



**Financial & Technical  
Solutions**

The Chairperson  
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18 October 2010

Dear Sir/Madam,

**Re: Proposed Standard APESB 230**

We wish to make a submission supporting APESB 230 in its current draft.

Our firm has over 20 years experience in retail financial services in life insurance, funds management and superannuation and so on. We have never been financial advisers but have always worked closely with financial services providers including product manufacturers, distributors and planners.

Our principal, Mr Tony Negline, writes extensively for the financial services industry. For over six years he has written the weekly *DIY Super* column which appears in The Australian newspaper. He has also written a 450 page book on Self Managed Super Funds (further details about the book are available at [www.atcbiz.com.au](http://www.atcbiz.com.au)).

It is our considered opinion that the current structure of the financial advice industry (predominantly a three tier distribution model) and the remuneration structures that exist within that model do not place the client's needs and objectives first.

It is true that financial advice is complicated and expensive to provide. One of the reasons for the expense is the complicated regulatory environment surrounding financial advice. The Government has been forced to impose this complicated structure because financial advisers and advice firms have been unwilling to provide a consistently better service to their clients.

It is true that at present many financial advisers find it difficult to justify their fees to clients (and would find it even harder if they had to charge an hourly rate). Often clients cannot see a reasonable benefit for fees they are being charged.



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**Page 2**

It is for this reason that many costs in financial services are described in percentage terms. In our experience most clients do not understand the implications of these percentage costs.

For example, suppose a person with \$10,000 to invest is told by a financial adviser that his fees will be 2% per annum to look after the client's affairs in relation to that money each year. Some clients will work out that this is \$200 or roughly \$4 per week.

Lets assume that in 10 years time the \$10,000 has grown to \$20,000. The financial adviser is still receiving 2% p.a. This will mean he is now earning \$400 per year.

Most clients won't do, perhaps in some cases cannot do, these calculations in their head. They certainly will not do these calculations over a five or ten or twenty year period. The two per cent sounds like a small number and so it's assumed that it must never grow to be a large amount of money. When these percentages are described at "basis points", clients typically get even more confused.

As the saying goes, "sunlight is the best disinfectant".

It is no co-incidence that many financial advice firms sell for more than two times one year's recurring revenue because their current business model has an almost guaranteed growing revenue stream. This is very different to other professions where the business will sell for less than 1.2 times one year's recurring revenue.

The fees charged by financial planners must be disclosed in dollar terms and cannot relate to a product sold or an amount of money invested. The APESB Board must make sure their document covers all remuneration from financial services firms including all fees paid by financial services companies to financial advice firms.

It is likely that many people will not want APESB 230 to be finalised. Or alternatively if it should be finalised but not made compulsory. We hope that the Board resists the temptation to water down or not proceed with finalising the current draft.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Tony Negline'. The signature is written in a cursive style with some loops and flourishes.

**Tony Negline**  
Managing Director and Principal