CPA AUSTRALIA'S REGULATORY BURDEN REPORT

THE IMPACT OF COMPLEX REGULATORY FRAMEWORKS

CONTENTS

CPA AUSTRALIA WANTS THE ACCOUNTING PROFESSION TO BE ABLE TO PROVIDE MORE AFFORDABLE, INDEPENDENT QUALITY ADVICE - NOT LESS.

FOREWORD

CPA Australia is working to untangle the regulatory complexity for professional accountants working in public practice. We believe the regulatory frameworks need to be reviewed to enable professional accountants to provide independent, quality advice that benefits their clients and supports the public interest.

But professional accountants providing advisory services have faced increasing regulation and compliance requirements in recent years. This has increased both the cost and time burden associated with providing high-quality services to clients. These rising costs and complex regulations are driving advisers out of the sector.

We acknowledge that the objective of many of these reforms has been to ensure that robust and effective consumer protections are in place. However, one of the consequences is that seeking advice and professional services has become more complex and costly, pushing it out of reach for many consumers.

In response, CPA Australia is looking for ways to reduce the regulatory burden on practitioners and enable them to provide more affordable, independent, quality advice - not less.

To gain a clearer understanding of how practitioners operate within the existing regulatory environment, we launched a Green Paper in May with a survey to canvass the views of members working in public practice. More than 600 members in public practice participated in the survey. We explored these findings further, engaging with 60 members across ten in-depth focus groups throughout Australia.

In a separate but related survey, we also garnered responses from more than 1000 consumers and SMEs to understand their experiences when seeking advice and services from professional accountants.

The collective results of this research forms the basis of this report. It confirms our concerns that regulatory burden is having significant impact on both public practice and their clients. It also brings to life the likely impact in the future.

The responses offer telling insights into potential solutions for reducing legislative complexity while maintaining an efficient and robust system that protects consumers and enables professional accountants to provide the affordable, independent advice that consumers increasingly need.

Given the importance and the urgent need for change, this report points the way for CPA Australia to collaborate with the broader accounting profession, presenting a united front to advocate to government for reform. We need to develop a meaningful policy platform that not only meets the needs of practitioners but also serves the interests of their clients, the profession and the public at large.

We sincerely thank the CPA Australia members who took the time to participate in the survey and for sharing their expertise and experience in developing this report.

EXECUTIVE SUMMARY

The great challenge of financial services regulation is to strike the right balance between appropriate consumer protection, and access to quality, affordable advice. However, the ability of professional accountants to offer the breadth and depth of accessible and affordable services demanded by clients is being hindered by an ever-increasing burden of regulation. If they wish to provide a full suite of services to their clients, professional accountants must acquire multiple licences and registrations, attain numerous qualifications and designations, and adhere to myriad regulatory requirements, overlapping ethics standards, education requirements and continuing professional development (CPD) obligations, imposed by a number of different regulatory bodies.

CPA Australia has undertaken surveys of its members and of consumer and small and medium-sized enterprise (SME) clients of professional accountants to assess both the quantum and the impact of the regulatory burden on professional accountants in Australia, and their clients. The surveys received 641 valid responses from CPA Australia members, along with 611 valid responses from consumers and 400 valid responses from SMEs.

In addition, CPA Australia has undertaken focus groups of its members and of consumer and SME clients of professional accountants at which members and participants could provide feedback on their experiences of the regulatory burden. There were eight CPA member focus groups held across Australia, with a total of 60 CPA Australia members in attendance. Further, there were four focus groups of consumers and SMEs with a total of 11 consumers and 14 SMEs in attendance.

These surveys and focus groups confirm that professional accountants are highly trusted providers of advisory services to consumer and SME clients, but also highlight instances where these clients turn to an accountant for help, and the accountant is unable to provide the required advice and guidance. CPA Australia's surveys of consumers and SMEs shows that one in six of both groups have experienced a situation where their accountant was not able to meet their personal advice needs because they did not hold the necessary licences or registrations.

