

# Compliance - Navigating Regulatory Trends and Best Practices

13 March 2024

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## Compliance – Navigating Regulatory Trends and Best Practices

- License and Industry Update
- Insurance refresher
- Advice themes
- Modelling & Projections
- SMSF update
- Fees refresher
- Professional Year
- Employee Assist Program
- Questions

## QAR

- Unfortunately, no further updates
- We still expect changes to filter through over the next 12-24 months

## Experience Pathway

- Advisers must provide licensees with a declaration that they intend to rely on the pathway by 1/7/24. **The form of the declaration has yet to be released by ASIC.** We will keep you informed

An 'experienced provider' is defined as an individual who:

- between 1 January 2007 and 31 December 2021 was authorised to provide personal advice to retail clients on financial products, other than general insurance products, consumer credit insurance and/or basic banking products (post 1 July 2012), for a total cumulative period of 10 years (that is, 3,650 days); and
- has a clean disciplinary record as at 31 December 2021, i.e. has never been subject to a banning order or enforceable undertaking before this date.

## FSCP Outcomes

- <https://asic.gov.au/regulatory-resources/financial-services/financial-advice/financial-services-and-credit-panel-fscp/fscp-outcomes-register/>
- Please visit the site and review outcomes

## Complaints Handling

- Review the complaints policy
- Inform us when you receive complaint

## Breaches & Incidents

- Advisers have been self-reporting
- Examples:
  - Late FDS – no client detriment
  - Insurance not cancelled – client detriment
  - Notice of Intent to claim not completed prior to rollover – client detriment
  - Incorrect fund purchased – client detriment

### Referral Relationships

- If you are participating in a referral relationship it must be disclosed in your FSG and SOA
- Reach out to your Compliance Manager
- Referral Agreement required

### Compliance Registers

- Registers can be found on the ARC – search “registers”
- Every adviser must have an active compliance register

### CPD Points

- Should be three quarters of the way through your requirements

### PD Day

- Save the date correspondence has been sent

## Insurance Update

### Scoping and Needs Analysis

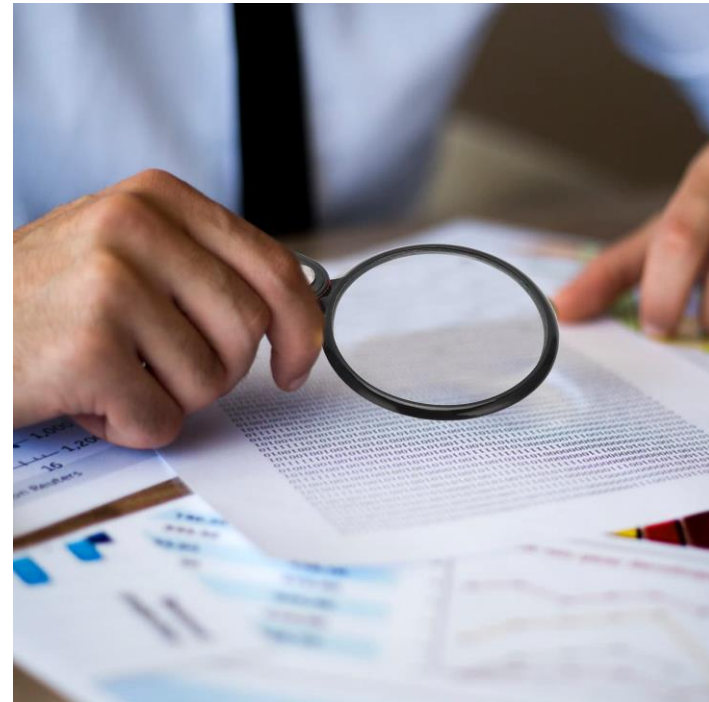
- Full needs analysis – Best Practice
- Warnings to be provided when scoping out type of cover e.g. Trauma scoped out due to cash flow restrictions. Warnings should include that the client may be underinsured and that this could have an impact in the event of a critical illness as they may not have sufficient funds to cover expenses, debt etc

### Reviews

- Review of insurance should be completed annually when client is on an ongoing service agreement
- Offer of review should be made annually when client is not on an ongoing service agreement

**Fourth Line**

**October 2023 to February 2024**



## Fourth Line themes

Issue	%
SoA not worded and presented in a clear, concise and effective manner.	45%
SoA should include all the client's personal and financial details relevant for the advice.	44%
The client's objectives and goals should be clearly stated and in their own words.	38%
The costs of all the products recommended or investigated have not been detailed clearly.	36%
SoA does not appear to disclose fees to the Licensee in dollar terms.	31%
SoA does not appear to identify or address the client's objectives, financial situation and needs.	27%
The assumptions used for projections appear unreasonable or are missing.	27%
No evidence on file of a completed risk profiling questionnaire.	27%
SoA does not demonstrate the benefits of the recommended strategy or product are superior to the alternatives.	26%
Scope does not appear to be clearly or appropriately defined in the SoA.	25%



# Clear benefits of your advice

## Don't

Have vague client goals or goals that include the end recommendation or the use of technical industry terms.

