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ASIC Criticises Poor Quality of Advice Given by Australian Financial Planners

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By [Vittorio Hernandez](#) | January 25, 2012 2:21 PM EST

The [Australian Securities & Investments Commission](#) (ASIC) has criticised the poor quality of advice that [Australian](#) financial planners have given to clients.



The basis of ASIC's comment is a shadow shop surveillance among consumers who sought retirement advice in 2011. The study showed that of the 64 plans provided by the planners, more than one third were considered as poor, 61 per cent were adequate and only 3 per cent were good.

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Peter Keil, ASIC commissioner, pointed out that many of the plans had woefully inadequate projections and poor or unrealistic technical assumptions. Most of the advice was too generic.

"There was a consistent failure by advisers to talk to clients about what they can realistically fund out of their retirement savings," Investor Daily quoted Mr Keil.

"There was too much generic and pro-forma advice.

There may have been sufficient information to make the advice 'adequate', but in many cases it was not particularly helpful for the client and did not fully cover the client's circumstances," he added.

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The regulator disclosed the results of its surveillance at a parliamentary committee hearing to study the proposed Future of Financial Advice laws. The crafting of the regulation was an aftermath of investment failures such as those at [Storm](#) Financial and Westpoint.

The law seeks to mandate financial advisers to place their clients' best interest above all, prohibited conflicted payments such as commissions and improve the ASIC's power to refuse or cancel financial services licences.

While the government insisted that the amendments would increase consumers' access to advice, the Association of Financial Advisers (AFA) warned that the \$700 million price tag that comes with the planned reforms would make the cost of advice prohibitive and could lead to job losses in the sector.

A Rice Warner research estimated that 6,800 planners would leave the financial advice industry by 2024. However, the study took into account a ban on insurance commissions which was not imposed.

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The changes has the support of several industry groups such as the Australian Bankers Association, the Financial Services Council and the AFA, but the groups seek a one year delay in implementation of the reforms to July 1, 2013.

Mr Keil said the ASIC continues to analyse the results of the surveillance and will release a more detailed report in March.

Besides overseeing reforms on the financial advice sector, the corporate watchdog is also keeping a tight watch over fund-raising in the infrastructure sector to prevent the repeat of problems such as what happened to BrisConnections. The company was on the brink of failure in 2008 that almost wiped out the equity of investors who were at risk of having to pay \$1 more per paid shares.

Besides BrisConnections which was a listed project, the ASIC cited Sydney's Airport Railway, Lane Cove Tunnel and Cross City Tunnel as the other infrastructure projects that incurred losses due to unlisted projects.

Investors lost billions of dollars in a series of collapses and near-collapses after the 2008 global financial crisis. These incidents highlight the wrong practices such as inflated toll road traffic forecasts and management conflict of interest.

Like the situation among financial advisers, ASIC wants infrastructure firms to provide investors more information particularly on management finances, modeling and forecasts and an explanation why investors should not put in additional money.

The changes are scheduled to take effect on July 1 to avoid a repeat of the mistakes of the past, said ASIC Chairman Greg Medcraft.

"The fundamental lessons are that you've got to understand the business model and you've got to understand the stress to the business model," Mr Medcraft explained to The Sydney Morning Herald.

Infrastructure firms questioned why ASIC is targeting their sector.

"By singling out infrastructure entities for additional regulation, ASIC is creating an impression that this investment is somehow inherently riskier, or a troubled asset class," Infrastructure Partnerships Australia said in a submission to ASIC in May.

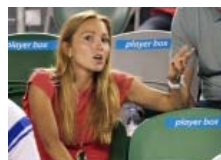
Mr Medcraft said the ASIC crafted the guidelines to ensure that investors who are placing money in the asset class would be confident and be informed.

However, tollway operator Transurban warned ASIC that the proposed disclosure rules would limit the appeal of major infrastructure projects to the public and private sectors.

"There is great risk to singling out a specific industry for higher disclosure requirements.... This has the potential to drive a number of unintended consequences, including aversion to ASX-listed infrastructure investment," the Herald Sun quoted Transurban Chief Tom Honan.

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