

FP/JOC/RM

13 August 2010

The Accounting Professional &
Ethical Standards Board Limited
Level 7, 600 Bourke Street
MELBOURNE VIC 3000

Dear Sir/Madam

Comment on ED 02/10 Proposed Standard APES 230

As a Fellow of the Institute of Chartered Accountants and long standing member of the Financial Planning Association I welcome the general thrust of the proposed Standard. Clear guidance on professional standards of advice will provide consolidation of the current level of high quality financial advisory service being provided by Accounting professionals.

I cannot in any way, however, agree with two aspects of the proposed Fee for Service remuneration model. These are the banning of percentage based asset management fees and commission paid on risk products such as life insurance.

Percentage Based Asset Management Fees

Assuming that the fee is clearly disclosed and understood by the client, this fee structure works well to align the objectives of client and adviser. When the client's investments improve in value through sound advice, the adviser's remuneration improves. The proposed standard reiterates the existing fiduciary relationship between adviser and client, so the adviser will naturally put the client's interest ahead of his or her own financial outcomes.

The imposition of such a measure on Accountants would create a significantly uneven playing field in the Financial Planning industry. You would be aware that the vast majority of financial planning advice in Australia is not provided by Accountants. The majority of existing financial planners are not Accountants so automatically there would be a market imbalance if the proposed APES 230 was adopted.



Furthermore, many of the non-Accountants are aligned with financial product providers such as banks and insurance companies. In these situations there is often significant product bias which can lead to less than adequate advice being provided. The proposed standard will have no impact on the behaviour of the non-Accountants. In fact, should APES 230 be adopted, it is inevitable that non-Accountants will secure greater market share as it would be harder for Accountants to commercially compete. This is obviously not a good outcome for consumers.

Banning of Commissions

My issues here are;

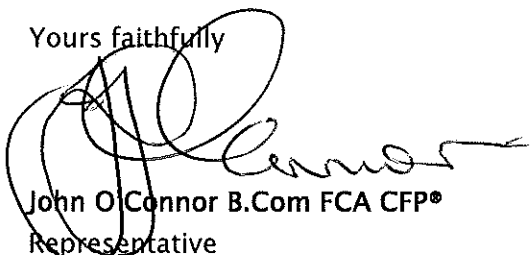
- a) Many existing investment products have no scope to rebate commissions back to clients and manually rebating hundreds of small value commissions back to clients would be unworkable.
- b) As reflected in the recent Ripoll Review, the Federal Government has recognised that commission based remuneration works best for personal risk product sales such as life insurance and income protection. This is because;
 - i. Clients are reluctant to pay for risk insurance advice on a fee for service basis.
 - ii. Australia is already badly under insured in the personal risk area and any system that promotes risk advice should be encouraged and;
 - iii. Writing personal risk business is an involved and time consuming business which is routinely unsuccessful in generating revenue due to client underwriting problems, etc. Remunerating advisers on a success basis by commissions works best.

Creating disincentives for Accountants in the financial planning industry will result in an overall decline in the quality of financial advice in Australia. It is illogical why Accountants will be required to adhere to practices others in the financial planning industry will not be required to follow.

The Accounting Professional & Ethical Standards Board (APESB) should be encouraging Accountants to be financial planners rather than creating these uncompetitive hurdles. I do not understand why the APESB is contemplating these measures when the Ripoll Review was recently released by the Federal Government, a review that was conducted after significant industry consultation. Whilst no doubt drafted with the best intentions, the exposure draft inadequately considers the adverse commercial ramifications for Accountants in the financial planning industry and Australian consumers in general. It may inadvertently require Accountants to question the value of their membership of their professional Accounting associations.

In conclusion, I believe that the exposure draft should be amended to remove the ban on percentage based asset management fees and commissions relating to personal risk products.

Yours faithfully

A handwritten signature in black ink, appearing to read 'John O'Connor', written over a circular stamp or mark.

John O'Connor B.Com FCA CFP®
Representative
Forsythes Financial Services Pty Ltd