



CHARTERED ACCOUNTANTS™
AUSTRALIA + NEW ZEALAND

9 June 2022

Quality of Advice Review Secretariat
Financial System Division
The Treasury
Langton Crescent
Parkes ACT 2600

Attention: Ms Michelle Levy

By email: AdviceReview@treasury.gov.au

Dear Michelle,

Submission – Quality of Advice Review Issues Paper (March 2022)

To be read in conjunction with the following two joint submissions:

1. CA ANZ, IPA and SMSFA specifically relating to accountants and
2. Eleven industry associations responding to the entire Review

Chartered Accountants Australia and New Zealand (CA ANZ) has long advocated for industry reform to ensure that more consumers are able to access high quality, ethical and professional financial advice. We welcome this Quality of Advice Review, specifically in relation to the need for the regulatory framework to be simplified, and for the full scope of financial advice to be put under the microscope.

CA ANZ supports raising the standards of financial advice to better serve and protect consumers. We are wholeheartedly committed to helping the industry move forward and fix something that is clearly 'broken'.

We believe there is, and will continue to be, a need for trusted advisers to look after the financial advice needs of everyday Australians. It is high time reforms are implemented to ensure advice is less expensive to provide so it is more accessible to all consumers. Advice on simple matters or complex scenarios needs to be able to be provided by suitably qualified professionals in an efficient manner.

In conjunction with 10 other industry associations, we are working towards a unified approach for the resolution of key issues facing the industry, as a whole. Overlapping regulation needs to be removed, the advice process and documentation needs to be simplified thus making advice more accessible and affordable to all consumers – businesses and individuals alike.

Likewise, in conjunction with the Institute of Public Accountants (IPA) and the Self-Managed Super Fund Association (SMSFA), we have listened to member feedback telling us time and time again that their clients want simple strategic superannuation advice from their trusted adviser with whom they have an ongoing relationship – their accountant. Our joint submission outlines four key areas of advice clients seek in the ordinary course of accountants providing tax agent services.

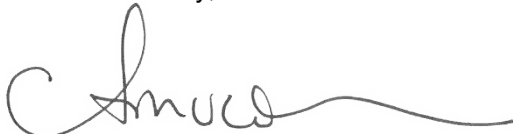
Lastly, this submission complements the other two outlined above and provides recommendations for industry simplification. It also seeks to address the current advice gap, whereby there is a shrinking number of advisers and a growing number of consumers needing advice. A simple way to bridge this gap is to keep highly qualified, professional accountants in the industry by recognising their Chartered Accountant qualifications in full. At present, this is not the case, but is a simple 'fix'. Additional financial advice in the community will continue to help individuals and small businesses on the road to recovery in these challenging economic times.

Please see further in the submission the top 10 reasons why accountants are ideally placed to help reduce the advice gap, how consumers benefit and what positive impact accountants in financial advice can have on the economy as a whole.

We look forward to the new Government adopting key recommendations made in this submission.

If you would like to discuss our submission, please do not hesitate to contact Bronny Speed (Leader, Financial Advice) on (02) 8078 5442 or at bronny.speed@charteredaccountantsanz.com.

Yours sincerely,



Ainslie van Onselen
Chief Executive Officer
Chartered Accountants Australia & New Zealand

Introduction

The 'one-size-fits-all' approach to our diversified industry has not worked

The financial planning industry is working hard to raise education, CPD and ethical standards to be recognised by the public to be a true profession. Client needs differ from simple, transaction-based advice such as opening a super fund upon entering the workforce to complex strategic asset structuring advice including broad product recommendations.

At each point on this continuum,

- advice requirements need to be met by suitably qualified professionals who are competent to provide such advice,
- disclosure documentation needs to be simple and easy to understand and
- at each step in the advice process, consumers need to be protected.

These three key components all need to be provided in a regulatory environment that is efficient and effective and is not so overwhelmingly complex that, rather than helping consumers, it's actually to the detriment of consumers due to the costs it imposes on the provision of advice.

