

31 July 2018

Professor Mark Brimble
Acting Managing Director
Financial Advice Standards and Ethics Authority

By email: consultation@fasea.gov.au

Dear Professor Brimble,

AFA Submission: FASEA - Financial Adviser Examination

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 Directors are currently 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

The AFA supports the utilisation of a sensible examination that will serve to confirm that all ongoing advisers have an adequate understanding of the core requirements of being a financial adviser. Financial advice is an important profession and clients place a great deal of trust in their adviser. They expect them to be knowledgeable, ethical, empathetic and good communicators. Clients make a significant investment in their relationship with their financial adviser, including time and openness about their goals and personal circumstances. They rightly expect that their financial advice partner is of the right character. Importantly, they expect to retain an ongoing relationship with their adviser and are not expecting them to be deregistered if they do not quite achieve the new standards set by this regime.

It has for some time been our expectation that passing the national exam was a way for advisers to demonstrate their capability to their clients. We also envisaged that it was a mechanism that would

remove those who are fundamentally inadequate and that this was something that was in the best interests of their clients, the community and the financial advice profession as a whole.

Whilst we recognise that there will be some consumer groups and maybe even some young highly qualified financial advisers who will call for higher and more difficult standards, it was never our expectation that the Professional Standards regime was the vehicle for a “cull” of a large percentage of the financial adviser population. It should also be recognised that very few, if any, courses and certainly no other professions are solely reliant on one single exam as the sole determinant of a professional’s ability to continue to operate. This should always have been a journey to assist advisers to ensure that they meet the standards expected in the future. In reality, it appears to have become the complete opposite.

The requirements set out in this consultation paper will, if they are implemented as proposed, achieve exactly that – a cull of many advisers. This exam will remove many good advisers who for one reason or another will struggle to pass such a challenging exam.

Put simply, if it was a four-hour closed book exam with no preparation materials and a limit of two re-sits, even the very best financial advisers will be highly challenged and anxious.

One of the key skills of being a good financial adviser is the ability to put yourself in the shoes of your client and to understand their situation from their perspective. The same needs to apply in this case for the benefit of those impacted financial advisers, in that those setting the standards and those who are commenting on these standards, need to view these requirements from the perspective of those particular groups of advisers who will be most threatened by this exam requirement. This will include advisers who find examinations difficult or suffer anxiety and those financial advisers in their 60’s and 70’s who have a passion for their profession and for their clients, however have not completed an exam for many years and will undoubtedly struggle when put into this position.

This is a critical, large scale change program; however, we need to ensure that as many advisers as possible are willing to commit to this journey and a substantial majority make it to the required destination. This will be for the benefit of financial advisers and the broader community.

From our perspective, the requirements for the exam as set out by FASEA in this consultation process, go substantially above the typical requirements of university courses. We would have expected to see some comparative analysis in the consultation paper to justify the extent of the expectations.

This is a time for the profession to put aside self interest and commit to achieving a better outcome for the community, however this will not be achieved if we experience a cull of advisers and there are hundreds of thousands of clients left without a financial adviser. We are not suggesting a compromise of standards, just suggesting the need for a realistic assessment.

We are increasingly concerned as to whether existing advisers who are sitting the exam will have the opportunity to undertake study in preparation for achieving the degree equivalence requirement in advance of sitting the exam. In our view it will take some time before approved Graduate Diploma and bridging courses become available and it therefore may not be possible for existing advisers to complete the study before they need to sit the exam. Why have an exam before the appropriate learning material is available? We believe that this is an issue that the Government should look at.

It is important to recognise that the exam is only one of a number of hurdles that financial advisers will need to pass to remain in the financial advice profession. There should be no assumption that each of these hurdles should separately remove a significant proportion of advisers from the profession. It is after all the cumulative impact of all these measures that will contribute to a lifting of the overall

standards in the financial advice profession. The objective of this reform program should be to lift the standards of existing advisers, not to remove them on mass from the profession.

