Association of
Financial Advisers

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Mr Stephen Glenfield
Chief Executive Officer
Financial Advice Standards and Ethics Authority

By email: consultation@fasea.gov.au

Dear Mr Glenfield,

AFA Submission: Relevant Providers Degrees, Qualifications and Courses Standard (Education Pathways)

The Association of Financial Advisers Limited (**AFA**) has served the financial advice industry for over 70 years. Our objective is to achieve *Great Advice for More Australians* and we do this through:

- advocating for appropriate policy settings for financial advice
- enforcing a Code of Ethical Conduct
- investing in consumer-based research
- developing professional development pathways for financial advisers
- connecting key stakeholders within the financial advice community
- educating consumers around the importance of financial advice

The Board of the AFA is elected by the Membership and all current Directors are practicing financial advisers. This ensures that the policy positions taken by the AFA are framed with practical, workable outcomes in mind, but are also aligned to achieving our vision of having the quality of relationships shared between advisers and their clients understood and valued throughout society. This will play a vital role in helping Australians reach their potential through building, managing and protecting wealth.

1. Introduction

Today represents exactly 12 months since FASEA made their first announcement on education standards for existing advisers. This initial announcement, and what has emerged since, has caused a great deal of concern and anxiety for a very large number of existing financial advisers. It is very unfortunate that this has dragged on for so long. It is in fact well over 3 years since the Government announced the commitment to lift professional standards for financial advisers (20 October 2015). We would suggest that this has been unreasonably drawn out and as we had proposed back in 2015 and 2016, the transition arrangements for existing advisers should have been set down in the law.

We welcome the changes that were announced in the FASEA Standards Blueprint (16 November 2018) and the Relevant Providers Degrees, Qualifications and Courses Standard Legislative Instrument (20 November 2018). In particular, we were pleased with respect to the direction of the following:

- The definition of a relevant degree,

- Recognition of the Advanced Diploma of Financial Planning (or equivalent), and
- Recognition of Professional Designations.

We do have a number of recommendations, which in our view, will improve the application of these changes.

We think that it is important to make FASEA aware of the impact of the differences between these two important FASEA statements on 16 and 20 November. The Blueprint only referred to the Advanced Diploma of Financial Planning (ADFP), and did not refer to the Advanced Diploma of Financial Services (Financial Planning) or the eight subject Diploma of Financial Planning (DFP (1-8)). The Blueprint was very specific about the dates of eligibility for professional designations, whereas the detailed announcement on 20 November 2018 made it clear that for Professional Designations, it was a matter of applications to FASEA by the education provider.

FASEA should be aware that for many financial advisers who have been waiting a long time for some clarity, the Blueprint announcement delivered huge disappointment, that was only partially corrected or clarified in the detailed announcement on 20 November 2018. Those for example who had an eight subject DFP or a professional designation before the nominated cut-off dates, immediately felt that they had been excluded. The impact of this should not be underestimated and we request that greater consideration is given to the potential impact of announcements.

In the context of this incredibly drawn out, and in many ways particularly discomforting process, we believe that there is one important principle that should be observed, and that is that people should not go backwards as part of this ongoing consultation process. Unfortunately, the announcements by FASEA appeared to deliver exactly this outcome for the following groups of existing advisers:

- Holders of relevant degrees without the ADFP (or equivalent) or a professional designation, who would now be required to do four subjects rather than the three bridging course subjects, as proposed in March 2018.
- Experienced older advisers who joined the profession before the recognised advanced courses emerged and who don't otherwise hold the ADFP (or equivalent) or a professional designation. These advisers have been told by many Higher Education providers that they would get at least two credits for experience. As a result of the announcement about the removal of any RPL discretion by Higher Education providers, these older experienced advisers will no longer have access to credits for experience. This is a particularly important point that needs to be addressed. This is the group of advisers where there is the greatest risk of a mass exodus and these changes have only made it more difficult.

We were surprised to discover that existing advisers with a relevant degree were required to do four subjects, however as illustrated in the diagram on page 2 of the Policy Statement, advisers with a relevant degree and the ADFP (or equivalent) or a professional designation are only required to do one subject. Given the starting position of four credits for a relevant degree and two for either an ADFP (or equivalent) or a professional designation, we were struggling to understand how four minus two equals one. We therefore assume that in this case the relevant degree is worth more because they have an ADFP (or equivalent) or a professional designation (i.e. five rather than four) or the ADFP (or equivalent) or the professional designation is worth more because they also have a relevant degree (i.e. three rather than two). In either case, this seems to add further unnecessary complexity and we propose that the relevant degree goes back to being worth effectively five credits, with only the three bridging course subjects being required.

Recognition of Prior Learning remains the key outstanding issue.

There are other areas where we are disappointed that FASEA has not made the changes that we had sought:

- We continue to believe that there is inadequate recognition of non-relevant degrees.
- We remain particularly concerned that all existing advisers doing further study will be required to complete the standard FPEC curriculum and will not be given the flexibility to undertake study in the area that is relevant to their area of specialisation. This will make a substantial difference in the commitment of these advisers to undertake this study, and the benefit that they will derive from it.

Whilst we welcome some of the changes, we believe that more needs to be done to deliver a pragmatic workable outcome that will achieve the overall objective of lifting professional standards.

2. Executive Summary

The AFA supports the increase in the minimum education standard for both new and existing financial advisers (advisers). We accept the requirement for a degree for new advisers, however back in 2015 and 2016 we recommended in a number of submissions that the requirement for existing advisers should be an Advanced Diploma (AQF 6), and that it should be defined in the law or the regulations so that existing advisers had certainty and did not need to wait for a standards body to define the requirement years down the track.

