By email: FAstandards@treasury.gov

27 January 2022

Attention Anna Schneider Rumble

Assistant Secretary
Advice and Investment Branch
The Treasury
Langton Cresent
PARKES ACT 2600

Dear Ms Schneider Rumble

EDUCATION STANDARDS FOR FINANCIAL ADVISERS

The Stockbrokers and Financial Advisers Association (SAFAA) is the professional body for the stockbroking and investment advice industry. Our members are Market Participants and Advisory firms that provide securities and investment advice, execution services and equity capital-raising for Australian investors, both retail and wholesale, and for businesses. Practitioner Members are suitably qualified professionals who are employed in the securities and derivatives industry.

Thank you for the opportunity to provide feedback on the proposed amendments to the education standards for Financial Advisers (the Proposals).

Executive summary

- SAFAA supports both the experience pathway and qualifications pathway proposals. They restore common sense to education standards to the benefit of Australians needing sound financial and investment advice. They meet the objective of streamlining the education standard and appropriately recognise on-the-job experience while ensuring there is a base level of knowledge across the financial advice industry.
- There is recognition by both the Government and Opposition that the current state of the financial advice industry is not sustainable. We are losing more advisers than gaining new entrants. Retaining our experienced advisers is key to fulfilling the desire of the financial advice industry to provide affordable and accessible advice to more. The narrow scope of current approved degrees means the pipeline of new entrants is not functioning.
- The experience pathway proposal does not 'roll back' or 'lower' education standards. It restores Parliament's intent, which clearly stated that deep experience and prior learning should be recognised.
- It is important to note that the experience pathway is only available to a cohort of existing advisers. All new advisers and those with less experience will have to satisfy the qualification pathway. The group of

advisers qualifying under the experience pathway is a defined group, whose numbers will diminish with the passing of time.

- The qualification pathway provides for a pipeline of new entrants, as the degrees best suited to different financial advice services will be recognised.
- The qualification pathway ensures that the pool of human capital available to provide different financial advice services as required by consumers is not limited to only those who have completed a financial planning degree — currently the only available education pathway under FASEA. This is essential, given that a financial planning degree is not relevant to a number of financial advice services.
- The proposed changes to the current education standards are required to create a sustainable financial advice industry, so that Australians can access advice.
- The proposed changes also ensure that clients are not left orphaned as experienced advisers exit the industry due to lack of recognition of their decades of experience and unblemished records.
- SAFAA does not support a change to the Professional Year standard that would require additional formal study. This proposal overlooks the fact that Professional Year candidates will already have a degree and will be required to pass the national exam.
- The FASEA one-size-fits-all educational standards:
  - failed to recognise that stockbroking has been a profession for many years and also failed to recognise our members' experience and prior learning
  - treated all financial advisers as financial planners, notwithstanding the differences between the financial planning advice model, where advice is provided on all aspects of a client's financial circumstances, and stockbrokers and investment advisers who provide scaled advice on a client's investment and shares. They are different forms of advice serving different client needs.
- The list of degrees approved by FASEA were not degrees suitable for a career in stockbroking and investment advice. SAFAA members with degrees in commerce, economics, finance and business – the degrees most suitable – are currently required to undertake unrelated financial planning diplomas in order to continue to provide investment advice.
- The FASEA education standards are deterring top graduate talent from entering the stockbroking and investment advice profession. The loss of experienced advisers due to the FASEA educational requirements is a top risk on our members' risk registers.A reduction in adviser numbers is impacting the accessibility and affordability of financial advice to ordinary Australians.
- We understand that many advisers have already undertaken the additional study required by FASEA and could well feel that the significant time and effort they expended has been devalued. This is not the case. Relevant education is always valuable and both the adviser and their clients are the beneficiaries.
- We also understand that many in financial planning are keen to retain the education standards, due to concern that changes will derail recognition of financial planning as a profession. However, as the proposed changes continue to support all new entrants to financial advice having a degree, the professionalisation of financial planning will not be derailed.
- The financial advice industry is an ecosystem and financial planners are only one part of that ecosystem. Stockbroking has been a profession for centuries, while the FASEA education standards that were tailored to financial planning and the lack of recognition of experience have had a damaging impact on the stockbroking and investment advice sector.

- Associations such as SAFAA, licensees and the professional community of which SAFAA's members are an important part play a vital role in reinforcing the value of qualifications and education above government-mandated levels across the industry. SAFAA has played this role for some time.
- These changes need to be implemented on an urgent basis to provide our members with certainty about their future.

Introduction

Stockbroking has been in existence since the coffee houses of London and Amsterdam. Those providing investment advice are not 'salespeople', but professionals with a history that goes back centuries. The profession has made an incredible contribution to Australia's economic strength, not only in terms of personal wealth creation, but also in all-important equity formation for Australian companies, ranging from CSL, BHP and CBA down to the smallest and smartest technology and science successes.

SAFAA supports professional and educational qualifications, but we have long advocated that they should accommodate consumer preferences for specialist advice for different needs. This was not the FASEA approach, which was 'one-size-fits-all'.

We understand that many advisers have already undertaken the additional study required by FASEA and could well feel that the significant time and effort they expended has been devalued. This is not the case. Relevant education is always valuable and both the adviser and their clients are the beneficiaries.

The challenge that the FASEA approach poses for the financial advice ecosystem is two-fold. The current education standards are so narrow that new entrants are not being attracted to the role, while experienced advisers are exiting due to not having their experience and prior learning recognised. This means the financial advice exosystem is unsustainable and fewer Australians can access financial advice.

The challenge that the FASEA approach poses for the stockbroking and investment advice sector in particular demonstrates these negative impacts. First, there are many existing advisers with degrees and qualifications that FASEA did not approve. Second, there are many cases of individuals with commerce, business, finance and economics degrees wanting to join the industry, but who have decided not to proceed due to the requirement to complete an unrelated second degree or graduate diploma in financial planning. Educational standards are required that attract new talent to our profession, whereas the current framework is actively turning them away. It is vital that we create a pathway for new stockbrokers and investment advisers to ensure the sector has a sustainable future.

