



Australian Government



Australian
**Small Business and
Family Enterprise**
Ombudsman

30 April 2019

The Treasury
Financial Services Reform Taskforce
Langton Crescent
PARKES ACT 2600

By email: FOFAGrandfathering@treasury.gov.au

Dear Sir/Madam

ENDING GRANDFATHERED CONFLICTED REMUNERATION: DRAFT REGULATIONS

We support ending grandfathering arrangements for the provision of financial advice but consider that the timeframe should be extended from 1 January 2021 to at least 1 January 2023. This extension will allow both advisers and consumers to adopt necessary new pricing models and for small advisory firms to transition to new revenue streams.

Trailing commissions currently cover the costs of a financial adviser to undertake annual reviews and monitor financial ratios and covenants. AdviserRatings estimates that the proposed changes will decrease average adviser income by 42 per cent and increase the cost of advice for consumers by over 70 per cent.¹

Removal of these commissions means that advisers and brokers will need to move to alternate models to cover their costs, such as 'fee for service'. The movement to new fee structures is complex since they need to be set with clients in a way that provides for the ongoing viability of the service as well as retaining existing clients. This is especially critical for small financial advisory firms who risk losing clients to large businesses that have greater scope to offer discounted pricing.

Given that small advisory firms currently rely on the guaranteed cash flow from trailing commissions, there also needs to be sufficient time for these businesses to transition to new revenue streams. This will have a disproportionate, negative, impact on small businesses where trailing commissions represent a greater proportion of revenue than a larger, more diversified, business.

Thank you for the opportunity to comment. If you would like to discuss this matter further, please contact Jill Lawrence on 02 6121 5312 or at jill.lawrence@asbfeo.gov.au.

Yours sincerely

Kate Carnell AO

Australian Small Business and Family Enterprise Ombudsman

¹ <https://www.adviserratings.com.au/news/ending-commissions-what-it-means-for-advisers/>, 29 April 2019