There will be particularly significant consequences for advisers that are unable to pass the exam within the required timeframe. They may be in a position where they sit the exam and are awaiting the final outcome, yet get the news in December 2020 that they have still not passed the exam. This would result in a virtual immediate need for them to cease operating. This would work to the disadvantage of their clients who would be left without an adviser at very short notice. The impact that this will have on the impacted advisers, their families and their staff should not be underestimated. Being removed from the profession as a result of failing the exam is a particularly humiliating way to leave the profession.

We recommend that a special provision be put in place to allow these advisers who do not pass the exam, six months to arrange the sale of their business or the transfer of their clients to another adviser. During this period, they should be able to continue to advise their clients, but would need to disclose the situation at the time that the advice is provided. This would at least allow them to exit their business with some level of dignity and to extract reasonable value from their business. The complexity of selling a business in a remote location or their clients finding an alternative provider of financial advice should not be underestimated. This six-month extension would also allow the adviser to prepare for life after financial advice, including how to support their family and cover the cost of their mortgage.

1.1 Summary of Recommendations

As addressed below, our key recommendations are as follows:

- The curriculum needs to be defined on the basis of clearly set out learning objectives. Five bullet points is an entirely inadequate basis to approach such an important exercise.
- The content of the exam should be limited to what is reasonable for advisers to study prior to sitting the exam.
- The exam should be entirely multiple-choice in order to reduce the complexity of marking and to speed up the process to generate results.
- The duration of the exam should be limited to two and a half hours plus reading time. Four hours in one sitting is excessive and unprecedented.
- There should be no scaling, an overall pass mark of 60% and a minimum score of 50% for each category of questions. They should only be required to resit the sections of the exam where they did not achieve a 60% or greater score.
- Unsuccessful candidates should get feedback on what areas they need to improve, to assist them to pass the exam at the next re-sit.
- The exam should be conducted on-line wherever possible to minimise the cost and reduce the marking timeframe.
- There should be no limitation on the number of re-sits.
- Preparation materials and practice exams should be made available to assist advisers to prepare for the exam.
- Advisers should be allowed the time to complete the applicable study as part of working towards achieving degree equivalence that is relevant to the exam, before sitting the exam.
- Advisers who do not pass the exam should have a six months grace period in which to sell their business and exit the profession.

2. Purpose of the Exam

We note the statement that the “pass requirement is intended to ensure consistent, minimum professional standards of education and competency apply to financial advisers nationally”. We believe that it is important to note that this is a minimum standard and it should be treated as such.

It further states that “the examination assesses applied knowledge, which forms a significant basis of competence in the profession”. We believe that the reference to applied knowledge is important. This exam should assess an adviser’s ability to deliver financial advice in a conventional context. We do not believe that this is reflected in a four-hour closed book exam context.

We are in no doubt that the failure to pass the exam by 31 December 2020 will result in the removal of the financial adviser from the profession. There are very significant consequences and it is essential that the right balance is achieved. Whilst technically it would be possible for existing financial advisers who fail the exam to return to the profession through the pathway of a new adviser, completing an approved degree, the exam and the professional year, in our view this is most improbable for the vast majority of existing advisers.

It should be noted that this exam will apply to both Authorised Representatives and Representatives (Salaried advisers, Directors etc), and not just Authorised Representatives as set out on page 2.

3. Curriculum

In our view, one key missing element in this consultation paper is a clearly defined set of learning objectives. Section 3 appears to move past this and simply set out five bullet points on the exam content. This is not the basis to undertake consultation on something so important with such broad consequences. The inclusion of just five bullet points on the curriculum is particularly unsatisfactory.

We support the intention of the proposal that the exam should be designed at the AQF 7 level, however noting that this is a standard that typically applies at the end of a three-year degree and that this may be unrealistic as the first target for advisers who have not previously experienced tertiary level education. This needs to be taken into account.