SAFAA has welcomed the Proposals that restore the Parliament's intent, which clearly stated that a degree or degree equivalent was required. It was FASEA — a bureaucracy that was averse to stakeholder engagement — that narrowed the scope of recognised qualifications. It deemed a range of advisers with degrees best suited to stockbroking and investment advice as unqualified. Working in markets is different from being a financial planner, which means FASEA's educational focus on financial planning degrees excludes much-needed expertise. The proposed changes to the qualification pathway are sensible and will enable many more advisers to have their existing degrees and qualifications recognised as a primary qualification and opens the pathway for new entrants to the profession.

SAFAA also welcomes the acknowledgement that a degree should have standing, irrespective of when it was acquired. It would be inconceivable to propose that High Court judges were unqualified because their degrees date from the 1980s, yet FASEA made such a determination in relation to degrees relevant to the stockbroking and investment profession.

We further welcome recognition of experience and prior learning as the equivalent of a degree for existing advisers. Again, it was FASEA that deemed skills, knowledge and experience unsuitable for recognition and would not recognise years of CPD as prior learning. This was not the intent of Parliament. We support the proposal in the consultation paper that experience and prior learning are the equivalent of a degree. We note that this is a transition issue, given that all new entrants to the industry will have a degree.

A significant number of experienced advisers who have never had a complaint lodged against them, and with longstanding, happy clients, had made a choice to retire by the end of 2026 when faced with the prospect of years of tertiary study — study, moreover, that was focused on financial planning, which is not the financial advice service our members provide.

Those advisers have been deeply dispirited by the refusal of the standards authority to approve their significant education qualifications that were eminently suited to a profession in investment advice or recognise their professional experience and years of continuing professional development. The Proposals now provide those members with hope that they can continue in their chosen careers, provide for their families and also continue to take pride in their years of experience, knowing it is being recognised and valued.

Importantly, the Proposals ensure that we retain not only our experienced advisers and create a pipeline for attracting new entrants, but also ensure that clients are not left orphaned as experienced advisers exit the industry due to lack of recognition of their decades of experience and unblemished records. This is of particular importance in regional areas, where many experienced advisers will be relieved to think that their clients can retain their local adviser rather than either being left without one or having to source one in a capital city some distance from them.

We have the following specific feedback in support of the Proposals.

Detailed comments: Section 1

In this section, we set out the deleterious impact that the current (FASEA) standards have had on the stockbroking and investment advice industry. This background is vital to understanding our support for the changes to the education standards proposed in the consultation paper.

Background

The impact of the current educational standards on stockbrokers and investment advisers

The failure to approve and recognise appropriate degrees

FASEA's lack of understanding about what stockbrokers and investment advisers do and importantly, how that differs from financial planning, has led to a 'one-size-fits-all' approach to financial advice that ultimately disenfranchises retail investors. FASEA has treated all financial advisers as financial planners, notwithstanding the differences between the financial planning advice model where advice is provided on all aspects of a client's financial circumstances and stockbrokers and investment advisers who provide scaled advice on a client's investments and shares. They are different forms of advice serving different client needs.

SAFAA strongly supports professional and educational standards. Our members are highly educated and highly qualified, but FASEA has only approved degrees in financial planning or with financial planning majors (with the exceptions being a wealth management bachelor degree and a Masters in Commerce from UNSW). This is in spite of the Corporations Act not requiring financial planning qualifications to be the only approved courses for financial advisers. The legislation requires a 'degree equivalent'. The FASEA board narrowed the scope of the approved qualification, which means that SAFAA members with degrees in commerce, economics, finance and business from top tier universities — the degrees most suitable for a career in stockbroking and investment advice — are currently required to undertake unrelated financial planning diplomas in order to continue to provide investment advice.

FASEA's board, that included financial planning academics who had compiled the curriculum for the Financial Planning Association (FPA) and sat on its education council, simply adopted the FPA curriculum for FASEA, thus excluding education qualifications suitable to all other financial advisers who are not financial planners. The issuers of the degrees approved by FASEA did not have to apply to FASEA for their courses to be approved. With FASEA viewing all degrees through the narrow lens of financial planning, its process of approving degrees was deeply flawed from the beginning as it was skewed towards only one form of financial advice. FASEA rigidly applied this template to compile lists of degrees that fitted a financial-planning-centric approach.

Degrees in economics, finance, commerce and business from all Australian universities, but particularly those from universitites rated in the global top 100 – qualifications which until now have been considered most suitable to a profession in investing – were never approved by FASEA. They were only considered to be 'relevant' degrees, the individual units of which count towards a FASEA-approved degree. FASEA refused to approve degrees other than those in financial planning and stated that the universities must apply to FASEA for their degree to be considered as an approved course, despite the fact that the universities with degrees included in the FPA curriculum did not need to apply for approval. Our members have informed us that some of their advisers approached established universities and asked for their economics and business degrees to become FASEA-approved. The universities concerned advised that they would not go through the FASEA-accreditation process. Given that university degrees are accredited by the national education regulator, the Tertiary Education Quality and Standards Agency (TEQSA), which has a depth of experience and knowledge far outstripping anything that FASEA could offer, this highlights that universities themselves doubted the FASEA-approval process and considered they should not have to apply for further approval of their courses.

FASEA's impoverished understanding of the applicability of degrees is illustrated by the fact that universities confirm for potential students that degrees in commerce, finance, economics and business are suitable for those interested in a career in stockbroking and investment advice. This is because these degrees ensure that stockbrokers and investment advisers can:

- regularly monitor company balance sheets
- undertake sector analyses
- understand the growth and value opportunities of entities listed on the Australian and global exchanges, and
- consider micro and macro factors domestically and globally that may influence equity investment decisions.

