21 August 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 GUIDANCE ON PROFESSIONAL WORK AND TRAINING REQUIREMENT

The SMSF Association welcomes the opportunity to make a submission on the Financial Adviser Standards and Ethics Authority's (FASEA) professional work and training requirement guidance.

The Professional Year should help to build on the education received by new entrants into the profession and ensure they are competent to provide financial advice. The guidance issued by FASEA seems to be built practically and sensibly to ensure these goals are met.

Generally, financial advice firms should undergo practices with new entrants to ensure they are able to give competent financial advice and as such we believe the proposed guidance should not purport a significant change in process. However, we stress the final design of the Professional Year program should not be too burdensome for a potential new entrant so that they choose to seek other professions that do not stifle their development and freedom with a compulsory 'learning' year.

Consequently, consideration needs to be given to the viability and cost for smaller advice firms who wish to hire new entrants. The Professional Year may place undue strain on smaller firms who are unable to compete with larger firms who have the resources to more easily offer supervision to new entrants. This can affect growth and strategy plans as well as the succession of smaller advice firms.

The Professional Year program also restricts older career changers from the options they have. This is because many advice firms will not be able to afford to employ an established working individual who must be required to spend half their time on education. In addition, advisers who may be taking a career break and are not on the register as of 1 January 2019 may be unfairly caught by the new professional year requirement as they will be considered as a new entrant to the industry.

Accordingly, we believe there needs to be an option which allows a provisional financial advisor the ability to apply to the Australian Securities and Investment Commission (ASIC) for an exemption from the Professional Year requirements. This may allow certain individuals to undertake a shorter 'provisional' period if it can be demonstrated that they meet all the required competencies that are expected of a relevant provider. This can ensure there are potential options for smaller advice firms, career changers and innovation.

We also believe this exception should be made available to existing advisers who have failed the FASEA examination or advisers who have previously been on the ASIC financial advice register and have completed the new education framework and are forced to enter the profession again potentially as a 'new entrant'.

We have addressed our other specific concerns in the consultation questions below.

3.1 Do you agree with the requirement for supervisors to have a minimum of 2 years' experience as a relevant provider?

The SMSFA has no issues with the requirement for supervisors to have a minimum of two years' experience as a relevant provider. We believe this is an appropriate amount of time for a supervisor to have the skills and competence to adequately undertake supervision of a new entrant.

4.1 Do you agree with what is required of those individuals that return after a career break? If not, why not?

We agree with the requirement for individuals that return after a two year career break to undertake appropriate CPD to ensure they are up to date with the latest regulatory requirements.

4.2 Do you agree with the proposed amount of time and split between work and training required of the proposed Professional Year? If not, why not?

The SMSFA believes that more flexibility and practicality need to be encompassed into the proposed amount of time and split between work and training, understanding that what encompasses these two categories can significantly impact the number of hours which is classified into each category. For example, there will be inconsistencies in whether administrative work counts as work and supervised experience. For this reason, it is important that no matter the final proposal that is settled, strong guidance is issued which determines the type of activities that fit into each category.

We recommend that 1500 hours is used as the benchmark for hours that must be logged. This gives provisional financial advisers and supervisors just over one day a week that does not need to be officially used as Professional Year development and provides flexibility for other uses. Such other uses can include, non-relevant training days, team days, ability to service other teams and areas of a firm and any other factors they may impede if 1800 hours (48 weeks at 37.5 hours) is used. This is especially pertinent, when a new entrant undertaking a Professional Year may be embarking on their first office environment.

We then recommend the following split:

- 500 hours of education and training
- 1000 hours of work and supervised experience

This ensures that provisional financial advisers are only specifically required to spend one third of their time undertaking education and training. Noting that 1000 hours of work and supervised experience typically is also a form of practical education, it ensures that the Professional Year allows a provisional financial adviser to be productive and does not become an excessive cost burden to the supervisor/firm.

Furthermore, 500 hours of education and training focuses this time on constructive and beneficial training that will increase the knowledge of the provisional financial adviser, whereas 800 hours may be difficult to reach over a year timeframe and prompt provisional financial advisers to pad out or undertake substandard education to complete the logbook.

We also recommend that the 1000 hours of work and supervised experience includes work such as administrative tasks which are essential to the running of an advice firm. However, we would encourage that licensees when reviewing the logbook ensure that that all competencies are met and these activities are not overrepresented.

4.3 Do you agree that formal education should contribute to the training requirement of the proposed Professional Year? If not, why not?

The SMSFA agrees that formal education should contribute to the training requirement of the proposed Professional Year. This may be particularly relevant for the purposes of further education relating to a specific area of financial advice provision, such as SMSFs.

However, while we believe the option should be made available to individuals, we do note that it may be unlikely for a new entrant to engage in formal education in a Professional Year as they are still learning competencies relating to the provision of financial advice.

5.1 Do you agree with the competencies expected to be demonstrated before conclusion of the work and training period?

We agree with the competences expected to the demonstrated before the conclusion of the work and training period.

5.2 Do you agree with the proposed quarterly supervised approach and indicative key activities aligned to each quarter?

We agree with the proposed quarterly supervised approach and indicative key activities that are aligned to each quarter.

However, we stress that flexibility and practicality is essential in the assessment of the different key activities, which may allow activities to be assessed across different quarters where appropriate. A supervisor who is running a financial advice business has many priorities and functions that they must undertake which may not work in conjunction with the proposed approach unless a level of flexibility is accepted.

For example, in a scenario where an individual has not undertaken any client meetings under supervision in quarter two, it may be appropriate for those activities to occur in quarter three in the transition from direct to indirect supervision of client engagements. Alternatively, if a provisional financial adviser is advancing faster than the proposed quarterly approach then flexibility ensures that the proposed approach is not an impediment to their development and the supervisor's business.

Crucially, it is the assessment and exit criteria at the end of the Professional Year that is ultimately responsible to determine the readiness of the provisional relevant provider and if they have completed all their requirements in a reasonable time frame then they should be able to complete their Professional Year.

6.1 Do you agree with the combination of approaches for the measurement of competence and the collection of evidence?

We agree that the provisional relevant provider should collect the evidence of satisfying work and training standards, the supervisor should review and validate the evidence and the licensee should confirm and maintain the evidence.

6.2 Do you agree with the proposed periodic review between the Provisional Relevant Provider and the Supervisor?

We have no issues with periodic review between the provisional relevant provider and the supervisor and this should be encouraged.

7.1 Do you agree with the proposed exit criteria and the requirements of the Provisional Relevant Provider?

We agree with the proposed exit criteria and requirements of the provisional relevant provider.

7.2 Do you agree with the proposed exit criteria and the requirements of the Supervisor?

We agree with the proposed exit criteria and requirements of the supervisor.

8.1 Do you believe that templates may be useful and could be used as a guide only?

We believe that templates would be extremely useful for Professional Year guidance, particularly the ones listed. These should be used as a guide which facilitate ensuring that all new entrants are able to meet the standards and become a relevant provider at the conclusion of the Professional Year.

Templates also reduce the administrative burden on supervisors and licensees who are facilitating the Professional Year.

8.2 Are there templates in respect of any other matters that would be useful?

Consistent guidance relating to competencies and outcomes may be useful for stakeholders to ensure that all relevant advisers are working to the same result.

As stated previously, guidance relating to the activities that count towards each work and training requirement is essential.

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

Yours sincerely,

John L Maroney

John Maroney
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 the 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.