The first examination area refers to the Corporations Act with an emphasis on Chapter 7. We support the inclusion of the Corporations Act in the exam, however question the lack of clarity on what is required. Importantly, Chapter 7 includes some 891 different sections and over 500 pages of content. Much of Chapter 7 does not have anything other than a peripheral relevance to financial advice. We believe that this consultation and the guidance to financial advisers should clearly set out which sections of Chapter 7 apply. This lack of clarity needs to be viewed in the context of the suggestion that this would be a closed book exam and FASEA have indicated that no preparation materials will be provided. Seeking to understand over 500 pages of the Corporations Act for a closed book exam is not a challenge that any rational person would seek. Importantly it is not something that is expected of lawyers sitting exams as part of their official registration process.

There are other stakeholders who have questioned why the exam should be limited to one area of the law, and are wondering why it does not cover other relevant pieces of legislation such as the Privacy Act, the Tax Agent Services Act and the Anti Money Laundering and Counter Terrorism Financing legislation. We acknowledge these concerns.

We support the inclusion of the FASEA Code of Ethics in the exam, however in the context of the questions assessing applied knowledge, we seek to understand the difference between the questions on the FASEA Code of Ethics and the fifth category of ‘Applied Ethical and Professional Reasoning and

Communication’. How does this later section differ from the FASEA Code of Ethics in that the questions are all intended to be applied? It also requires clarification as to what is the scope of “professional reasoning and communication” that is being examined? Depending upon this clarification it may be appropriate to combine the second and fifth bullet points.

We are supportive of the inclusion of behavioural finance in the bridging courses and Graduate Diplomas, however we are concerned about it’s inclusion in the exam, if the candidate has not had the opportunity to formally study behavioural finance. Typically, behavioural finance subjects at university level, contain a lot of content including advanced mathematics. This may not be reasonable to expect of the majority of existing financial advisers. In the absence of further detail on what is proposed to be covered within behavioural finance, it is difficult to offer further comment.

In terms of the fourth bullet point on “Financial Advice Construction – suitability of advice aligned to different consumer groups”, we had assumed that this was with respect to the financial advice process, however we are confused by linking this to different consumer groups. Is this reference to different consumer groups linked in some way to the process of scoping the advice? We also question whether this is a reference to the application of technical knowledge? We are aware of concerns that this short description might imply advice that is generic to a broad consumer group and not tailored to the needs of a specific client. This is clearly inconsistent with the Best Interests Duty and related obligations and requires clarification. This confusion is a direct consequence of only providing a single bullet point on this examination topic. We support the inclusion of questions on the financial advice process in the exam, however without further detail on what this section refers to, it is difficult to provide further comment.

It is our view that this consultation paper should have set out some example questions so that industry stakeholders had a genuine understanding as to how FASEA proposed to apply the exam in terms of the “application of the knowledge to actual financial advice scenarios”. Such additional context would also have been useful in assessing the appropriateness of the number of questions.

We are concerned about the integrity of this consultation process in the absence of clarity on the learning objectives, greater detail on the five bullet points for curriculum and in the absence of illustrative questions. We are aware that our concerns are shared by many other stakeholders.

Question 3.1: Do you agree with the scope of the proposed examination?

As discussed above, we are supportive of the inclusion of questions in the exam on the Corporations Act, the FASEA Code of Ethics, and the Advice Process. Beyond agreeing to these at a high level and in the virtual complete absence of any definitive detail on the substance of the examination areas, it is difficult for us to offer any further detailed response.

Question 3.2: Is the proposed scope of the exam appropriate for new entrants and existing advisers?

We support a single exam being applied across both new and existing advisers. We believe that the curriculum set out in the consultation paper at a very high level and discussed above, should enable questions to be developed that are suitable for inclusion for both new and existing advisers. Whilst we recognise that new advisers without practical experience may be at some level of disadvantage, we believe that this can be addressed by clarity of the content of the exam, preparation materials and other support that might be available from universities and other education/training providers.