Existing advisers are already practicing and have strong relationships with their clients. They have demonstrated the capacity to meet the needs of their clients over many years. Research indicates that the clients of financial advisers trust them highly (AFA White Paper – Back to Basics – July 2010). Financial advice is a profession where a client discusses some of the most important elements of their life with their adviser and trusts them implicitly. Experience brings many beneficial elements with respect to client relationship management and client understanding skills that are not learnt at university.

In April 2018 we conducted a survey of our members and consider that it is beneficial to repeat some of the key results from that survey, that are relevant to this consultation:

- 54% of advisers do not have a degree.
- 69% of advisers with over 20 years' experience, do not have a degree.
- These older more experienced advisers are more likely to be business owners.
- 70% of advisers have chosen to do further study including having completed the Advanced Diploma of Financial Planning or the older eight unit Diploma of Financial Planning.

Current student numbers and interest in financial advice suggests that it is going to be very difficult to replace the older advisers who are currently considering retirement on the back of the FASEA Education and Exam standards and other factors such as the Royal Commission.

The AFA has recognised four principles that we believe are important in defining the education standard. We believe a focus upon **professionalism** is critical, however we also believe that the solution needs to demonstrate **equity** for all groups of advisers, **sustainability** for the profession and provide study options that deliver **value** to existing financial advisers. Our recommendations have been developed on the basis of these principles.

We note that the policy sets down a number of rules, however none of these appear to be reflected in the draft Legislative Instrument. We expected the draft Legislative Instrument to contain much more than just a list of approved courses. In the absence of these rules being set out in the Legislative Instrument, then we question how they can stand. Neither of the documents makes it clear who is going to assess what each adviser is required to do and what role FASEA, Licensees and Higher Education providers will play in this process. This is important to have clarified.

2.1 Key Points/Recommendations for Existing Advisers

The following table sets out a summary of our recommendations:

Education Category	Recommendation
Relevant Degree	• Reduce the maximum number of subjects required to be completed by an existing adviser with a relevant degree from four to three, consistent with the March 2018 announcement. • Include a sliding scale approach to the number of subjects undertaken and credits received, i.e. 8 or more relevant subjects: receive 5 credits 6 or 7 relevant subjects: receive 4 credits 4 or 5 relevant subjects: receive 3 credits • We disagree that taxation law and business law courses as defined by the TPB should be the only ones included in the assessment of the eight subjects. The TPB has only existed for less than 10 years and many of these existing advisers did this study many years ago. We recommend the removal of the TPB reference. • Further to the point about a maximum of three subjects, remove the requirement for Relevant Degree advisers to complete the FASEA approved unit (Financial Advice Capstone subject) altogether. This is not mandated for any other category and we cannot see why it would be required for Existing Advisers with a *relevant* degree. • Add superannuation (including SMSFs), insurance and financial planning/ financial advice/financial services, SoA Construction and add a statement with respect to the inclusion of courses with similar names/study material to the relevant degree definition of related areas of study. • Allow the requirement for eight subjects in the designated related fields of study (in any combination) to be assessed across more than one qualification held at AQF 7 (and above). i.e. 8 subjects across more than one degree. • For a Master's degree (which has less subjects), reduce the requirement for subjects to six relevant subjects, not eight.
Non-relevant degree	• Increase the base number of credits from one subject to two subjects.
No Degree	• In addition to the FASEA proposed RPL solutions, add another for experience that also addresses previous courses and CPD (as set out below).
Recognition of RPL	• Additional credits allocated based upon the relevant provider's experience (incorporating previous study and CPD): 15 years (or more) experience: 3 subjects Over 10 years (but less than 15 years): 2 subjects Over 5 years (but less than 10): 1 subject • FASEA should provide three subjects credit for relevant providers who have completed a professional designation offered by a professional association through coursework of four subjects or

Education Category	Recommendation
	more since the commencement of the current licensing regime. No date completed restriction should apply. • Provide a mechanism to recognise previous study at AQF 7 level and above, including Graduate Certificates and Graduate Diplomas, such that a one for one subject credit applies.
Subjects/Electives	• Relevant providers should have the ability to do a range of subjects to ensure that they can undertake study in areas relevant to their area of specialist practice, that is of interest to them and aligned to the needs of their clients.

Other Recommendations:

- Advisers doing the Graduate Diploma should have the ability to do a range of subjects to ensure that they can select subjects that are relevant to their area of practice. It needs to be designed with a limited set of core subjects and a range of electives.
- We recommend that financial advisers who have already completed study through a Graduate Diploma of Financial Planning should be treated as FASEA compliant, although we appreciate that FASEA may expect them to do the FASEA Code of Ethics/Code Monitoring subject.

3. Background

The AFA has been an active participant in the ongoing debate and consultation on increasing the minimum level of education standards for financial advisers over the last seven years. This has been the subject of many consultations and inquiries. The prospect of a degree was first proposed in a major consultation through ASIC Consultation Paper 212 in 2013 and then the broader package of reforms was proposed via the Parliamentary Joint Committee inquiry into Lifting Professional Standards in the Financial Services Industry in 2014. The AFA has supported calls for a sensible increase in the minimum education standard, including the requirement for a degree for new advisers. However, changes of this nature, that impact existing businesses and practitioners, need to be achievable and managed in a pragmatic way that ultimately benefits the end consumer.

We support the need for an increase in the minimum education standard for existing advisers, however strongly argued for this to be reasonable and pragmatic. In fact, in a number of submissions in 2015 and 2016 we called for the education standard for existing advisers to be increased to an Advanced Diploma (AQF level 6) and for this standard to be set in the law in order for existing advisers to have greater certainty, rather than have them wait for a number of years to find out the final outcome. We specifically recommended this approach to avoid the likelihood of the continuing negative impact of uncertainty. The existence of uncertainty has been allowed to continue for a very long time, and we believe that this is unfair and unreasonable.

