

6 August, 2010

Accounting Professional & Ethical Standards Board

Attachment to Online Comment Facility.

Dear Sir/Madam,

Re: Comments in Relation to Proposed Standard APES 230 Financial Advisory Services

As a Financial Planning Specialist of the Institute of Chartered Accountants I am generally in agreement with the majority of the proposed standard, however, I would like to make comment in relation to the exposure draft and in particular the blanket removal of percentage based asset fees and in some cases commissions.

Whilst I understand what the accounting bodies are trying to achieve, ie the full implementation of fee for service, and in fact my larger clients are predominantly on annually negotiated fees which are not linked to a percentage of FUM, I believe there should be a minimum level of assets under management, eg \$500,000, before the removal of percentage based fees for the following reasons:

1. My feelings are that advisers invariably take on small clients who they envisage will become larger clients over time at reduced fees initially knowing these clients will become more viable down the track and as part of the initial servicing may agree to provide a lower level of service initially, consequently, having to engage in the extra work required to document and renegotiate fees annually puts more pressure on being able to service smaller clients cost effectively especially in light of the fact fees are required to be disclosed to clients prior to them signing up and they have the ability to discuss fees if they become dissatisfied with the level of service provided at any stage.

The percentage based fee works well in these circumstances as the advisers fees grow with the clients wealth. Having said that, I do also believe that there comes a point when the amount of work required to service clients does not necessarily increase with their wealth. The level of risk the adviser is exposed to may, however, increase as the funds under advice increases.

2. Another issue with the removal of percentage based fees and negotiating them annually with clients is that smaller investors generally expect their advisers fees to fall if the value of their investments fall. Whilst I acknowledge that most advisers do not have control over the economics surrounding clients investments the smaller clients, I believe, are less likely to be prepared to have a fee that has no downside risk even if there is no upside risk to them either, in the short term.

As discussed above, at the end of the day percentage based asset fees are just one of the methods for calculating advice fees charged to clients at the disposal of advisers as opposed to being linked to the provision of a particular product. As with all fees, irrespective of how they are calculated, clients either agree to pay them or they don't depending on whether or not they perceive they are getting value for money.

In relation to renegotiating fees annually irrespective of whether or not there is a formal procedure in place clients have the ability to terminate an advisers services at any time if they so wish irrespective of whether or not their fees are specifically negotiated annually.

With regard commission income, whilst a very small portion of my income, I perceive a couple of problems in relation to arrangements which are currently in place:

1. My understanding with risk products which are already in place and the client has previously opted for a commission based fee not all providers allow for the already existing commission to be dialled down to zero, for example Asteron, and those that do, require the policy to be cancelled and reissued, for example Aviva. Consequently, to then comply with the proposed standard would either require the adviser to rebate the commission to clients which may involve monthly transactions where clients pay the premiums monthly or for the policy to be cancelled and reissued. The end outcome is to place additional administrative tasks on the advisers which ever option they take.

Where advisers have existing clients or take on clients who already have risk products in place with commissions attached they will automatically inherit the additional administrative burden the cost of which will either need to be unfairly absorbed by the adviser or passed on to the client.

In addition, my understanding is that not all financial advisory bodies are supporting the removal of commissions in relation to risk products.

2. Another minor source of commission income is trail commission paid by cash management trusts which is generally paid monthly, consequently, to rebate it to clients involves a number of, generally, insignificant monthly transactions. It is possible to turn off this type of trail commission, however, it is not then paid to the client it generally remains as extra profit for the product provider. The amounts would generally not be considered significant enough to place a bias on recommending one CMT over another.

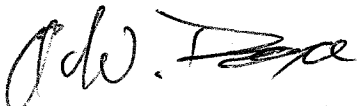
To avoid the product providers benefitting from the proposed standard maybe a solution is to allow for such commissions to be donated to charity by the advisers or failing that pressure needs to be brought to bear on the product providers to remove the commissions and reduce their fees accordingly.

In summary, the professional accounting bodies need to ensure they are not placing constraints on their members which advisers operating under other bodies don't have to comply with. Maybe there needs to be a level of materiality brought into play where small amounts do not need to be rebated and grandfathering provisions allowed for in relation to existing risk products to ensure the advisers do not have to deal with the additional administration.

It is also necessary to ensure the members of the professional accounting bodies are not expected to operate under standards which their professional bodies aren't required to operate under. For example the Institute of Chartered Accountants advises members that they receive revenue through the member benefits program so as to maintain the quality and diversity of it's services.

I trust the above comments are useful to the review process in relation to the proposed standard and I would be pleased to discuss my comments further if necessary.

Yours sincerely,



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