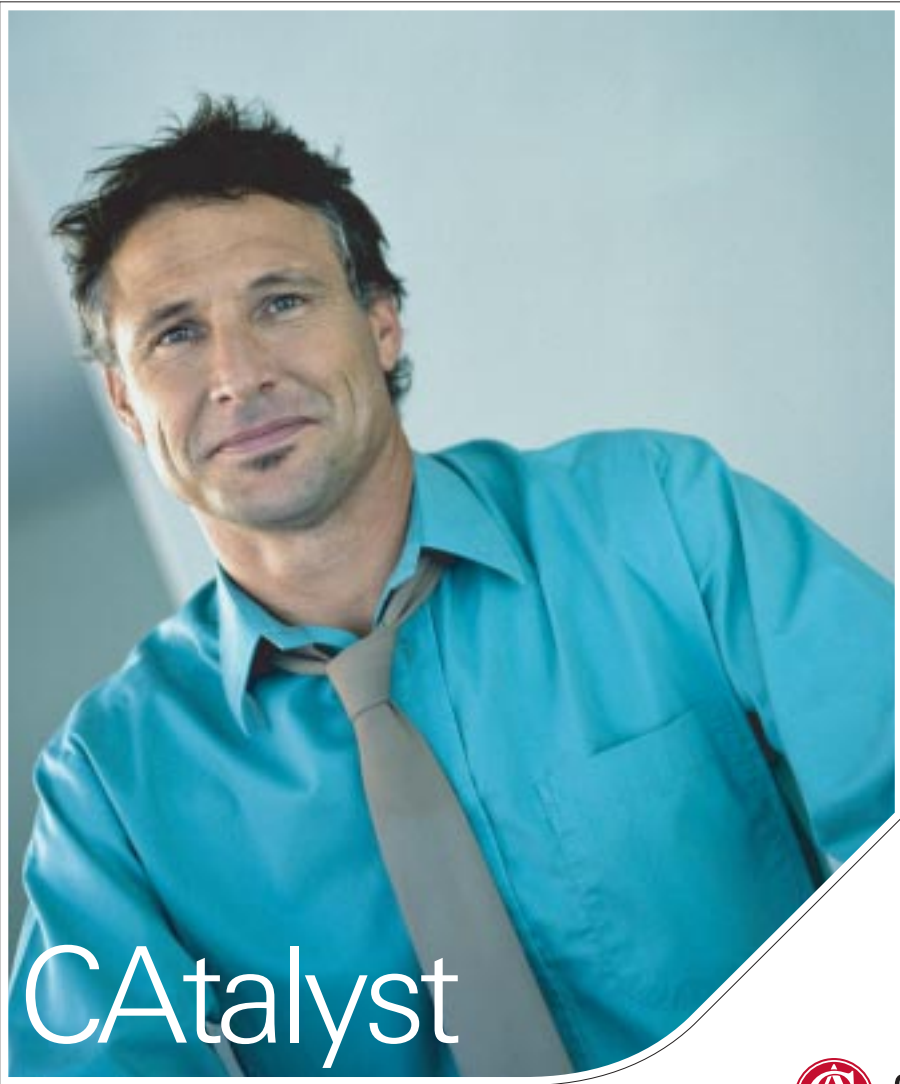


Financial Planning and Your Practice



CAtalyst



**Chartered
Accountants**

CA. Employ Our Thinking

www.icaa.org.au

A guide to assist your firm move into financial planning

The introduction of the Financial Services Reform Act (FSRA) provides an opportunity for some practices to leverage off their existing services into the financial planning area.

Prior to moving into financial planning consider the following:

- > Am I prepared to spend time learning about the financial planning process?
- > Am I willing to reduce my billable time while I am working on building a financial planning business?
- > Do I have an existing client base?
- > What resources will I need?
 - i. Training
 - ii. Finances
 - iii. Time
 - iv. Office space
- > Is my business suited to financial planning?

Establishing a Financial Planning Practice

There is considerable scope for accountancy practices to introduce financial planning as a service to clients. With their knowledge and understanding of their clients' financial affairs, CAs are ideally placed to offer this additional service.

Opportunities

Some areas that overlap with current accounting functions include:

Estate Planning – a traditional area within an accounting practice that can be easily worked into financial planning. A major component of financial planning is risk insurance (life and income protection).