Chartered Accountancy has been a true profession in its own right for decades. Some of our members wish to act in the role of full-time financial advisers under an AFSL, others want to provide such advice on a part-time basis, yet a significant number simply want to be able to advise their clients on *strategic advice*, particularly in relation to superannuation issues, yet they can't do so under the existing licensing regime.

Under the recent government's FASEA and Better Advice Bill reforms with a one-size-fits-all approach, CA ANZ does not believe accountants have been appropriately considered and/or catered for.

CA ANZ strongly supports high standards of both professional and education qualifications and acknowledges that the industry is a diverse group of professionals from a wide range of backgrounds. At all times, our ethos is that we are here to 'serve the public good' and that the client's best interests must come first.

Chartered Accountants (CAs) can help reduce the advice gap problem

Across the country, in local communities and large cities, CAs are seen as a trusted and educated group of financial professionals who are working every day to serve the interests of individual and businesses in the Australian economy.

To follow is a list outlining why and how CAs are well-placed to satisfy the advice needs of businesses and individuals in a professional and ethical manner.

Top 10 reasons why CAs are well-placed to reduce the advice gap

1. Additional financial advice in the community helps individuals and small businesses on the road to recovery
2. Small businesses employ people, so if we can help small businesses, we help people get jobs
3. Many Australians have accessed their super in record amounts during COVID and broadened access to advice will help them restore their super balances
4. Helping add to the superannuation pool will see more Australians self-reliant in retirement
5. Accountants are accessible across Australia
6. Our proposed superannuation strategic advice measures as part of a tax agent service are consumer centric
7. A vibrant financial services sector leads to more jobs as many advice providers are also small businesses
8. Post the Hayne Royal Commission, trust in the financial services sector needs to be restored – accountants are ideally placed to do this
9. Recognising CA qualifications will keep more accountants in the industry thus stemming the tide of many highly qualified professional advisers are leaving)
10. Post the Hayne Royal Commission, advice must be independent and in the clients' interest. That is how accountants operate.

1. Quality, affordable and accessible financial advice

The advice gap is broadening, and quickly. We have seen a significant drop in adviser numbers from a peak on the Financial Adviser Register (FAR) in 2019 of approximately 28,900 to a current level of approximately 16,900. It has become increasingly difficult for many Australians to access affordable advice as the cost of producing advice has significantly risen to a point that has never been higher. In addition, many consumers believe their financial circumstances and assets may not warrant seeking advice. The number of advisers entering the industry is also low, with the design of the new ASIC (FASEA) Professional Year program of some 1500 supervised hours being a significant factor as most advisers don't have the capacity to freely 'give' that level of commitment.

Chartered Accountants (CAs) have a strong foundation to provide high quality advice to Australian business and individual consumers. Our members have an Australian or New Zealand approved degree at AQF7, a TEQSA approved AQF8 post graduate qualification, financial planning studies enabling registration on ASIC's Financial Adviser Register, continuing professional development obligations, completion of 3 years mentored training and strict adherence to our Code of Ethics, backed by robust disciplinary processes.

Throughout the COVID-19 pandemic, CAs have played a key role in assisting individuals and small businesses with government stimulus measures. For many Australians, accountants have been the first port of call and will be first on the list to engage.

Unnecessary complexity

The advice framework is complex and is designed upon the provision of specific product advice, yet not all Australians want product advice. A licensed adviser is required to consider the client's entire financial position and objectives when often the client simply wants specific single-issue advice.

In relation to financial advice, advisers must comply with the Corporations Act, the Tax Agent Services Act, the National Consumer Credit Protection Act, the Privacy Act, the AML/CTF Act, the SIS Act, the ASIC Act as well as the recently implemented FASEA reforms, now transferred to both ASIC and The Treasury.

