



.....**working for Australians in retirement**

21 March 2014

The Hon Tony Abbot MP
Prime Minister
P.O. Box 6022
House of Representatives
Parliament House
CANBERRA ACT 2600

Dear Prime Minister

Changes to Future of Financial Advice (FoFA) Requirements

I refer to changes related to Future of Financial Advice (FoFA) consumer protection laws that had been proposed by the Government and welcome the announcement today by the Minister for Finance, Mathias Cormann, of a freeze on these changes.

I would like, however, to advise the Government of the position of the Association of Independent Retirees (A.I.R.) Ltd on this matter to inform any future consideration of change.

Generally the Association supports the removal of red tape that may hinder and frustrate business and commerce activities. However A.I.R. is concerned with the changes that were proposed to FoFA and the effect of weakening consumer protection for self funded retirees (SFR) when making investment decisions.

Specifically the removal of the **Opt In** requirements - i.e. the need for clients to renew their on-going fee arrangement with advisers every two years is not supported. This may remove client flexibility when assessing the performance of appointed advisers. A safeguard against 'locking in' poor performance is needed.

Similarly removal of the **catch all** provisions from the requirements attaching to the **best interest** and duty of care responsibilities is a retrograde change. SFR have no capacity to rebuild investment savings lost due to poor investment decisions. From this point of view, analysis of the "sensitivity" and "what if" investment scenarios are particularly relevant to SFR investment options. Introducing **scaled advice** provisions does not adequately protect SFR. It allows some financial advisers who cannot undertake "sensitivity" and "what if" analysis to limit their duty of care obligations to clients by providing qualified advice.

Softening the provisions to allow **commissions** to be paid under **general advice** scenarios carries with it some danger to SFR. The proposed provisions provide a watered down requirement that benefits received relating to personal advice to retail clients is given in circumstances that is likely to encourage the giving of personal advice that is in the client's **best interest**. Investment of SFR funds should never be treated as an "over-the-counter" transaction without regard for **risk**. Risk factors are particularly important to SFR. The adequacy of this change and its confusing interpretation will need to stand the test of time.



Association of Independent Retirees (A.I.R.) Limited

ACN 102 164 385

Removing the need for **annualised fee statements** as a mandatory requirement could be unnecessary **red tape** for financial advisers to undertake. Client awareness of the fees they pay should be contained in a formal one-on-one fee agreement.

A.I.R. would like to see the inclusion in the regulations of a mandatory formal fee agreement between client and financial advisers based on either or combination of:

- a fixed fee,
- time basis,
- a percentage arrangement for funds under management.

A.I.R. also sees the need to tighten licensing requirements to safeguard against “cowboys” entering the industry. Training and qualifications for persons undertaking the role of financial adviser is paramount.

Overall A.I.R. has reservations about the softening of **scale of advice** and **conflict of interest** provisions contained in the changes proposed by the Government and believes their removal on the grounds of reducing red tape and compliance costs cannot be justified.

Yours sincerely

Max R. Barton
National President
Association of Independent Retirees Ltd (A.I.R.)

- cc. (1) Hon Mathius Corman MP, Minister for Finance
(2) Hon Peter Dutton MP, Minister for Health & Sport
(3) Hon Steven Ciobo MP, Parliamentary Secretary to Treasurer
(4) Mr Luke Howarth MP, Member for Petrie
(5) Mr Wyatt Roy MP, Member for Longman