ASIC to crack down on ‘poor’ advisers

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The securities regulator is preparing to take action against financial planners who inappropriately recommended self managed superannuation scheme trustees borrow to invest in property or who advised clients with low levels of financial literacy to set up a do-it-yourself fund.

In an effort to safeguard investors against rogue advisers, the Australian Securities and Investments Commission (ASIC) said it planned to introduce additional obligations on planners who advise clients to switch to self managed schemes.

Following a study of 100 higher risk files relating to the establishment of do-it-yourself schemes, ASIC said that while the majority of advice given was “adequate”, there were “concerning pockets of poor advice.”

ASIC said it was worried that in some cases the use of gearing in a self-managed fund was “inappropriate” and exposed investors to a “high level” of financial risk.

Other problem areas included advisers recommending investors set up a self-managed fund that did not meet their investment objectives and recommending inappropriate investment strategies and insurance products.

“Where advice was graded as poor, we will be taking follow-up regulatory action. This may include taking action against an individual advice provider, or taking action against an Australian Financial Services licensee. In some cases, we may take action against both the individual advice provider and the AFS licensee,” ASIC said in the report.

The Financial Planning Association said it was critical that advice be provided by professionals who were appropriately trained.

“The FPA believes that irrespective of the ‘financial product’ that is being recommended, consumer protection demands that personal financial advice must be provided by an appropriately qualified, trained and licensed professional.”

ASIC said it expected advisers to recommend against establishing a self-managed fund in cases where a client’s account balance was so low it made the vehicle not viable.

The regulator also suggested advisers review self-managed funds operated by older clients in case the size of their fund dwindled and became uneconomic to run.

“For older investors, it will often be appropriate for the advice provider to revisit the issue of fund balance size. SMSFs will generally have a reduced asset balance size as investors progress through retirement. This is because, as investors age, they are required to make minimum pension drawdowns. It may be beneficial for these investors to move out of the SMSF sector,” noted ASIC.

ASIC said it planned to issue two consultation papers in the coming months. The first relates to a proposal to force advisers who are considering a self managed fund for their clients to warn them about the lack of compensation arrangements and “explain other matters that may affect an investors’s decision to set up an SMSF.”

The second consultation paper relates to costs.