



25 November 2009

MEDIA RELEASE – FOR IMMEDIATE RELEASE

Investors give Ripoll Report a Pass overall

The Australian Investors Association gives a Pass mark to the Ripoll Report according to its President, Jolyon Forsyth.

“We set a very high Pass mark for the Inquiry and while they struggled in parts, we believe that the result was a good effort. From us a Pass overall.”

The AIA included ten recommendations in its submission to the Inquiry, looking at what happened in the Storm Financial situation, and working out what changes would be best from the point of view of the investor. Our scorecard.....

ScoreCard

| Requirement | Pass/Fail | Comments |
|---|---------------|---|
| 1. Ban commissions or require that payment for advice be made by the client directly | Pass | The fiduciary duty provision might hasten the demise of commissions, as will FPA actions already in train. |
| 2. Separate sales and advice functions within the industry | Pass | Report delivers some feasible ideas: fiduciary duty, disclosure of restrictions and conflicts of interest. |
| 3. Legislate that financial advisers must have degree level qualifications in financial planning plus at least two years supervised experience. | Pass conceded | Some progress in this area; other proposals likely to give rise to improvements here. But we need a way of identifying advisers who are highly skilled and experienced. |
| 4. Require that the ultimate ownership of any financial advisory firm be made quite clear to clients. | Pass conceded | Disclosure of any restrictions on advisers is a start towards this but much more needed. |
| 5. Provide simple investment risk signals for consumers e.g. 'between the flags' advice. | Fail | Rejected this idea as not part of government responsibility. If advisers do their jobs properly then signals aren't needed. |
| 6. Require investment advice charges to be made direct to the client | Pass | Didn't use AIA recommended method, but rather, other methods that could achieve similar ends. |
| 7. Empower clients to be more in control of the investment process. | Fail | Didn't really tackle this matter as the enquiry was unlikely to understand the issue. |
| 8. Promote investment education for consumers | Pass | Suggested a role for ASIC here. |

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| 9. Regulate the use of the term 'financial adviser' or 'investment adviser' | Pass | Provides a suggestion as to how to begin to address this but adds the idea of a professional registration board. |
| 10. Ensure better regulation and increased regulatory enforcement. | Pass | Quite a number of useful ideas proposed but ASIC needs to lift its game and not wait until it's too late. |

General Comment

A satisfactory effort that offers a start to some significant changes in the provision of financial advice and investment placement. The very existence of this group's efforts has stimulated others to lift their game.

"We acknowledge that it is very difficult to make dramatic changes to an industry that has grown out of selling insurance", says Mr Forsyth, "so we are satisfied with the solutions proposed. They seem like a good start. But we will watch carefully for their implementation. It's not easy to imagine that a sales culture can be changed, particularly in the very large companies, into a professional advisory one."

A major concern is whether ASIC can rein in these large companies that provide financial services and whether an individual adviser in such companies can be effectively held to a fiduciary duty.

The lack of any explicit recognition of empowering clients, giving them more control over the investment process is disappointing. Financial planners (like so many others providing a professional service) retain strong control over all phases of the consultation and action process, leaving the client to follow along, quite often in the dark. Members of the AIA seek a strong involvement in decision-making about their investments and avoid seeking advice because of this. "We don't appreciate being treated like mushrooms," says Mr Forsyth.

Other specific concerns were a seeming acceptance of current educational standards of financial advisers and the failure to require disclosure of the ownership of the licensee. Some progress has been made on both these but direct action seems to have been avoided.

The Inquiry also rejected the notion of investment 'danger signals', claiming that this was not a proper function of ASIC. "This wouldn't be necessary if financial advisers were doing their jobs properly", says Mr Forsyth.

"We acknowledge that the Inquiry had to come to grips with some very difficult matters whose history has led to entrenched practices and expectations. It was never going to be easy to change some of these. We are satisfied with progress so far. Now it's down to the government to set in train some legislative and regulatory changes that will make the Storm Financial incident much less likely to happen again."

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