The recent Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry has shaken Australia's financial services sector. The inquiry examined conduct by financial services providers to pinpoint the causes and potential remedies for the misconduct uncovered. Its aim was to restore trust and confidence in a financial services industry beset by poor practices and bad behaviour.

While demand for financial planning advice remains strong, and is likely to grow, the number of financial advisers available to meet demand is declining, as increasing numbers head for the exit door following the significant proposed reforms. As advisers depart the industry, they are not being replaced by new entrants at the same rate, creating an advice gap.

The accounting profession has an opportunity to supply new financial planning advice capacity to satisfy this growing unmet advice need. CPA Australia's survey of consumers and SMEs show that nine out of 10 consumers (90.4 per cent) and SMEs (90.0 per cent) trust their professional accountants to always service their needs in the best possible way, and seven in 10 consumers (72.2 per cent) and SMEs (74.6 per cent) would have preferred their professional accountants to meet all their personal advice needs, if only their accountants had the necessary licences or registrations. CPA Australia's surveys and focus groups of consumers and SMEs make it clear that professional accountants are a trusted, popular choice to satisfy the escalating demand for financial advisory services.

However, professional accountants find themselves restricted by the current regulatory framework from providing such services, and consumers are frustrated when accountants are held back from giving advice.

Professional accountants who do provide financial planning advice services have had to commit significant additional resources to meeting their compliance obligations, the cost of which will be passed on to clients. Consumers are finding that quality advice is less accessible and costlier than it has been in the past. This is in direct contradiction of the stated aims of recent regulatory reforms, including the Future of Financial Advice (FoFA) amendments to the Corporations Act 2001.

Based on CPA Australia's research into advice supply and demand, as well as its analysis of the current regulatory framework, the recommendations in this report aim to eliminate duplicative and conflicting regulations, and to streamline the existing framework to reduce the cost and burden on professional accountants. Five recommendations proposed are: review definition of key terms; redefine product advice and introduce strategic financial planning advice; individual licensing or registration of financial advisers; align codes of ethics and CPD requirements; and consider changes to the tax registration system.

BACKGROUND

Australian financial advice regulatory landscape

Financial planning advice and other services traditionally provided by professional accountants have become increasingly regulated over the past two decades, through a combination of new legislation and regulation, as well as amendments and additions to existing obligations. These regulatory changes often seem to be implemented in isolation from each other, with little or no regard to how they will interact with existing regulations or with similar (or contradictory) regulations imposed by other regulatory bodies. An incremental accumulation of regulations not only increases compliance costs but also increases the risk of new regulations conflicting with existing rules or interacting with them in unintended or unexpected ways. Furthermore, the burden of regulation falls disproportionately on smaller businesses, whose relative lack of resources makes the regulatory burden more difficult to bear. Effective regulation must take into account the impact on all businesses, large and small.

In order to provide financial product advice, it is mandatory for professional accountants to be authorised under an Australian financial services (AFS) licence, which carries with it education, professional and ethics requirements. Additionally, there are potentially three licences required to give advice on financial products with tax consequences, and a further, separate licence needed to advise on a client's debt position and loan arrangements. All licences come with associated costs, responsibilities and obligations, increasing the compliance burden that professional accountants face in providing services to clients. On top of this, accountants must be members of an external dispute resolution (EDR) scheme, with fees determined based on the services offered and the size of the business[1].

There are a number of fees required for professional accountants holding an AFS licence to provide holistic financial planning advisory services. As shown in Figure 1, it is estimated that an accountant must pay $112,414 each year for the different registrations, insurances, certificates and software needed to support the delivery of full services. This estimate excludes the general costs of doing business, such as staff and premises. Not every accountant provides a full service, but such a heavy cost burden creates a barrier for those who want to expand the range of their services.