4. Examination Format

In the context that this exam needs to apply to as many of the existing 25,400 advisers who are willing to sit the exam, we believe that ease of delivery of the exam should be a high order priority. If 25,000 advisers sat the exam and there were five written response questions each, then this would amount to 125,000 questions that needed to be marked and this is just in terms of the first sit. We expect that the majority of existing advisers will leave it to the last six months of 2020 in order to maximise their time to sufficiently prepare and optimistically hoping to benefit from study to be undertaken in order to achieve degree equivalence. This will mean that a significant proportion of advisers will sit the exam in each of the last six sittings prior to the deadline. This would seem to present a substantial challenge for those doing the marking.

Thus, given the volume of people completing the exam, we would recommend that it be limited to multiple-choice questions that can be marked automatically. This will also help to keep the cost of the exam down and significantly reduce the time to complete the marking and provide results to candidates.

Whilst we recognise that adults find multiple-choice exams more difficult and short answer type questions will provide an opportunity for advisers to demonstrate their grasp of the subject matter, we favour multiple-choice on the grounds of simplifying the process, reducing the cost and speeding up the production of results.

We otherwise agree with the idea of a bank of questions that can be rotated, retired and added to.

We note the comment on the mix of the exam that it will contain “written response style questions e.g. Case study style – short answer and report writing questions”. This leaves a level of uncertainty with respect to the actual style of the questions – are they short answer or report writing in nature? This requires more clarification.

It may be more appropriate to include written answer questions in the exam when the volume of people sitting the exam declines once all existing advisers have completed the process. At that time the volume of candidates will be significantly reduced, making the process more manageable.

We note the inclusion of the sentence “Although the questions can rely on a factual knowledge base, the proposed examination relies more on the application of that knowledge to actual financial advice scenarios”, which is virtually identical to a sentence above in Section 3 on the curriculum.

4.1 Indicative Number of Questions

We question the order in which some of these matters have been addressed. It seems unusual to start with the number of questions rather than the duration of the exam. Ideally this entire assessment should start with the learning objectives to then work out what needs to be examined and then how many questions are required and then finally what the duration is. No rationale has been put forward as to why 75 questions is the right number. No rationale has been put forward as to why the questions would be of a different value.

An assessment of the time that a candidate would have to answer each question, suggests that 75 questions may be excessive for the time that is available, particularly if it was set with a duration of two and a half or three hours.

We do not support the idea of a different set of questions for new advisers as opposed to existing advisers. This adds additional complexity and will be subject to questioning as to which set of

questions is more complex and why.

Question 4.1: Is the type and mix of questions proposed for the exam appropriate (i.e. selected vs written)?

As discussed above, in the context of the number of advisers that need to sit the exam in a short period of time, we believe that it should be limited to multiple-choice questions so that they can be marked in an automatic manner.

4.2 Proportion of Questions Testing each Domain of the Curriculum

In the context of the discussion above with respect to the curriculum, we note that the Code of Ethics and applied ethics are of a very similar nature. We are not sure why 40% of the total exam is being devoted to this area.

We also question the value of only 10% of the exam being devoted to behavioural finance. This seems to be a small percentage and therefore increases the risk that some candidates are at greater risk of failing to meet the minimum 50% pass mark for each category. We have also expressed concerns above about the inclusion of behavioural finance in the exam.

We are otherwise supportive of the proportions allocated to each category.

Question 4.2: Is the curriculum proposed to be covered appropriate?

We believe that this question has already been addressed above as Question 3.1 on the scope of the proposed examination.

We refer to our response above to Question 3.1.