- “You want to review super”
- “You want super to out preform the benchmark by 5 points p.a. using XYZ fund in an actively model portfolio containing ETF’s”.

List every product feature including dozens irrelevant to the client's goals and preferences.

## Do

Document achievable client goals and the client’s preferences. Use client friendly language.

- “You would like build your super balance for retirement. You are willing to pay more for the opportunity of increased returns (active management) and for investment flexibility”.

List the key benefits of your advice, i.e., the cost and relevant product features.

- *Best interest: While the recommended XYZ fund is \$120 p.a. more expensive than the existing ABC fund, XYZ contains an actively managed portfolio which has the ability to outperform the passively managed ABC portfolios”.*

## Clear benefits of your advice

### Don't

Forget to explain why the listed alternative products have been discounted

### Do

List the key benefits of your recommended products vs the alternative products, i.e., the cost and feature comparison.

- *“While the alternative 123 fund contains the recommended actively managed portfolio feature it is \$60 p.a. more expensive than the recommended XYZ fund”.*

# Advice and file documentation

## Don't

Even if you are just giving recommendations for super and insurance, don't forget to discuss and scope out all other relevant areas of advice.

Base recommendations of past product performance or use your own rates of return.

Omit the assumptions used in modelling or projections.

## Do

List all areas of advice relevant to the client, perhaps investments, cash flow, debt, discuss these with your client and scope these out if the client doesn't want advice in these areas.

Explain why scoped out in the client's words and list the risks.

Use our standard licensee rates or return for modelling.

List all assumptions used for modelling.

# Modelling & Projections

- The assumptions about income and growth of a client portfolio used for the purpose of projections must be aligned to the licensee standard rates of return for each asset class and client risk profile - Approved software for modelling has the licensee assumptions built in.

## Fourth-Line Feedback



The assumptions used for projections appear unreasonable and/or are missing - 15.25% gross return appears high

Appropriate advice: ASIC  
 Moneysmart tools &  
 resources FASEA  
 5,FASEA 6,FASEA 9

## Licensee Economic Assumptions

	Conservative	Moderate	Balanced	Growth	High Growth
Income	3.78%	3.66%	3.66%	3.61%	3.30%
Growth	0.76%	1.55%	2.56%	2.96%	4.08%
Total Return	4.54%	5.22%	6.22%	6.57%	7.38%

# Modelling & Projections



- You must include all assumptions you make when doing projections. This includes assumptions about the client's age at retirement, where they haven't specifically told you at what age they wish to retire.
- Your projections should demonstrate your client's ability (or inability) to meet their goals. If they are unable to meet some or all of their goals, this should be highlighted with specific commentary included in the body of the SoA. You should also provide further options for the client to consider, as to how they may move toward closing that gap (e.g., reduce expenses, delay retirement, reduce income goal etc). Where appropriate, these should be modelled and included in the SoA to enhance your discussion with the client, although we recommend you speak to your client prior to doing any further modelling.
- Before you can suggest downsizing as an option to close this gap, you need to discuss with your client whether that is something they would consider, where they might move to (do not, under any circumstances, suggest what town/suburb(s) they might want to consider), how much do they owe on their home, what impact downsizing might have on their relationships with friends and family, etc. You should keep a detailed file note of this discussion.
- When doing projections for retirement planning, it is best practice to project beyond the client's statistical life expectancy, e.g., LE+5 years, so your client can see how much of a buffer there may be. We require the projection to demonstrate how your recommendation will be able to assist the client to meet their required income of \$XXX p.a. throughout their retirement years.
- When recommending owning insurance outside super, you must show cashflow projections for at least five years, to demonstrate the ongoing premiums are affordable, because insurance is a long-term commitment. In doing these projections, you should use the annual premium figures from the quote, where available; don't just assume an annual increase of X%.