These degrees prepare graduates to provide advice on buy/sell/hold in relation to investments in listed entities. These are not activities undertaken by financial planners and constitute a fundamentally different expertise than that required to give taxation or superannuation advice that is central to financial planning. The reason that universities promote degrees in commerce, finance, economics and business as suitable for a career in stockbroking or investment advice is because their courses have been approved by TESQA, which understands which courses are suitable to which professions. The fact that FASEA did not understand the applicability of these degrees to stockbroking and investment advice confirms its lack of understanding of the financial advice ecosystem and its bias to financial planning.

As further illustration of how universities understand which education courses are suitable for which professions we provide the URL of the home page of the Bachelor of Commerce at The University of Western Australia (UWA): https://www.uwa.edu.au/study/courses/bachelor-of-commerce. What is noticeable is that the home page has an image of a trading room. *Financial planners do not work in trading rooms*, but stockbrokers and investment advisers do. This image on the UWA site is not gratuitous. Students from UWA's Business School have access to a state-of-the-art trading and analysis centre at The Rosemarie Nathanson Financial Markets Trading Room. UWA provides a match of education qualification with the profession, and the majority of new entrants to stockbroking and investment advice firms in Perth have traditionally had a UWA qualification. However, FASEA did not approve this course.

One of the perverse outcomes of the decision by the FASEA board not to approve degrees in economics, finance, commerce and business from all Australian universities is that an individual holding a Bachelor of Commerce from UWA is considered less qualified to provide stockbroking or investment advice than one with a Bachelor of Property (majoring in financial planning) from Central Queensland University. The individual in this example who completed the Central Queensland University course need only complete the Ethics unit of study to become FASEA-qualified. Those with 'relevant' degrees in other subjects from other universities (such as a Bachelor of Commerce) must at a minimum do three additional subjects (plus ethics) as they receive only four credits under the existing system, when all 'approved' financial planning degrees receive seven credits.

We have case studies of advisers from a range of different firms who have significant undergraduate and postgraduate education qualifications in commerce, economics, finance and business from Australia's most established universities who are currently required to undertake a minimum of three additional units of study (plus ethics) because their qualifications do not appear on the list of FASEA-approved degrees.

Of course, another perverse issue that arises from this approach is that, because most degrees in financial planning have been introduced only recently, FASEA's list of 'approved' degrees only contained relatively new courses. For example, as a result of its recent consultation on amendments to the education legislative instrument to update the course list, FASEA added all bachelor degrees from the University of NSW that include specified subjects **as long as they were undertaken after 1 January 2019**. We pointed out to FASEA at that time that a degree undertaken after 1 January 2019 is unlikely to be a helpful addition to the list for a stockbroker or investment adviser who has been working in the industry for 30 years and has a bachelor of commerce from the same university awarded in the 1980s. Again, FASEA refused to take this into account.

This approach of micromanaging degrees and creating long lists of degrees in legislative instruments has created complexity, confusion and frustration for advisers trying to work out if their degrees are 'approved' degrees or merely 'relevant' degrees. The current system essentially uses a 'black box' approach.

What is most concerning to us is that top graduate talent is being deterred from entering the stockbroking and investment advice profession. The lack of current Professional Year provisional advisers in the stockbroking and investment advice sector clearly demonstrates this. In a 2021 survey of SAFAA members, we found nine Professional Year candidates in the stockbroking and investment industry and only 20 are expected to enter in 2022 (with one firm bringing on the majority of candidates). Our industry has traditionally attracted the brightest and the best, but a graduate with a finance, economics, commerce or business degree will currently have to complete eight units of a financial planning graduate diploma before they can start the Professional Year. FASEA's approach does not take into account the significant and increasing costs involved in undertaking university study. A graduate with a bachelor degree majoring in finance subjects has already incurred a significant HECS debt. To require that individual to undertake additional study that is unrelated to the profession they wish to join is unreasonable and unnecessary.

The failure to approve degrees appropriate to the stockbroking and investment advice industry also acts as a disincentive for members of the financial services industry who have worked overseas in the head offices of some of the world's largest financial services firms to return and take up advice roles in Australia. Their expertise cannot be utilised in the provision of personal advice to retail clients, because they would have to 'start from scratch' and undertake an eight-unit diploma in financial planning and then commence a professional year, as if they were new entrants with no experience. While the Professional Year will of course apply to all new entrants, the fact that their degrees will not be recognised as appropriate to working in markets means that retail investors therefore miss out on opportunities to engage with advisers with global experience. This hurdle applies as well to institutional, back and middle office staff – traditionally a valuable pipeline for stockbroking and investment advice firms to fill financial adviser roles.

Anonymised case studies attached as **Appendix A** provide evidence of why there are so few candidates in our industry for the Professional Year. Graduates are voting with their feet.

This shrinking pool of available advisers impacts on the availability and affordability of advice in investment in equity markets and takes place at the same time as retiring baby boomers come into their superannuation and a $1.5 trillion of wealth is transferred between generations. This will result in detriment to retail investors, who will increasingly be left with the choice of either DIY trading online with no advice or advice from a financial planner who has minimal direct expertise in listed investments and markets. It is a common misapprehension that financial planners are investment experts. They are not. They outsource investment decisions to stockbrokers (particularly for SMSFs) and managed funds. We provide further information on how the term 'financial adviser' obscures different financial advice services in **Appendix B**. This is why it is vital that the education framework reflect the skills relevant to specific financial advice services.

This also has implications for how ordinary investors can participate in capital markets. The new generation of investors who have entered the listed equity market without advice have experienced only a bull market and have not yet had to weather a downturn. While we are currently in a bull market, at some point there will be a market correction and access to experienced investment advice will be vital in ensuring Australian retail investors make good decisions. This was proved during market volatility in March 2020, when advised retail investors were steered through the turmoil and emerged in good shape. The 2021 Russell Investment annual *Value of an Adviser* report released in August 2021 showed that in the previous 12 months advised clients benefited with a 5.2 per cent boost to their portfolio.

