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Sophie Dunstone
Senior Research Officer
Parliamentary Joint Committee on Corporations and Financial Services
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Parliament House
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Dear Ms Dunstone

Thank you for the opportunity to clarify the comments made in the two published submissions that appear to make adverse comment about the FPA.

We note that both of the submissions, whilst anonymous, appear to be made by clients of Storm Financial who were badly impacted by the collapse and poor practices of that group. We understand their frustration and have enormous sympathy for their plight and acknowledge that their anger will naturally flow to organisations like the FPA, who act as a membership and professional body in this market.

In specifically addressing the adverse comments made in those submissions, they can be summarised into 4 key comments:

1. The FPA failed in their obligation to stop Storm
2. Membership of the FPA should not have been afforded to this group
3. Membership of the FPA is bought and carries no obligation
4. Clients should be able to rely on the FPA brand as a measure of confidence

1 The FPA failed in their obligation to stop Storm

The FPA first became aware that Storm Financial may have breached its professional obligations when we received copies of an email being sent (October 2008) by Storm to clients, encouraging them to switch their funds to cash. At that point FPA initiated an investigation responding to allegations concerning the widespread use of a high risk gearing strategy and possible client exposure to margin calls.

Our investigations identified that Storm appeared to have breached several Rules of Professional Conduct including the requirement to disclose fees and requirements regarding appropriateness of advice. This led us to initiate a complaint and issue charges, referred to as a Breach Notice, to Storm Financial in November, 2008.

Before our full Conduct Review Commission hearing process could be concluded, Storm Financial went into voluntary administration and their Principal membership of the FPA was automatically terminated.

Our disciplinary process responded with speed and efficiency to the issues raised in Storm and resulted in an expulsion within the space of 3 months. We acknowledge that this was after the fact for many clients and reiterate that we had not received a margin lending complaint from any client or member of the community prior to October 2008. We have since become aware that ASIC had received complaints or had cause to investigate Storm on a number of occasions prior to their collapse but we had not received any notification from ASIC of such actions.

It is conceivable that had we been informed earlier (either through client or industry complaint action or through ASIC's information sharing) then we may have been able to be far more proactive about Storm Financial's status as a Principal member of the FPA.

2 Membership of the FPA should not have been afforded to this group

As a Principal member of the FPA, Storm were required to meet initial entry criteria that confirmed their competence and compliance with our expectations. In the case of Storm, that initial entry process occurred 10 years ago. Since that date they have satisfactorily completed their self reporting annual compliance reviews, and no complaints had been lodged with the FPA that resulted in any disciplinary action until the initiation of the final action in November 2008.

We regularly adjust our compliance protocols for members to ensure they meet current client, market and professional needs. In 2008 we amended our annual compliance process to allow a deeper analysis of business models. This review was completed and results were being analysed at the time of the Storm collapse.

3 Membership of the FPA is bought and carries no obligation

Membership of the FPA indeed carries substantial obligation.

Principal members are required to meet with all of the obligations of law and to then support our expectations of professionalism, as detailed in the Code of Professional Practice. This extends to certainty of practice, insurance coverage for compensation as well as higher duties of disclosure and client care.

Further we can demonstrate that this obligation has proven to extend to practice and safety benefits for consumers, where evidence shows that AFSL's who are not members of the FPA are 9 times more likely to be reported by ASIC for investigation and/or prosecution. We acknowledge this has not proven true in the instance of Storm Financial but we hold that Storm Financial is not reflective of "normal" financial planning practice and is not typical of the FPA membership or industry itself, as demonstrated by our capacity to remove them as quickly as has occurred.

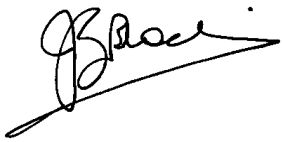
Becoming a member of the FPA requires a process of due diligence and audit, and thus it cannot be "bought" as has been suggested.

4 Clients should be able to rely on the FPA brand as a measure of confidence

We agree. Clients should and can rely on the FPA brand as a differentiator of financial planning practices in the market. We are eager to ensure that the brand carries integrity for consumers and make the commitment that we do our best to ensure that participants who carry our brand have higher obligations than other market participants (and exceed ASIC regulatory requirements) and that should we find evidence of failings we will act to remedy or remove those participants.

The evidence already exists to show that consumers should derive greater confidence from FPA corporate membership (as noted above, 9 times less likely to be subject to ASIC prosecution). We also contend that with a better integration of the professional regulatory system with the government obligations to allow for better sharing of data and efficiency of investigation, clients would be able to derive even greater confidence.

Yours sincerely,



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