Figure 1: Estimated costs of providing services with AFS licence to provide holistic financial planning advisory services[2]

Accountant & Auditor	Tax Adviser	Mortgage / Finance Broker	Financial Adviser
ASIC Fees $217	Professional body $572	ASIC Fees $14	ASIC Fees $2,407
SMSF Auditor $1,927	RTA Individual $675	Professional body $475	Professional body $718
Professional body $670	RTA Company $675	Aggregator Fee $14,000	Licensee Full Advice $33,000
BAS Agent Individual $135	PI Insurance $2,500	PI Insurance $5,000	PI Insurance $10,000
BAS Agent Company $135	CCH/iKnow Client Access $3,400		
PI Insurance $2,500	Software $15,024		
CCH/iKnow Client Access $3,400			
Software $35,424			
Practicing Certificate $470			
Total $44,878	**Total $22,846**	**Total $19,489**	**Total $46,125**

Total $112,414

[1] Green Paper – Regulatory Burden and Advisory Services – CPA Australia 2019

[2] See research methodology for assumptions

Consequences of regulatory complexity

The intention of regulation is to generate a net benefit to a society or an industry by facilitating the efficient provision of goods and services or address market failures, without unduly compromising consumer protection. However, regulation in practical application does not always act precisely as intended. Research from the Institute for New Economic Thinking[3] has found evidence that a significant component of new regulation is developed in direct response to scandals that have attracted media attention. Regulations are framed in the context of major events that may include elements of wrongdoing, misconduct, technological advancement, accidents or environmental developments. Taking data from 26 countries over a period of more than 200 years to 2015, the research found that there was no evidence confirming that regulations actually suppress future misconduct. Rather, they are a predictor of future misconduct.

The cause for this counterintuitive finding can be attributed to businesses possibly moving existing, over-regulated activities into less regulated areas; or because regulators who require specific conditions in order to address wrongdoing, find it difficult to act where regulations don't address specific actions, or where activities are unregulated.

Even though regulation may be framed and introduced in good faith, it may nevertheless lead to unintended consequences that both directly and indirectly impact businesses and industries. And in other cases, new regulations set up to tackle immediate (or past) issues are not necessarily appropriate or effective in addressing future events.

The reactionary nature of regulation can cause other issues, notably regulatory conflicts and accumulation. Economists Michael Mandel and Diana Carew[4] found an increasing chance of interference between regulations when a new set is layered upon an existing set. The effect of regulatory accumulation compounds: as more and more regulations are piled on, the chance of conflicting interactions between regulations increases, resulting in larger costs of compliance for individuals and businesses.

But sometimes, rather than overlapping, there is divergence in regulatory regimes. A joint study by the International Federation of Accountants (IFAC) and Business at OECD (BIAC)[5] has examined the costs and impacts of so-called "regulatory divergence" in the financial sector. The need for global interconnectedness and the free flow of capital in the financial sector means divergence in regulation

[3] Corporate Scandals and Regulation 2017 – L. Hail, A. Tahoun and C. Wang

[4] Regulatory Improvement Commission: A Politically-Viable Approach to U.S. Regulatory Reform 2013 – M. Mandel and D. Carew

[5] Regulatory Divergence: Costs, Risks, Impacts – IFAC & BIAC 2018

is causing tangible consequences and increasing costs to the global economy, aggravating risks in the financial system and negatively impacting economic growth.

The most significant inconsistencies arise from fundamentally different regulatory frameworks between multiple bodies, resulting in conflicting regulatory definitions and interpretations. On average 5 to 10 per cent of businesses' annual turnover has been consumed as a result of conflicts in regulation, forcing many firms to divert resources away from investing and redirecting them towards compliance issues.

In the US, the burden caused by regulatory accumulation is a major problem, with successive government administrations trying to solve this complex problem. A study by the Mercatus Center[6] in 2014 found that economic growth was reduced by an average of 0.8 per cent[7] a year from 1980 to 2012 as a result of regulatory accumulation. They determined that the overall effect of regulation forces companies to invest less in innovative methods and technology, therefore stunting growth, because companies divert resources to satisfy compliance requirements. Economic growth is a compounding process, meaning that while 0.8 per cent a year seems small, it creates a significant opportunity cost over time.

While it is very difficult to measure the true cost of regulatory accumulation, the research designed a case study to try and measure the total cost in dollar terms. The case study compared the real US economy in 2012 with one that was measured with the adjustment that regulations were maintained at their observed 1980 level. The results showed that the US economy in 2012 was around $US4 trillion ($A5.7 trillion) smaller than It would have been had regulations remained the same as at 1980.