The transition of these existing advisers to a higher level of minimum education should be assessed in the context that they are already experienced practitioners, not from the perspective that we need them to undertake a comprehensive broad program of education as would be expected of new advisers. In our view, it is unreasonable to fundamentally change the education standards for existing advisers and then apply this to existing advisers of different ages and levels of experience without adequate grandfathering or transition arrangements.

We believe that FASEA needs to do more to recognise the valuable experience of existing advisers and the courses that they have undertaken during their careers, including both formal qualifications, informal courses and ongoing CPD.

4. The Impact on Financial Advisers

2018 has been a particularly challenging year for financial advisers as they have needed to come to terms with the implications of doing a substantial amount of further study and a very challenging exam and to face the coverage at the Royal Commission and the extensive calls for further changes to financial advice business models that have flowed from the hearings at the Royal Commission. It is not surprising that the general morale of the financial advice community is at a low ebb.

These reforms impact a large population of existing advisers who are currently authorised to practice and are confronting a challenge to their livelihood. This is one of the most substantial changes that any sector has undertaken and one where generating a sense of positivity is critical to ensure that we have the best possible engagement in this huge change management program. We have one more chance to win back the hearts and minds of the financial advice population and we call on FASEA to keep this in mind.

5. Regulation Impact Statement

In our view, the consequences of the proposed education standards for existing advisers could have a huge impact upon the financial advice profession, the broader financial services industry and consequently, many thousands of clients. The impact of this could be that many thousands of advisers choose to leave the profession. This will result in probably three times as many staff losing their jobs and hundreds of thousands of clients being displaced. This would have a huge impact upon the broader economy. We strongly recommend that a Regulation Impact Statement is prepared as part of the finalisation of the education standard for existing advisers.

6. Requirements of the Professional Standards Legislation and Explanatory Memorandum

We recognise the core education requirement in Section 921B(2), that “the person has completed a bachelor or higher degree, or equivalent qualification, approved by the standards body under section 921U”.

We also recognised that in terms of existing advisers, this has been further clarified in section 1546B(1), that “existing advisers need to have either:

a) Met the education and training standard in subsection 921B(2);
b) Completed one or more courses determined by the standards body to give the provider qualifications equivalent to that standard.”

We recognise that this gives FASEA a great deal of power and discretion to determine the required standard for existing advisers. In our 29 June 2018 submission, we highlighted the areas in the Explanatory Memorandum that had not been taken into account. We believe that there is more action required to align with the expectations set in the Explanatory Memorandum. We have highlighted this below:

> 6.8 These provisions are designed to allow flexibility for existing providers, ensuring that <u>they only need to undertake adequate study to bring their qualifications in line with the new standard. It is not expected that existing providers will be required to complete a three year degree.</u>
>
> 6.9 <u>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.</u>

6.11 The length of time that the adviser has been in the industry is not itself a relevant consideration. The body may, however, take into account the fact that an adviser who has been in the industry for a longer period of time has completed more CPD courses.

It is very apparent that the current set of proposals from FASEA:

- Do not allow for consideration of Diploma courses (other than DFP (1-8)), and
- There is no means for any recognition of CPD.

We appreciate the importance of the Explanatory Memorandum in setting down the intent of the law. It is important that FASEA give further consider to the expectations established by the Explanatory Memorandum.

7. Survey of AFA Members

In April 2018, the AFA undertook a member survey, which assisted us to understand the potential impact of these reforms. The following table highlights some of these key issues:

All Members	**0-5 Years**	**6-10 Years**	**11-15 Years**	**16-20 Years**	**20 Years +**	**All**
Number of Advisers	**85**	**154**	**116**	**204**	**147**	**706**
Existing Adviser with a FASEA approved qualification	10.6%	6.8%	7.8%	4.3%	3.4%	6.1%
Existing Adviser with a relevant degree	28.3%	27.2%	24.0%	30.1%	15.2%	23.7%
Existing Adviser with a non-relevant degree	11.8%	12.9%	20.8%	22.4%	11.8%	15.7%
Existing Adviser with no degree	49.4%	53.1%	47.4%	43.1%	69.6%	54.5%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

We particularly seek to emphasise the percentage of advisers who have no degree and experience of greater than 20 years (69.6%). In our focus upon this older experienced cohort of advisers it is important to note that they make up a disproportionate amount of the business owners, being 36%.

We believe that the numbers above demonstrate that in the absence of a mechanism to recognise experience, that these reforms are likely to lead to a material exit of current financial advisers and particularly those older more experienced advisers who on average, are less formally educated and have less opportunity to benefit from an additional investment in education at this later stage in their career.

We are certainly pleased to see the introduction of a basis to recognise the ADFP (or equivalent), which, on the basis of our survey, would represent 70% of our members as follows:

Years of Experience	**Number**	**Percentage**
Advanced Diploma of Financial Planning	350	49.6%
Diploma of Financial Planning (subjects 1 – 8)	145	20.5%
Diploma of Financial Planning	111	15.7%
Base RG 146	100	14.2%
Total	706	100%

We did note that for advisers with 20 years or more of experience, that only 60% of them have the ADFP (or equivalent). In terms of our analysis of members with a professional designation, the survey indicated that 17.2% of respondents had the FChFP, although for advisers with 20 or more years' experience, that only 11% had the professional designation.