An adviser in practice may need to hold multiple licences and/or registrations to be able to provide one piece of advice. In many cases, an adviser has duplicate obligations, multiple regulators, and multiple standards which result in complexity and cost. This has forced many professional advisers providing comprehensive advice to leave the industry at a time when the consumer need for financial advice has never been greater.

In addition, the number of cancelled limited licences demonstrates that the limited licencing regime, which was intended to help individuals receive targeted advice from advice professionals (mainly accountants), has failed due to its regulatory design and complexity.

It is time to consider the factors driving up these costs and how they can be reduced, while still ensuring the client is appropriately advised and protected in the process.

A revised and streamlined advice framework that reduces complexity and improves efficiency to enable the provision of affordable, accessible and quality advice to business and consumers is needed.

The Australian Law Review Commissions (ALRC) review of Ch 7 of the Corps Act

The Corporations Act together with the Australian Securities and Investments Commission Act 2001 (Cth) ('ASIC Act'), provide much of the consumer protection framework in relation to financial services, and are core to the financial services regulatory system.

This legislation is supplemented by numerous additional statutes.

CA ANZ wholeheartedly supports the premise that the ALRC's task is not simply to 'tidy up' the legislative framework in service of theoretical objectives. At the core of this current ALRC Inquiry is the importance of ensuring the law is fit for purpose for industry, recognising the dynamic nature of the financial services sector and its significant contribution to the Australian economy.

Further, we agree that the regulatory framework must meet the needs of consumers of financial products and services in understanding and navigating the law to protect their legal entitlements.

Finally, legislative simplification could reduce the amount of time and money this overarching legislative framework places on consumers, and that if simplification is achieved, many more Australians may be able to access high quality financial advice at an affordable cost.

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2. Existing CA qualifications must be recognised

Recognition of the Graduate Diploma in Chartered Accounting qualification in conjunction with an underlying relevant Bachelor's degree

CAs have a strong foundation to provide high quality advice to Australian business and individual consumers.

Our members have an Australian or New Zealand approved degree at AQF7 and a TEQSA approved AQF8 post graduate qualification in addition to continuing professional development obligations, completion of 3 years mentored training and strict adherence to our Code of Ethics, backed by robust disciplinary processes. Some members have additional financial planning studies enabling registration on ASIC's Financial Adviser Register. CAs still on the Financial Adviser Register (FAR) have also completed the FASEA exam, have completed further required FASEA CPD hours and are now also under the additional (and in some places conflicting) FASEA Code of Ethics.

To assist Treasury officials to understand this context further, details on the CA entry requirements are set out in our submission "CA ANZ Education Standards for Financial Advisers" sent to The Treasury by email on 1 February 2022 or can be provided upon request.

Academic entry requirements for the CA program

Since 1972, all CA Members have been required to meet academic entry requirements as per below or equivalent:

- They must hold an Australian or New Zealand qualification at least at Bachelor's degree level (or overseas equivalent), including required pre-requisite competency areas and
- They must have completed the CA Program consisting of the following subjects (or equivalent at the time):
 - I. Taxation
 - II. Audit and assurance / risk
 - III. Financial accounting and reporting
 - IV. Management accounting and applied finance / Business performance
 - V. Capstone/Integrated – this module is the final chapter of the CA Program, to further develop ethics training and other skills needed to progress in the business world with professionalism and confidence.

Unnecessary repetition of ethics modules to be addressed

CA members have also completed a separate full ethics module at AQF 8 level and it is therefore inappropriate for them to be required to complete yet a further ethics module through an ASIC/FASEA recommended program. This is regulatory overreach, which CA ANZ believes is unnecessary, is an additional cost to the provision of advice and is not providing anything positive to consumers.

Summary

CAs have gained recognition for 6 out of 8 of the required units, with 'ethics' being one unit compulsorily required and 'another' unit required, being one of three designated by ASIC (FASEA) as follows:

1. Financial Advice Regulatory & Legal Obligations
2. Behavioural Finance: Client & consumer behaviour, engagement & decision making
3. FASEA approved capstone course

It would therefore appear that CAs don't have a 'skills gap' – rather, their skills are inappropriately recognised by the current 'one-size-fits-all' approach in relation to financial advice education standards which has not taken into consideration the high-level professional studies accountants, as well as other industry participants, have completed.

