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22 March 2019

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

By email: FOFAGrandfathering@treasury.gov.au

Dear Sir/Madam

Ending Grandfathered Conflicted Remuneration for Financial Advisers

Vanguard welcomes the opportunity to comment on the Exposure Draft for the 'Ending Grandfathered Conflicted Remuneration' consultation.

With more than AUD $6.9 trillion in assets under management as of 31 December 2018, including more than AUD $1.2 trillion in ETFs, Vanguard is one of the world's largest global investment management companies. In Australia, Vanguard has been serving financial advisers, retail clients and institutional investors for more than 20 years.

Vanguard has an unwavering focus on investor value. The Vanguard Group is owned by our US domiciled mutual funds, which in turn are owned by the investors in these funds. This means that the funds are managed at cost, which keeps expenses low, maximising investor returns. Vanguard in Australia operates with the same intention and focus which is reflected in our philosophy, policies and practices.

As reflected in our submission to the Future of Financial Advice (FOFA) consultations in 2012, Vanguard has long supported the removal of grandfathered commissions and conflicted remuneration arrangements. We operate and advocate on the basis of putting investors' interests first, and we believe removing grandfathered arrangements is in the best interests of investors and customers.

It is important in this process that the benefit of removing conflicted remuneration is passed on to the end investor. In this way, a removal of the grandfathering needs to be accompanied by a rebate to the investor, as the legislation contemplates. However, it is unclear in the drafting whether this rebate will be in addition to the removal of commissions, or instead of. We submit the better outcome for investors would be that the removal of grandfathering should be accompanied by a rebate to the investor so the benefits are passed on to the end client. This should be clarified in the drafting.

Further, the rebates should not just be eligible for those 'to whom advice was given', as there may be retail investors affected by grandfathered commissions who don't fit into this category.

The mechanisms of the rebate, including who would be responsible for paying the rebate, are not outlined in the current drafting. While issuers have responsibility for the products, they are also often less connected to the end client. Therefore further consultation should be undertaken in the development of the regulations on the mechanism of how the rebate would be paid, including safeguards to ensure the benefit flows to the investor.

From a policy intent point of view, Vanguard is very supportive of the legislation and commends the Government for taking action on this important issue.

Please do not hesitate to contact Sara Dix on (02) 8019 1131 if you have any further questions.

Yours faithfully,

Robin Bowerman
Head of Corporate Affairs and Market Strategy