22 March 2019

The Treasury
Financial Services Reform Implementation Taskforce
Langton Crescent
PARKES ACT 2600

Email: FOFAGrandfathering@treasury.gov.au

Dear Sir/Madam,

SMSF ASSOCIATION SUBMISSION ON ENDING GRANDFATHERED CONFLICTED REMUNERATION FOR FINANCIAL ADVISERS

The SMSF Association welcomes the opportunity to make a submission on the Government's draft legislation to end grandfathered conflicted remuneration for financial advisers.

We support the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry's recommendation 2.4 that grandfathering arrangements for conflicted remuneration in relation to financial advice provided to retail clients should be removed as soon as reasonably practicable. Conflicted remuneration is an inappropriate conflict of interest that has the ability to create misaligned incentives and lead to poor advice.

The SMSF Association agrees with the Government's announced date of 1 January 2021 as the most practicable nearest date to end grandfathered conflicted remuneration. This should be the minimum amount of time allowed for a transition to ensure that the removal of grandfathered commissions does not adversely impact consumers and the financial services industry.

A reasonable time frame will give advisers the ability to engage with their client base and product offerors to convert their current fee arrangements into fee-for-service propositions. This will ensure there is an orderly process for advisers to transition out of grandfathered conflicted remuneration, sustain their business, and retain clients through appropriate fee arrangements rather than being forced into rushed and ill-considered fee offerings. Forcing a transition sooner than practicable may place an unnecessary burden on the ability for consumers to remain receiving advice and risk the business of many advisers.

Additionally, the ending of grandfathered commissions will not necessarily reduce the cost of advice to the consumer as the commission payment is a payment from the product provider to the adviser. Turning off commissions in an unreasonable time frame may only result in product providers benefiting from reducing costs while advisers suffer an immediate revenue loss which will impact how they service clients. A longer transition time will allow advisers a better opportunity to restructure their business to minimise the impact on their clients and for product providers to convert commission structures to capture value for consumers (e.g. by lowering fee structures).

In this regard, the Association supports the ability to allow advisers to rebate amounts. This is essential to a practical application of the Royal Commission recommendation.

Another challenge is that many grandfathered commissions are sold through legacy products which were designed before 2013 when the future of financial advice reforms were implemented. This means advisers will need time to transfer clients from legacy products to newer products and consider the implications of capital gains tax events, Centrelink grandfathering, exit costs and other related transition issues.

Many small business financial advice practice owners will also have acquired businesses that have been valued to include grandfathered commission clients. A number have taken out significant loans to fund these acquisitions with no expectation that the arrangements would come to an end, let alone a swift end. It is therefore important these individuals are given to at least January 2021 to ensure their businesses and employees are not at risk and make appropriate arrangements for financing their business.

Furthermore, the end to grandfathered commissions requires time not only because it significantly impacts the future of financial advice businesses, but it will also impact on the investment product market and distribution framework. Product providers will need to develop new processes and appropriate structures to ensure they are able to efficiently offer products to advisers to benefit consumers.

The SMSF Association supports the removal of grandfathered conflicted remuneration, however, it is important that this is now completed in a considered and reasonable timeframe.

If you have any questions about our submission, please do not hesitate in contacting us.

Yours sincerely,

John Maroney
CEO
SMSF Association

ABOUT THE SMSF ASSOCIATION

The SMSF Association is the peak professional body representing SMSF sector which is comprised of over 1.1 million SMSF members who have $727billion of funds under management and a diverse range of financial professionals servicing SMSFs. The SMSF Association continues to build integrity through professional and education standards for advisors and education standards for trustees. The SMSF Association consists of professional members, principally accountants, auditors, lawyers, financial planners and other professionals such as tax professionals and actuaries. Additionally, the SMSF Association represents SMSF trustee members and provides them access to independent education materials to assist them in the running of their SMSF.