The cost of conflicting regulation is more complicated than just paying multiple licensing fees, with firms required to manage many indirect costs as well. These may include increased staff numbers to manage a firm's compliance with regulatory requirements; staff training costs; systems and process costs for managing compliance; or external consultant costs to assist in dealing with conflicts in regulation. Regulatory conflicts and associated compliance costs also force firms to think short-term rather than long-term, as they are forced to divert resources to deal with current issues.

---

[6] The Consequences of Regulatory Accumulation and a Proposed Solution – P. A. McLaughlin & R. Williams 2014

[7] https://www.mercatus.org/publication/what-if-us-regulatory-burden-were-its-own-country 2016

Australian regulatory reform

The negative economic cost of regulatory accumulation is also highlighted by examples where a reduction or streamlining of regulation produces a positive result for an economy or industry.

The Australian Government has recognised the importance of effective regulation for the proper functioning of society and the economy.[8] In September 2013, the Australian Government introduced a Deregulation Agenda, with the aim of reducing the regulatory burden and improving practices and processes around regulation. The first step was establishing systems and mechanisms to facilitate deregulation across government, effectively reducing red tape and dealing with years of accumulated regulation. It also aimed to shift expectations and discourage the use of regulation as a default solution to addressing problems and issues.

An OECD[9] report in 2018 found that due to Australia's Deregulation Agenda in 2013, there has been a reduction of $5.9 billion in net compliance costs. This is attributed to the continued use of a framework implemented in 2014 used to assess regulatory practices. While this reduction is significant in absolute terms, to place it into perspective, it is less than 0.06 per cent of Australia's combined GDP[10] over the same period.

Future of Financial Advice (FoFA)

The Australian government introduced reforms aimed at the financial advice industry, dubbed FoFA, which became mandatory in July 2013[11]. In December 2013, changes to FoFA were introduced with the intention of reducing regulatory and compliance costs. The objective was to help make financial advice more affordable and more accessible for the Australian community and to ensure advisers delivered advice in the client's best interests. The FoFA reforms have arguably not achieved all their objectives. There today exists an advice gap in the market, with many consumers and SMEs having unmet advice needs. CPA Australia expects this gap to grow, especially given the withdrawal from advice of some of the major banks. In addition, financial advisers are facing increasing compliance costs which are being passed on to clients.

FASEA

The Financial Adviser Standards and Ethics Authority (FASEA) introduced new education, professional and ethical standards for financial advisers in Australia[12]. The first of these standards came into effect on July 1, 2019; and advisers already on the Australian Securities and Investments Commission (ASIC) financial advisers register at that date have until January 1, 2026 (subject to legislative amendment), to complete the required upskilling and additional education. The new standards have caused upheaval in the financial advice industry. In addition to their other obligations, professional accountants providing personal financial advice will need to complete 40 hours of FASEA-prescribed CPD each year, and adhere to FASEA's code of ethics from January 1, 2020, further contributing to the complexity and cost of compliance faced by professional accountants. The FASEA-imposed CPD and ethics requirements exist in addition to the CPD and ethics requirements for CPA Australia members, as described in more detail on page 35.

