist Advisor designation and our members have provided positive feedback regarding this method. Additionally, a level of similarity with modes of examination in the financial advice sector is beneficial to advisers who have not undertaken written examinations since their initial education.

We propose a bank of questions be designed and utilised to ensure that financial advisers receive a random allotment of questions. This will ensure that the potential for the examination to be manipulated is mitigated.

4.2 Is the curriculum proposed to be covered appropriate?

As previously highlighted, we believe the proposed curriculum may duplicate the learning requirements of exiting advisers specified in FASEA's education pathway guidance. However, without detail behind the proposed topics to be covered, we do believe these subjects will appropriately satisfy the testing of application of financial knowledge.

We believe the examination should aim to test a general application of financial advice knowledge to certain scenarios, rather than re-test advisers on specific technical concepts and aspects they have previously studied. This is especially important when the broad level of technical knowledge, adviser roles and specialisations are so diverse. In other words, the examination curriculum must be designed so that advisers can show they understand their statutory and ethical obligations and reasoning for advice irrespective of their chosen area of specialisation.



Proposed Curriculum:

- Corporations Act, Tax Agents Services Act obligations, Anti Money Laundering obligations and FASEA Code of Ethics (Existing advisers may not need to complete this component if they are completing a bridging course in these areas at AQF8 level).
- Behavioural Finance (Existing advisers may not need to complete this component if they are completing a bridging course in these areas at AQF8).
- Financial Advice Construction – Suitability of advice to different consumers
- Applied ethical and professional reasoning.

The SMSFA also proposes a further round of consultation with experienced financial advisers and financial advice academics to ensure the final design of the exam is relevant and assesses relevant material. An examination that is irrelevant, complex and unreasonable could cause significant detriment to advisers, especially existing advisers who are trying to maintain their careers, businesses and livelihoods.

4.3 Is the proposed duration of the exam appropriate?

The SMSFA believes a three-hour examination time is an appropriate duration for the exam. However, we believe the examination should be able to be completed in two hours, thus giving a financial adviser an hour of leeway.

FASEA must take into consideration that many advisers may have not completed an exam for a long period of time. Therefore, any final design of the exam should not incur significant time pressures on an individual in a high-pressure environment.

We note, this is difficult to assess without details of the form of the exam.

4.4 Is the proposed overall scaled pass mark of 65% and the additional individual knowledge area pass requirements appropriate? Should the Code of Ethics knowledge area pass mark be set at 75% or other level and the other knowledge areas at 50% or other level?

We understand that an overall scaled pass mark will not be utilised for the examination which assumes that there is an implied fail rate for financial advisers taking the examination. The examination should aim to achieve setting a consistent minimum standard that advisers must satisfy.

The SMSFA believes an overall pass mark above 50%, ranging from 55% to 65% is appropriate to determine the minimum standard for financial advisers. This reflects that financial advisers have achieved a standard that is beyond 50% of the curriculum.

Advisers should be made aware of their result through a simple “Satisfied/Not satisfied” framework. This should also extend to each subject area to allow for individuals to target study in the case they fail the exam.

We do not believe that examination on the Code of Ethics should be set at higher level than other knowledge areas. All knowledge areas should be of equal importance and therefore be set at the overall pass mark.



Furthermore, there may be merit in an examination design that means advisers do not need to re-sit the components they are deemed to have satisfied upon an overall fail of the examination. However, we understand this may be logistically hard to orchestrate.

5.1 Is the proposed number of re-sits appropriate?

We believe candidates should be able to re-sit the exam as many times needed to ensure they reach the minimum standards required to provide financial advice.

It is important FASEA recognises that many intelligent and competent financial advisers have not taken an exam in many years, and that intelligent and competent people can ‘freeze’ during exam assessments. This is pertinent when failing an exam that cannot be re-sat has the potential to significantly affect careers and businesses. There may not be a more stressful situation for these transitioning advisers and so every effort should be made to ensure they have the best chance to pass the exam.

Furthermore, the SMSFA does not understand what purpose limiting exam attempts achieves for individuals who have decided to meet education standards as either new or existing financial advisers.

If FASEA decides that a limit is imposed on the number of re-sits, the SMSFA strongly believes that the legislation is designed to ensure that existing advisers do not fall into the remit of a new entrant again. An existing adviser that falls off the financial advisor register because of the examination has an argument to be treated differently than a new entrant who has never appeared on the financial advice register. For example, such individuals should not need to go through the provisional year template as a new entrant in order to give advice again.

5.2 Is the proposed mode and frequency of delivery appropriate?

The SMSFA recognises the significant organisation that is involved with the delivery of a national exam.

However, we believe that FASEA should aim to provide an approach that balances the administration and efficiency of examination delivery with the ability to cause the least amount of disturbance for financial advisers.

We propose that FASEA deliver the exam online using invigilator technology as much as logistically possible.

The SMSFA has no issue with monthly delivery for existing providers and quarterly delivery for new entrants. However, we note special circumstances may need to be provided for existing advisers who have not passed the exam whilst they approach 1 January 2020. This may include more frequent delivery than monthly.

We note that FASEA does not intend to provide examination preparation courses, however, the SMSFA believes that FASEA must at least provide examination preparation documents. Advisers should not go into an examination that will decide their livelihood without thorough preparation



relating to learning outcomes and demonstrations, and an examination blueprint. Material such as the above, practice material and potential workshops are essential to provide.

Additionally, further consultation needs to be given to reference material that can be brought into the examination. Without understanding the complexity of the exam, it is currently hard to make this determination. We note that a closed book exam will ensure the exam is more practical and applicable but may also potentially place more 'stress' on advisers who will not have material to rely on. The Association believes that depending on the final design of the exam, it may be appropriate to allow individuals access to certain pieces of legislation, for example, the Corporations Act, if it would assist in answering certain parts of the exam. This is relevant because financial advisers are encouraged and are able to fully utilise a wide range of resources to help them provide the best advice possible.

7.1 Are the proposed arrangements in relation to additional needs appropriate?

The SMSFA does not see any preliminary issue with the proposed additional needs arrangements.

8.1 Are the proposed arrangements in relation to special consideration appropriate?

The SMSFA does not see any preliminary issue with the proposed special considerations.

If you have any questions about our submission please do not hesitate in contacting us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Jordan George'.

Jordan George
Acting CEO
SMSF Association

ABOUT THE SMSF ASSOCIATION

The SMSF Association is the peak professional body representing SMSF sector which is comprised of over 1.1 million SMSF members who have \$712 billion of funds under management and a diverse range of financial professionals servicing SMSFs. The SMSF Association continues to build integrity through professional and education standards for advisers and education standards for trustees. The SMSF Association consists of professional members, principally accountants, auditors, lawyers, financial planners and other professionals such as tax professionals and actuaries. Additionally, the SMSF Association represents SMSF trustee members and provides them access to independent education materials to assist them in the running of their SMSF.