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SO:JM

15 September 2010

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

Dear Sirs,

Thank you for the opportunity to comment on Exposure Draft 02/10, in relation to the Proposed Standard: APES 230 Financial Advisory Services. By way of background, we are a chartered accounting practice, which commenced in 1896, and currently have 8 partners, and 42 staff. We commenced to offer financial advisory services in 1987, firstly as authorized representatives of a national firm, and then since 1992 under our own licence. Currently our financial planning firm has 5 advisers, 3 paraplanners, and 3 support staff, and we offer the full range of financial advisory services.

Overall, we support the proposed standard, and agree that members should always act with integrity, objectivity, confidentiality, and professional competence. We believe that members have a fiduciary relationship with clients, and should always act in client's best interests, with professional independence. However, there are some matters in the Proposed Standard on which we offer the following critical comments.

**Fee for Service:** We agree that commissions and production bonuses should not be considered as appropriate components of fee for service. However, we argue that percentage based asset fees applied to all funds under management, with no reference to the underlying products or product providers, do not cause a conflict of interest. A percentage based asset fee is an appropriate way to reflect and apportion the cost of two major expenses for financial planning practices, namely professional indemnity insurance and acquisition of independent investment research. Business risk associated with investment recommendations increases proportionately with the quantum of funds under management, and a percentage based asset fee reflects this. (We predominantly charge clients a percentage based asset fee in relation to ongoing portfolio review, and a flat dollar fee for other services.)

**Proposed Operative Date:** Currently, it is proposed that the Standard will apply from 1 July, 2011, for both new and existing clients. We have no problem with its application to new clients from that date, but ask you to consider a further 12 months before the Standard applies to existing clients. For firms such as ours, with a large number of clients obtained over a long period of operation, it will be a major administrative task to implement a new fee process. Naturally, fees charged to clients should always be agreed firstly between the member and the client, and then most clients prefer to authorize this to be paid from their investments. Whilst some funds and platform providers allow adviser fees to be paid as a flat dollar amount, others do not yet have this facility available.



In addition, some older style products originally used many years ago may not have the facility to rebate to the client any ongoing commission given up by a planner. If the client is then billed by the adviser for work done, with no reduction because no commission has been received, the client is significantly worse off. If the implementation of this standard was delayed for a further 12 months, it would give members sufficient time to lobby product providers for the changes necessary to provide flexibility in remuneration payments.

Naturally, members could separately invoice clients for services provided, but especially in relation to superannuation investments, clients may be cashflow poor, and the fees for advice need to be paid out of the relevant investments under review.

**Personal Risk Management and Related Advice:** The proposed standard requires a fee for service to be levied to clients in relation to personal risk services. (ie life assurance etc.) We maintain this places members at a competitive disadvantage in the market place. The Financial Planning Association is continuing to allow members to receive commissions in relation to personal risk services. Currently, the practice used by most advisers is to receive commission from the life assurance company, which recovers this over time in the premium paid by the client. (usually monthly) We are not aware of any life assurance companies with the operating facility of paying advisers a flat dollar fee, rather than a percentage based commission. Again, clients could be invoiced separately for this type of advice, but invariably the clients needing personal risk products and advice are constrained in their cashflow, and would prefer any agreed fee to the adviser, to be paid by the life assurance company.

If the Board continues with the approach of insisting on a fee for service to apply to personal risk management and related advice, we request that the implementation of this be delayed for at least a further 12 months to 1 July 2012, to allow appropriate systems to be implemented by both members and product providers. An undesirable situation will arise if only some product providers move to paying flat dollar fees, and, where clients are unable to pay for risk advice separately, the number of products that we can consider appropriate for these clients, reduces.

Thank you again for the opportunity to comment on the Exposure Draft 02/10. Should you require any clarification or comments on our submission, please contact the writer on (07) 4924 9100.

Yours faithfully  
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