

**ISN & AIST Submission on ASIC  
Consultation Paper CP 212  
Licensing: Training of financial product  
advisers—Update to RG 146**



**Industry  
Super  
Network**



## About ISN

Industry Super Network (ISN) is an umbrella organisation for the industry super movement.

ISN manages collective projects on behalf of a number of industry super funds with the objective of maximising the retirement savings and incomes of their members through improving the super system and enhancing the value of industry super to members, the value of the generic industry super category and the brand of network participants and expanding the market share of network participants.

## About AIST

The Australian Institute of Superannuation Trustees (AIST) is an independent, not-for-profit professional body whose mission is to protect the interests of Australia's \$450 billion not-for-profit superannuation sector. AIST's members are the trustee directors and staff of industry, corporate and public-sector superannuation funds, who manage the superannuation accounts of two-thirds of the Australian workforce.

AIST is a registered training organisation and its education program encompasses the growing and changing needs of all members of the not-for-profit superannuation sector.

AIST offers a range of services including compliance and consulting services, events - both national and international - as well as member support. AIST also advocates on behalf of its members to relevant stakeholders.

AIST's services are designed to support members in their endeavour to improve the superannuation system and build a better retirement for all Australians.

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## Introduction

### Executive summary

AIST and ISN support the crucial role that RG 146 plays in assisting compliance, human resources and training personnel at superannuation funds in complying with the minimum education requirements expected from persons who provide a financial product advice service.

In this submission, we are only intending to comment on the areas that are directly relevant to APRA-regulated superannuation funds; however we may offer feedback in passing on other measures where we believe that improvements can be made.

In addition, we may not necessarily address each question directly.

In summary, the key points of our submission are:

- AIST and ISN support higher standards for advisers, including the eventual requirement for a bachelor's degree for practitioners providing a personal advice service.
- AIST and ISN do not support a degree requirement for practitioners who provide a general advice service.
- Our organisations do not support the need for Regime B as an interim as we do not believe that this would add value, and would be a significant business disruption. We are also concerned about the creation of qualifications with a short shelf life.
- AIST and ISN broadly support the need for advisers to undertake increased training as part of generic knowledge requirements, however, we consider that requirements for advisers providing general advice are smaller and should be removed from this list.
- We agree that additional knowledge and skills requirements should be mandatory for advisers who provide a personal financial product advice service.
- AIST and ISN believe that the knowledge requirements for self-managed superannuation funds (SMSFs) are different enough from APRA-regulated superannuation funds to require a new specialist knowledge section.

Lastly, we recommend that advisers who provide general advice be included in any research for future amendments to RG 146.

### Current reforms

Although we broadly support the measures outlined in this paper, we note that there are a number of initiatives that are presently underway with regards to adviser education and standards.

The proposal to introduce a national exam would clearly intersect with the revision of RG 146. If the finalisation of the national exam is likely to be finalised later than this regulatory guidance, any revised guidance of RG 146 should at least flag how these two measures would be integrated.

Accountants who provide a financial product advice service are presently transitioning over to ASIC's licensing regime. In addition, the future requirements regarding financial

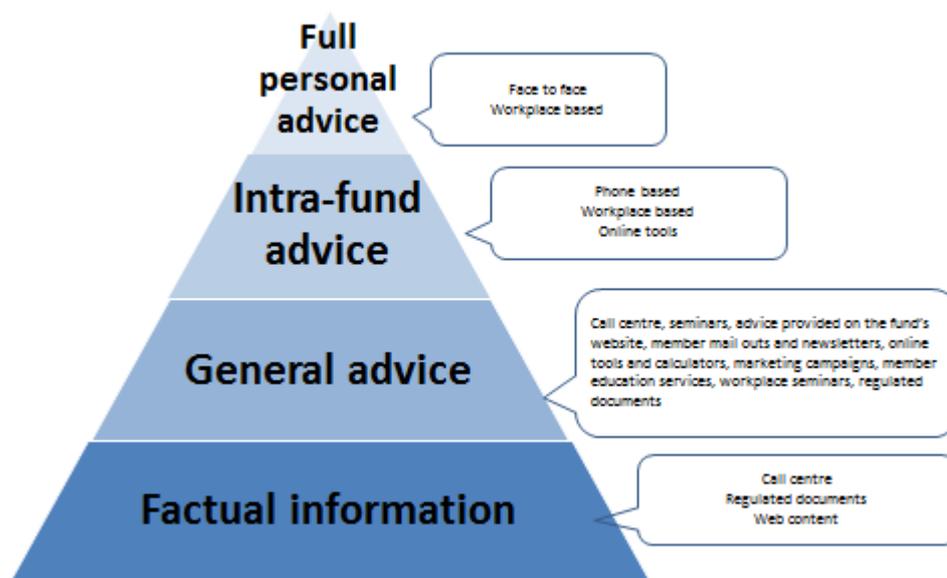
planners under the *Tax Agent Services Act 2009* (TASA) still requires a considerable amount of work before final requirements can be established.