Business Succession – an opportunity to offer risk insurance to your existing business clients.

Investments – clients often see their CA as the first source for investment advice.

Superannuation – as part of the tax advice process superannuation is often a major component. The ability of a firm to make recommendations on superannuation and its relevance to the investor is a considerable advantage for the firm.

There are many Chartered Accountants in the field of financial planning – for assistance go to www.icaa.org.au and click on 'Find a CA'.

Structuring – a major component of financial planning advice is the structuring of the investment to achieve asset protection and taxation benefits. As most financial planners are unable to give discrete tax advice this is an area where CAs can successively leverage off their existing client base.

Recent legislative change requires that anyone who provides 'financial product advice' must either hold an Australian Financial Services (AFS) license or be an authorised representative of an AFS license holder. Providing this advice without such a license could result in a range of penalties.

The definition of 'financial product advice' has been very widely drafted. Accountants may be specifically exempted from this definition if they engage in certain specified activities – refer to Regulation 7.1.29 of the Corporations Regulations 2001. For more detailed advice refer to the 'FSR: Accounting Industry Guide', available at www.icaa.org.au/fsra.

An alternative to moving into financial planning is to refer clients to an experienced financial planner with whom you have established a relationship. In this instance you must disclose to your client any benefits (including commissions) that you and your associates will receive that are in respect of or attributable to the provision of the financial product advice.

Australian Financial Services (AFS) licence

If you have identified potential for financial planning to become part of your practice, there are a number of options available. These are to become an:

- Australian Financial Services licensee; or
- Authorised representative of an AFS license holder.

AFS licences are issued by ASIC and in order to hold an AFS licence you must satisfy certain minimum requirements. These include:

- Full industry qualifications and three years experience; or
- Relevant university degree and short industry qualifications and three years experience; or
- Be individually assessed and have five years experience; and
- You must also be able to show that you are financially solvent at all times (by meeting certain specified requirements), are of good character and have a knowledge of relevant law.

An AFS licence can be held by an individual or by a corporation. If held by a corporation, responsible officer(s) must satisfy the above educational and experience requirements. Full details and application forms can be found on ASIC's website (www.asic.gov.au).

While holding an AFS licence in your own right does allow a degree of independence, it requires considerable allocation of time and money. Unless financial planning is to become a major part of your practice, it could be preferable to become an authorised representative of an AFS licence holder.

Authorised Representative

'Authorised representative' status may be issued to individuals and other entities (such as partnerships, trusts and companies) provided the person or entity can satisfy the particular AFS licensee requirements, such as education, experience, etc.

As the AFS licensee is ultimately responsible for the advice given by its authorised representatives, AFS licence holders are required to have in place structures, which allow for monitoring, and in many ways controlling, the financial planning related activities of authorised representatives.

While this will be less apparent if you are an authorised representative of an individual who holds an AFS licence or by a small AFS licensee, the responsibility is still there, regardless of size. Larger AFS licensees are obviously much more structured in this area. Rather than being onerous and intrusive, the rules and regulations required for this monitoring can be very supportive in ensuring that your clients receive the best possible advice. The name of your AFS licensee must always be as prominent as your own company name, so that it is quite clear to a client who is the AFS licensee.

AS AN AUTHORISED REPRESENTATIVE OF A LARGE AFS LICENSEE, YOUR REPUTATION IS LINKED WITH THE GOOD ADVICE / GOOD REPUTATION OF ALL AUTHORISED REPRESENTATIVES OF YOUR AFS LICENSEE. COMPLIANCE THEN BECOMES A POSITIVE RATHER THAN A NEGATIVE.

What do AFS licensees' provide?

To run a financial planning practice requires provision of, or access to the following:

Systems & Procedures

- Procedures manual setting standards for administration, handling of cheques, files, etc.
- Pro forma documents, e.g. Advisory Services Guide, client profile forms, various standard forms, letterhead, business cards, etc.

Compliance

- Compliance manual (the Procedures manual above is often part of this) setting out standards for advice, restrictions relating to advice or products recommended, etc. Specific initial and ongoing training requirements.
- Monitoring or spot-checking of advice given either pre- or post-presentation to clients.
- Monitoring of compliance with ASIC requirements and AFS licence requirements.

