

## Channa Wijesinghe

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**From:** Shane Curran [shane@curranfinancial.com.au]  
**Sent:** Monday, October 04, 2010 11:36 AM  
**To:** channa.wijesinghe@apesb.org.au  
**Cc:** service@charteredaccountants.com.au  
**Subject:** Professional Accounting Bodies (ICAA and CPA)  
**Attachments:** DOC020910.pdf

Hi Channa

I am writing to you as a fellow member of the ICAA.

This email is in some respect, in response to your article (and also that of Robert MC Brown) in the October edition of Charter. I have also attached a letter I recently sent to the ICAA which comments on the Exposure Draft (ED) APES 230 and other issues.

In relation to the ED, I agree with a much of it, however a lot more needs to be done before you even consider an implementation date. You need to understand the history of financial planning as regards the two major professional bodies.

You would be aware that the major financial product manufacturers (which include platforms) and fund managers have income streams that are built on commissions and asset-based fees. They have lived in this world for many years. This is the source of the problem.

In the late 1980's they began to infiltrate membership by providing sponsorship dollars to the professional bodies that enabled them to make presentations at many seminars and PD sessions etc. The accounting bodies gladly accepted these sponsorship dollars. This continued for many years. There is a long list of organizations that gave these dollars but would include such businesses as Perpetual, Fidelity, Count, PIS etc etc etc. The professional accounting bodies were happy to expose their membership to these organizations. This enabled them to introduce business models based on the revenue streams (that the ED seeks to prohibit) to the members. Many members adopted these business models and have gone on to build significant financial planning divisions within their practices. A lot of the infiltration was also extended from Dealer Groups to Platforms, whilst the sale of 'product' was always the end game.

The result is that today many members have business models (that are funded by banks) based on these income streams and also have supporting business valuations that are based on this. The asset is valued on the recurring income multiple which is aligned to asset-based fees. The ICAA and the CPA are, to some extent responsible for this by their prior acceptance of the sponsorship dollar from the product manufacturers.

To now expect many members to change their business models by 01/07/2012 is a very dangerous expectation. As I said in the attached letter to the ICAA, membership of a professional accounting body is fast becoming irrelevant for many operating in the financial planning space.

It is easy for me to say that the ED is about 15 years too late but that is not the issue. The issue is that the ICAA and the CPA both need to take some responsibility for the current situation (which took over 15 years to develop) and it needs to be fixed by a longer term process.

A mandated professional and ethical obligation will not fix this. It has to be fixed at a grass roots level. The professional bodies may need to roll out a professional remuneration

model in the financial planning space. This will take time and effort. Each has the resources to do this but neither has risen to the challenge.

Unfortunately the APESB is not, in my opinion, the place to start.

Regards  
Shane Curran



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BUSINESS & FINANCIAL ADVICE

31 August 2010

Mr Leigh White  
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Dear Mr White

Financial Services  
Industry Influence

I refer to the recent developments which were highlighted at a visit by Mr Elvey to Queensland in August 2010 to address the above.

There are a number of matters currently in play that are rendering the membership of any accounting body irrelevant to accountants operating in the financial planning space.

The Accounting Professional and Ethical Standards Board (APES) and the proposed standard APES 230 is one important issue. The definitions of commissions and fee for service are core to the problem. Most financial planning businesses are built on revenue streams arising from 'commission' and 'percentage based asset fees'. This extends to the financing of those businesses and related business valuations. It is clear that accountants will allow their membership of professional bodies to lapse if membership of those professional bodies threatens their livelihood by altering income streams and business valuations. These business models were created by the Fund Managers and product manufacturers. The accounting bodies 'sanctioned' these models by accepting sponsorship dollars from these organisations for many years. In doing so, the accounting bodies also allowed these organisations to infiltrate the membership and introduce the business models to their members. This is historical fact.

The Cooper Superannuation Review and the resultant loss of the accountants 'exemption' (from holding an AFSL) in recommending the creation Self Managed Superannuation Funds (SMSF) is another important issue.

It is also historical fact that professional accountants gave 'birth' to the SMSF industry. They continue to nurture it (tax and accounting compliance) and are responsible for the audit function. There is no difference between creating/recommending a SMSF or performing the same function for clients in:-

- A Unit Trust (with issued/paid up units)
- A Pty Ltd Company (with issued/paid up capital)

These are everyday occurrences for professional accountants. A SMSF is not a product. It is a legitimate trust structure that gives people control over their retirement assets. You would

recall many SMSF's were set up and 'put on the shelf' until the employer (controlled by the member) demonstrated surplus profitability. Often these members had little or no other retirement assets and these assets were not a consideration in the decision to create the structure. The yearly costs to a practitioner in creating (and maintaining) an AFSL are prohibitive. Any requirement for this will result in loss of SMSF business for those accountants. This is another threat to an existing income stream.

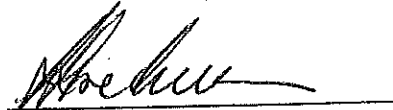
The continued situation of tax advice being allowed outside of the control of the Tax Practitioners Board (TPB) is another important issue. The effect on income streams requires no further elaboration.

These three matters have eroded and continue to erode the ability of professional accountants to earn their income. As a result, they also threaten their asset base.

The apparent lack of firm action over a number of years by the accounting bodies is alarming. If this continues, I foresee a decline in membership, particularly by those operating in the financial services environment.

Immediate action is required to protect the members and a concerted and uniform approach is needed by all accounting bodies.

Yours Sincerely,



Shane Curran FCA  
Executive Director

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