We also note that ASIC’s training register is also presently under review in CP 215. We believe that it may be premature to consider changes to educational requirements, without firmly establishing how licensees can verify their representatives’ qualifications first.

AIST and ISN believe that these considerations are not insurmountable; however we do recognise that with so much activity it can be difficult to see the sum of all the parts.

### Context of super funds’ provision of financial advice services

AIST and ISN’s members are super funds which operate in the ‘profit to members’ sector. Typically they offer a wide spectrum of services to their members which range from factual information, general advice, intra fund advice and full personal advice. The following diagram summarises funds’ advice services:



The bulk of advice based interactions with members occurs in the general advice space and includes a very wide range of services to members. In order to understand the impact of the proposed reforms, AIST and ISN conducted a survey of our members to test their response to the proposals.

Our survey received responses from a mixture of medium to large industry funds, and service providers to some of those funds. The entities in this survey employ staff who provide factual information, general and personal financial product advice and in some cases, staff who provide advice related support services.

General advice tasks performed by the entities surveyed are estimated to reach in excess of 1.5 million members each year.

Although there was a reasonable level of support for the introduction of a degree requirement for advisers who provided personal advice, none of the respondents supported the proposal to increase the minimum requirement for providers of general advice to a bachelor level qualification.

On top of this, it is of considerable interest what expectations the survey revealed of firms hiring new advisers, or representatives providing an advice-related support service, with organisations currently happy with RG 146 (as a standalone qualification) as the entry minimum for general advisers, with no organisation currently requesting a degree qualification for representatives providing a financial product advice service.

### **Outline of our submission**

AIST and ISN are supportive of the proposal to increase the minimum requirement for personal advice providers to a bachelor's degree qualification. However, we believe that there are significant implementation issues which impact on the proposed transition. We do not support the '2 step' transition as it would be very disrupting and there would be significant commercial barriers to providers delivering on time. We also think most educational providers would be reluctant to develop a course which only had a 2 year shelf life.

AIST and ISN do not support the proposal to increase the minimum requirement for providers of general advice to a bachelor-level qualification.

Primarily, we believe that the current minimum requirements for general advice providers are sufficient and have seen no evidence that higher levels of qualification are necessary. Further, we are very concerned that increasing the minimum requirements for general advice staff would be likely to impact on the capacity of super funds and other providers to continue to offer general advice which currently benefits large numbers of consumers.

We would propose that ASIC devises minimum requirements which distinguish between general and personal advice providers. Additional knowledge and skill requirements are justified in relation to personal advice providers.

## Recommendations

### Section B: Additional knowledge requirements

#### B1: Generic knowledge

Q1-Q3: AIST and ISN support the requirement for advisers under to have a basic knowledge of all topics in the proposed table A1. We are aware that this incorporates topics that previously resided under the specialist knowledge parts of RG 146, however we believe that professionals who provide a well-rounded general or personal financial product advice service need to be as familiar with the factors that affect an investment, or that affect an investor as what they need to be with the products that they recommend as part of the services that they provide.

Feedback from the survey that our organisations conducted with our member funds, indicated that practitioners who provide a general advice service provided a wide variety of different functions. Professionals who provide a general advice service can be involved in undertaking a variety of tasks, ranging from quality assurance to preparation of marketing material, answering queries from members that require more sophisticated answers than what factual information involves or field work such as business development or member education. All these roles require some knowledge of most of the knowledge areas identified in the proposed table A1.

However, as we will discuss later in this submission, we believe that requirements for professionals who provide a general advice service may need to be removed from this initial list. For example, advisers who provide a general advice service, are not required to consider the needs, objectives or circumstances of their clients when providing recommendations or other services. For this reason, we do not believe that the subject of Budgeting is appropriate for this audience, and would be better placed in one of the specialist knowledge areas.