Training

- Initial training: some AFS licensees provide their own initial training courses and there are courses available from a number of private providers, including tertiary institutions. The Institute of Chartered Accountants (ICAA) recommends training through its strategic alliance partner, the Securities Institute of Australia (SIA). Details of courses currently available can be obtained directly from the ICAA or other providers.
- Ongoing training: the current industry standard is 20 hours per annum of formal ongoing training plus 10 hours of 'informal' training (including reading). The ICAA provides on-going training in financial planning and conducts a financial planning conference each year. Formal training is also provided by AFS licensees in the form of regular professional development days and conferences. Many fund managers and industry bodies provide sessions, courses and conferences, which qualify as formal training.

Research

- Recommended list: key requirement is for advisers to have a detailed knowledge of the products they recommend. Therefore, AFS licensees restrict their advisers to using products on a recommended list of products (such as managed funds and direct shares), which they have thoroughly researched.
- Direct share research: from the AFS licensee, directly from a stockbroker or an industry provider such as Van Eyk Research, Morningstar, Assirt or IWL.
- Other product research: from the AFS licensee, or more commonly, an industry provider.

Technical Support & Strategy

- Manuals: technical manuals and updates with legislative changes.
- Strategy: application of legislation to financial plans.
- Support: due to the complexity of many of the technical issues and the constant changes in legislation, AFS licensees generally provide access to a technical 'hot-line' for their advisers.

Software

- Software is available to enable you to manage your client database, plan strategies for your clients and review and value portfolios once investments are in place. Understandably, there is considerable development going on in this area. AFS licensees, for compliance reasons, generally prescribe (and supply) a particular provider of software for their advisers.
- Providers of software include: IWL, Assirt and FPI. If you are not tied to a particular provider through an AFS licensee, it is a matter of reviewing the various systems available in light of the level of sophistication you require, taking into account links between the software and any master trust/wrap account you wish to use.

Master Funds & Wrap Accounts

- Many AFS licensees provide access to master funds and or wrap accounts either in-house or from industry providers. Both master funds and wrap accounts offer consolidated reporting, providing the adviser with ease of management. The cost/benefit to the client needs to be compared when you are deciding which, if any, of these facilities to utilise. You should be aware that use of an in-house facility may 'tie' the adviser to an AFS licensee.

Paraplanners

- Some AFS licensees offer/require the use of centrally located paraplanners to prepare plans for their advisers. There are also independent groups offering only this service.

Marketing, Advertising & Business Development

- Various degrees of marketing/advertising are offered by AFS licensees. This may take the form of advertisements in newspapers or journals, assistance with seminars, provision of newsletters, etc. Fund managers also offer assistance directly with advertising, client seminars etc. for their 'better' clients. AFS licensees often have business development managers to assist in the early stages of building your financial planning practice.

Fees

- It is an ASIC requirement that all clients are provided with a fee schedule as part of the Advisory Services Guide. Remuneration can be by way of fees (hourly, percentage or flat), commissions paid by fund managers, or a combination of both. This applies to initial as well as ongoing remuneration. AFS licensees set guidelines for their advisers, usually a maximum, allowing flexibility to that level to cater for the diverse needs of individual advisers.

Conferences

- Most AFS licensees hold annual conferences, which provide advisers with valuable opportunities to learn from their peers as well as keep their technical/strategy/product knowledge up to date. The ICAA also conducts a financial planning conference each year.

Professional Indemnity (PI) Insurance

- An AFS licensee will require you to have Professional Indemnity Insurance, which covers financial planning advice, and may assist with arranging the cover.

Complaints Resolution Scheme

- It is a legal requirement for AFS licensees and advisers to belong to an approved Complaints Resolution Scheme such as the Financial Industry Complaints Service.

How to choose an Australian Financial Services licensee

An AFS licensee will be able to provide you with information about their structure, services, costs and requirements. Issues to consider when comparing various alternatives include:

Advice

- What are the restrictions of my agreement?
- Can I advise on Self Managed Superannuation Funds?
- How wide is the approved investment list?
- What technical support is offered?
- Do I have to use a preferred platform?
- Where does the dealer draw the line between financial planning and tax?

Structures

- What is the structure of the AFS licensee arrangement with authorised representatives? Franchise arrangement? Independent agency agreement? How does this fit in with your own structure?

Support

- Obviously this will be difficult to assess beforehand, but try to review the various areas outlined above – procedures, compliance, training, research, technical, strategy, software, master funds/wrap accounts, paraplanners and marketing in view of your needs and what the AFS licensee will provide.

