

Financial services reforms act



**ASSIGN
BUSTER**

SECTION 1 - INTRODUCTION

1. What are the main aims of the two financial services reforms from 2001—2012?

There are two major reforms from 2001-2012 in the financial service industry, such as:

1. Financial services reforms Act (2001)

The FSRA introduced in October 2001, administered by ASIC, became mandatory on 11th March 2002. The FSR amendments to the *Corporations Act 2001* (the Act) introduced three main changes which are:

1. Licensing and conduct of financial service providers. The FSR amendments to the *Corporations Act 2001* (the Act) introduced a single licensing regime for financial advice and dealings in relation to financial products. An entity that operates a financial services business must now hold an Australian financial services (AFS) license or be authorized by a licensee. Introduced the training policy known as RG 146, required to get the new AFSL (Australian Financial service License).
2. The Act also seeks to provide consistent and comparable disclosure in relation to financial products and services (including) advice.
3. A single authorization procedure for financial markets and clearing and settlement facilities

0. Future of Financial Advice (FOFA) reforms:-

FOFA became mandatory on 1 July 2013 (and was voluntary from 1 July 2012). The objectives of FOFA are to improve the trust and confidence of

<https://assignbuster.com/financial-services-reforms-act/>

Australian retail investors in the financial services sector and improve access to advice.

The FoFA reforms key elements are:

1. A legal requirement for financial advisers to act in the best interests of their clients.
0. A ban on conflicted remuneration being monetary and non-monetary benefits given to a licensee or representative who provides financial product advice (personal and general) to retail clients which could reasonably be expected to influence the choice of financial product recommended or the financial advice given.
0. On-going fee arrangements requiring the provision of fee disclosure statements and renewal notices to retail clients receiving personal advice.
0. Increased ASIC powers to enforce elements of the FOFA reforms.
0. What does the best interest of the client mean?

From the July 1st, 2013, as per new legislation known as The Future of Financial Advice (FOFA), financial advisers and planners in giving advice to their retail clients gives priority to the best interests of the customers. Now advisors didn't only advise their clients about only the products they have on their approved product list (APL) but also refers to their retail clients to other advisors APL, if it is in their best interest. They should not focus on their own fees, but it's their duty as per legislation (FOFA) to consider the client interest ahead of their own interest.

ASIC has explained this duty in the ASIC Regulatory Guide 175 as:

Acting in the best interests of the client: best interests duty (s961B)

Advice providers must act in the best interests of their client in relation to the advice.

One way an advice provider can demonstrate they have done this is by showing they have carried out certain steps in advising their clients. These steps, which act as a 'safe harbour' for complying with the best interest duty, are set out in s961B (2).

To satisfy the steps for safe harbour in s961B (2), an advice provider must:

1. Identify the objectives, financial situation and needs of the client that were disclosed by the client through instructions.
2. Identify the subject matter of the advice sought by the client (whether explicitly or implicitly).
3. Identify the objectives, financial situation and needs of the client that would reasonably be considered relevant to the advice sought on that subject matter (client's relevant circumstances).
4. If it is reasonably apparent that information relating to the client's relevant circumstances is incomplete or inaccurate, make reasonable inquiries to obtain complete and accurate information.

5. Assess whether the advice provider has the expertise required to provide the client with advice on the subject matter sought and, if not, decline to provide the advice.
6. If it would be reasonable to consider recommending a financial product: conduct a reasonable investigation into the financial products that might achieve the objectives and meet the needs of the client that would reasonably be considered relevant to advice on that subject matter; and assess the information gathered in the investigation.
7. Base all judgements in advising the client on the client's relevant circumstances.
8. Take any other step that, at the time the advice is provided, would reasonably be regarded as being in the best interests of the client, given the client's relevant circumstances.

The licensee or authorized representative will bear the financial liability for any breach of duty. Individual advisors may be subject to administrative sanctions, but not financially liable for any breach of the duty.

0. Prepare a checklist of what documents you must provide to your clients as per the reforms.

As per Financial Service Reform Act 2001 the financial planners must provide FSG (Financial Service Guide) to the existing as well as new expected retail clients. The FSG is an important disclosure document as it helps the clients to decide whether to get financial services from a licensed. FSG must be given to the client as soon as practicable after it becomes apparent that the

client will or likely to acquire financial service and in any event before the financial service is provided. It is important to know that FSG is not required when the client is not a retail client and where no financial service is provided.

As per section (942 C), FSG must include:-

1. The title “ Financial Service Guide ” on the cover of or at or near the front of the Financial Service Guide document.
2. The FSG must be dated.
3. The name and contact details of the licensee and (their license number) and the authorized representative and the statement showing that the advisor is an authorized representative of the licensee.
4. Information about the types of financial services (as authorized under the license) offered to retail client.
5. Information that a (SOA) statement of advice (not required for general advice) and /or a Product Disclosure Statement (PDS) may be provided to the client.
6. Information about all the remunerations (including commission) and other benefits received or likely to be received on provision of financial services, including for referrals.
7. Details of any associations/ relationships that may reasonably influence the licensee or the authorized representative in providing the services to the client.
8. Information regarding client concern and the licensee dispute resolution systems.