Thus, the changes that FASEA have made to recognise the ADFP and professional designations will have a materially positive impact, however there will be many of these older experienced advisers who do not have either and will now have no mechanism for access to credit for their experience (along with CPD and previous courses undertaken in a different timeframe).

8. AFA Principles for Existing Education Standards

We believe that the principles that we set out in our previous submission remain relevant:

- **Professionalism.** A critical part of this exercise is to lift the education standard for both new and existing advisers and as a result regain consumer trust in the financial advice sector.
- **Equity.** The requirement for additional study should equitably reflect the previous study that an adviser has done, including education in other fields at a university, professional qualifications for financial advisers at a lower level, professional designations and via experience (CPD).
- **Sustainability.** The final model should present a solution that is going to ensure that the majority of existing advisers choose to undertake study and stay in the financial advice profession in order to continue to service their clients. An outcome that results in a mass exodus of advisers will be of no benefit to consumers nor to younger advisers who would benefit from guidance from experienced advisers.
- **Value.** Financial advisers should have the opportunity to study relevant subjects that are of value to their business, of interest to them and of benefit to their clients.

We believe that more work needs to be done to address equity and we remain very concerned about sustainability.

Unless the expectations for the content of the Graduate Diploma are modified, the issue of value is not going to be addressed. For people who have already completed the DFP (1 - 8) or the four subject Diploma of Financial Planning and the Advanced Diploma of Financial Planning, doing the Graduate Diploma of Financial Planning that largely covers the same content, but at a higher AQF level, will deliver limited value. The curriculum is excessively focussed upon the previous FPEC curriculum and is unnecessarily focussed upon the provision of financial product advice. We strongly recommend that the scope of the curriculum is expanded to better allow for specialisation and to enable a focus on the running of a financial advice business.

9. AFA Response to FASEA Proposals and AFA Recommendations

9.1 New Entrants and Career Changers

The AFA supports the proposal that new entrants to the financial advice profession from 1 January 2019 be required to have passed a FASEA approved degree.

We support the inclusion of a Career Changer pathway, however we believe that eligibility for this pathway needs to be further explained. We understand why it might apply to someone who has a tertiary qualification in another field, however the alternative of a minimum of three years' work experience seems inadequate. The Professional Standards reforms will turn the tap off for new entrants and result in a substantial number of exits. We therefore recognise the importance of a Career Changer pathway that promotes the number of new entrants into the financial advice profession. One key question that arises for us, is why entrants to the industry through the Career Changer pathway have a different RPL regime and may therefore have access to credits for experience, whereas existing advisers will not. In our opinion this seems inequitable. We should also be conscious that Career Changers may also be people who have worked in the financial services industry in other capacities.

Where a new entrant has completed financial planning study as part of a degree in the past, or is currently completing study that is not classified as FASEA approved, then there needs to be a sensible mechanism for them to undertake bridging courses in order to meet the FASEA requirements.

9.2 FASEA Approved Degrees

We support FASEA's proposal that existing financial advisers with a FASEA approved financial planning degree should be required to do only a bridging course on the FASEA Code of Ethics and Code Monitoring.

The AFA believes that existing financial advisers who have completed a financial planning degree, even if it is not on the FPEC approved list, should be assessed as compliant (subject to the requirement for completion of the Code of Ethics/Code Monitoring subject). We recognise that the 'Non-accredited, withdrawn and prior programs' section on page 6 of the FPS002 Program & Provider Accreditation Policy Statement refers to people in this situation. We have one important reservation in that this relies upon the Higher Education provider seeking to make this application, which may not be realistic in the context of the program having been closed down. We would suggest that FASEA needs to carefully monitor this area and consider taking proactive action if required.

In the situation where an existing adviser has completed financial planning study in the past as part of a degree or is currently completing study that is not classified as FASEA approved, then there needs to be a sensible mechanism for them to be recognised as meeting the requirements.

9.3 Financial Advisers with a Relevant Degree

We recognised the important change with the enhanced definition of a relevant degree in the introduction section to this submission. This is an important outcome and we believe that this provides the foundation to develop an overall solution.

We note that in the March 2018 FASEA proposal, financial advisers with a relevant degree would only need to do a three subject bridging course. We are surprised that this has now been increased to a maximum of the three subject bridging course and a fourth subject, which FPS001 Education Pathway Policy Statement indicates would need to be the FASEA approved Financial Advice Capstone subject. We simply do not understand why this subject has been mandated for existing advisers with a relevant degree, however is not a requirement for other existing advisers.

As noted in our introduction, we are confused by the mathematical calculations for an adviser with a relevant degree and either an ADFP (or equivalent) or a professional designation. The outcome for them is that they are only required to do the single Code of Ethics/ Code Monitoring subject. This means, from a starting position of needing to do four subjects, they get two subjects credit for their ADFP (or equivalent) or professional designation, yet only need to do one subject. This presents an inconsistency that leaves us wondering whether they actually got five credits for the relevant degree and two for the ADFP (or equivalent) or professional designation, or alternatively got four subjects credit for the relevant degree and then three subjects for the ADFP or professional designation. We are concerned about the lack of internal consistency with this and suggest that a better way to treat it is to put all existing advisers with a relevant degree back to the starting position of getting five credits and being expected to complete the three bridging subjects, however with access to two credits for either the ADFP (or equivalent) or a professional designation.

We are very conscious that the eight relevant subject requirement for a relevant degree will leave many advisers with six or seven qualifying subjects; very close to that eight subject cut-off however put back into the non-relevant degree category. This would make a very material difference in what they are required to do. To enhance the equity in this area, we have proposed that there should be a scaled credit model, where 6 or 7 subjects would get four credits (noting our proposal for a minimum of five credits for a relevant degree) and those with four or five subjects receiving three credits. This would provide a sensibly graduated scale that would deliver equity and remove perverse outcomes.

