FINANCIAL PLANNING
ASSOCIATION of AUSTRALIA

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RE: Review of Your Future, Your Super Measures

The Financial Planning Association of Australia[1] (FPA) welcomes the opportunity to provide feedback in response to Treasury's review of the Your Future, Your Super measures. The FPA will limit our comments in this submission to the proposed operation of a performance test for choice products.

While the FPA is supportive of APRA monitoring the performance and administration costs of choice superannuation products, the FPA has a number of concerns with the proposed operation of the proposed performance test framework in relation to choice products.

Firstly, unlike MySuper products, which by their nature are designed for disengaged members of super funds, choice products are generally used by members who are actively managing their retirement benefits. In many cases, they have engaged the services of a professional financial planner who has provided them with advice in their best interests based on their goals, objectives, and financial position. Most clients will also enter into an ongoing advice service with their financial planner and therefore receive ongoing monitoring of their super funds

[1] The Financial Planning Association (FPA) is a professional body with more than 12,000 individual members and affiliates of whom around 10,500 are practising financial planners and 5,207 are CFP professionals. Since 1992, the FPA has taken a leadership role in the financial planning profession in Australia and globally:

- Our first "policy pillar" is to act in the public interest at all times.
- In 2009 we announced a remuneration policy banning all commissions and conflicted remuneration on investments and superannuation for our members – years ahead of the Future of Financial Advice reforms.
- The FPA was the first financial planning professional body in the world to have a full suite of professional regulations incorporating a set of ethical principles, practice standards and professional conduct rules that explain and underpin professional financial planning practices.
- We have an independent Conduct Review Commission, chaired by Dale Boucher, dealing with investigations and complaints against our members for breaches of our professional rules.
- We built a curriculum with 18 Australian Universities for degrees in financial planning through the Financial Planning Education Council (FPEC) which we established in 2011. Since 1 July 2013 all new members of the FPA have been required to hold, or be working towards, as a minimum, an approved undergraduate degree.
- When the Financial Adviser Standards and Ethics Authority (FASEA) was established, the FPEC 'gifted' this financial planning curriculum and accreditation framework to FASEA to assist the Standards Body with its work.
- We are recognised as a professional body by the Tax Practitioners Board.

performance from their financial planner in relation to their goals. For this reason, the portfolio of choice funds recommended by a financial planner are often designed to meet specific client performance objectives over specific time frames and can be recommended (and often actively managed) to manage a variety of risks for clients. As an example, three clients with similar risk profiles and asset allocations can be recommended portfolios with different characteristics as follows: a younger client with a long term investment time frame from their super can benefit from a highly volatile investment portfolio which benefits from the purchase of units at a discount; an older client closer to retirement will benefit from a more stable, lower volatility portfolio with a focus on growth; while a client in retirement will benefit from a portfolio which focuses on income generating investments to minimise the sale of units when funding their lifestyle.

A second issue is that timing of investment is an important factor considered by financial planners when recommending choice super products. Applying a static measurement period from 1 July to 30 June each year by APRA, doesn't account for the active management undertaken by the client's financial planner when making investments and switches.

A related issue the FPA is concerned by with a "one sized fits all" approach to each benchmark given "similar" choice products are often managed in very different ways. While some choice products will follow index investing methodologies to reduce cost and active management, others may be specifically actively managed to take advantage of particular events or investment philosophies, others may use fund of fund models and actively or passively fund managers, others will use only listed investments, while others may use predominantly unlisted assets, and finally there are a number of products which now use glide paths to manage risks for specific cohorts of members over different time periods. Both the administration costs and performance of these different strategies are not comparable at the high level as proposed under the framework. Additionally, the proposed measure only consider the outcome of an investment strategy, not the investment strategy itself and how it product has performed against this.

To these points, professional financial planners actively educate and support clients on the understand that past performance is not an indicator of future performance. For this reason, the proposal for APRA to direct failure notices to be sent annually is inconsistent with this message. To this point, it would seem more relevant for disengaged super fund members to be warned of poor outcomes on a more frequent basis as opposed to those members who have made the decision to are actively managing their portfolio of choice products themselves or with the assistance of a professional financial planner.

In saying this, it can often be expensive and complicated for financial planners to compare costs and the performance of choice options for clients, so while we oppose the proposed benchmarking and failure notices, a fund performance and cost comparison tool maintained by APRA for the benefit of superannuants and their professional financial planners is a welcome development. In saying this, we believe this could be better accomplished through mandatory and standard data feeds which can better assist professional financial planners and interested superannuants actively monitor their investment performance in a bespoke manner.

The FPA would welcome the opportunity to discuss with the Treasury the issues raised in our submission. If you have any questions, please contact me on ben.marshan@fpa.com.au or on 02 9220 4500.

Yours sincerely

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