We are concerned that the rationale for the inclusion of this additional content is based upon the CTA research outlined in Appendix B of the consultation paper. The research only considered professionals who provide a personal advice service, and not practitioners who provide a general advice service. In addition, we note that advisers were sourced from financial planners, insurance brokers and stockbrokers. We are not certain that advisers who provide a service limited to transactions involving a single superannuation fund would have been adequately profiled as part of this exercise.

We also have concerns about the requirement for a general topic on ‘financial structures and their taxation implications’ for advisers who work for a superannuation fund. The representatives of AIST and ISN member funds are generally representatives of superannuation trustees and usually provide a small set of advice services that would not normally include structures beyond the superannuation fund that the representative works for. What this means, is that it is highly unlikely that a superannuation fund representative will provide advice on this area. We understand that you would only be too well aware that superannuation funds are also restricted by the type of AFS licence that they have, and can only operate within those parameters.

Finally, we believe that the need to recommend specific tax structures would be completely unnecessary to our members, unless the adviser was providing a more specialised service.

With the above in mind, we would recommend that knowledge of financial structures and taxation implications be made simpler and recommend removal of the dotpoint, “how to choose an appropriate structure to meet the needs of the client” to a specialised knowledge section.

Q4: AIST and ISN believe that where advisers presently provide a financial product advice service and that service is not changing, there should be no requirement to incorporate the additional knowledge areas. This should be regardless of whether the service provided is general, or personal.

We would support the need for advisers to undergo additional training, if there was evidence that the service that they had been providing had changed to the extent that it could be identified that such advisers now needed additional knowledge in order to perform their roles. However, we believe that only the knowledge topics necessary to cover any deficiencies identified would be necessary in these circumstances.

Q5: AIST and ISN are not presently aware of any generic knowledge topics that have not been presently identified.

Q6: AIST and ISN submit that sufficient time be allowed for the transitioning in of any new requirements. We are concerned that the proposed date of 1 January 2015 is only a little over 15 months away and would not allow for the development of any new course content.

Q7: AIST and ISN support the new knowledge requirements and believe that these will contribute towards better quality advice.

Q8: AIST and ISN agree that the proposed changes to the topics for generic knowledge will impose additional costs on advisers and AFS licensees. We wish to draw attention to the inclusion of 12 new generic knowledge topics, in addition to the previous three. This addition can only lengthen courses, and correspondingly, course costs.

## **B2: Specialist knowledge: Financial planning**

Q1: AIST and ISN support the addition of the new specialist knowledge requirements for additional knowledge of social security, and providing financial advice to older Australians. We have maintained that the existing coverage of social security is insufficient in financial planning, and support its expansion.

Further to this, AIST and ISN support additional content that is relevant to older Australians. Our organisations are aware of the Australia’s ageing demographics and agree that additional considerations apply to people as they age.

Q2: AIST and ISN support the requirements proposed in Table A2.1 being required for professionals who provide a personal advice service only and not professionals who provide a general advice service for two reasons:

1. We are not aware of any representatives or AFS licensees who provide financial planning as a general advice service, nor are we aware how financial planning could be provided as a general advice service; and
2. We are also not aware of how the knowledge areas proposed in table A2.1 can be applied to the provision of general advice, without the consideration of one or more needs, objectives or circumstances.

Q3: Our main concerns with the practical issues of these additional requirements relate to the time frames for implementation. We have provided additional discussion in section E1.

An additional concern that we have is with existing and new requirements proposed in table A2.1. We note that the current table includes the sub-topics, “indication of types of risk” and “client risk profile”. We believe that this information is now present in the generic knowledge requirements that have been proposed in Table A1 in the topic “Risk profiling/risk tolerance”. Another concern that we have is that the new topic on social security appears to double the new topic proposed in Table A1, even though the topic name indicates that this information in Table A1 is likely to be at a higher level.

We propose that these requirements be either clarified or corrected, in order to ensure that minimal replication and/or repetition occurs during the learning process.

Finally, as previously mentioned, we believe that all topics listed in Table A2.1, including proposed topics, are not appropriate for representatives who provide a general advice service.

Q4: AIST and ISN are not aware of additional topics which could be included in this specialist knowledge group.