8 https://www.jobs.gov.au/deregulation-agenda 2018

9 OECD Regulatory Policy Outlook 2018

10 IMF 2019

11 http://futureofadvice.treasury.gov.au/content/Content.aspx?doc=home.htm

12 https://www.fasea.gov.au

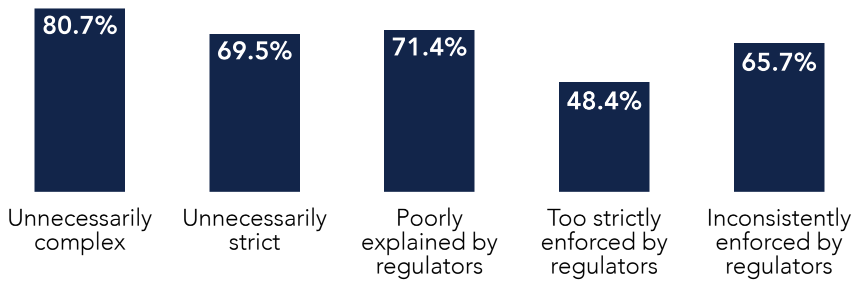
Impact on Australian businesses

As mentioned earlier in this report, the Australian Government indicated its commitment to the removal of outdated and unnecessary regulation and has subsequently driven a reduction in overall compliance costs in Australia. A study published in 2015 by the Australian Chamber of Commerce and Industry (ACCI)[13] found that while the decrease in regulatory costs from the Deregulation Agenda is welcome news, there is a need for that work to continue.

Indeed, almost three in four (73 per cent) respondents to the ACCI survey reported that their regulatory burden increased over the 12 months to November 2014. A further 24 per cent of respondents reported that their regulatory burden had remained unchanged. This result means that less than 4 per cent of respondents believed that the burden of regulation towards their businesses had eased, even though the overall cost of compliance was reported to be $1 billion less per year for 2013 to 2015[14].

Respondents also identified an opportunity cost associated with increased compliance activity. They believed that time and effort could be better directed towards other areas, including greater investment in research and development, or for the betterment of employees.

Figure 2: Extent of Regulation



n = 709

Source: ACCI National Red Tape Survey March 2015

Additionally, some compliance activities were seen as time-consuming and provided little or no benefit to customers or public safety. There was a perceived disproportionate cost-benefit ratio identified for some regulatory requirements, which respondents believed were unnecessary and a waste of resources.

Businesses in Australia face a major issue in the degree of complexity caused by enforced regulations. This is compounded by compliance requirements from multiple sources; for example, a small business must meet obligations to both ASIC and the Australian Taxation Office (ATO). The perceived complexity of regulation may be the result of a number of separate issues, and not solely based on the fact that the regulation itself is complex. For example, the majority of businesses believe that regulatory requirements are poorly explained, inconsistently enforced and unnecessarily strict.

[13] ACCI 2015 National Red Tape Survey

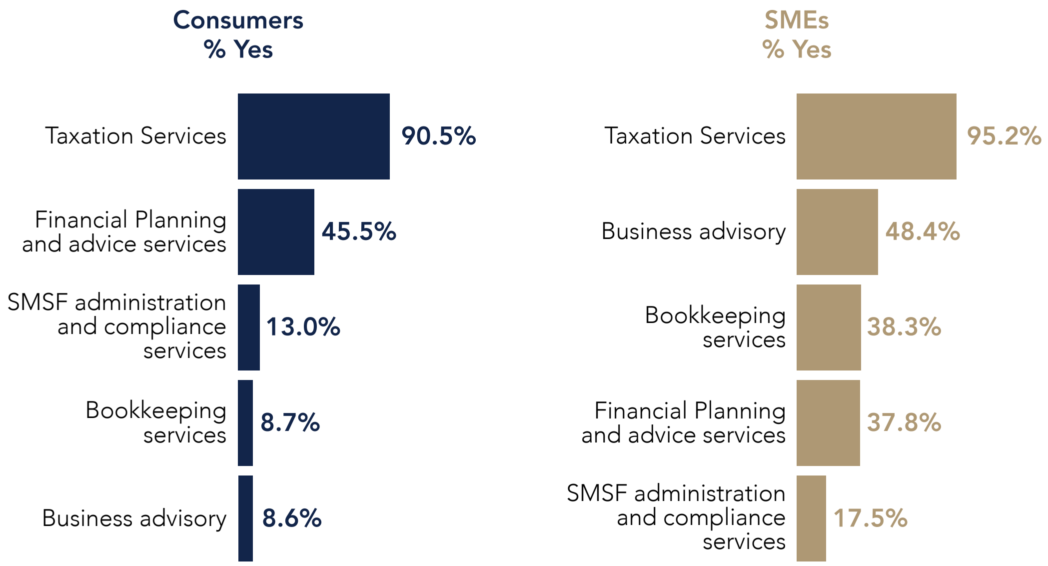
[14] https://www.jobs.gov.au/deregulation-agenda-key-achievements-december-2015

DEMAND SIDE

According to CPA Australia's survey of consumers and SMEs, the top three services currently provided by professional accountants to consumers are taxation services (90.5 per cent), financial planning and advice services (45.5 per cent) and self-managed superannuation funds (SMSFs) audit and compliance services; and to SMEs they are taxation services (95.2 per cent), business advisory (48.4 per cent) and bookkeeping services (38.3 per cent).

