



## Response to Questions on Notice

### Parliamentary Joint Committee Inquiry into proposals to lift the professional, ethical and education standards of the financial services industry

Hearing 14 October 2014

#### P53/54

**CHAIR:** We have sought to extract evidence from people over the last couple of days, and it has been surprisingly hard to extract some detail. Can you put on the record for us what the cost is for an individual planner who might be a sole practitioner to get a licence and what the cost is for a large bank to get a licence to practise. The evidence we have received is that it is the same cost for a licence regardless of size. I would like your confirmation of that. Further, we have heard stories of compliance costs ranging in the order of tens of thousands—\$20,000 to \$30,000 per year. I would like your view on where those compliance costs come and where the scope is to reduce those.

**Ms Bird:** **I would have to take on notice the costs.** I would query the idea that it is the same cost for everybody, because it is all scalable. What you do depends on the sort of business you are running. You need more systems and processes in place if you are running a major bank compared to if you are running a small advice practice. It is very difficult for people to give you the costs because they are unable—and we are not able—to say how much of that cost that, in a sense, you think has been imposed upon you by the licensing system. So you have to have adequate systems in place, you have to have risk management and you have to have adequate technological, financial and human resources—all of those sorts of things. Because you have those obligations as a licensee, you could say, 'That is all due to the licensing system.' But in fact if people were running businesses without the regulatory system they would have a lot of those costs anyhow. It is almost impossible for any business to tell you exactly how much of it comes directly from the regulation. As someone who has done this for a long time, it is very challenging to get that sort of costing information. In terms of the cost of getting a licence there is a straight-out fee that is in the fee regs in the Corporations Act, and we can tell you what those are. A large number of people use service providers, who will help them put in the documents that they need to get a licence. We can ask some of those people what a standard cost is. You are not required to use that, but you can use that if you so choose. A number of people would, but a lot of businesses would choose to do all of that work themselves. As part of getting a licence they might need some sort of risk management plan. Would they have done that anyhow when they were setting up their business? Probably. What part of doing that plan related to the regulation and what part did not?

I know I am not giving you a clear answer, but I am just trying to explain why you have probably found it very difficult over the last two days to get a very clear answer to that question. It is not the first time we have been asked the question. I have always found it very difficult to get an answer from industry on how much this costs them.

#### **Response:**

**The fees to apply for an AFS licence are set out in the Corporations (Fees) Regulations 2001. Effective from 1 July 2014, it costs \$1567 for a body corporate, partnership or non-body corporate trustee to apply for an AFS licence. It costs \$871 for a natural person to apply for an AFS licence.**

**It is extremely difficult to estimate the additional cost of applying for an AFSL as the costs vary quite significantly between applications for a number reasons, including:**



the type of authorisations sought, the complexity of the business, the quality of the application, whether the applicant has outsourced the application process, the evidence that is required to be produced, and so on.

There is also varying anecdotal evidence on the cost of applying for a licence where the applicant outsources the preparation of the application to a law firm.

#### **P54**

**CHAIR:** One of the terms of reference for this inquiry is to make sure that we have advice that is affordable. Clearly the cost to industry is a large driver of whether advice is affordable. In my experience, if you do not understand where your costs are coming from, you do not know how to control them. So, yes, any information you can give of a breakdown of the various inputs that drive a net cost to a business would be very useful.

**Senator O'NEILL:** Or if you are not paying very much, you might like to keep it that way. Could I dig a little bit more in the same area. If I were an individual financial planner—and I fulfilled the requirements of putting in place a certain number of risk management plans and other requirements—and then I put my paperwork to you, how much would I pay for that?

**Ms Bird:** For the amount that is actually in the fee regs? **I cannot tell you off the top of my head. It is an amount of hundreds of dollars. It is very little.**

**Senator O'NEILL:** Okay.

**CHAIR:** Five hundred dollars was the figure that was mentioned to us previously, but we will wait for your confirmation on that.

**Ms Bird:** **That figure I can easily get you.**

**Response:**

**The fees to apply for an AFS licence are set out in the Corporations (Fees) Regulations 2001. Effective from 1 July 2014, it costs \$1567 for a body corporate, partnership or non-body corporate trustee to apply for an AFS licence. It costs \$871 for a natural person to apply for an AFS licence.**

#### **P58**

**Senator O'NEILL:** What capacity does ASIC, as the licence provider, have to do any oversight of the implementation and practices of those holding the licences, given the fee that they pay you?

**Ms Bird:** We do not get the fees that are given to us, in the first place. The way ASIC is funded is from an allocation from the budget. ASIC, as an organisation, brings in substantially more money to the government than it gets given in funding. So there is no connection between the fees that are charged to the people we regulate and how much money we are given as a budget allocation to do our job.

**Senator O'NEILL:** Is that a problem for ASIC?

**Ms Bird:** ASIC also has a proposal to the financial system inquiry that it should be allowed to have some sort of cost recovery basis and be funded by the industry that it regulates, where the industry pays a fee that represents the cost of regulating it and we use that money to regulate the industry.

**Senator O'NEILL:** Do you think that the average person in the street would be pretty surprised to think that, if you get a licence for \$500 and run these huge businesses through NAB, Westpac, the CBA, ANZ, AMP, Macquarie and so on, ASIC are not getting adequate fees to oversee the licence that allows those businesses to generate millions and millions of dollars?



**Ms Bird:** We get a budget allocation from the government out of consolidated revenue. That is how the system works.

**Senator O'NEILL:** But the cost is more than \$500 to supervise that licensee, though, surely?

**Ms Bird:** Yes.

**Senator O'NEILL:** That is kind of a breakdown point in the system, isn't it?

**Ms Bird:** **If you want some indication of the costs, we can provide you—**

**Senator WILLIAMS:** It is \$33 million!

**Ms Bird:** Because we are doing the work to see what a cost recovery system would look like, we do have some idea of how much it costs to regulate some of the large players. If you would like that information, I am sure it could be provided.

**Senator O'NEILL:** That would be wonderful.

**Response:**

**It costs approximately \$130-million per year to regulate AFS licence holders, based on ASIC's 2014/15 budget and a number of assumptions.**

**Of this amount, approximately \$29 million relates to the regulation of financial advisers i.e. approximately \$29 million relates to the regulation of the advice businesses of the approximately 3 400 AFS licence holders who have an authorisation to provide personal advice. This is based on ASIC's 2014/15 budget and a number of assumptions. The activities that contribute to the cost of regulating financial advisers are enforcement, surveillance, stakeholder engagement, policy and guidance.**