# Modelling & Projections



- For insurance premiums funded via superannuation, you are required to model the impact to the client's retirement savings balance with and without insurance premiums for 10 years.
- If you are recommending strategies to reduce your client's tax liability, such as salary sacrifice, you should include taxation tables in the projections.
- For income and capital goals where the client's goal is 20 years out (for example, where a 40-year-old wants to retire at age 60 on \$100K p.a.), running a projection to LE may not be accurate. Therefore, as an alternative, you can calculate what lump sum they would need (e.g., if we assume a 5% return, the client will need \$2M (present value) in assets, assuming no capital drawdown). You can then run your projections to client's age 60, to see if your recommendations will achieve the required \$2M PV at retirement.
- Sometimes your client may have specific lifestyle or financial goals that are a number of years out, e.g., funding their child's university expenses in years 12, 13 and 14. In such a case, you should include projection tables showing at least 15 years, to demonstrate whether this is achievable, and what impact, if any, it will their ability to achieve their other goals. Again, if either aren't achievable, you should have a trade-off discussion with the client to determine which goals are the more important, and what other options may be available for them to consider.
- For any investment strategy that aims to achieve a particular net investment value objective, we would encourage you to use the "present value net assets" chart to show if the goal is achievable or not.
- For strategies that have a direct impact on the client's cashflow, such as salary sacrifice, you must show the projection for at least the first year's cashflow, to demonstrate affordability and overall impact of the recommended strategy.

## Self-Managed Superannuation Funds



These are common issues identified by Fourth-Line for SMSF SOAs. We have adjusted our file note template and SOA template to include standard text and prompts regarding these issues.

### Suitability File Note

- The client file should demonstrate discussions held with your client that supports the basis of why establishing an SMSF is appropriate for your client.
- An SMSF is not for every client, they can be expensive, complex and time consuming. Generally, the characteristics of a client and their circumstances would suggest whether an SMSF may be appropriate. Below are the key factors you must consider in determining suitability for your client;
  - Does your client have an appropriate starting balance to make a SMSF cost effective?
  - Does your client have the time and knowledge to manage their superannuation and meet legal requirements as trustees?
  - Does your client have a specific need that an SMSF can meet more effectively than an APRA regulated fund (e.g. investment flexibility or succession planning)?
  - Does your client intend to remain living in Australia for the foreseeable future?

### Exit Strategy

- As part of your advice, you must discuss and document possible exit strategies with your client. Your discussion must also include the reasons the client may decide to get out of the SMSF. The reasons often include a change in the client's circumstances (e.g. low account balance, death of a trustee, breakdown of a relationship, lack of time to manage the SMSF etc.). We have included exit strategy text in our SOA template.

## Charging Fees



In the compliance team we see the array of methods advisers use to charge fees and the different fees charged to clients. There is no right or wrong method.

- How do you determine your fees – *it is important to have a strategy or process around the fees you charge both upfront and ongoing*
- Disclosed in FSG – *ensure your FSG remains up to date around your fees, this is where you have your maximum fees disclosed. If you wish to act outside of your FSG – speak to us first.*
- Clearly disclose – *the best ways to disclose your fees is using the Letter of Engagement, this clearly articulates to your clients the fees they should expect at every stage of your advice process. Fees should be clear at each step of your process – this protects you and can ensure that you are not doing work for nothing.*
- Fair and Reasonable - *Although there are no rules around the amount you charge, it is important to ensure that what is charged remains fair and reasonable. One way of demonstrating this is using a file note showing how you determined your fees and referring back to your FSG.*



## Professional Year

Designed to support the development of aspiring Authorised Representatives to the network.

Currently at Sequoia:

We have a strong Program with

- 19 New Entrants presently enrolled to the Professional Year Program
- 15 graduated through program

Benefits:

Having someone working with you has many benefits

- getting to know your clients
- learning your process
- learning your approach
- can alleviate pressure if you need to go on leave
- teaching outside of a textbook

## Professional Year

1. Prior to commencing their professional year, a new entrant must have completed **OR** is near completing their education requirements(an approved degree or equivalent- min AQF7 )
2. It is important to set expectations at the beginning
3. The supervisor must be a current Authorised Representative –registered on the FAR for a Minimum 2 years
4. The Program must run for a minimum 12 months: broken up into 4 Quarters with minimum expectations each quarter
5. Min 1500 hours work related activities (375 per quarter) – recorded in a logbook and signed off by supervisor
6. Min 100 hours Structured Education and Training – program set up through Kaplan/Ontrack
8. Quarter 3 cannot begin without successful completion of required studies and the New Entrant has PASSED the EXAM
9. There has been a recent change which allows the new entrant to sit the exam prior completing their studies.

