Committee Secretary,
iamentary Joint Committee on Corporations and Financial Services,
Box 6100,
iament House,
erra A.C.T.,

Dear Sir/ Madam,

Please find enclosed my submission to the
e Inquiry.

Yours faithfully.

Mr G.K. Lego

Submission to the Parliamentary Joint Committee on Corporations and Financial Services (2009)

From Mr G.K. Lego.

Re Terms of Reference : 1. The role of financial advisers

Complaint An investor entrusts his financial future to the hands of a financial adviser and is charged a yearly commission based on the investment amount . At the end of the financial year the investor receives a statement detailing the profit or loss and the new balance. The investor has only the vaguest idea of how the profit is arrived at and has to accept the figure on trust. The financial adviser may well be deducting amounts quite improperly from the profits e.g. he sets up an account ' Contingency-Legal Actions' and deducts an amount from each investor's profit . Thus each year the financial adviser may build up the contingency fund by perhaps tens of thousands of dollars . Eventually he sells the business or retires and pockets the profits that should have gone to the investors.

Solution The year end statement must show the gross profit relating to the investor and must detail very clearly all charges made against that profit. This procedure must be under the close and regular scrutiny of the relevant government supervisory body.

Complaint An investor entrusts his money to a financial adviserbecause he is an expert in investments . He is charged an entry fee and an exit fee and a yearly commission . Suppose the financial adviser makes a profit for a number of years but then incurs a loss. He says to the investor : "Sorry, but conditions were very bad this year and your funds have incurred a loss of 'X' %. You are now back to where you were two years ago. Oh, by the way, your loss will actually be 'X plus 2' % when I add my management fee for the year."

Solution This is a totally immoral situation . An expert loses an investor's money but still wants to charge him a fee. A law is required that says if a loss is incurred at the end of the financial period the adviser is not allowed to charge a commission for that period.

Complaint Many investors work 30 or more years and plan for retirement at a certain age. This is a perfectly normal thing to do. Suddenly, because of the incompetence of their financial adviser or corruptness in placing investments in businesses where they have received secret or inflated commissions, , the unvestors find that they will not have sufficient funds to retire at the intended date.This is a very unsatisfactory and frustrating position om which a person may find himself.

Solution To avoid this situation a person should have the opportunity to invest their funds in a Government superannuation fund which will guarantee a certain minimum return for each year thus introducing certainty to a person's intended retirement date. The fund would provide finance for Governmeny capital works at a much cheaper rate than for finance borrowed locally or overseas.

Re Terms of Reference : 3 The role played by commission arrangements relating to product sales and advice, including the potential for conflicts of interest, the need for appropriate disclosure , and remuneration models for financial advisers

Complaint In recent years there have been instances where , despite the requirement that commissions paid to financial advisers have to be disclosed to the investor, extra inducements in the form of inflated commissions have been paid to the financial adviser with the result that an investor's money ends up in a 'shonky' project and is ultimately lost. An example is Storm Financial . Many investors were advised to place their money with that company despite the fact that the yearly charges were outrageously above the norm. The husband and wife owners of Storm Financial paid themselves a million dollars each bonus just months before it folded despite knowing full well that the company was going bankrupt. They then chose to divert attention from themselves by blaming a bank. Investors lost millions in this company and these 'scams' crop up regularly with the perpetrators getting a light sentence, or no sentence.

Solution A revamp of the government regulatory bodies so that they move in without delay once large returns or high charges are advertised or discovered. Much heavier sentences are needed for persons convicted of these types of fraud , with sentences to be served in a normal gaol , not a prison farm.