In our view, the requirement that only taxation law (as defined/or approved by TPB) and business law (as defined/or approved by TPB) subjects should count towards the eight subject relevant degree threshold is inappropriate and inconsistent with the other layers of this regime. The TPB originally only provided guidance on these courses for tax (financial) advisers in April and May 2014. Thus the majority of existing financial advisers would most likely not be able to seek recognition for their taxation law and commercial law study. There is no age limit on the other subjects (i.e. accounting, banking, economics etc). We also note the inconsistency between the reference to 'as defined by the TPB' in FPS001 and 'approved by the TPB' in the Explanatory Statement. We recommend that for the purposes of relevant degrees the reference to the TPB is removed. We also note that the TPB refer to commercial law and not business law. This is a subject that is unlikely to have changed substantially in recent years and we do not believe that the timing of completion should be considered an important factor.

We also propose that the list of relevant fields of study be expanded to include obvious exclusions such as financial advice/planning/services, superannuation (including SMSFs), insurance and SoA Construction. This was a surprising exclusion and yet it is a particularly important point for many existing advisers. There are other subject areas with similar names to those listed, such as Securities Law, Applied Finance, Financial Analysis, Financial Management, Financial Markets, which we believe should be included. This might be achieved by adding them to the specific listing or a statement about the inclusion of like subject matter. The assessment of a relevant degree should not come down to an unnecessarily crude definitional consideration. We also believe that Estate Law, should be broadened to Estate Planning, which could include Estate Law. We also seek to pose the question as to whether the completion of subjects on Ethics or Applied Statistics should also be considered eligible?

In terms of the wording with respect to the definition of a relevant degree, it appears to be based upon a single specific degree. We note that people who have done more than one undergraduate degree or an undergraduate degree and a Graduate Diploma or a Master's Degree should be assessed on the basis of having eight relevant subjects across all these qualifications. It may be that this was the intent, however we believe that it should be clarified.

We also suggest that where an existing adviser has undertaken a Master's Degree, such as a Masters of Business Administration, which might only require 12 subjects, that a lower threshold of six subjects would be more reasonable.

The AFA recommends the following:

- Reduce the maximum number of subjects required to be completed by an existing adviser with a relevant degree from four to three, consistent with the March 2018 announcement (five credits).
- Include a sliding scale approach to the number of relevant subjects undertaken and credits received, i.e.

8 or more relevant subjects: receive 5 credits
6 or 7 relevant subjects: receive 4 credits
4 or 5 relevant subjects: receive 3 credits

- We disagree that taxation law and business law courses as defined by the TPB should be the only ones included in the assessment of the eight subjects. The TPB has existed for less than 10 years and many of these advisers did this study many years ago. We recommend the removal of the reference to the TPB for these subjects.
- Further to the point about a maximum of three subjects, remove the requirement for Relevant Degree advisers to complete the FASEA approved unit (Financial Advice Capstone subject) altogether. This is not mandated for any other category and we cannot see why it would be required for Existing Advisers with a *relevant* degree
- Add superannuation (including SMSFs), insurance, SoA Construction and financial planning/ financial advice/financial services to the relevant degree definition of related areas of study. In addition allow for subjects of similar name and content.
- Allow the requirement for eight relevant subjects in the designated related fields of study (in any combination) to be to be assessed across more than one qualification held at AQF 7 (and above). i.e. eight subjects across more than one degree.
- For a Master's Degree (which has less subjects), reduce the requirement for subjects to six relevant subjects, not eight.

9.4 Financial Advisers with a Non-Relevant Degree

With respect to Non-Relevant Degrees, we were conscious that the December 2017 FASEA announcement proposed that they would be able to do a bridging course. This option was removed in the March 2018 FASEA announcement, where it was proposed that they would need to complete a full Graduate Diploma. The latest proposal of one credit, is in our view unsatisfactory. People who have completed a degree should at least have a material recognition for this achievement. We therefore propose that they be given two subjects credit for having completed a non-relevant degree.

We believe that it is important to reinforce our point in our previous submission that some of the advisers in this group will have completed a degree in an area that may have particular relevance either through a focus upon numerical skills (i.e. mathematics, engineering etc) or they may have studied client relationship management or psychology, or medical related areas, all of which are relevant to the financial advice sector. When it comes to life insurance advisers, a knowledge of medical conditions such as illnesses and injuries and the treatment and expected recovery is valuable. Such advisers will have an advantage in terms of the underwriting process and helping clients through a terminal illness benefit claim, a TPD claim, a Trauma claim, or an Income Protection claim. There are many examples where previous university study covers areas that have direct relevance for financial advisers. Such university study is of genuine benefit to a financial adviser and should be better recognised than just the provision of one subject credit.

The AFA recommends the following:

- Increase the base number of credits for a non-relevant degree from one subject to two subjects.

9.5 Financial Advisers with no Tertiary Qualification

The largest group of existing financial advisers, representing around 54% of the AFA member survey and probably a similar amount when viewed across the entire financial advice profession is those with no degree. We also recognise that this group makes up a disproportionate amount of the older more experienced cohort, which is why in our previous submission we put forward a separate recommendation for recognition of older experienced advisers.

We recognise that FASEA have added the mechanism for existing advisers to get credits for the ADFP (or equivalent) and/or a professional designation, which we support. This will be beneficial for many advisers. Our April 2018 member survey shows that 70% of respondents have an ADFP or equivalent (as set out above). This percentage is reduced to 60% for advisers with 20 years or more experience. Our own numbers also show that only 11% of members with 20 years or more experience have a professional designation. Thus, it is apparent to us that many of the older experienced advisers will not get any credits and will be required to do the full eight subject Graduate Diploma.

