

Senate Estimates
Economics Legislation Committee – FASEA Opening Statement
27 October 2020

Thank you, Chair.

In opening, FASEA wishes to highlight the considerable progress advisers are making in implementing the vision of the reforms, to raise their education, training and ethical standards and improve consumer confidence in the profession of financial advice. FASEA commends the thousands of advisers willing to raise their standards by undertaking additional education to meet the requirements of the Corporations Act and through sitting the exam and pleasingly they are performing well in doing so.

In February 2017, parliament passed the Corporations Amendment (Professional Standards of Financial Advisers) Act 2017 which amended the Corporations Act to raise the education, training, and ethical standards of licensed financial advisers in Australia.

In making these amendments parliament reflected key findings of the Financial System and PJC Inquires which highlighted that low minimum competency standards have been a feature of the financial advice industry for a substantial length of time and that change was needed. These inquiries also highlighted that cases of inappropriate financial advice had a negative impact on consumers' confidence. This lack of trust was noted to be a barrier to consumers seeking financial advice. The government noted that the education, training, and ethical standards for financial advisers needed to be raised to improve consumer outcomes and increase public confidence in the advice they receive.

Importantly the amendments to the Corporations Act do not exempt or grandfather existing advisers from the requirements but rather, provide transition timeframes for advisers to reach the raised standards. This is a key component of the changes that were implemented and intended to address the concern that key stakeholders identified in relation to existing low minimum standards. This is often overlooked when it is suggested experienced advisers should be exempt from the rules.

FASEA's role is to legislate standards that assist the transition of the provision of financial advice to a profession and thereby hopefully increase consumer confidence and trust in obtaining financial advice.

FASEA has focussed on developing and releasing a standards framework that is balanced, workable and which draws upon a process of wide consultation.

This work aligned to the willingness of advisers to meet raised standards appears to be bearing fruit. We are seeing thousands of advisers demonstrating their commitment to higher standards and to remaining in the industry by both sitting the exam and enrolling for additional study.

Enrolment figures from higher education providers reveal a growing number of potential new entrants to industry enrolled in FASEA approved bachelor degrees and that an increasing cohort of new entrants have commenced their professional year under the guidance of experienced supervisors within industry.

Key highlights illustrating the commitment from financial advisers and the output of FASEA's work include:

- Approximately 10,000 advisers have passed the Financial Adviser exam with over 14 months of the transition period remaining. This is approaching 50% of registered advisers.
- The current overall pass rate on the exam is 89%, demonstrating a strong performance by existing advisers.
- FASEA will offer the exam a further 7 times in multiple metropolitan and regional locations and online before the transition period ends.
- Existing advisers are actively lifting their education standards to meet Corporations Law requirements with advisors enrolled in over 6,500 Graduate Diploma courses and over 3,000 in bridging courses.
- FASEA has accredited a wide range of Higher Education Provider (HEP) degrees and courses that meet the FASEA curriculum standard including more than 70 historical courses dating back to 1982, close to 100 bachelor or higher degrees and over 35 bridging courses.
- Based on FASEA analysis of education qualifications of the 21,500 advisers recorded on ASIC's Financial Advisers Register (FAR), approximately 30% of existing advisers hold an approved degree or equivalent qualification and are only required to complete 1 ethics bridging course by the end of 2025.
- Over 55% of existing advisers will only be required to complete up to 4 units of study by the end of 2025.
- Of those advisers with over 30 years experience, only approximately 500 (2% of FAR) will be required to undertake 8 units of study by the end of 2025.
- At the end of 2019, over 900 potential new entrants to industry were enrolled in FASEA approved bachelor degrees.
- The number of new entrants commencing their professional year is increasing with close to 200 PY students employed by the emerging financial advice profession.
- FASEA has had productive consultation with stakeholders this year on implementation of the Code of Ethics and has released a Code of Ethics Guide for consultation.

Considering FASEA's key functions we note the following.

Exam

Advisers are performing well in the exam with approximately 10,000 advisers having passed the exam as of August 2020 with an overall pass rate of 89% at either a first or subsequent sitting of the exam. Up to August 2020 FASEA has offered the exam on 8 occasions with 528 physical sittings in both metropolitan and regional venues and online. FASEA will offer a further 7 exams before the expiration of the existing adviser transition period on 31 December 2021.

From a consumer perspective, this is a positive result with close to 9 in 10 of the existing advisers across the country (on whom consumers presently rely for advice) having demonstrated they have the skill to apply their knowledge of advice construction, ethics and legal requirements to the practical scenarios tested in the exam.

Education

The Corporations Act requires all advisers to complete a bachelor or higher degree or equivalent qualification approved by FASEA. Existing advisers have until the end of 2025 to raise their education to this level.