The legislation does not require financial advisers to complete a financial planning degree or graduate diploma. The education standards contained in section 921B of the Corporations Act require advisers to complete a bachelor or higher degree or equivalent qualification approved by the standards body. It is our view that the standards body (FASEA) should have relied on the accreditation process TEQSA has in place rather than seeking to abrogate the national education regulator's role in approving degrees. We agree wholeheartedly with the consultation paper's statement that 'The Government will not accredit individual degrees or subjects to ensure they meet the requirements to be an approved degree. Higher education providers offering bachelor's degrees or higher qualifications are responsible for ensuring their courses meet the relevant requirements.'

It is not the will of Parliament as set out in the Corporations Act provisions, but the manner in which those provisions have been implemented by FASEA, that has caused enormous problems and discriminated against stockbrokers and investment advisers and, in turn, discriminated against retail investors' access to investment advice. A body averse to stakeholder engagement with a narrow focus on and knowledge of financial planning subverted the will of Parliament and a deleterious impact on access to and affordability of financial advice has been the result.

For the reasons set out above, SAFAA supports the primary qualification pathway set out in the Proposals.

The failure to recognise previous experience and CPD

SAFAA has continually argued that just because an adviser has not completed a university degree does not mean they are not a professional. This is an argument regarding experience that FASEA has ignored.

Stockbroking has been in existence for centuries. In its public statements about professionalism FASEA has refused to acknowledge our members' profession. It is difficult to imagine another scenario where a body set up to implement professional standards refuses to recognise an existing profession. We note that financial planning has been in existence for some decades only. While we understand the desire of FASEA to embed professional standards in this recent form of financial advice, there is no excuse for its refusal to recognise a centuries-old profession and to conflate it with a different advice service.

The references by FASEA to advisers being 'salespeople' with a few hours of RG146 training as a rationale for why experience should not equate to a degree reveals a profound ignorance of the stockbroking and investment advice sector. Stockbroking is highly regulated, governed by the ASIC Market Integrity Rules and the operating rules of the various market operators such as ASX, Chi-X, NSX and SSX as well as the Corporations Act. The Market Integrity Rules cover the operation of Market Participants and their representatives, client relationships, trading and capital requirements. Stockbrokers also have exceptionally high capital adequacy requirements. ASIC has a dedicated Market Supervisory Division. The requirement to keep abreast of regulatory and compliance matters, as well as to behave ethically, has been a constant for those in the stockbroking profession for a very long time. Experience means that the adviser has decades of continuing professional development (CPD) under their belt. To say that this counts for nothing shows a lack of understanding of the importance of CPD in maintaining professional standards.

Moreover, experienced stockbrokers and investment advisers have also negotiated a number of market corrections (for example, the crash of 1987; the Asian financial crisis of 1997; the global financial crisis of 2008). A degree does not and cannot provide this deep experience. Experienced stockbrokers and investment advisers have been through cycles of market volatility and will be the steady hand to make sure their clients do not make the sorts of emotional choices that can lead to bad investment outcomes when markets correct. They will be the mentors of the next generation of stockbrokers and investment advisers who have not yet experienced market downturns. Indeed, the impact of COVID-19 in 2020 resulted in extraordinary market volatility, through which experienced stockbrokers and investment advisers steered their clients safely, proving their competence and ethics as advisers. To conflate this level of experience with being a 'salesperson' is a particularly blinkered view of the world.

We understand that financial planners need to have undertaken education on superannuationand taxation law, which is highly specialised and often subject to statutory change. Stockbrokers and investment advisers, however, are looking at maximising client returns over the long term – only experience can give you that perspective. Their interest is in understanding balance sheets of companies, micro and macro impacts on companies and sectors and growth and value opportunities for companies and sectors. The loss of experienced stockbrokers and investment advisers ultimately impacts retail investors should that experience not be recognised.

FASEA's failure to recognise previous experience and CPD is inconsistent with the 2017 Professional Standards Bill explanatory memorandum requiring the FASEA education standard to address: *"For the avoidance of doubt, the new law explicitly states that courses undertaken before the new law commences must be taken into consideration. The body may take into account diploma or degree courses, licensee training courses or CPD."*

The current standard does not recognise the value of the training courses and CPD that stockbrokers and investment advisers have been undertaking for decades. Financial advisers are required to undertake 40 hours of CPD per year. By way of comparison, lawyers in NSW are required to undertake 10 hours of Continuing Legal Education per year. SAFAA's members are legally required to ensure their advisers are adequately trained and undertake CPD and many provide their own in-house training and CPD, with specialist staff employed to manage this. SAFAA also provides a high standard of CPD through webinars and events, as well as accredited education courses. By way of example, in 2021 SAFAA provided CPD webinars on the following topics of regulatory compliance and consumer protection:

- AFCA Update (presented by Shail Singh, Senior Ombudsman, Investments and Advice, AFCA)
- Anti-hawking provisions and and breach reporting (presented by Michelle Levy and Simun Soljo, Partners, Allens)
- Breach reporting (presented by John Weaver, Partner, Deloitte)
- Cyber-security: managing threats and risks (presented by Shane Bell, Partner, McGrath Nicol)
- DDO regime (two sessions presented by Corey McHattan, Partner, Ashurst)
- Electronic execution of documents (presented by Paul Derham, Managing Partner, Holley Nethercote)
- General compliance matters including breach reporting and annual fee disclosure (presented by Michelle Levy, Partner, Allens).
- General vs personal advice and the Wespac Bank decision (presented by Paul Derham, Managing Partner, Holley Nethercote)
- Single Disciplinary Body (presented by SAFAA's CEO and Policy Manager)

SAFAA's CPD sessions on regulatory compliance and consumer protection are well attended by SAFAA's members. SAFAA also provided an additional 17 hours of CPD on technical competence, client care and practice, and professionalism and ethics during the 2021 calendar year.

