



29 April 2015

Financial Services Unit
Financial System and Services Division
The Treasury
Langton Crescent
PARKEST ACT 2600

Email: ProfessionalStandards@treasury.gov.au

**Parliamentary Joint Committee on Corporations and Financial Services
Inquiry: proposals to lift the professional, ethical and educational standards
in the financial services industry**

The Credit and Investments Ombudsman (**CIO**) welcomes the opportunity to make a submission to the Inquiry.

About CIO

CIO is one of only two ASIC-approved external dispute resolution (**EDR**) schemes for financial services in Australia. The key objective of CIO is to provide consumers with a no-cost alternative to legal proceedings for resolving disputes with financial services providers (**FSPs**) who are members of CIO. In resolving disputes, CIO has regard to relevant legal principles, industry codes of practice, good industry practice and fairness in all circumstances.

CIO is a not-for-profit public company which receives no government subsidy, and its operations are funded entirely by membership and complaint fees levied on its FSP members.

CIO's membership of almost 20,000 FSPs comprises, among others, finance brokers, non-bank lenders, debt purchasers and financial advice businesses.

Our comments

We make the following observations in response to the recommendations made in the Parliamentary Joint Committee report of December 2014:

Recommendation 5

We welcome the introduction of a register of financial advisers. This is a positive step towards increasing transparency in the financial advice industry and consumer confidence in financial advisers.

We consider that consumers and EDR schemes alike would benefit enormously if the register also set out details of:

- the adviser's PI insurer, where the adviser is required to have PI insurance (this is particularly relevant where the adviser is uncooperative or not forthcoming in providing information or where the adviser is in administration),
- complaints made against the adviser in the preceding 12 month period which were referred to EDR (this can be ascertained from the EDR scheme's annual report on operations), and
- details of professional memberships.

Recommendation 9

We note the importance of ongoing professional development to ensure the highest levels of competence and confidence in the profession and its practitioners. Ongoing professional development is also likely to reduce the number of disputes between consumers and advisers.

While we do not have a view on compulsory membership of a professional body for financial advisers, the issue of how professional development requirements will be set, administered and enforced if mandatory membership is not required, will need further consultation.

Recommendation 11

We consider that ethics is the cornerstone of any profession and welcome the recommendation that a code of ethics be prescribed by a professional association representing advisers.

We note that the Financial Planning Association's Code of Professional Practice contains three fundamental elements, including Practice Standards, Rules of Professional Conduct, and a Code of Ethics comprising eight principles.

Recommendation 13

Similarly to our comments regarding Recommendation 9, while we do not have a view on mandatory membership of a professional body for financial advisers, we consider that robust requirements for professional standards, conduct and ethics are essential to ensure the quality of, and consumer confidence in, the profession. They are likely to also significantly reduce the frequency of disputes between consumers and advisers.

Authorised representatives

We mention the following because a key objective of an EDR scheme, apart from acting as a disputes resolution body, is to foster and promote sound and ethical business practices in the financial services industry. Similarly, systemic issue reporting to ASIC has had the desired effect of raising industry standards and reducing instances of consumer loss.

We note that while AFS licensees are required to join an ASIC-approved EDR scheme such as CIO or FOS, individual financial adviser representatives are not.

This is in stark contrast to the National Consumer Credit Protection Act 2009, under which credit representatives of Australian Credit Licensees are also required to join an ASIC-approved EDR scheme.

The cases of Timbercorp and Great Southern Plantations, both of which have now gone into administration, clearly illustrate the need for representatives to also be compelled to join an ASIC-approved EDR scheme.

Both these companies are said to have paid representatives commissions of 10% or more to sell their managed investments to unsuspecting investors, many of whom had been encouraged to borrow against the equity of their home to invest in these products. Because the licensees had gone into administration, the only recourse for these hapless investors was to seek compensation from their representatives through the court system - a lengthy and expensive process.

More accessible, expedient and cost effective redress might have been available had the representatives been required, under Chapter 7 Corporations Act, to join an ASIC-approved EDR scheme.

If you have any questions or would like to discuss this further, please feel free to call me on [REDACTED]

Sincerely,



Raj Venga
Chief Executive Officer and Ombudsman