

**From:** Roland Tan

**Sent:** Wednesday, September 22, 2010 12:27 PM

**To:** sub@apesb.org.au

**Subject:** Attention: The Chairperson - Accounting Professional & Ethical Standards Board Limited re: Proposed Standard: APES 230 Financial Advisory Services

Dear Sir/Madam,

I wish to applaud the efforts of your organisation in preparing the proposed standard – APES230 Financial Advisory Services.

Charging a fee for service on a per hour basis is clearly the least conflicted remuneration model for the provision of financial services.

Until recently I worked in financial services as a CFP and have previously worked at length as an accountant in both Chartered Accounting and CPA firms. During the time that I spent working within the accounting firms, it was very clear to me that the accountants I was working alongside were heavily influenced by remuneration structures that incorporated high percentage commission payments and volume bonus arrangements. In-fact, it has been my personal observation, that accountants who later enter into financial planning tend to be influenced far more by these forms of remuneration than direct entrants into the financial planning industry.

A close examination of investors who have lost money in failed property syndicates or agricultural schemes would reveal an embarrassingly high percentage were placed into such products by their accountants who were also authorised representatives. It would also reveal that their accountant “advisers” regularly received commissions in the vicinity of 10% for that advice.

I note from a recent article in Money Management (Vol 24 No 33, Sept 9, 2010) that one of the accounting firms that I worked for is a member of the Accountant Financial Advisers Coalition (AFAC), an organisation which I believe is opposing your proposed reforms. Whilst I was working at that firm, I was appalled by the actions of the accountant in charge of the financial services division as he certainly did not act in the best interests of his clients.

One example of this was the way that he had negotiated with the Wrap provider to increase the administration fees charged so that it could pay him a large volume bonus without the need to apply an adviser fee. By doing this the only fee shown as being deducted from his client’s cash account was the administration fee and no adviser fee would show up.

There is an argument that commission arrangements are necessary to ensure affordability of advice for smaller clients. This is not a valid argument if we assume the premise that it is fair for a client to receive what they pay for. Why should a large client subsidise the management of a smaller client? Surely they should only pay for the service that they receive, not for the service that somebody else is to receive.

Some accounting/financial planning practices have chosen to rebate all commissions, but charge a fee for service based upon assets under management. This arrangement is structurally flawed as sometimes it is in the clients best interests to not be invested. No accounting/financial planning practice will, during periods of extreme overvaluation, issue instructions to exit the market if their business model is based upon assets under management. Instead, when the portfolios of their clients are halved, they will argue that it is important to “stay the course” and that the investments are long-term in nature. Whilst these arguments may have some validity, sometimes it is in the client’s best interest to be out of the market because of the presence of bubble conditions. If

advisers are being paid to invest their client's money, then they are incentivised to invest money regardless of the investment climate and to push their clients into gearing their portfolios, regardless of whether or not it is appropriate. Unfortunately, there is a strong underlying truth in the saying, "Never ask a real estate salesman when it is the best time to sell your house".

I understand that the AFAC will rail against this exposure draft being implemented, however I would argue strongly that those actions in themselves are not in the interests of their clients but rather an attempt to preserve the conflicts that exist in their own organisations because of inappropriately structured remuneration models.

I urge the Accounting Professional & Ethical Standards Board not to give in to pressure from the AFAC or any other interest group but rather have the courage to hold firm with the proposed changes and remove from the industry, any incentive to act in a way that is not in a client's best interests. The benefit of these changes is that they will certainly serve to better protect clients and will create a true point of difference between members of accounting bodies who offer financial services and others in the industry.

Yours faithfully,

**Roland Tan**