And of course, in order to continue as an adviser from 1 October 2022, an adviser will have to successfully complete the mandatory thee-hour FASEA exam on the application and understanding of the Code of Ethics and the Corporations Act. We have received feedback from members who needed to undertake 80—100 hours of extensive study in order to pass the exam.

SAFAA members report that the loss of experienced advisers due to the FASEA educational requirements is a top risk on their risk registers. The fall in the number of advisers on the Financial Advice Register support this concern. As of 3 December 2021, the net loss of advisers on the Financial Adviser Register for the 2021 year had surpassed 2,000 with the number of advisers at 18,574. In comparison, in 2018 there were 28, 353 Financial Advisers. This is a loss of nearly 10,000 advisers over a period of just three years. While reports have shown further drops of adviser numbers on the FAR as of January 2022, there is recognition that the FAR numbers have not been fully updated and so the actual numbers of remaining advisers on the FAR is not known at this point in time.

Stockbrokers and investment advisers who have been providing advice for many decades, with longstanding clients who are deeply satisfied with the advice they receive, find it incomprehensible that they should have to undertake educational qualifications in financial planning in order to retain their livelihood. Despite the fact that the impact of COVID-19 has resulted in extraordinary market volatility, through which experienced stockbrokers and investment advisers steered their clients safely, FASEA treated their experience with disdain. Highly experienced advisers leaving the industry as well as those who remain but do not satisfy the FASEA requirements will be unable to supervise the next generation of advisers. This would be a huge loss to the industry as those people, who would normally act as senior mentors, would effectively be unable to supervise the next generation of advisers. The task of mentoring would fall to a smaller pool of advisers. Mentoring requires the mentor to take time out from providing advice, thus placing more pressure on advice costs and availability.

These adviser losses are not sustainable for the profession.

The reduction in adviser numbers coupled with an increased regulatory burden is also impacting the accessibility and affordability of advice with many ordinary Australians unable to access advice at all. This is taking place at a point in time when it is acknowledge by government and the community that advice is vital for retail clients as they come into their superannuation. The impact of falling adviser numbers has considerable impact on regional and rural areas, where the loss of a financial adviser in a town means that clients have to travel longer distances to access financial advice. SAFAA's comprehensive submission in response to ASIC's consultation on promoting access to affordable advice where we detail the impact of FASEA educational requirements can be found here.

For the reasons set out above, SAFAA supports the proposal of an experience pathway, whereby existing adviserswho have 10 or more years of full-time experience as a financial adviser in the last 12 years will only need to complete a tertiary level unit on the Code of Ethics in order to continue providing financial advice.

We urge the government to consider the full breadth of the financial advice industry when considering submissions. The financial advice industry is an ecosystem and financial planners are only one part of that ecosystem. Recognition of experience in our sector is key to retaining experience vital to retail investors so that theycontinue to be able to receive advice. If they lose their adviser they have nowhere to go. A further exodus of experience resulting in a cohort of clients losing their adviser is counter-productive.

There is recognition by both the Government and Opposition that the current state of the financial advice industry is not sustainable. We are losing more advisers than gaining new entrants. Retaining our experienced advisers is key to fulfilling the desire of the financial advice industry to provide affordable and accessible advice to more Australians.

Costs to business

It is difficult to calculate the costs to industry caused by FASEA's unreasonable and unrealistic approach to education standards. However, they would be significant. Compliance staff have spent hundreds of hours compiling spreadsheets of their advisers' degrees and qualifications to determine how many units the individual advisers had to complete to satisfy the requirements. Licensees have provided time off for study to advisers, thus rendering them unavailable to work with clients. Licensees have also frequently paid for the costs of the

Ethics unit for their advisers — costs which run into hundreds of thousands of dollars across the sector. While SAFAA and our members support all advisers undertaking the Ethics unit, the prospect of similar costs applying for advisers to sit further units unrelated to their advice service is deeply concerning. As stated above, the costs of undertaking courses are significant and must be borne either by the adviser or the licensee.

Advisers have experienced considerable angst and disbelief at the non-recognition of their experience and many have decided to retire from the industry. Licensees have spent considerable time and effort working with their advisers in relation to their anxiety about having to undertake unrelated study and the impact on their livelihood, with support of the mental health of their advisers an ongoing cost to business.

The Proposals will see significantly reduced costs to business. Advisers with degrees will not be forced to undertake unrelated study (as noted above, licensees frequently pay for the cost of both the education units as well as the cost of an adviser having time out to study). Experienced advisers will be retained, which means client needs can continue to be met, which in turn means back office staff numbers do not need to be reduced.

Detailed comments: Section 2

The impact of the proposals

The proposals restore common sense to education standards to the benefit of Australians needing sound financial and investment advice. The proposals meet the policy objective of streamlining the education standard and appropriately recognises on-the-job experience while ensuring there is a base level of knowledge across the financial advice industry.

Qualification pathway

Introducing the qualification pathway brings the Financial Adviser educational requirements into line with the approach used by the Tax Practitioners Board and other professions. They allow advisers the flexibility of completing eight units out of a list of relevant fields in a single qualification or across multiple qualifications. The proposed pathways acknowledge that while some financial advisers will complete fields of study in financial planning (including financial advice; areas of superannuation; retirement, insurance and estate planning) not all will do so and nor should they be required to as not all advisers are financial planners. Advisers can satisfy the qualifications by completing courses in finance; financial services; investments; stockbroking; wealth management; business law; and economics, for example. This is a break from the previous approach of micromanaging long and complex lists of 'gifted' financial planning degrees and rejecting those that could not be forced into the FASEA-constructed 'straight-jacket'. It recognises that a 'one-size-fits-all' approach to the financial advice industry is neither reasonable nor realistic.

It also accords with the degrees offered by universities that have traditionally been best suited to a career in stockbroking and investment advice.