FASEA's curriculum has set a core body of knowledge for professional advisers into the future. This is consistent with other recognised professions. In amending the Corporations Act to provide for this move to professionalism, the Parliament recognised that existing advisers may have gaps in their previous knowledge or study and that a transition period (now to the end of 2025) would allow time to raise their standards to the higher expectations contained in the Act

In the explanatory memorandum attaching to the bill amending the Corporations Act, the government noted if an existing adviser does not have an approved bachelor degree or higher or equivalent qualification, then the adviser can complete bridging courses approved by the body. This is the approach FASEA has adopted.

In assessing whether to approve existing qualifications of advisers, FASEA has adopted an approach that approves historic bachelor or higher courses that meet at least 80% of the curriculum (with the existing adviser only being required to complete an ethics bridging course reflecting that the Code was not in existence when these courses were completed). To date FASEA has recognised more than 70 historical courses across a broad range of higher education providers dating back to 1982 (well beyond the timeframe universities would generally recognise). Approximately 30% of existing advisers on the ASIC FAR have an approved degree or equivalent qualification.

If the historical degree or higher degree covers a large portion of the curriculum but less than 80%, it is approved as a relevant degree. Over 55% of existing advisers on the FAR meet or exceed this level of education and will only be required to complete upto 4 units of study by the end of 2025.

The bridging courses the adviser is asked to complete cover areas not included in their relevant degree that are important to their role as a retail financial adviser. This covers ethics, current legal and regulatory requirements that pertain to giving retail financial advice and advice construction (including consumer behaviour).

In addition, FASEA approves credit for study recognised as equivalent study leading to a qualification (e.g. SAFAA stockbroking diploma or SIA Graduate Diplomas) that further reduce the number of bridging units an existing adviser needs to complete. Hence, a stockbroker who has completed, say, a relevant economics degree at a sandstone university and an SIA diploma of financial markets when they became a broker, is only required to complete a course in ethics.

Universities and higher education providers report strong enrolment of existing advisers and potential new entrants in FASEA approved courses. Based on annual returns completed by HEP, as at the end of 2019 over 3000 existing advisers are enrolled in bridging courses, existing advisers are enrolled in a further 6,500 graduate diploma subjects and 900 potential new entrants to financial advice are enrolled in bachelor or higher degrees.

Professional Year

Close to 200 new entrants have commenced their Professional Year with over 75 already passing the exam.

On joining the industry these new advisers will now benefit from a year of professional training under the guidance of committed, experienced advisers.

CPD

FASEA continues to recognise prior (CPD) learning of existing advisers where that learning meets the requirements of the Corporations Act to be both at a standard equivalent to a bachelor or higher degree and results in the issuing of a qualification.

To date, FASEA has recognised as equivalent, prior learning leading to a qualification from 8 professional association (e.g CFP, FchFP, CA, CPA, SAFAA, SMSF), advanced diplomas in financial planning or advice from 24 registered training organisations and studies for the Securities Institute, CFA Institute and Portfolio Construction Forum.

FASEA is aware of concerns raised by industry that we have not approved other forms of CPD as meeting the education requirements of Section 921B of the Corporations Act.

In assessing whether to recognise CPD, FASEA has been guided by the Corporations Act requirement that to lift Education Standards, advisers must complete a bachelor's degree or higher or equivalent qualification.

To meet the education requirement of the Corporations Act, CPD must result in an equivalent qualification to a bachelor or higher degree. The majority of CPD undertaken by advisers (including technical seminars, conferences, on line reading, attending professional updates etc.) does not meet this minimum Corporations Act requirement of resulting in the issuing of a bachelor level or above equivalent qualification and does not meet the base education requirements set by the law.

This form of ongoing education can, however, satisfy the ongoing 40-hour CPD requirement of advisers.

This has sometimes been difficult for advisers to accept, particularly those who have considerable industry experience and regularly maintained their CPD requirements. However, as noted in the Explanatory Memorandum to the Corporations Act amendment, the quality and standard of past CPD was often inconsistent in quality and not at university standard.

Code of Ethics

FASEA is committed to continuing to provide guidance on the Financial Planners and Advisers Code of Ethics which was registered in February 2019 and was released with guidance explaining its operation well ahead of its coming into effect on 1 January 2020.

Following consultation with stakeholders in 2019 and early 2020, FASEA has released the draft Financial Planners & Advisers Code of Ethics 2019 Guide for consultation.

The draft guide provides an explanation of the intent and application of the Code's values and standards. It uses fundamental questions to help illustrate the Code and highlights the requirement for advisers to exercise their professional judgement in the best interests of their client guided by the values and standards of the Code. Consultation on the guide is open until 2 November and FASEA will continue to work with stakeholders to ensure the Code is workable and understood.

In closing, FASEA highlights again the importance of the vision of the reforms, to raise the education, training and ethical standards of advisers and improve consumer confidence in the profession of financial advice. FASEA commends the progression towards professionalised financial advice being led by the thousands of advisers who are raising their personal and industry standards by meeting the enhanced requirements of the Corporations Act in advance of legislated transition periods.