4.3 Duration

We note the reference to between three and four hours. We question why this is expressed as such a broad range. Nonetheless we also express the point that 4 hours is absolutely extreme. What reference points have been used in terms of the timeframe for comparable exams in other professions in order to think that this is in any way reasonable? We also note that there is no reference to reading time, which would need to be on top of the time proposed. This is an important piece of detail that should be presented. There is no discussion about the percentage of candidates who are expected to attempt every question and the number who may struggle to complete every question in the allowed timeframe.

In assessing the duration, due consideration needs to be given to the differing groups of people who are going to be sitting this exam. Some of the candidates will be above the normal retirement age and will in some cases be challenged to retain concentration for such a long period of time. Others may have medical limitations that will restrict their capacity. One example that has been discussed with us is the potential complications for older candidates who have bladder and related issues.

A four-hour exam is also likely to generate a lot of anxiety. We would suggest that reference needs to be made to the purpose and the focus upon minimum professional standards. We do not accept that a four-hour exam is consistent with the stated objective of raising the minimum standard. It is far in excess of that.

There is a comment that the duration would be determined on the basis of the pilot. We do not believe

that this is appropriate. The maximum should be agreed up front and if the pilot suggests that the requirements are excessive, then the number of questions should be reduced.

Question 4.3: Is the proposed duration of the exam appropriate?

We believe that four hours is completely excessive.

Our recommendation is that the exam is limited to two and a half hours with 30 minutes reading time.

4.4 Marking

We accept that community expectations may be that the pass mark is more than 50%, however if this is the case, then we do not see any substantial grounds for it to be materially greater than 50%. In our view a 60% overall pass mark should be sufficient. It would be beneficial for FASEA to articulate what pass rates are applied in comparable professions. A pass rate above 50% should not imply that a higher percentage of candidates will fail, and the complexity of the exam should take this into account.

We note however that the pass mark for university study is most typically 50% and this is what we would expect to be the case for the bridging courses and the Graduate Diplomas.

With respect to the comment about scaling, we refer to the following statement:

“Raw scores (the total number of answers that were correct) will be arithmetically converted to a scale that ranges from 0 to 100 that takes into consideration differences in the difficulty among different versions of the test.”

It is our interpretation that this means that raw scores will be adjusted to reflect the expected distribution of scores. This seems to imply that they will sit between an adjusted score of 0 and 100. Such a process implies an expected pass rate and fail rate. This certainly sounds like a substantial process rather than a more minor tweak of the scores to take into account limited differences in the complexity of questions. It also suggests that candidates will be adjusted to reflect expected failure rates. It may be that this has simply been poorly explained.

We question how this scaling process will be undertaken. Is it simply on the basis that the results of each exam are expected to be similar? How will this take into account that the capability of candidates may increase over time as the benefit of further study for degree equivalence impacts upon the results.

We anticipate that a significant number of existing advisers who did not expect to pass the national exam will choose not to sit the exam. This would need to be taken into consideration in any thinking about how many advisers might be expected to fail the exam.

We strongly oppose any proposal to scale raw scores. Adequate assessment of the different questions should be undertaken to ensure that the complexity of one exam is comparable to the next. A proposal to scale results will seriously impact upon the confidence that candidates have in the examination process. Other solutions should be found before scaling is introduced.

It is noted that a pass mark of 75% is required to pass the Code of Ethics knowledge area. We assume that this is only the FASEA Code of Ethics category and not the “Applied ethical and professional reasoning and communication” category. We do not accept that there should be a different pass mark for different categories. No rationale has been put forward for why the pass mark for the Code of Ethics category should be higher than for the other categories.

We also make the point that with only 15% of questions allocated to the Code of Ethics category, that this could be as few as 11 questions. On the basis of 11 equal questions, this would imply a requirement to get 9 of these 11 questions correct (81.8%), as 8 out of 11 (72.7%) would not meet the 75% requirement. The inclusion of a higher pass rate for a smaller category of questions creates a set of additional complications that should be avoided.

