

ACCOUNTING PROFESSIONAL & ETHICAL STANDARDS BOARD LIMITED
MINUTES OF THE 1st MEETING OF APES 335 FINANCIAL ADVISORY SERVICES
TASKFORCE

19 MAY 2008 from 3:30 – 4:30

Teleconference

1. Present and Apologies

Present:

Mr Reece Agland, Mr Harry Moyle, Mr Hugh Elvy, Mr Channa Wijesinghe (Chairperson)

Apologies:

Mr Robert M.C. Brown, Ms Suzanne Hadden,

In Attendance:

Ms Rozelle Azad

2. Taskforce Process and Key Dates

Mr Channa Wijesinghe welcomed taskforce members and provided an introduction to the taskforce process. Mr Wijesinghe stated that the target date for presentation of a draft ED to the Board would be the November 2008 or February 2009 APES Board meeting.

3. Discussion on APES 335 Project to date

Mr Channa Wijesinghe noted that the professional bodies submitted a project proposal to the Board for the development of APES 335. The Board subsequently commissioned June Smith of Argyle Partners to prepare a discussion paper addressing the key issues raised in the project proposal. This paper is due to be completed in June 2008.

Internationally, the New Zealand Institute of Chartered Accountants (NZICA) recently developed a discussion paper on financial advisory services which has been released for public comment.

The discussion paper issued by NZICA will be circulated to the taskforce.

4. Discussion on existing standard APS 12 and expected changes to the proposed APES 335

Mr Wijesinghe noted that the following areas are likely to change when redrafting the proposed standard in accordance with APESB drafting conventions:

- Replication of the Code within the standard to be replaced by appropriate cross-referencing;
- References to the Joint Code of Professional Conduct to be replaced with APES 110;
- References to ICAA and CPA Australia to be replaced by “Professional Bodies”;
- Examples contained within APS 12 to be removed;
- Procedural detail of APS 12 to be replaced by a principles based approach;

5. Discussion on approach to be taken in developing the new standard and issues to consider

The subject matter experts noted the following areas as areas of importance to consider when developing the proposed standard.

Scope of the standard

The intention of APS 12 was to provide best practice for members practicing in financial advisory services in general. It is important that in determining the scope of the proposed standard work performed by members in public practice as well as members in business be considered.

Application of the standard

The current definitions of who is a Member in Public Practice may differ between the professional bodies. Providers of financial advisory services are not captured by the current definition adopted by one of the professional bodies; however this situation may change shortly.

Fee for service

APS 12 encourages members to use the fee for service model. The approach taken by APS 12 recognises commissions as a method of collecting a fee for service. For example, the practitioner's fee may be quoted at \$1,000 however as a result of \$750 earned by way of commission; the client only pays \$250. If the commission exceeds the quoted fee, the client will receive a refund.

A subject matter expert noted that clients are often reluctant to pay for financial advisory services on a hourly basis (in a manner similar to other accounting services). Rather the preference is for fees to be deducted from investment earnings.

Difficulties associated with the practical application of APS 12

- Definition of a product platform – what is a product? This needs to be clearly defined.
- Definitions of fees for service and soft-dollar benefits need to be clarified.

A subject matter expert noted the following issues for consideration when developing the proposed standard:

- A definition of what constitutes “financial advice” is required to ensure clarity when applying the standard; and
- Use of dealer groups imposes some restrictions on the documentation that can be provided to the client. Often software offered by dealer groups is very specific in terms of information that can be included. As a result, when developing the proposed standard it is important that the requirements are not imposed on practitioners that they may not have the ability to apply. The standard needs to be mindful of conditions imposed by dealer groups.

6. Way forward

May 2008 Mr Wijesinghe to distribute the financial advisory services project proposal presented to the Board and the NZICA discussion paper to taskforce members.

June 2008 Argyle Partners discussion paper to be distributed to taskforce members.

July 2008 2nd meeting of the taskforce to be convened to evaluate the discussion paper.

Aug 2008 Present discussion paper at August 2008 Board meeting.