The practical reality is that people do the vast majority of their study before they commence an occupation or in the first few years after commencing. For this reason, financial advisers who entered the industry in the 70's, 80's and 90's did the courses that were available at that time. Many of these courses were market leading at the time and were very beneficial for those who completed the course. What FASEA have done is to put in recognition for more recent qualifications and designations, thereby disadvantaging many of these older experienced advisers who were proactive in pursuing education earlier in their careers.

Universities have previously had the capacity to give some credit for experience and continuing professional development. We believe that this is a good basis to recognise CPD, which was specifically addressed in the Explanatory Memorandum and should therefore be permitted. The new FASEA RPL policy will not allow any credits beyond what is available for the ADFP (or equivalent) and a professional designation. This means that what was previously available for experience will no longer be available and therefore advisers in this category without the ADFP (or equivalent) have actually gone backwards and face an even harder task to remain in the profession. We therefore strongly advocate for a basis to recognise experience as set out in the following section on RPL.

With respect to the Graduate Diploma, we continue to advocate for a curriculum based upon a core set of central subjects that would apply to all advisers and then a set of electives that would reflect the various specialisations in the sector. It is most important that financial advisers get the opportunity to undertake study in an area that is of benefit to their business and is of interest to them. The starting point needs to be study that is valuable to the adviser and the acknowledgement that their experience should not require that they complete study in every area that is identified in the curriculum for new advisers.

We continue to be particularly conscious of the substantial exposure that the financial advice profession faces with respect to experienced older advisers and believe that FASEA should continue to consider options to better ensure that they are recognised for their previous study and experience.

The financial advice sector naturally is skewed to the older age group. This is important to understand in seeking to estimate the impact that FASEA's implementation of this legislation will have on the overall financial advice sector. This group of older advisers are also likely to be less formally educated than some of the more recent entrants into the profession. They are also the group with the greatest level of experience and also the group that are most committed to passing on this knowledge to new advisers. They also represent a disproportionate amount of practice owners and therefore their retirement will have a much broader impact on not only other advisers in the practice, but also their support staff, third party service providers and clients.

We believe that the grounds for broader consideration of this experienced older adviser group are as follows:

- Experience is particularly important in financial advice and should not be under-valued or under-rated.

- The loss of a significant percentage of this cohort of experienced advisers will lead to the disadvantage of their clients who have invested in their relationship with their adviser. It will be difficult and costly for them to find a new adviser who they are comfortable to deal with.
- The departure of a large number of older advisers will disadvantage older clients who want an adviser of a similar age who has had similar life experiences.
- This cohort of older advisers are particularly important in mentoring younger advisers in the practical and emotional intelligence elements of financial advice. The new professional year requirements will create the need for advisers to play this supervisor role.
- This group represents a significant number of practice principals and business owners and their retirement will place the livelihood of their staff at great risk.
- The departure of many from this group will have a material impact upon business values. A decline in market indicators for business values could impact loan arrangements, with continuing financial advice practices required by their bank to either repay debt or put up more security.

In this context we ask that FASEA introduce a mechanism to recognise experience and that they give consideration to other approaches to encourage experienced older advisers to remain in the financial advice profession.

We make the point that experience counts for a lot and that it provides skills that cannot be learnt quickly and cannot be learnt in the classroom. It takes time to understand the full impact of economic cycles and market downturns. It takes time to develop the skills to handle client loss and tragedy. It would be a mistake to underestimate the importance of experience or to fail to cater for such an important group.

The AFA recommends the following:

- In addition to FASEA's proposed RPL solutions, we recommend adding another one for experience that also addresses previous courses and CPD.

9.6 Recognition of Prior Learning

As set out above, one key part of the Explanatory Memorandum to the Professional Standards legislation that has not been addressed is the recognition of experience via the means of recognising older and lower level courses and CPD that has been undertaken. We believe that this CPD should be recognised back to the start of the current licensing regime (2003/04). Importantly, for older advisers they are also likely to have undertaken a range of formal and informal courses in their early years of practice and potentially more recently at the time of the commencement of the licensing regime. The best way to recognise this CPD is to allocate credits on the basis of the years of experience. We have proposed a graduating scale for years of experience that covers the last 15 years since the commencement of the current licensing regime. We have proposed three credits for existing advisers with 15 years' experience or more (effectively measured in terms of since the start of FSRA in 2003/4), two credits for 10 or more years, but less than 15 and one credit for between five and 10 years' experience. It should also be noted that there is no credit for the completion of Diplomas (other than the eight subject DFP), and therefore the inclusion of an experience credit is a straight forward way to recognise the study that these advisers have already undertaken at the Diploma level.

We have also proposed in the section below that financial advisers with a professional designation should get three subjects' credit.

We are conscious that there are a number of existing financial advisers who have undertaken Graduate Certificates and Graduate Diplomas in recent years and we want to ensure that they will be appropriately recognised. We are conscious that for existing advisers, access to RPL is limited to the completion of ADFP (or equivalent) and professional designations. It is not immediately apparent how such advisers can ensure they have appropriate access to RPL for these previous AQF 8 studies.

The AFA recommends the following:

- Additional credits to be provided based upon the relevant provider's experience (incorporating previous study and CPD):
  - 15 years (or more) experience: three subjects
  - Over 10 years (but less than 15 years): two subjects
  - Over 5 years (but less than 10): one subject
- FASEA should provide three subjects credit for relevant providers who have completed a professional designation offered by a professional association through coursework of four subjects or more since the commencement of the current licensing regime (2003/4). No date completed restriction should apply.
- Provide a mechanism to recognise previous study at AQF 7 and above level, including Graduate Certificates and Graduate Diplomas, such that a 'one for one' subject credit applies.

