

Amendments make FOFA more workable

20 June 2014

The changes to the Future of Financial Advice (FOFA) reforms announced today by the Assistant Treasurer, Senator Cormann, are sensible measures that should make FOFA more workable and lessen red tape while maintaining necessary levels of investor protection.

Maintaining the obligation placed on advisers to act in their client's best interests means advisers must still take the circumstances and knowledge of their client into account in recommending investment products. This Best Interest Duty is reinforced by the continuing the ban on commissions and conflicted remuneration.

Advisers must still take the specific circumstances of their client into account and consider whether the products they are offering are suitable for the client.

Removal of the 'catch all' best interest clause will reduce uncertainty around the obligations of advisers which are more directly stated in the preceding clauses. Removing the annual 'opt-in' requirement for investors dealing with advisers will remove red tape and lessen compliance costs.

However, there is some unfinished business.

The Government needs to give further thought to mandating professional standards and setting higher educational requirements for financial planners.

When an investor is dealing with an adviser, the investor needs to know whether the adviser is a salesperson for a product provider or an independent adviser giving objective advice to the investor. This is a fundamental difference in role.

Knowing where the adviser's loyalties lie is essential for the investor.

The Government, regulators and professional associations should keep working towards encouraging and, if necessary, requiring advisers to attain sufficiently high and relevant educational qualifications and be members of a professional body that sets accreditation standards and exercises discipline over its members. Only people who satisfy these requirements should be entitled to call themselves financial planners or financial advisers.

Such standards are set in other professions such as medicine, accountancy and law. They should apply in financial advice as well.

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