The extensive mapping of the CA program against FASEA's requirements at the time they were completed and to which we refer above can be provided upon request.

Lastly, and importantly, the changes to education pathways introduced late last year by the previous Government were timed poorly. Accountants (and many other high quality industry professionals) have left the industry post 31 December 2021 – not because they didn't want to do the FASEA exam, but because of the existing education requirements as at that date, the time cost of sitting the inappropriate FASEA exam, unnecessary unrelated CPD as well as ASIC levies and other regulatory costs...and the list goes on.

The lack of recognition of the professional CA qualification is an area which must be addressed, and we therefore ask the new Government to urgently do so.

3. Accountants providing advice

Please see separate submission from CA ANZ, IPA and SMSFA in response to section 4.6 of the *Quality of Advice Issues Paper*.

4. Types of advice – general/personal

The Quality of Advice Review states that “the Review will consider the full scope of financial advice and the forms in which it is provided, from comprehensive personal advice provided by financial advisers to general advice provided by product issuers...”

It goes on to say “Often financial advice is used (including in this paper) as a shorthand reference to financial product advice”. In doing so, the Review is aware there are differences between the two, and it is a question to be considered: to what extent should the gap between financial advice and financial product advice be addressed in the regulatory framework and to what extent is it relevant to the purpose of this Review.

Not only do we welcome the Review addressing the industry wide problem that regulations are based on all financial advice being financial product advice, when this is clearly not the case. We therefore support change to a regulatory environment in which financial advice and product advice are separated.

In addition, we believe product providers should hold their own licences and be responsible for the integrity of the products they offer. Product failures should then be the responsibility of those who provide the products, not of the financial advice sector within the industry.

Lastly, if product providers had their own licences and financial advice was provided under advice licences, we could decouple general and personal advice definitions.

There are currently far too many types of advice used in the marketplace and this leads to consumer confusion. Categories such as general, personal, limited, scoped, scaled, institutional and intra-fund advice are all in play, just to name a few.

The words, general, personal and product all have community meaning, so reverting to those would be in the public’s best interest. The words ‘general advice’ should be just that - general to the public, and not being a licensed activity. Product advice should relate to a product such as an investment or an insurance policy.

Consumers also believe that ‘personal advice’ is advice taking into account their own circumstances. Additionally, CA ANZ’s view is that consumers believe ‘personal advice’ should be provided by a qualified professional. This is in line with public expectations of doctors, lawyers, engineers and many other professions. As such, a provider of ‘personal advice’ must be a qualified licensed professional who has the requisite skills and expertise to provide such advice, with appropriate consumer protections in place.

5. Types of advice – limited scope

CA ANZ provided extensive feedback to ASIC in response to CP 332: Promoting access to affordable advice for consumers. In our submission, we pointed out that:

- Without an AFSL, CAs are unable to discuss one of the most important topics clients want from them – single issue (limited) superannuation advice.
- If CAs provide advice via an AFSL (limited or full), the process for limited advice is complex, time-consuming and hence expensive, and as they are predominantly paid on a fee-for-service basis, clients don't want to pay big fees for work they believe CAs should be able to provide in the ordinary course of their business advice.
- When ASIC announced relief to allow tax agents to give advice without an AFSL and relief for all financial advisers to provide early access to super advice via a Record of Advice (RoA) rather than a Statement of Advice (SoA), it acknowledged that a ready-made group of highly qualified professionals could help address this need. We strongly support this view and would like further relief to be provided.

The table below shows the most sought-after limited topic areas clients continually seek advice from our members, which we believe should be allowed under a broadened scope outside of the current AFSL regime.