A spreadsheet is **attached** which compares side-by-side the subjects included in a financial planning degree from Griffith University and the University of NSW against the subjects included in a:

- Bachelor of Commerce (majoring in finance) from the University of Sydney
- Bachelor of Commerce from the University of Western Australia
- Bachelor of Economics from the University of Melbourne
- Bachelor of Business (majoring in finance) from UTS
- Masters of Finance from the University of NSW.

The subjects in the degrees listed are relevant to the activities undertaken by stockbrokers and investment advisers, including specialisations such as derivatives, foreign exchange, alternative asset classes, fixed income securities and financial risk management.

These are not activities undertaken by financial planners. They cover a fundamentally different expertise than that required to give advice on taxation, or superannuation, or estate planning or aged care or how Centrelink payments interact with personal savings, all of which are central to financial planning.

Subjects contained in the two financial planning degrees set out in the spreadsheet such as:

- financial planning
- risk management and insurance
- estate planning
- aged care planning

are appropriate for those specialising in financial planning but are not relevant for stockbrokers and investment advisers, who specialise in providing advice on securities. And the key subjects of trading and dealing in securities markets, or applied portfolio management, financial valuation and finance theory so relevant to stockbroking and investment advice are missing in financial planning degrees.

The qualification pathways set out in the Proposals are flexible, transparent and easy to understand. They do not pick 'winners and losers' – they are not a list of particular degrees from particular universities at particular times. They allow advisers to assess what courses qualify as primary qualifications without having to resort to FASEA's 'black box'. Moreover, they restore Parliament's intent, which was that advisers hold a degree or degree equivalent. It was FASEA that narrowed the scope to financial planning, not Parliament.

The Proposals also uphold the AFSL holder's existing obligation, in authorising an adviser, to carefully assess if the subjects and qualifications undertaken by an adviser provide the appropriate educational background for the individual to provide advice on the products on which he or she is authorised to advise. As such, the pathways are sustainable and will not require constant updating by way of amended Legislative Instruments.

SAFAA is pleased that the government will not be required to accredit individual degrees or subjects to ensure they meet the requirement to be an approved degree and that higher education providers will be responsible for ensuring their courses meet the relevant requirements. This is entirely appropriate and reflects what takes place now across other professions. By way of example we have copied below an extract from the University of Sydney webpage describing the features of its Bachelor of Commerce majoring in finance:

> *This major is essential for anyone who wants to pursue a career in the financial services industry, including banking, broking and investment management. Studying finance is also useful for anyone generally interested in business, and valuable from a personal perspective.*
>
> *You will study a range of units that are designed to integrate a variety of practical applications with essential theory and financial reasoning skills. You will learn about how capital markets work, what you need to know to work in them, and also be exposed to high-level, market-specific knowledge that mixes theory with current relevant practice.*
>
> *By studying at the Business School, you will join a global leader in finance education. In the 2021 QS World University Rankings,* ***our accounting and finance subject areas*** *were ranked in the* ***top 25 in the world.***
>
> *Our Discipline of Finance is a leading research group currently ranked among the top finance groups in the Asia-Pacific region. We work in partnership with the Australian Securities Exchange, the CFA Institute, the Australian Financial Markets Association and several of the largest banking, broking, accounting and funds management businesses in the region.*

It is extraordinary that under the current FASEA regime, a graduate from Sydney University with this qualification is considered unqualified and is required to essentially 'start from scratch' and undertake a graduate diploma in financial planning before they can become a stockbroker or investment adviser.

We welcome the approach that financial advisers undertaking their education will be required to self-assess that they meet the relevant requirements. We note that the Financial Services and Credit Panel (FSCP) will perform an important role in ensuring that correct self-assessment is robustly enforced within the profession. This highlights how important it will be that the FSCP includes representatives from the stockbroking and investment advice industry to ensure that we do not have a repeat of the failure of FASEA to recognise the qualifications that are appropriate for our industry. We are pleased that the government and Treasury recognises the essential role that licensees play in ensuring the subjects and qualifications undertaken by advisers meet the proposed standards. This is a role that they currently undertake, that has been complicated and frustrated by FASEA's inflexible approach. SAFAA member firms have found it challenging to source top graduates due to FASEA's refusal to approve courses best suited to their businesses.

We also welcome recognition by the government that industry associations, such as SAFAA, licensees and the professional community of which SAFAA's members are an important part, should and do play a vital role in reinforcing the value of qualifications and education above government-mandated levels across the industry. This is a role that SAFAA has played for some time.

SAFAA is pleased to see that, under the Proposals, new entrants will be able to seek recognition of prior learning in a related field of study as part of completing their bachelor's degree or higher qualification. We agree that higher education providers have established processes to assess and recognise prior learning and the government should not duplicate this function. In the meantime, we welcome the ability of existing advisers who do not qualify for the experience pathway to subsititute two units with the completion of a course or program listed in FASEA's approved recognition of prior learning list. This provides certainty for existing advisers and will allow those who have completed SAFAA's professional diploma in stockbroking to apply this qualification towards two of their eight units.

It is important to understand that new entrants do not go into an advisory role straight out of university. Graduates take up roles in the back office, in research and proceed to take up roles as desk or dealer assistants. They work their way up to an advice role as they gain a thorough understanding of markets, companies and sectors, so that they have the competence to provide investment advice. They also have to complete the Professional Year.

SAFAA supports the primary qualifications pathway set out in the Proposals.

Experience pathway

The experience pathway is good policy, as it recognises that neither experienced stockbrokers and investment advisers who have longstanding relationships with clients over decades, an unblemished record and passed the national exam, nor their clients, should be disadvantaged because the adviser does not have a degree. Recognition of experience in our sector is key to retaining experience vital to retail investors so that they continue to be able to receive advice.