9.7 Professional Designations

One of the hottest areas of this debate has been the recognition of professional designations, which had been an issue in the 14 December 2017 and 20 March 2018 announcements. We are pleased to see that it has been addressed in the November 2018 announcement. The release of the FASEA Blueprint and the reference to specific dates for eligibility generated a lot of concern, although to some extent this was partially addressed and clarified with the 20 November 2018 announcement on Education Pathways. We believe that more certainty would be beneficial.

In terms of the assessment of professional designations, we are very conscious that some universities are currently providing up to four subjects advanced standing or credit on the basis of a professional designation undertaken via coursework. In the case of the FChFP course it has been assessed at AQF 9 and is already reflected in articulation agreements with a number of universities. We therefore propose that the number of credits be increased from two to three subjects.

It appears that FASEA is proposing to do a blanket approval of the ADFP (or equivalent), without the need for applications being made. It appears that this is not dependent upon specific institutions being required to make submissions. We would therefore suggest that a similar approach is employed with professional designations comprising four subjects or more, so that existing financial advisers have greater certainty. We also believe that it should be applied to nominated professional designations back to the time of the commencement of the current licensing regime. Existing financial advisers should not be penalised on the basis of the professional designation programs that were available at the time they entered the financial advice profession.

9.8 Recognising Previous Financial Planning Study at the AQF 8 Level

We note that at this point in time there are no FASEA approved Graduate Diplomas (AQF 8). We are also aware that some financial advisers have previously completed either Graduate Certificates or Graduate Diplomas in Financial Planning over recent years. We believe that these advisers need to be considered in the FASEA standard. We recommend that those advisers with an existing Graduate Diploma or who are currently in the process of studying a Graduate Diploma should be recognised and those who have completed or are currently studying a Graduate Certificate should get 'one-for-one' credit for this study.

The AFA recommends that financial advisers who have already completed study through a Graduate Diploma of Financial Planning should be treated as FASEA compliant, although we appreciate that FASEA may expect them to do the FASEA Code of Ethics subject. Those who have previously completed a Graduate Certificate should get credit for this study.

9.9 Calls for Alternative Arrangements or a Carve-Out for Risk Specialists

There is an increasing tide of demand for separate treatment for risk specialists that would adequately recognise their experience, different training requirements and provide access to sensible specialist training. We are certainly sympathetic to these calls, although we note that there is no provision for FASEA to create a separate pathway specifically for one specialist area. We therefore recommend that this important cohort of advisers be specifically recognised by the implementation of the experience recognition option and by the provision of greater flexibility in the required study so that risk specialists can undertake study in areas such as underwriting, claims management and business succession. Taking this approach is an option available to FASEA and we strongly recommend that they take action to broaden the curriculum for existing advisers to enable access to specialist areas of study.

10. Other Feedback on FPS001 Education Pathways Policy

In addition to the points raised above, our additional feedback on FPS001 is as follows:

- We recommend that this document should refer (wherever used) to an 'ADFP (or equivalent)', rather than just ADFP.
- In figure 2 for the Existing Adviser with approved degree, a Graduate Diploma is listed. In our review of the draft Legislative Instrument the only Graduate Diplomas that were listed required the student to have already completed either an undergraduate or Master's Degree. Potentially a different RPL policy could apply to this pathway that might be advantageous to some financial advisers. Thus, we are confused about the relevance of a Graduate Diploma in this category, and would like to see clarification.
- The bridging course 'Financial Advice Regulatory & Legal Obligations (Corporations Act, AML. Privacy & TPB)' should refer to the Tax Agent Services Act, rather than the Tax Practitioners Board. The other items refer to the legislation rather than the regulator.
- In Part A on page 7, both the Undergraduate pathway and the Career Changer pathway refer to containing the FASEA Financial Adviser Curriculum as a core part of that program. In terms of the undergraduate program they need to fit the 11 core knowledge areas into 24 subjects, however for the Graduate Diploma for Career Changers, they need to fit that same 11 core knowledge areas into just eight subjects. This seems inconsistent and we suspect that FASEA does not need to be so fixated on these 11 core knowledge areas for Career Changers or for Existing Advisers.
- In Part B, the discussion on Credit for Prior Learning on the bottom of page 9, states 'For the purposes of Pathways 2 to 5 (Existing Adviser Pathways) RPL is specified by FASEA for each pathway'. Figure 2 on page 4 diagrammatically demonstrates that the RPL policy only applies to Pathways 3 to 5. This is an important distinction that needs to be clarified. It would certainly seem to be reasonable for an existing adviser to have access to broader RPL, should they be applying to undertake a Master of Financial Planning.
- We note the second paragraph under Credit for Prior Learning on page 9, and wonder whether this is applicable, given that the only RPL that is permitted is under the FASEA RPL policy for Existing Advisers.
- On page 10, under Credit for Prior Learning, there is a statement that 'RPL can be awarded for the Financial Advice Regulatory & Legal Obligations & Behavioural Finance bridging courses as long as substitute courses have been approved by FASEA'. We ask 'what does this mean?'. If

a financial adviser, with a relevant degree and an ADFP, only needs to complete the one bridging course, then why do they need to prove that they have completed substitute courses?
- We believe that we understand the section on page 10 on Qualifications issued, in that less than four subjects would not qualify for a Graduate Diploma under TEQSA guidelines, however two or more subjects would be eligible to qualify for a Graduate Certificate, and we believe that this should be recognised and supported.
- The section on Existing Advisers – Approved degree includes a reference to a Graduate Diploma, however it is our understanding that a Graduate Diploma is not a degree, and we therefore feel that this requires greater clarification.
- The discussion on Existing Adviser – Relevant degree pathway on page 10 refers again to a Graduate Diploma, however it is our understanding that this is not normally classified as a degree, so we feel that this requires further clarification.
- The discussion on Existing Adviser – Non relevant/Other degree pathway on page 11 refers again to a Graduate Diploma, however it is our understanding that this is not normally classified as a degree, so we feel that this requires further clarification.