# Quarterly Guide

Q1	Q2	Q3	Q4
<b>Client Observations and supporting Supervisor or other advisers</b>	<b>Supervised Client engagement and advice Preparation</b>	<b>Indirect Supervision of Client engagement and Advice Preparation</b> <i><u>Title: Provisional Adviser</u></i>	<b>Indirect Supervision of Client engagement and Advice Preparation</b>
<ul style="list-style-type: none"> <li>Shadow client/adviser meeting with intent to observe a diverse range of interactions.</li> <li>Assist with post meeting documentation – file notes, fact finds <u>etc</u></li> <li>Discuss the meeting together <u>inc</u> client objectives, strategies, financial situation , client needs</li> <li>Actively undertake administration duties</li> </ul>	<ul style="list-style-type: none"> <li>Complete work activities in a supervised environment</li> <li>Prepare for client meetings</li> <li>Conduct meetings with clients</li> <li>Prepare client specific strategies and SOA drafts</li> <li>Continue to support administration and office requirements</li> </ul>	<ul style="list-style-type: none"> <li>Work activities can be completed under limited or indirect supervision</li> <li>Conduct meetings with clients</li> <li>Determine clients needs and advice</li> <li>Prepare relevant documentation</li> <li>Continue to complete administration and office requirements</li> <li>Identify and resolve 2 ethical dilemmas in each Q3 and Q4</li> </ul>	<ul style="list-style-type: none"> <li>Same as Quarter 3</li> </ul> <p>At the completion of Quarter 4 and Licensee satisfaction that all requirements have been met – the New Entrant will become an <u>Authorised Representative</u> and standard AR requirements will apply</p> <p>At least 5 pieces of advice have been submitted and assessed by the peer review team prior to a completion certificate being provided.</p>

## Further Discussion

If you have an employee interested or wish to explore the consideration of a New Entrant undertaking the professional year with you in your workplace, please feel free to reach out to me direct

Contact : [Maria.Englezakis@interprac.com.au](mailto:Maria.Englezakis@interprac.com.au)

## Employee Assist Program

The Health and Wellbeing of our network is of utmost importance.

We recently hosted a webinar to raise greater awareness around our Employee Assist Program, where we delved into the EAP service focusing on Mental Health.

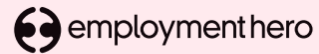
The EAP and its benefits are available to all our group.

Call 1300 OUR EAP (1300 687 327)

- Book an appointment
- Available 24/7
- Urgent phone appointment are available.

Visit [www.convergeinternational.com.au](http://www.convergeinternational.com.au) to access the Live Chat Service or book an appointment.

Download the EAP Connect App



## Know the signs of burnout.

It is not always obvious when a member of your family, friends, work colleagues or staff are experiencing mental health .

- Silent
- No obvious symptoms
- Reach out and start a conversation



### Withdrawn and anti-social.

Noticed that your team mate has been quiet recently and less involved?



### Mood swings or agitated.

Those who are struggling may experience sudden changes to their mood.



### Struggling to keep up.

Inability to prioritise and being overwhelmed at work could be a sign.



### Changes in appearance.

Noticed a change in appearance or not taking pride in personal hygiene?



### Turning up late to work.

Consistent lateness could be a sign that your team mate is struggling.



### Increased absenteeism.

Noticed someone is skipping work a lot recently? It's time to check in.

## Mental health national helplines.

If you or anyone you know are experiencing feelings of depression, anxiety or distress, please reach out to one of the free national services below.

The below organisations will listen, provide advice, and point you in the right direction so you can seek further support.

### [Beyond Blue](#)

Beyond Blue is a national service where you can have one on one support with a trained mental health professional.

All calls are completely confidential.

- \* Call 1300 22 4636
- 24 hours / 7 days a week
- [beyondblue.org.au](http://beyondblue.org.au)

### [Lifeline](#)

Lifeline provides an anonymous and confidential telephone counselling services for adults needing emotional support.

- Call 13 11 14
- 24 hours / 7 days a week
- [lifeline.org.au](http://lifeline.org.au)

### [Mensline](#)

Mensline is a service specifically for men needing emotional support.

This support service is free, confidential and anonymous.

- Call 1300 78 99 78
- 24 hours / 7 days a week
- [mensline.org.au](http://mensline.org.au)

# Questions

