



Parliamentary Joint Committee on Corporations and Financial Services

Inquiry into the wholesale investor and wholesale client tests: 3 October 2024

Opening statement: Judith Fox, CEO, Stockbrokers and Investment Advisers Association

Thank you for the invitation to appear today.

Our members include full-service and online brokers as well as execution-only participants and advisory firms that provide wealth advice and portfolio management services. Our members have both retail and wholesale clients.

We provided a comprehensive submission to this inquiry which set out our reasons for why we do not consider changes need to be made to the current test thresholds.

While there may be stakeholders arguing for changes to the wholesale investor thresholds, the cohort that would be most impacted — wholesale investors — have not been asked if they would be happy to lose their wholesale classification. No change should be made without consultation with wholesale investors to understand the impact on them and their investments.

While the wholesale thresholds have not changed for some time, a lot has happened over that time as well – Australians are wealthier and have higher levels of financial knowledge. We hear arguments that the test applied to two per cent of the population when it was introduced and now 16% meet the criteria and therefore the tests now apply to too many Australians. The current net worth of Australian households is 380% higher than in 1989, despite the adult population, at 12.25 million, only being 70.5% higher. It is appropriate that the test apply to more Australians.

Furthermore, the DDO regime has been a game changer in the regulation of financial products, with the obligation that each product must have a Target Market Determination that is fit for purpose. ASIC has been very active in surveillance and enforcement.

Any change to the thresholds that move investors from the wholesale to the retail category could result in a very poor outcome for those clients. The current regulatory framework makes it hard and expensive for retail clients to receive financial advice and there are too few financial advisers to provide financial advice to all who need it. Indeed, many retail clients have been orphaned over the past few years, given the lack of financial advisers.

Therefore, clients who are re-categorised from wholesale to retail will find it very challenging to find a retail client adviser who can give them the advice they want. They would also become orphaned clients, vulnerable to social media as their source of advice. Since we provided our submission to this Committee the number of Financial Advisers in

Australia who are authorised to provide personal advice to retail clients has dropped from 15,597 to **15,511**. In 2018 there were 28,353.

We are currently in the middle of the Delivering Better Financial Outcomes package of reforms that seeks to reduce red tape to make it easier and cheaper for more consumers to receive advice. However, we don't yet know if these reforms will have that result. We are also involved in discussions with Treasury about introducing greater flexibility in the education standard that will increase the number of new entrants to the financial advice profession, as currently it is so prescriptive and narrow that only 381 new financial advisers commenced in 2023.

Until we have fixed the process of providing advice to retail clients and created a pathway for more new entrants to the profession, making a fundamental change to the wholesale client tests that may result in wholesale clients being re-categorised as retail will have a substantial impact on them. As the Minister for Financial Services has noted many times, there over five million Australians at or approaching retirement age. There has never been a time when access to financial advice is important to so many Australians and it is so difficult to obtain. A change to the wholesale investor test would compound this difficulty.

We have also provided details in our submission about the impact that any change in the wholesale client threshold would have on capital raising, as it would shrink the pool of investors able to participate in offerings, both listed and unlisted. Any change to the wholesale client thresholds would particularly impact smaller entities listing on the ASX and the ability of early-stage start-ups to attract capital through private equity, venture capital and angel investors. Limiting the capacity of Australian businesses to access capital has a concomitant impact on the Australian economy.

We are happy to take your questions.