We are, however, unclear on the relationship that exists between these topics and the ones listed in Table A2.5 (Superannuation). Whilst the specialist knowledge requirements of RG 146 do not make this immediately clear, it is our understanding that the same conduct, disclosure, and compliance requirements are expected of professionals who provide a personal advice service, whether that advice relates to superannuation or otherwise. In addition, it is highly improbable that a financial planner would provide a service that strictly disregarded superannuation.

With the above in mind, we recommend that it be made clearer that the knowledge requirements specified in Table A2.5 form expected knowledge for anyone who is also required to learn the topics in Table A2.1 and that neither tables are substitutes for each other.

Q5: We believe that financial planning services will be significantly improved with the addition of these subjects.

Q6: The new topics are likely to be large amounts of information. AIST and ISN are concerned that the costs of creating these new topics will have to be borne by advisers and AFS licensees required to learn them.

#### **B4: Specialist knowledge: Superannuation**

Q1-Q3: AIST and ISN supports the new sub-topics, and believes that these are relevant to professionals who provide both a personal or a general advice service.

AIST and ISN consider that these three sub-topics are relatively minor and do not consider that there are a great deal of practical limitations in educating advisers on these.

Q4: AIST and ISN are not aware of any additional topic areas that could be included here.

Q5: AIST and ISN expect that the benefits to consumers through the inclusion of these topic areas will be positive. We are aware of concerns that have been raised in the past that financial advisers who work with one kind of superannuation fund, for example, defined contribution funds, do not know enough about other types of funds, such as defined benefit funds, which may have led to bad advice in the past.

Q6: We believe that the addition of the sub-topics proposed in Table A2.5 are relatively minor and would not present substantial additional costs to licensees and their advisers.

#### **B5: Other specialist knowledge requirements**

Q2: AIST and ISN believe that the area of self-managed superannuation funds (SMSFs) are significantly different from APRA-regulated superannuation funds. We believe that these investment vehicles are sufficiently different enough to require their own specialist knowledge section within RG 146.

AIST and ISN recommends that ASIC conducts CTA research to identify the knowledge topics (in addition to those contained at Table A2.5) which are relevant to SMSFs, in particular, trustee duties, risks, and costs disclosure. We believe that some of the disclosure requirements that are being proposed in CP 216 may form an excellent base for this.

### **Section C: Additional skill requirements**

Q1: AIST and ISN support the increased skill requirements for providers of personal advice only.

Q2: AIST and ISN are concerned that higher education providers are traditionally providers of knowledge-related education in the financial disciplines. We are uncertain how assessment of skills will work, and recommend that a standalone subject that addresses the skills component be created to ensure that this area is properly addressed.

Q3: Our organisations are not aware of any additional skills that we believe should be included.

Q4: Whilst we believe that the skills listed in the proposed table A3.2 are currently best practice, AIST and ISN believe that these should be skills that form part of expected minimums. We believe that these skills will improve the standard of advice that consumers receive.

Q5: We believe that the additions of the sub-topics proposed in Table A3.2 are relatively minor and would not present substantial additional costs to licensees and their advisers.

## Section D: Increasing the educational level requirements

### D1: Tier 1 products

Q1: AIST and ISN support the need to improve education standards for financial advisers, and support the eventual requirement for advisers who provide personal advice to eventually require a bachelor's degree.

However, we do not support his requirement for advisers who provide a general advice service. We have explained more about our reasons for this at D1Q5.

Q2: Our organisations consider that there are considerable practical difficulties with the proposed education level increase. The practical difficulties that we have identified are primarily to do with timing, and we have addressed this at question E1Q1.

Q3: We believe that consumers will benefit from advisers who have a deeper knowledge of financial advice and related topics.

Q4: The requirement to change to degrees is a significant step from mere RG 146 compliance and must be managed over a lengthy transition period.

- We noted from our survey that about one third of advisers were currently continuing their studies and it would represent a substantial jump if more staff needed to undertake further study.

Q5: General advice impacts on assistance and interactions with very large numbers of members across a range of fund services. We have provided a list of tasks provided in response to our survey in Appendix A. We do not believe that the tasks identified warrant a degree level qualification.

## Section E: Timeframe for implementation of increased training standards

Q1-Q7: As we also identified in B1Q6, the proposed implementation date for Regime B is 1 January 2015, about 15 months away. This means that for new advisers who commence after this date, the Regime B requirement will be for either an advanced diploma, or an associate's degree (the AQF level 6 qualifications).

We note that in the second edition of the Australian Qualifications Framework (2013), the suggested completion time for an associate's degree is two years, and for an advanced diploma, it's 1.5 to 2 years. These are recommended full-time course loads.

