

30 May 2022

Secretariat, Quality of Advice Review
Financial System Division
Treasury
Langton Cres
Parkes ACT 2600

By email: AdviceReview@treasury.gov.au

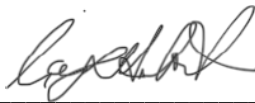
Dear Secretariat,

Thank you for the opportunity to lodge a submission in response to the Quality of Advice Review Issues Paper.

Monochrome Asset Management (Monochrome) commends the Australian Government on its efforts to better enable the provision of high quality, accessible and affordable financial advice for retail clients – a sentiment which Monochrome shares and agrees with.

If you have any questions regarding our submission, or would like further information, please do not hesitate to contact me on 0404 066 044 or at Craig.hobart@monochrome.co.

Yours sincerely



Craig Hobart
Head of Distribution
Monochrome Asset Management

Introduction

In line with the Quality of Advice Review Issues Paper (Issues Paper) released by Treasury on 25 March 2022, this submission responds to Questions 15 and 83 of the Issues Paper, with a particular focus on financial advice as it pertains to crypto-assets.

Monochrome supports strong and well-directed regulation of the crypto-asset industry, as proper regulation will help the industry reach its full potential. One of the main barriers holding back the further maturity of the crypto-asset industry is the current inability of financial advisers to give advice to their clients due to professional indemnity insurance not covering them in that area.

This submission provides an overview of key concerns regarding the financial advice market, along with our suggested solutions.

About Monochrome Asset Management

Monochrome is a specialist investment management firm offering regulated access to crypto assets.

Monochrome's flagship product, the Monochrome Bitcoin Fund, provides wholesale investors with exposure to Bitcoin through a regulated and secure investment vehicle. In addition to this, Monochrome is also participating in the retail licensing opportunity which was presented in ASIC Report 705, with the intention to release a retail Bitcoin ETF via the Australian Securities Exchange and a retail Product Disclosure Statement (PDS).

The Monochrome team brings together a rich experience of more than 150 combined years in the traditional finance world, coupled with a deep understanding and knowledge of the crypto asset market (50+ combined years' experience).

Issues Paper Response

Question 15: What are the barriers to people who need or want financial advice accessing it?

Issue

One of the unintended consequences of the regulatory reform in relation to crypto assets being made available for retail investors via a PDS was the inability for the advice community to secure professional indemnity advice insurance (PII) for this asset class.

So, while the regulator has provided a reasonable pathway for retail investors to gain access to this nascent asset class, the advice community is unable to act on that innovation due to professional indemnity insurance having express exclusions for crypto assets.

Proposed Solution

A suitable solution to this is to better align the requirements of PII providers to fully support and embrace enacted regulatory guidance for retail products. We would suggest that if products fit within ASIC guidelines, insurers should be willing to cover them, or at least not exclude them. As it stands today, all the good work by the industry and ASIC to provide safe access to this nascent asset class is wasted with our greatest asset, the advice community, unable to provide advice on this asset class.

Question 83: What further actions could ASIC, licensees or professional associations take to improve the quality, accessibility or affordability of financial advice?

Issue

With the regulatory approval for crypto assets to be offered via a PDS, the advice industry has the opportunity to be at the forefront of this development and provide quality advice to filter and identify suitable investors for this nascent asset class.

Unfortunately, all six domestic PII providers and the two London-based PII providers have an endorsement inserted in their policies which prevent the advice industry from providing a quality service in relation to this nascent asset class.

This is a significant issue because it is estimated that in excess of one million Australians now have exposure to crypto assets, most of which are via the unregulated exchanges which provide little consumer protection as they are not regulated under the Australian Financial Services (AFSL) regime.

In a survey Monochrome conducted in October 2021, we identified that 77 per cent of advisors received inquiries about crypto assets in the previous 12 months but only 11 per cent of advisors felt adequately equipped to respond to those inquiries. A combination of a lack of products, education and regulation prevented the advice community from being able to advise their clients.

In response to this, Monochrome has developed CPD-accredited educational content to guide the advice industry, and has also secured an investment-grade rating for the Monochrome Bitcoin Fund, a requirement under PII.

Proposed Solution

The final hurdle is the advice industry being able to obtain PII so it can advise clients in this space. This would require the removal or amendment of the current endorsements inserted into PII provider policies.

While one can argue that commercial risk assessment and pricing of risk is part of a free market, the current model does actually lead to insurers having power over the market, which is not in the best interests of investors, advisers or product providers.

Conclusion

Monochrome is committed to developing the investment community's knowledge and understanding of crypto assets. An important way to increase this understanding in Australia is to enable our investment advice industry to engage with clients on this asset class.

As industry leaders, Monochrome have a responsibility to contribute to the professional development of finance professionals relating to crypto assets. We look forward to contributing to this process further as more opportunities arise.