9. Details regarding the privacy of clients personal details and how such details will be used and handled (as per the privacy act regulation).
0. Describes the different types of client leads?

There are three types client leads:-

1. Cold leads, generally referred to just name with little or no other information normally obtained from sources like database, phone book or third party. Their priority to contact is very low as they lack of qualifying information. When making contact with cold leads, it's important to know that Hawking provisions may relate.
 2. Warm leads there is some prospect that contact will be productive and their detailed and specific information availability will ensure that they do not breach the hawking provisions must be specific.
 3. Hot leads are the ones where the prospect is known to be interested to take services of a financial planner. They may have asked directly for a product or service and these leads should be contacted at as early as possible.
0. Which of the six basic steps in the financial planning would include lodgement of the paperwork and obtaining all the signatures necessary for the recommendations in the financial plan to be actioned?

The six basic steps in the financial planning process are:-

i. Preparation

0. Fact Finding
1. Data Analysis and developing a recommendation
2. Preparing a written Recommendation
3. Implementation

4. Review

On Implementation stage – Presenting recommendations and gaining agreement to proceed. At this stage after preparation of written recommendations, financial planner plan to take appointments from the client and well prepared financial planner at this stage have all the relevant documents ready for the client’s signature. On completion of presentation, interview the paper work needs to be lodged promptly so that recommendations can be implemented and the plan commenced

0. Why a financial plan may need to be reviewed?

With the passage of time many things changes, so the financial plan also requires regular reviewing and change in order to make it more realistic. Here are a few reasons that call for to review and change of your financial plan.

1. Variation in financial conditions: changes in the financial / economic condition in the economy have a greater effect on many investment decisions when you feel that your progress towards the achievement of planned goals becomes slow besides the required time lapsed because of changes in external conditions then you should modify /change your investment goals, make them achievable and profitable in present situations.
2. Changes in income / Job: Because of uncertainty and unemployment in the market it is possible that any time may be you lose your job or your income not increase as expected, in both situations your contributions towards your financial goals will be reduced. On the other hand, if your salary increases beyond your expectations as because of promotion / bonus, this enables you to achieve your current financial goal earlier

than planned or because of surplus funds you may look for new investments.

3. Unexpected increase in expenses: Sudden medical / accident expenses rise in household expenses as overall prices of goods and services have increased may require to cut down your savings and if you have no other contingency fund in yours plan this can upset your financial goals and enforce to review and bring changes in your financial plan.
4. New Goals: - Trend in market change e as time passes like if you have invested in savings accounts, then you may want to invest your funds in building societies or credit unions or s unit trust if they are now offering better interest rates and lower tax benefit.
5. Number of dependent: At the time when your children are small dependent on you then the yours financial goals will be to increase life insurance coverage, but as they grown up and settled in their life your priority changes and now you want to spend more for your health insurance, secondly no of children (dependent) or death of any family loved one also impact upon yours cash flows and yours financial plans
6. Risk Tolerance Fator: - When a person is young, he may take risky investments young and energetic and have less responsibilities, but as the time passes that person in older age will try to go for investments where the risk factor is very low as to safeguard his principal.

0. What are the key recommendation areas?

In developing the recommendations the key areas which the financial planner will consider are:-

1. How the financial position can be improved --- share, property, bonds, unit trust.
2. Ways to accumulate funds for retirements. ---superannuation.
3. Options to generate funds in retirement ---rollovers, pensions.
4. Protection of beneficiaries --- will, life insurance, estate planning.
5. How to protect lifestyles--- income protection, disability insurance.
6. Protection of assets --- general insurance cover.

Keeping in view the above mentioned key main areas, financial planner also follow the rule of “ Know your client” which means trying to understand clearly what your clients want to achieve from investments of their fund.

After clear understanding of the clients needs/ goals, following the rule of“ Know your product” financial advisor determine by which available products or strategies the clients needs can be fulfilled in the planned time frame.

Selection of different investment options /product advisors also keep in mind that there are certain external factors like economic and financial conditions in the economy, which may call for a change in investment strategies or increase in planned time frame of objectives.

Finally, the advisors develop the actual recommendations of a financial plan and discuss these recommendations with the client so that at this stage they can be reviewed or altered as per client input.

0. According to best business practice, how often should a client review interview take place?

Financial advisors frequently review the financial plan to access its progress as it is still appropriate or required alteration with the consent of the client.

Short term reviews normally take place in every six months on the basis of following reasons:

1. Significant changes in the clients current life circumstances, such as get married, increases or decrease in dependents, change in income status or loss of job etc.
0. Changes in the economic conditions like establishment of new monetary laws, inflation, changes in tax rates as these can affect the investments.
0. Its clients own desire to have more frequent reviews

However, routine reviews should take place about approx, every 12 months.