Both consumers and SMEs have unmet financial planning advice needs. A majority of respondents want to receive other services from their accountant. It is notable that, in addition to financial planning advice, SMEs want business advisory services from professional accountants and consumers want credit/mortgage broking services.

Figure 3: What services does your accountant currently provide you?



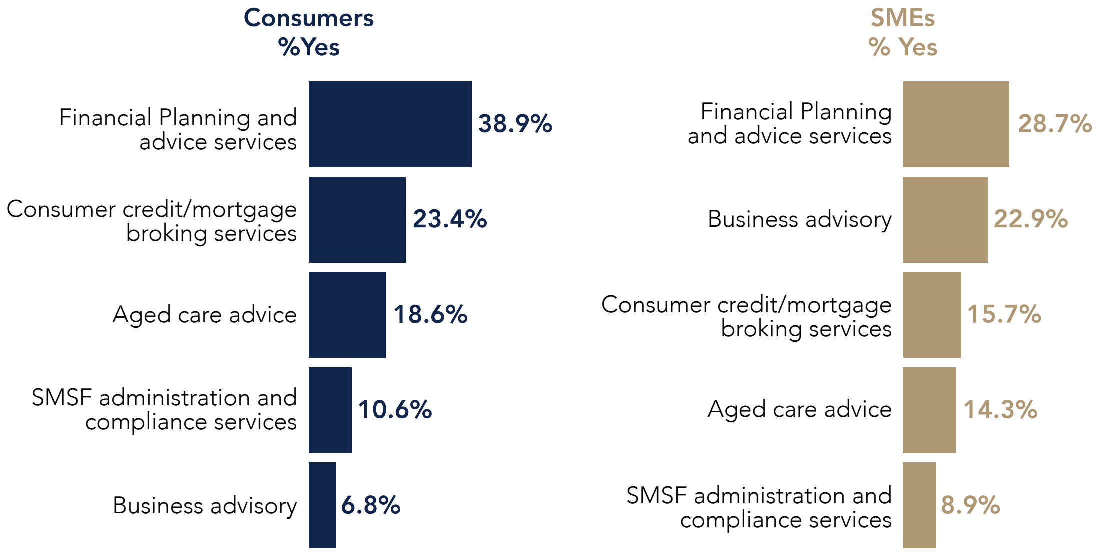
*Multiple answers allowed

n = 1011

*Top 5 responses only

Source: CPA Australia survey of consumers and SMEs August 2019

Figure 4: What other services would you like your accountant to provide you?



*Multiple answers allowed

n = 747, respondents who want to receive other services from their accountant

*Top 5 responses only

Source: CPA Australia survey of consumers and SMEs August 2019

It has become increasingly difficult for many Australians to create a financial plan, set financial goals and achieve financial security in a rapidly changing environment. Australian Government legislation on taxation, superannuation and estate planning is ever-changing; divorce rates are rising, second marriages are on the rise and blended families are more common; aged care is becoming increasingly complex; career paths typically don't follow the same predictable linear trajectory many used to; and there are numerous financial advice strategies with a wide range of financial products available to plan for a financially sustainable life, depending on an individual's personal situation.

A report[15] released by ASIC found that a majority of Australians (79 per cent) agree that financial advisers have expertise in financial matters and could introduce them to good ideas that they might not have thought of. It also found that 41 per cent of Australians intended to get financial planning advice in the future and, more specifically, 25 per cent of Australians intended to get financial planning advice in the next 12 months. There is a strong appetite for financial planning advice amidst all the complexity. However, as reflected in the ASIC financial advisers register, more and more financial advisers are heading for the exit doors. Demand for advice is now escalating, and the advice gap – between demand and supply – is growing.