	Contributions to that existing fund	Pensions from that existing fund	Appropriateness of establishment or wind-up of that fund
Super fund (but not an SMSF)	Yes	Yes	No, as this is product advice – should require an AFSL
SMSF	Yes	Yes	Yes, as this is a trust structure and structural advice should not require an AFSL

- A strategic model for the entire industry that delineates product advice from strategic recommendations needs to be developed. We don't believe highly qualified professionals who wish to solely provide strategic advice should necessarily fall under the FASEA umbrella, nor the rigors of the Corporations Act 2001. We do, however, support these regulations in a more simplified format for advisers under a full AFSL who recommend products.
- Until a model for the entire industry is developed, we suggest this additional superannuation advice should, as a minimum, be able to be provided by 'recognised' accountants – those who are members of Chartered Accountants Australia and New Zealand, CPA Australia or the Institute of Public Accountants and who also have the necessary skills and training to provide superannuation advice.

Our views on the issues outlined above have not changed. We hope that limited advice for all advice professionals is simplified, and that specific superannuation strategic advice can be provided by suitably qualified accountants holding a Certificate of Public Practice, who are Registered Tax Agents and who are/have recently been on the FAR and/or who are SMSF specialists without the need for an AFSL.

6. Types of advice – intra-fund

CA ANZ believes that intra-fund advice has a place in the overall financial advice landscape.

We believe however that the current rules around what can and cannot be offered through this mechanism are sufficient for the time being.

The scope to expand intra-fund advice – for example, permitting advice in relation to pensions and related government benefits – may be possible when the professional qualifications of financial advisers has been completed – that is, probably not before 2026.

7. Wholesale and sophisticated investor classification

Over the last decade the use of the wholesale and sophisticated investor definitions has become widespread.

The sophisticated investor certificate is only issued after a financial product service provider has made an assessment about a client, explains how that assessment was made and the client signs a document confirming they understand what the sophisticated investor designation means.

The wholesale investor certificate is typically issued by two main avenues:

1. The client invests more than \$500,000 – the current relevant threshold – into a particular financial product, and/or
2. The client obtains a certificate about their income and/or net wealth from a qualified accountant

CA ANZ is of the view that in the financial services marketplace, the wholesale investor certificate is significantly more popular than the sophisticated investor certificate because it can be obtained with less risk to the actual intended provider of a financial service.

There are many reasons for these certificates being popular, including the following:

1. It is cheaper for a financial service provider to offer services to wholesale or sophisticated clients because a range of consumer protections do not need to be provided or completed including the following –
 - a. Product Disclosure Statements
 - b. Financial Services Guide
 - c. Statements of Advice
 - d. Fee Disclosure Statements
 - e. Target Market Determinations
 - f. Design and Distribution Obligations

In addition, clients who make use of their wholesale investor status are denied access to the Australian Financial Complaints Authority for the financial services provided using that status.

2. Some investments are marketed and/or offered as exclusive opportunities

3. Another professional – often a qualified accountant – is pressured to sign-off on a client’s financial position.

In completing this engagement, accountants are asked to exercise their professional judgement about which client income and/or assets should be included in their assessment. CA ANZ regularly receives enquiries from our members seeking assistance on how these rules work. Some of our members in public practice have sought legal advice about which client related entities – for example, related discretionary trusts and super funds – should be included in their assessment. Different lawyers have provided various opinions. Some say some related entity asset values should be included while others argue that they should be excluded.

Similarly different lawyers have various opinions about what should be included as net income. For example, some argue that franking credits should be included while others argue they should be excluded.

The *Quality of Advice Issues Paper* states that, “ASIC has previously held concerns some accountants may be inappropriately providing certificates,” and provided a link to the following item on the ASIC website - <https://asic.gov.au/about-asic/news-centre/find-a-media-release/2017-releases/17-228mr-asic-takes-action-over-misuse-of-sophisticated-investor-certificates/>

As noted above, accountants may issue a certificate in relation to wholesale clients but has no official legislative role in the issuance of sophisticated investor certificates.

