

The Future of Financial Advice (FOFA) reforms & what they mean for Banksia Partners clients

The new financial year heralds the formal start of the federal government's *Future of Financial Advice* reforms and we at Banksia Partners have given further consideration to what impact these profound changes will bring to the financial advising profession (or 'industry' as some would continue to prefer to call it).

Firstly, it is important to note that these changes are **prospective** – that means they only apply to **new** advisory services provided to either existing or new clients of an adviser; though many of the changes that FOFA will bring about are practices that have been imbedded within Banksia Partners both operationally and culturally for a number of years.

The new elements of the reforms can be distilled down to a number of core essentials:

Conflicted Remuneration

- A general ban on 'conflicted' remuneration (i.e. commissions on investments) paid to advisers is effective from 1st July 2013. Conflicted remuneration is defined as being remuneration that could reasonably be expected to influence your adviser's recommendations. This includes both monetary payments & a range of 'soft dollar' benefits;
- A ban on new 'volume based' payment arrangements paid by service providers (such as administration platforms) to advisers is also effective from 1st July 2013;

Why? - so that the interest of advisers are better aligned with those of their clients. At Banksia Partners we have for many years' negotiated fees paid by our clients directly with our clients – notwithstanding that for some transaction & services commissions have historically been the only way advisers can be paid for those services (i.e. Life insurance).

Best Interests Duty

- A 'Best Interests' duty has been introduced that obligates advisers to act in the best interests of their clients (while it seems counter intuitive, the previous obligations were only that the advice had to 'be suitable to the client' in light of the clients personal circumstances);
- Further, Advisers will now be personally responsible for the advice provided and will need to demonstrate a reasonable belief that clients would likely be in a better situation having chosen to follow the advice provide (even if that advice is to do nothing);

Why? - so that advisers put their clients interest ahead of their own; which should then increase professionalism & increase trust between advisers and their clients - as well as in the profession generally. At Banksia Partners we have always adopted a higher 'fiduciary' obligation towards our clients (see **Our Fiduciary & Guiding Principles** on the Banksia Partners website), so we consider we have always sought to meet a standard that is at least as strong as the new Best Interest duty.

Annual Fee Disclosure Statement

- With some specific exceptions, from 1st July 2013 your adviser & Banksia Partners are required to provide an annual **Fee Disclosure Statement** (FDS) for those retail clients where there is an on-going fee arrangement in place covering a period of 12 months or more (i.e. for services provided after 1st July 2012), or where the client has received (new) personal advice. All fees that form part of the on-going **advice arrangements** must be reported to clients receiving those services; including 'one off' advice fees, On-going fees, Plan fees, Implementation fees, etc.
- The Fee Statement must include an explanation of what services you were entitled to receive as well as the actual services that were delivered through the period.

Why? - in this 'fee for service' world (new for most advisers) where the client pays the adviser fees rather than the adviser being paid as a 'sales agent' of a financial institution (old world), the objective is to provide a transparent and valued service which is emphasised through continuous fee disclosure.

Banksia Partners re-discloses ALL fees to our clients each time a new service is provided or a portfolio review is completed; that practice will continue going forward. Banksia Partners will be writing to our clients later in 2013 advising them when they can expect to receive the FDS each year.

On a number of other fronts Banksia Partners already complies with many aspects of the new FOFA regime. For instance, advisers employed by Banksia Partners (both currently and in the past) have only ever been paid a pre-agreed annual salary – albeit that additional bonuses may have been paid in recognition of superior client service or performance. The objective of this practice has been to remove any perception of potential conflicts of interest between ourselves and our clients' interests. Moreover, Banksia Partners has always declined the acceptance of 'soft dollar' benefits above \$300 – and going forward will not be accepting any such benefits unless it is directly linked to specific business related services such as assistance with training, administration, or IT support.

With respect to limiting our Approved Product List to a narrow selection of preferred fund managers (a practice adopted by many Australian Financial Services Licensees owned by large financial institutions), Banksia Partners currently and historically has always adopted an extensive list of 'investment grade' fund managers (up to 800+) as well as Australian Stock Exchange (ASX) listed shares and securities within the ASX top 300. In practice though we tend to favour using a limited range of well performing 'Tried &

Trusted' fund managers to meet specific asset allocation and diversification objectives, in addition to direct investment in ASX listed shares and securities.

Finally, there are a number of legislative changes for which the regulators are yet to provide operational guidance or where the direct impact on clients is yet to be quantified. One of the recent matters that has been clarified (in the last week or so) relates to 'grandfathering' provisions for existing remuneration payments in place as at 1st July 2013. Essentially, due to legal contractual obligations much of the existing remuneration structures in place for clients of the firm as at 1st July will continue on as before. From Banksia Partners perspective however, a very large percentage of our revenue base already falls within the 'new world' – that is from fees agreed directly with our clients.

If you would like further information on how FOFA will directly impact your situation, or would like to discuss how Banksia Partners can assist you personally moving forward, please call the office on (03) 9458 4588 at your convenience or email you adviser.

Banksia Partners

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