We also question the meaning of the statement that “examination and pass rates will be moderated by an expert panel.” What is the role of this expert panel? This once again seems to imply an expectation of certain pass rates and fail rates. We invite FASEA to share with the financial advice profession the expected fail rate.

We also note the statement about publication of examination results. We question what is meant by publication? We assume that results will be released only to the candidate, however this might require clarification. We also question whether it was FASEA’s intention to issue raw scores and adjusted scores or if the intent is to just provide a pass or fail outcome? This has not been addressed.

We strongly recommend that any candidate who fails the exam should get a comprehensive report on the areas that they have failed and guidance on further study they should undertake in preparation for a further re-sit. This is similar to what candidates get from sitting Kaplan’s Kudos exam. We believe that this is technically possible and would be very beneficial for impacted candidates.

A four to six-week timeframe to issue results is excessive. This will particularly be the case where candidates are very keen to know if they have passed the exam and are giving consideration of the alternative options if a re-sit is required. As discussed above, we believe that a multiple-choice only exam will enable more timely release of results. We also make the point that a four to six-week timeframe to obtain the results would mean that mid November 2020 would be the latest time that anyone could sit the exam. What would happen if there were no seats available at that time?

Question 4.4: Is the proposed overall scaled pass mark of 65% and the additional individual knowledge area pass requirements appropriate? Should the Code of Ethics knowledge area pass mark be set at 75% or other level and the other knowledge areas at 50% or other level?

As discussed above, we support a higher overall pass rate than 50%, and suggest that this should be 60%.

We believe that the pass mark for each individual category should be 50%. We do not believe that a 75% pass mark for the Code of Ethics questions is appropriate. As discussed above, we believe that this will create unnecessary complexity. For a person who is struggling for time, if they leave out an Ethics question without realizing the implications, then it will make it extremely difficult for them to pass.

5. Sitting the Examination

Section 5 refers to some unexpected categories of candidates that have not been explained. Our questions on this are as follows:

- In terms of people who have foreign qualifications, it is more appropriate to talk in terms of new advisers (post 1 January 2019) who have met the degree equivalence requirement? This might be comprised of some courses undertaken overseas and other courses that might need to be undertaken in Australia.

- What are the implications for someone who has previously been registered as a financial adviser and are now returning after more than 5 years. Does this imply that they are classified as an existing adviser or not? This is not addressed in the legislation.
- If an adviser was directed by a Code Monitoring Body, panel or tribunal to undertake the exam, then what are the implications if they fail? We are not aware of how this is covered in the legislation.

We are aware of some concerns that have been expressed in terms of the reference on page 5 of the consultation paper to individuals having the ability to apply for a re-sit in exceptional circumstances. This either implies that candidates need to apply for re-sits or it is actually referring to candidates who were unable to attend a confirmed sitting of an exam for specific defined reasons. Either way it is not expressed as clearly as it should have been.

We do not agree that there should be a limit of two re-sits. The number of times that an existing adviser is able to sit the exam will be limited by the remaining time to the deadline and influenced by the cost of sitting the exam. We expect that the majority of advisers will seek to sit the exam in the last six months in order to maximize the time to prepare and to benefit from study undertaken in order to achieve the degree equivalence requirement. It might be that if they don't sit the exam for the first time until the middle of 2020, then they would only have sufficient time to attempt it three times before the deadline.

In this context, we believe that the stipulation of a maximum number of re-sits is only going to cause a much greater level of anxiety. It is also likely to cause a delay in when people are going to first sit the exam when taking into account an incentive to retain attempts until they are most prepared.

We further suggest that where a candidate needs to re-sit the exam, that they should only need to re-sit the sections of the exam that they have failed to achieve the required standard (we have suggested 60%). Where they have already proven that they are capable in certain areas, then we do not believe that they should need to re-sit this part of the exam.

We note the challenge of having the exam available from January 2019 for new entrants. We certainly trust that FASEA has left sufficient time to take on board the feedback from this consultation process before locking in the plans to deliver to a January 2019 deadline.