Costs

Generally a fixed annual fee is charged by your AFS licensee together with a percentage of business generated. Several groups are now moving to a fixed annual fee arrangement. You should consider:

- Are there annual/monthly fees?
- Do I contribute to PI costs?
- Do I have to pay for training?
- What is the fee split?
- Is there a fee generation minimum?
- Does the organisation allow a fee for service?

Exit Strategy

- What are the AFS licensee's terms/conditions if you wish to leave? Are their documented procedures relating to transfer of clients? What happens to client files on termination with the AFS licensee? If you use an in-house master fund, can you still be remunerated for those clients if you join another AFS licensee or apply for your own AFS licence? Can you put in new clients?

“Fit”

- Are you comfortable with the ethics of the AFS licensee? How well do their ideals fit with yours? Are you comfortable with the ultimate ownership of the AFS licensee? Are the AFS licensee requirements comparable with your intentions, e.g. charging fees/commissions, provision of advice in prescribed format? The ASIC Business Centre in each state can provide a current list of AFS licensees (a fee applies) or call the ICAA for initial assistance.

Training requirements (annual CPE)

- Do my accounting hours count towards CPE?
- Where is training held?
- How often is training offered?

Next steps

1. Determine whether or not your practice could be a suitable basis for a financial planning practice.
2. If so, decide whether you or someone within your practice is eligible to apply for an AFS licence or whether you wish to become an authorised representative.
3. Apply for an AFS licence or contact an AFS licensee for information about becoming an authorised representative.
4. Complete any additional training required prior to beginning to give financial planning advice.

Refer to the FSR: Accounting Industry Guide on the ICAA website at www.icaa.org.au/fsra.

For ASIC Policy Statements and FAQs refer to the ASIC website at www.asic.gov.au

For further information

Please contact the ICAA Financial Planning chapter on:

Ph: 02 9290 5526
Fax: 02 9290 3923
Email: business_practice@icaa.org.au
Web: www.icaa.org.au/finplanchapter
Level 14, 37 York Street
Sydney NSW 2000
Australia

This is a publication of the Institute of Chartered Accountants in Australia (ICAA) for use by its members. While all care has been taken in preparing accurate information the ICAA cannot be held responsible for actions and or decisions based on information contained within the publication.

While the brochure directs attention and comments upon aspects of the law it is not intended to provide legal advice. Equally the publication is not intended to give accounting or other professional advice.

Copyright is preserved and it may not be reproduced in whole or part without permission from the ICAA. Any mention of products or commercial entities does not constitute an endorsement by the ICAA. Incorporated in Australia Members' Liability Limited.

National Office

The Institute of Chartered Accountants
37 York Street
Sydney NSW 2000
GPO Box 3921, Sydney NSW 2001
Ph: 02 9290 1344 or 1300 137 322
Fax: 02 9262 1512
Email: support@icaa.org.au

ACT

National Surveyors House
27 - 29 Napier Close, Deakin ACT 2600
Ph: 1300 137 322
Fax: 02 6282 9800
Email: support@icaa.org.au

Queensland

Level 1, 200 Mary Street
Brisbane QLD 4000
Ph: 07 3221 5644
Fax: 07 3221 0856
Email: ca_qld@icaa.org.au

South Australia & Northern Territory

Level 11, 1 King William Street
Adelaide SA 5000
Ph: 1800 645 947
Fax: 08 8231 1982
Email: ca_sa@icaa.org.au

Victoria

Level 10, 600 Bourke Street
Melbourne, VIC 3001
GPO Box 1742Q, Melbourne VIC 3001
Ph: 03 9602 5844
Fax: 03 9670 3143
Email: ca_vic@icaa.org.au

Tasmania

Tasmanian Chamber of Commerce & Industry
30 Burnett Street
North Hobart TAS 7000
Ph: 1800 014 555
Fax: 03 9670 3143
Email: ca_vic@icaa.org.au

Western Australia

Ground Floor BGC Centre
28 The Esplanade
Perth WA 6000
PO Box Z5385, St Georges Terrace
Perth WA 6831
Ph: 08 9420 0400
Fax: 08 9321 5141
Email: ca_wa@icaa.org.au

The Institute of Chartered Accountants in Australia.
ABN 50 084 642 571



**Chartered
Accountants**