Recognition of an adviser's experience of 10 years or more is common sense, as it means that their expertise can continue to be utilised in raising capital for Australian businesses and assisting investors to take up investment opportunities. This is a transition issue, as those coming into the industry now all have degrees (with appropriate degrees recognised under the qualification pathway). It ensures that retail clients will not be orphaned as experienced advisers exit. A further mass exodus of experienced stockbrokers and investment advisers resulting in a cohort of clients losing their adviser is counter-productive. It exacerbates the current problem, recognised by both the Government and Opposition, that declining adviser numbers means Australians have diminished access to affordable and accessible financial advice.

This is of great importance in regional areas, where many experienced advisers will be relieved to think that their clients can retain their local adviser rather than either being left without one or having to source one in a capital city some distance from them.

It is important to note that the experience pathway is only available to a cohort of existing advisers. All new advisers and those with less experience will have to satisfy the qualification pathway. The group of advisers qualifying under the experience pathway is a defined group, whose numbers will diminish with the passing of time.

Of concern to us has been the damaging impact of FASEA's approach to the involvement of retail investors in capital raising for Australian businesses, with experienced stockbrokers exiting due to the demand they complete a financial planning graduate diploma. Stockbrokers are key players in an efficient market. Their expertise is required more than ever at present to facilitate the great transformation of the economy now underway, as technology and decarbonisation create new industries and transfigure existing ones. Stockbrokers guide clients to understand the opportunities for wealth generation as trends accelerate and companies primed to ride those trends seek capital. Fewer stockbrokers diminishes the opportunity for retail investors to participate in this economic transformation. SAFAA welcomes the policy recognising experience, that will ensure we retain experienced stockbrokers, to the benefit of retail investors in Australia.

The House of Representatives Standing Committee on Economics recently reviewed capital concentration in listed equity markets, concerned that retail investors were being 'locked out' of participation in equity markets. SAFAA appeared before this committee in September 2021, expressing our concern that the current regulatory settings curtail retail investors' access to stockbroking and capital raising opportunities by driving an exodus of experienced stockbrokers and investment advisers and deterring new entrants. Recognition of longstanding expertise through the experience pathway will halt the accelerating exodus of experienced stockbrokers.

As detailed above, stockbrokers and investment advisers have been completing CPD for decades. The experience pathway finally recognises this knowledge.

While those advisers without a degree who have already undertaken the additional study required by FASEA, may well feel that the significant time and effort they have expended has been devalued, we do not consider this is the case. Relevant education is always valuable and both the adviser and their clients are the beneficiaries. They retain their education qualifications. And it is not a sufficient reason to continue poor policy.

SAFAA agrees with the government requirement that advisers following the experience pathway are still required to complete an ethics unit by 1 January 2026. SAFAA has been encouraging advisers to undertake an ethics course as a preliminary step to sitting the FASEA exam. Importantly, advisers are still required to complete the exam in order to provide advice from 1 October 2022.

SAFAA supports the experience pathway set out in the Proposals.

What would enable other education providers such as registered training organisations and professional associations to offer courses that meet the proposed

education requirements at an AQF7, 8 or 9 level; to offer courses meeting the requirements?

SAFAA's view is that it should be a matter for TEQSA to accredit any education provider seeking to offer courses meeting the requirements at an AQF7, 8 or 9 level. TEQSA has the expertise, experience and accreditation processes in place. Any training organisation or education provider seeking to offer courses meeting the requirements would need to apply for accreditation from TEQSA.

Should the professional year standard be amended to require additional study at a graduate certificate or diploma level?

No. There is no reason for the already complex Professional Year standard to be amended to require additional formal study. This suggestion overlooks the fact that Professional Year candidates are required to sit and pass the exam in order to qualify as a financial adviser. Study is required to sit the exam. It also overlooks the fact that new entrants will already have a degree and the licensee will assess whether the subjects and qualifications undertaken by the new entrants meet the proposed standards. Adding another layer of compulsory education is costly and unnecessary.

It should be a matter for the adviser or licensee to decide if the adviser seeks or requires additional specialised education. This is how it operates in other professions, where it is the individual or employer's choice as to whether additional education should be undertaken.

Timing of the proposals

SAFAA strongly recommends that the government implement these changes on an urgent basis. With a small number of parliamentary sitting dates before the election this year, it will be vital that the legislative instrument containing the new education standards is tabled before Parliament as soon as possible so that the 15-day disallowance period starts to run. Advisers need certainty that these changes will be passed as they will have a significant impact on their careers, their choices and their mental health. Candidates also require certainty that they satisfy the qualification pathway so they can commence the Professional Year.

SAFAA is happy to engage with Treasury and provide whatever assistance is needed to implement the new education standards.

Yours sincerely

Judith Fox

Chief Executive Officer

Appendix A

Case studies of challenges in current educational standards for those seeking to enter stockbroking and investment advice industry

Case study 1

This candidate has:

- a Bachelor of Engineering and
- a Masters of Applied Finance, both from the University of Western Australia, and
- completed level 1 of the CFA program.

He has achieved three substantial education milestones, but none of them are recognised in terms of his educational qualifications to enter the industry.

The candidate is currently a dealer's assistant and wants to commence his Professional Year. However he must complete eight units of a Financial Planning graduate diploma before he can even commence the Professional Year program.

Case study 2

This candidate has completed a Bachelor in Commerce, majoring in finance and accounting at the University of Southern Queensland. The degree included many subjects that were related to stocks and financial markets, economics and ethics. The candidate is currently a dealer's assistant, but can't move forward until he completes a graduate diploma of financial planning, which will take another two years and a lot more debt. He is not willing to take on unrelated education and debt and can't see a way forward for himself in the industry.

Case study 3

One of SAFAA's member firms has lost two young people recently due to the FASEA educational requirements. One went to a firm that only takes wholesale clients and the other went to a major bank for a private bank role as neither could not see a path forward without having to do a financial planning Graduate Certificate or Masters degree. Both have dual business degrees from top universities and their qualifications were eminently suited to the business.