Question 5.1: Is the proposed number of resits appropriate?

We believe that the limitation on re-sits is unnecessary and that it will be largely redundant as most advisers will not attempt the exam for the first time until a point in time where their attempts would be limited in any case.

We recommend that the maximum number of re-sits is removed.

5.1 Delivery Mode

We accept that all examinations need to be invigilated, however we note that solutions are available to invigilate on-line exams. Given that on-line exams will be easier to administer, less costly and quicker to mark, we believe that more consideration should be given to this option as opposed to a reliance on examination centres. The statement that the exam will be made available in the capital city of each state and territory simply neglects the scale of states like Queensland and Western Australia. Someone in Broome or Port Douglas will be inequitably impacted by this. The cost of physically attending an exam centre, when travel, accommodation and time out of the office is considered, would be significant. The substantial disruption will also magnify the challenge and anxiety. An on-line solution will be a much more equitable outcome for people outside of the capital

cities. It is also more practical for those in the capital cities.

In terms of the frequency of exams, it may be appropriate for the exams to be held twice a month in the last six months of 2020 before the deadline for existing advisers.

We also believe that new entrants should be doing the same exam as existing advisers and should therefore also be able to have access to the exam on a monthly basis.

Question 5.2: Is the proposed mode and frequency of delivery appropriate?

As discussed above, we believe that a monthly basis is appropriate until June 2020, when it should be available on a twice a month basis until the end of 2020.

6. Examination Logistics

We note the section on examination logistics. We do not believe that it is academic convention to expect exam candidates to provide two pieces of identification. This is excessive and appears to imply a lack of trust in the financial adviser community. If it is possible to travel overseas on the basis of one form of identification (a passport) and it is possible to check-in for a domestic flight on the basis of a driver’s license, then one form of photo identification should be sufficient for the exam.

We disagree with the proposal that the exam be entirely closed book, particularly in the context of the excessive length of the exam and such little detail being provided on the learning objectives and the examination content. Without further guidance on which sections of Chapter 7 of the Corporations Act that financial advisers need to understand, then in the context of their being 891 different sections, an open book approach would certainly be preferable.

It would be more appropriate if FASEA was to provide further guidance on which sections of the Corporation Act are required and then permit this to be brought into the exam.

It is our understanding that open book is the conventional approach for legal exams and can not see why financial advisers should be expected to memorise, the entirety of Chapter 7 of the Corporations Act. We also make the point that financial advisers in their day to day operations have the ability to refer to technical guidance and legal references. Why should this exam be so artificial in the exclusion of any ability to refer to important reference sources? This is not the real world.

We are particularly concerned that a four-hour exam, with no preparation material and a closed book format will significantly add to the level of anxiety that the exam will generate and as a result negatively impact upon the performance of candidates.

Whilst we support the importance of compliance with examination rules, we do not see the justification for the statement about criminal action for more serious breaches of examination rules or security. This section contains a level of detail in a consultation paper that seems unnecessary, particularly in the context of the lack of detail in much more important areas.

7. Additional Needs

Question 7.1: Are the proposed arrangements in relation to additional needs appropriate?

We support the proposed arrangements for additional needs. We make only one suggestion, which is that where a candidate applies for special needs, and that application is approved, then this should apply for both the first time that they sit the exam and any re-sit they need to undertake.

8. Special Consideration

We support the need for rigorous procedures around special consideration, however we question whether these special consideration provisions, as set out in the consultation paper, reflect the practices at Australian universities. It would seem to us that the requirements with respect to acute illness may be more demanding than is reasonable. Someone suffering a case of Gastro or a severe migraine should qualify for special consideration, however may not require hospital admission and would not be classified as the onset of serious illness. It is also important that these provisions adequately allow for people with mental health conditions, including anxiety and depression. We feel that the other provisions are also too restrictive.