In a worst case scenario where a prospective new practitioner would be studying from the beginning and not eligible for any recognition of prior learning (RPL), it can be seen that their course would still not have been completed by that date. If we also recognise that the next viable course commencement date would be semester 1 2014, then it is only reasonable that, disregarding questions of whether courses would be ready, we can see that the earliest that one of these students would meet the new requirements would be 1 January 2017.

If we consider the more likely need for a proper lead time and course development, given that the final version of the requirements in an updated RG 146 may not be ready for some time, this date could be later and may push out closer to the commencement date for Regime C.

AIST and ISN also very much doubt that sufficient courses will be available prior to the commencement date of Regime B. AIST is a Registered Training Organisation (RTO) and it is our experience that the lead time for individual subjects in such a course can take up to six months to one year to develop. For an entire degree, this delay could be significant.

We also note that an interim regime of such a short time represents a significant business disruption which outweighs any future benefits.

With these issues in mind, AIST and ISN cannot feasibly support Regime B. However, we agree that advisers who commence practising after 1 January 2015, presuming that they meet current or future basic RG 146 compliance, should be required to meet AQF level 6 (advanced diploma or more senior) by 1 January 2019.

We note that there presently exist highly regarded advanced diploma courses that would satisfy most of the current and proposed knowledge requirements.

Thus, a revised schedule may look something like this:

- Advisers providing a personal financial product advice service who commence prior to 1 January 2015 are not required to undertake any further training, provided that the financial product advice that they provide is the same set of services that they provided up to that date.
- Advisers who go into practice after 1 January 2015 and provide personal financial product advice have until 31 December 2016 to complete an advanced diploma (or more senior), but should at least be meeting existing RG 146 standards at commencement.
- Advisers commencing after 1 January 2019 and providing personal financial product advice would be required to have completed bachelors' degrees.

As already outlined, our organisations do not support any requirements for advisers providing general advice to require anything above or beyond those specified in RG 146, thus we believe that the different regimes should not apply to these practitioners.

A final consideration is the number of students currently studying. We believe that the educational requirements for RPL for students who have completed or are completing diploma or advanced diploma qualifications must not be onerous.

Q8: Whilst we are more certain about the possibility of the development of a bachelor's degree course in the timeframe available, we once again point out that the expectation is that new practitioners who commence after 1 January 2019 must have an approved degree. Given the recommendations contained in the second edition of the Australian Qualifications Framework (2013) which recommends 3 to 4 years for the full-time

completion of a bachelor's degree, this means that the first year of such a qualification must be ready to be provided by semester 1, 2016 at the latest.

This timeframe, incidentally, does not consider the needs of part time tertiary students, who may require a longer timeframe.

Q9: AIST and ISN support the requirement that advisers under Regime A who change their advice activities should complete a bridging course (or similar) that meets the additional requirements to provide their new set of services. We do not support moves to treat the adviser as if they were an entirely new practitioner.

Q10: We are not aware of any other practical considerations.

## Appendix A: General advice tasks

A selection of answers provided by respondents to the question:

*Please list as many examples of the types of general advice tasks that may be undertaken by representatives of your fund/ organisation as you can.*

- Conversations with members (calls where we provide general advice)
- Scripting general advice conversations and guides.
- Training and assessment - delivering training on general advice and assessing competency.
- Supervision and monitoring of calls, coaching and feedback on calls
- Member satisfaction surveying on general advice
- Reporting on general advice
- Compliance and auditing functions
- Answering member enquiries and complaints
- Conducting member retirement seminars
- General advice where personal advice is not warranted but sought, provided through Financial Planners
- Workplace presentations
- Member seminars
- Discussions with individual members and employers
- General advice on phone
- General advice in face to face meetings - in employer workplaces or offices
- General advice in group presentations - to employers or members - at workplaces, in offices and at general seminars
- General advice to members/employers at conferences we sponsor
- General advice to employers in one-on-one meetings
- New employee orientations at workplaces
- Phone discussion relating to a variety of financial matters
- Product and service awareness
- Mail-outs to members following a general advice discussion over the Phone
- Completion of administrative tasks following a general advice discussion
- Seminar presentations
- Workplace presentations
- Member seminars and briefings,
- Website information,
- Online calculators,
- PDS preparation,
- Marketing campaigns and collateral,
- Member statements