Appendix B

How the term 'financial adviser' obscures different financial advice services

It is a common misapprehension that financial planners are investment experts. They are not. They outsource investment decisions to stockbrokers and investment advisers (particularly for SMSFs) and managed funds. This is why it is vital that the education framework reflect the skills relevant to specific financial advice services.

Indeed, A 2021 report by Deloitte for ASIC on the funds management industry[1] reveals how the catch-all term 'financial adviser' does not differentiate between the roles of financial planner versus stockbroker and investment adviser. The report notes that retail investors primarily access managed funds through financial advisers. ***Financial advisers in this context refers to financial planners.*** It does not refer to stockbrokers and investment advisers. Indeed, in the definitions (1.2.6 Distribution, page 17), the report clarifies the difference by stating:

> *Most investments made by retail non-superannuation investors occur via an investment platform, based on the recommendations of a financial adviser. Investment advisers, stockbrokers and research houses are also involved in distribution.*

The report further clarifies that financial planners do not make the investment decisions (7.1.4 Advisers consider a range of fund features to assist investors with issues of awareness and understanding, page 156):

> *Advisers may consider different factors compared to investors. Advisory groups in consultation indicated that they consider a broader list of fund manager characteristics than retail investors, including:*
>
> - *sustainability of business: the financial stability of the funds management firm*
> - *governance and ownership structure — board structure, the use of any external parties, and how the firm is run*
> - *investment team and process: key person risk, the quality of personnel and the investment process (how assets are selected and portfolios are developed)*
> - *risk management: independent risk processes and people*
> - *relationships with distributors: the relationship between the business development manager and the adviser as well as the relationship between fund managers and platform providers, as this affects the ability of advisers to use and recommend funds.*

This clarifies that the due diligence undertaken by financial planners is on the sustainability of the fund management business and its investment team, not the sustainability of businesses in which the managed funds invest.

This report highlights why it is important for retail investors to have access to stockbrokers and investment advisers with direct expertise in listed investments and markets. If the education requirements drive an ongoing exodus of experienced stockbrokers and investment advisers and deter new entrants, retail investors will increasingly be left with the choice of either DIY trading online with no advice, or advice from a financial planner who has minimal direct expertise in listed investments and markets, which leads them to be reliant on managed funds for investments.

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[1] Deloitte Access Economics, ASIC, *Competition in funds management*, September 2021

Comparison commerce/finance/business/economics degrees with financial planning degrees

Financial planning

Griffith University Bachelor of Applied Financial Advice

Financial planning 1
Small Business Accounting
Digital Economy
Financial Planning 2
Professional Awareness
Risk Management & Insurance
Superannuation Awareness
Professional Awareness 2
Behavioural Finance
Estate Planning
Financial Planning Construction & Review
Financial Planning Skills

UNSW Grad Dip Financial Planning

CORE
Personal Financial Planning and Management
Financial Markets and Institutions
Risk and Insurance
Financial Planning Advice and Ethics
Investments and Portfolio Selection
Estate Planning, Succession and Asset Protection
ELECTIVES
Retirement planning
Aged care planning
Financial technology
Behavioural approaches in finance
Legal foundations of business
Self managed superannuation funds law
Principles of Australian taxation law

Commerce degree (major finance)

University Sydney

CORE
Economics for Business Decision Making
Quantitative Business Analysis
Corporate Finance I
Corporate Finance II
Finance in Practice
Investments and Portfolio Management
ELECTIVES
Alternative Investments
Applied Portfolio Management A
Applied Portfolio Management B
Bank Financial Management
Behavioural Finance
Derivative Securities
Finance Theory
Financial Valuation: Case Study Approac
Financial Risk Management
Fixed Income Securities
Trading and Dealing in Security Markets
International Financial Management
Mergers and Acquisitions
Personal Finance and Superannuation
Real Estate Finance

UWA

CORE
Financial Accounting
Microeconomics: Prices and Markets
Organisational Behaviour
Introduction to Marketing
Economic and Business Statistics
ELECTIVES
Finance major
Introduction to Finance
Corporate Financial Policy
Investment Analysis
Business law major
Introduction to Law
Legal Framework of Business
Commercial Law
Company Law
Taxation Law
Business Law in Practice
Economics major
Quantitative Methods for Business and Economics
Macroeconomics: Money and Finance
Microeconomics: Policy and Applications
Macroeconomics: Policy and Applications

Economics degree

University of Melbourne

CORE
Introductory Microeconomics
Accounting Reports And Analysis
Introductory Macroeconomics
Principles Of Finance
Organisational Behaviour
Econometrics
ELECTIVES
Intermediate Microeconomics
Calculus
Probability for Statistics
Intermediate Macroeconomics
Behavioural Economics
Environmental Economics
Time Series Analysis And Forecasting
Statistics
Econometrics 2
International Trade Policy
Mathematical Economics
Globalisation And The World Economy
Competition And Strategy
Political Economy

Business degree (major finance)

UTS

CORE
Accounting for Business Decisions 1
Managing People and Organisations
Economics for Business
Fundamentals of Business Finance
Business Statistics
Integrating Business Perspectives
Marketing Foundations
Accounting for Business Decisions 2
The Financial System
Investment Analysis
Financial Metrics for Decision Making
Applied Financial Decision Making
Corporate Finance: Theory and Practice
ELECTIVES
Applied Company Law
Applied Portfolio Management
Derivative Securities
Ethics in Finance
Commercial Bank Management
Investment Banking
Strategic Investment Management
Time Series Econometrics

Master finance (considered less qualified than a Grad Dip Financial Planning)

UNSW

CORE
Empirical Techniques and Applications in Finance
Financial Risk Management for Financial Institutions
Empirical Studies in Finance
Financial Theory and Policy
SPECIALISATION
Applied Portfolio Management and Modelling
Alternative Asset Classes
Fixed Income Securities and Interest Rate Derivatives
Advanced Investment and Advanced Funds Management
Applied Funds Management