It remains the case that some clients may satisfy the net income and/or asset thresholds yet remain objectively financially unsophisticated.

As a professional accounting body, CA ANZ believes a conservative approach to determining net income and/or assets is best. Together with other professional accounting bodies, we are currently working on providing further guidance to our members in public practice about this issue.

Longer term CA ANZ believes the wholesale investor definition needs to be altered to require the financial service provider to form a view about their client’s financial sophistication when wishing to use a wholesale investor certificate. That is, a rule similar to that applying to sophisticated investor certificates should apply.

8. Professional industry Associations

In the *Quality of Advice Issues Paper*, the following quote from ASIC is made, “the multiplicity of professional associations has ‘mitigated against any of them taking a strong leadership role in setting or enforcing strong ethical standards (lest they risk losing members to those bodies with less rigorous standards)’.”

The review then states, “Under the current regulatory regime there is limited scope for professional industry associations to play a significant regulatory role, although some play a role in the disciplining of members.”

We do not believe these comments are appropriate to CA ANZ or the other major professional accounting associations in Australia (CPA Australia and Institute of Public Accountants). These associations have over a long period of time had as a central objective the leadership of professional and ethics standards. Members of the associations are degree qualified with post graduate accounting studies, significant mentored experience, a Code of Ethics enforced through a rigorous quality review and discipline process, and annual CPD requirements.

CA ANZ operates under a Royal Charter – one of only a small number of professional member organisations in Australia with such a Charter and its history stretches back more than 100 years.

The Royal Charter requires CA ANZ to advocate in the public interest only.

Moreover, CA ANZ and the two other main Australian accounting bodies have established the independent Accounting and Professional Ethics Standards Board (APESB). The APESB operates independently of the accounting bodies and publishes internationally equivalent standards to which all members of these major professional accounting bodies are required to comply.

All three major professional accounting bodies also have a Professional Standards Scheme approved under Professional Standards Legislation, administered by the Professional Standards Councils (PSC), one in each state and territory.

A Professional Standards Scheme is a legal instrument that obliges associations to monitor, enforce and improve the professional standards of their members. This is designed to help protect the people, or consumers, who use their members' services.

These three accounting bodies have been approved by the PSC as being able to represent professionals including meeting a far-reaching set of scheme obligations.

CA ANZ members are also required to meet comprehensive specific standards applicable in several areas of specialization, for example:

- Standards set by the Australian Accounting Standards Board
- Standards set by the Australian Auditing and Assurance Standards Board.

CA ANZ believes that over a long period of time, as a professional association we have had the leadership of professional and ethics standards as a central objective. Members of the associations are degree qualified with post graduate accounting studies, have significant mentored experience, comply with a Code of Ethics enforced through a rigorous quality review and discipline process, and undertake annual CPD requirements. Our constitutional purpose is to “serve the public good”, and that is what we continually strive to achieve.

Appendix A

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents 134,805 financial professionals, supporting them to make a difference to the businesses, organisations and communities in which they work and live. Chartered Accountants are known as Difference Makers. The depth and breadth of their expertise helps them to see the big picture and chart the best course of action.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with mentored practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard setters on behalf of members and the profession to advocate boldly in the public good. Our thought leadership promotes prosperity in Australia and New Zealand.

Our support of the profession extends to affiliations with international accounting organisations.

We are a member of the International Federation of Accountants and are connected globally through Chartered Accountants Worldwide and the Global Accounting Alliance. Chartered Accountants Worldwide brings together members of 15 chartered accounting institutes to create a community of more than 1.8 million Chartered Accountants and students in more than 190 countries. CA ANZ is a founding member of the Global Accounting Alliance which is made up of 10 leading accounting bodies that together promote quality services, share information and collaborate on important international issues.

We have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents more than 870,000 current and next generation accounting professionals across 179 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications.

We employ more than 500 talented people across Australia, New Zealand, Singapore, Malaysia, Hong Kong and the United Kingdom.