11. Other Feedback on FPS002 – Program & Provider Accreditation Policy

We are particularly concerned about the lack of open consultation on the FASEA curriculum for existing financial advisers. This was not the subject of consultation in the first round, and it appears that it is being buried in FPS002 as an uncontentious point. Our feedback on FPS002 is as follows:
- The overview on page 4 refers to FASEA Graduate Outcome Statements, although we are not aware that these statements have been made public.
- It is our view that the 11 core knowledge areas listed on page 4 do not all need to be core or to be undertaken by all existing advisers. We would further put forward the view that the concept of core does not apply in the context of the model for existing advisers where many advisers will get credits and will therefore not be doing all these subjects. We think that the whole approach to core knowledge areas needs to be reconsidered in the context of existing advisers.
- We refer back to FPS001, which on pages 11, 12 and 13 repeatedly refers to a FASEA approved list of electives. How can the reference to electives, be consistent with having 11 core knowledge areas?
- In our view, there needs to be much greater flexibility in the selection of study for existing advisers. We would like to see a range of electives offered that will be beneficial to specialists. We would also like to see more focus on running a financial advice practice as opposed to the current predominant focus upon the provision of financial advice. We also would support more focus upon client relationship management and emotional intelligence skills.
- The approval process across a range of courses refers to review panels, however there is no discussion of who will constitute these review panels and what qualifications they would be required to hold.
- We note that the discussion on the approval of professional designations refers to an assessment of the curriculum. The curriculum is not defined, however if it is once again a focus upon the 11 core knowledge areas then we would like to express an objection. The Fellow Chartered Financial Practitioner (FChFP) program is much more based around the running of a financial advice practice and focusses upon skills that practitioners need to develop after they have completed their foundational education. The assessment of Professional Designations should not be based upon a consideration of the curriculum relative to the FPEC dominated FASEA core knowledge areas. We would also like to refer FASEA to the October 2017 AFA whitepaper called “Financial Advice Competency Framework – an Industry Consensus”, which set out a range of knowledge domains and competencies that we believe should be considered in the context of the curriculum consideration for existing advisers.

- The discussion on 'Existing Provider Transition – Education Standard and Recognition of Prior Learning (RPL)' lacks sufficient clarity on the difference in the RPL treatment between new advisers and existing advisers. We have observed some level of confusion with respect to the limitations on RPL for existing advisers within the Higher Education providers community and would recommend that this policy is clearly set out in FPS002.

12. Other Feedback on the Explanatory Statement

In addition to the points raised above, our additional feedback on the Explanatory Statement is as follows:

- We note the definition of degree includes a Graduate Diploma. We were not aware that this was the convention.
- With respect to the definition of relevant field of study, we note the inclusion of business law (as approved by the Tax Practitioners Board) and taxation law (as approved by the Tax Practitioners Board). The TPB typically requires a tax (financial) adviser to have completed an approved course in commercial law (not business law) and taxation law. When it comes to the definition of a relevant degree, we do not understand why these courses need to be approved by the TPB. This definition is discriminating against older advisers. It would also be relevant to suggest that commercial law has not changed that much in recent years to suggest that an effective date is required. Neither for that matter should previous study on taxation law be excluded. We also make the point that the Policy Statement refers to these courses as *defined* by the TPB, rather than *approved*. This needs to be clarified.
- We have separately made the point that this list of relevant fields of study should include financial advice/planning/services, insurance, SoA Construction and superannuation (including SMSFs). We have also discussed above in the Relevant Degree section (9.3), further feedback on the nominated relevant fields of study.
- We note that Section 921U(2(a)(i) requires FASEA to make a Legislative Instrument for the purpose of approving bachelor or higher degrees, or equivalent qualifications. We had assumed that this Legislative Instrument would also clearly set out FASEA's policy with respect to existing relevant providers as required by Section 1546B(1)(b). Paragraph 18 makes the point that FASEA is currently assessing courses for the purpose of Section 1546B and will amend this determination to specify these courses in due course. We are unsure exactly how this will be done given the credits framework that is proposed and various options that may exist. We believe that it would be better to set out the policy intent in the Legislative Instrument. We would be concerned if further confusion prevailed as to exactly what RPL is available and who will determine what RPL is to be provided.

Concluding Remarks

These changes are the most significant that the financial advice sector has faced in a generation and the consequences could be drastic if we fail to win the commitment of existing advisers to make the leap and commence the journey towards higher minimum education standards. It is important to strike the right balance so as to engage and enthuse advisers. The final round of review and modifications are important to ensure that Australians can continue to access financial advice that is of a high quality, readily available and affordable.

What FASEA have proposed is a material improvement on the March 2018 announcement, however it does not go far enough and more needs to be done to adequately reflect the qualifications and experience of existing advisers. It certainly does not address what we believe is the critical objective of ensuring that the financial advice profession is sustainable. We also think that significant modifications are required to ensure that financial advisers will gain value from the completion of further study.

Should you require clarification of anything in this submission, then please contact us on (02) 9267 4003.

Yours faithfully,

Philip Kewin
Chief Executive Officer
Association of Financial Advisers Ltd