The AFA offers a counselling service to our members and over recent months we have experienced an increase in referrals to this service. There is no question that the requirements of the Professional Standards regime have been a major contributing factor.

We ask the question as to whether there is any appeals process available for candidates in terms of the ability to seek a review of their results? This is a process that is often available in a university context.

Question 8.1: Are the proposed arrangements in relation to special consideration appropriate?

We would suggest that these requirements should be consistent with those that typically apply at Australian universities. The requirements for acute illness and other causes are tighter than would normally apply.

9. Learning/Study Materials

We note with particular disappointment the statement in Section 9 that “FASEA does not intend to provide examination preparation courses” and that the best that existing advisers could expect was that “FASEA may publish a recommended reading list to guide candidates preparing for the examination”. In the context of the significant challenge that many of the existing advisers face, this position seems to be unsupportive, unreasonable and indeed unprecedented for any profession. It should not be forgotten that many of these advisers have been practicing for decades and will be unaccustomed to undertaking exams. They will be looking for support and guidance. The position that FASEA have taken is to deny any support or guidance and then make it difficult for any other party to provide this support and guidance. It should be noted that practice exams are common in many educational and academic environments.

We feel that it is appropriate to refer FASEA back to the following text on page 8 of the 20 March 2018 consultation on education standards. This statement seems to imply that the education undertaken to achieve the degree equivalence study will assist an adviser to pass the exam:

“How does this relate to the Exam?

A national exam must be passed all relevant providers. Formal education through the range of education pathways will likely improve an adviser’s capacity to meet the requirements of the national exam.”

It is our expectation that since the education standard legislative instrument will not be finalised until December 2018, and it will take education institutions a significant period of time to develop these courses and have them approved, that courses will not be available to commence study towards

achieving degree equivalence until 2020. This means that existing advisers will not have enough time to complete the required courses by the time that they need to first sit the exam. This is extremely unfortunate as it will mean that they will be forced to undertake other study to assist them to pass the exam and that this will result in duplication of both effort and cost. We believe that the only way to address this issue is for the Government to delay the deadline for completion of the national exam.

It is important for candidates to adequately prepare for a multiple-choice exam. There are certain skills and approaches that needs to be developed as part of preparing for the exam and this should be recognised as an important part of the preparation process.

FASEA should provide preparation material for the exam and should also provide sample exams for existing advisers to practice on. The position that FASEA have set out in the consultation paper is in our view entirely unsatisfactory.

We further make the point that we are surprised that FASEA have asked no questions with respect to the section on Learning/Study Materials. In the context of this exercise requiring the entire profession to undertake this exam to continue to operate beyond 31 December 2020, it would be expected that more effort could be made to assist existing advisers to understand the areas they should study in preparation.

Concluding Remarks

We thank you for the opportunity to provide feedback on the draft financial adviser examination guidance. We have raised a number of points above with respect to the appropriateness of the exam and the apparent difficulty of the exam. We are not suggesting that the exam should not be challenging, however we do not accept that what has been proposed is appropriate.

Whilst the consultation period for the exam has been much shorter than for the education standards, we have received a lot of feedback from our members who find the lack of detail on content, the four-hour length, the limitation on resits and the lack of any preparation materials incredulous. The common feedback is that they expected FASEA to assist the financial advice sector to transition to full recognition as a profession, rather than make it impossible to succeed on multiple fronts. We have made the point in previous submissions that it is important to win the hearts and minds of the financial adviser community, in order to obtain their commitment to this journey. Unreasonable and excessive expectations as we have seen in this consultation paper does not facilitate the winning of hearts and minds and will inevitably lead to a significant exodus of good quality financial advisers.

The AFA welcomes further consultation with FASEA should you require clarification of anything in this submission. If required, please contact us on (02) 9267 4003.

Yours sincerely,



Philip Kewin
Chief Executive Officer
Association of Financial Advisers Ltd