

>> Associated Advisory Practices

Ripoll Inquiry Report Released

Last night, the Parliamentary Joint Committee on Corporations and Financial Services released the report into their Inquiry on Financial Products and Services in Australia (more commonly known as the Ripoll Inquiry).

Professional Investment Services' (PIS) submission, like many others, was referenced and considered by the Committee throughout the report and in their recommendations. This is positive and demonstrates that our efforts were worthwhile.

The Committee's report and recommendations considered the many lengthy submissions and important points raised by the industry and broader community. In his appearance before the Committee's public hearing (4 September 2009) Group Managing Director, Grahame Evans, encouraged the Committee to take a measured approach in reviewing the shortcomings of the industry and these views were recognised in the final report:

"Almost every industry has its bad eggs. In my time in the industry, the majority of advisers put their clients' interests first at all times ... Whilst it is important for the committee to focus on the terrible issues at hand, I would encourage them not to use a sledgehammer to crack a pea..".p 95

The Committee took a well considered and balanced approach in forming their recommendations. From the Professional Investment Group of Companies perspective the important points include the recommendation to include a legislated fiduciary duty for advisers to act in their client's interests first and the recommendation that the Government consult with and support the industry to develop ways in which to cease payments from product manufacturers to financial advisers. The Group believes that this will promote further scope for industry consultation which is a move in the right direction.

Importantly, the Group also supports the recommendation to make financial advice tax deductible. This is a positive means for reducing the overall cost of financial advice and thereby making financial advice more accessible to Australians.

Summary

The report has highlighted 11 recommendations including:

- Changes to the Corporations Act to include a fiduciary obligation for advisers to place their clients' interests ahead of their own
- Government consultation with the industry in developing a process to cease payments from product manufactures to financial advisers
- Consideration to make the cost of financial advice tax deductible
- Creation of an independent professional standards board in the industry
- Increased ASIC resources including an annual "Shadow Shopper", and increased powers of

ASIC to ban individuals and reject/ cancel an AFSL

A full copy of the report can be located [here](#).

The report contains only the recommendations of the Joint Committee, and no immediate timeframes have been established or acceptance of recommendations has occurred at this time. However in the Treasury release today Chris Bowen has noted that “the Government will respond to the committee’s report in conjunction with the Cooper Review which will also be looking at commissions and fee structures in superannuation”. The Cooper report is due June 2010.

It should also be noted that although debate is detailed in the report whereby counter arguments were made of whether risk insurance should be excluded from any ban on commissions (and other regulatory requirements), there is no further mention in the report of the risk sector being either exempt from or included in the recommendations made

Listing of Recommendations

The report makes 11 recommendations in total:

Recommendation 1

That the Corporations Act be amended to explicitly include a fiduciary duty for financial advisers operating under an AFSL, requiring them to place their clients' interests ahead of their own.

Recommendation 2

That the Government ensure ASIC is appropriately resourced to perform effective risk-based surveillance of the advice provided by licensees and their authorised representatives. ASIC should also conduct financial advice shadow shopping exercises annually.

Recommendation 3

That the Corporations Act be amended to require advisers to disclose more prominently in marketing material restrictions on the advice they are able to provide consumers and any potential conflicts of interest.

Recommendation 4

That the government consult with and support industry in developing the most appropriate mechanism by which to cease payments from product manufacturers to financial advisers.

Recommendation 5

That the government consider the implications of making the cost of financial advice tax deductible for consumers as part of its response to the Treasury review into the tax system.

Recommendation 6

That section 920A of the Corporations Act be amended to provide extended powers for ASIC to ban individuals from the financial services industry.

Recommendation 7

That, as part of their licence conditions, ASIC require agribusiness MIS licensees to demonstrate they have sufficient working capital to meet current obligations.

Recommendation 8

That sections 913B and 915C of the Corporations Act be amended to allow ASIC to deny an application, or suspend or cancel a licence, where there is a reasonable belief that the licensee 'may not comply' with their obligations under the licence.

Recommendation 9

That ASIC immediately begin consultation with the financial services industry on the establishment of an independent, industry-based professional standards board to oversee nomenclature, and competency and conduct standards for financial advisers.

Recommendation 10

That the Government investigate the costs and benefits of different models of a statutory last resort compensation fund for investors.

Recommendation 11

That ASIC develop and deliver more effective education activities targeted to groups in the community who are likely to be seeking financial advice for the first time

[Click here](#) to read the Inquiry background and key commentary.

A full assessment and a formal response will be distributed later in the week.

Several of the recommendations involve establishing consultation processes and considerations as part of other reviews and the Professional Investment Group of Companies will continue to play an active part and monitor the developments as they unfold.

Kind regards

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