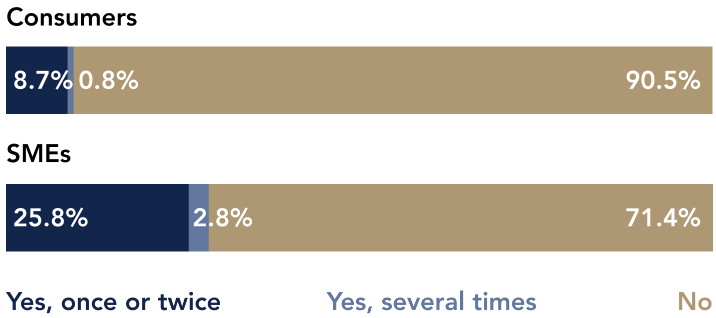
[15] REP 627 Financial advice: What consumers really think, Australian Securities & Investments Commission

Bridging the advice gap

One in ten consumers who specifically asked for personal financial planning advice from their accountant have experienced an instance where their needs went unmet because their accountant did not hold the necessary licences or registrations. This is even more of an issue for SMEs, where three in ten have encountered such a situation. A majority of both consumers (72.2 per cent) and SMEs (74.6 per cent) who needed financial planning advice, requested advice from their professional accountants and did not get it, would have preferred their accountant to meet their personal financial planning advice needs, and also believed their needs would have been better met by their professional accountants than by other professionals.

CPA Australia's focus groups of consumers and SMEs reinforce these unmet financial planning advice needs. These individuals would appreciate their professional accountants' advice and they see value in leveraging the relationship. More specifically, consumers express strong interest in financial planning advice from professional accountants on how their tax affairs could be best managed, and the most effective approach to take to secure their financial future. By comparison, SMEs want professional accountants to guide them through their business journey by helping them plan, and by providing accurate forecasts.

Figure 5: Have you ever had an instance where your accountant wasn't able to meet your personal advice needs because they didn't hold the necessary licences or registrations?



n = 1011

Source: CPA Australia survey of consumers and SMEs August 2019

"It gets a bit complex when it comes to tax time but effectively, he's got [to have] a very good knowledge of accounting as well as financial advice. I think a good accountant would also [need to] be able to meet financial advice needs, I think that's very key."
(Consumer, New South Wales)

"If they could look after the businesses, financials and then provide financial advice on properties etc. I think that's fabulous."
(SME, Victoria)

Q: In what ways, if any, could you accountant better meet your needs?

"I would like more detailed advice on the future structure of my finances."
(Consumer, South Australia)

"Provide advice for retirement planning."
(Consumer, New South Wales)

This is not the full extent of unmet advice needs. Consumers and SMEs do not necessarily even know that they require financial planning advice, nor how specifically what to ask their professional accountants to get help with their personal financial needs. When prompted, 78.4 per cent of consumers and 73.0 per cent of SMEs said they would find strategic advice - on a general strategy or structure, but not advice on specific product selection - appealing if their accountant was not able to meet their personal financial needs due to existing licensing or registration issues. Consumers and SMEs may also be confused as to what is considered financial planning advice, and what is merely part of traditional accounting services.

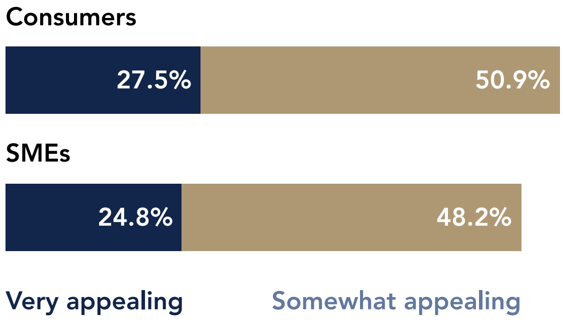
The benefits of advice are well documented

There are a range of factors that trigger people to seek financial planning advice, including entering a new stage of life, recognising limited knowledge in a certain area, or becoming more concerned about their financial future as they approach retirement. It is evident by comparing the financial results of those who have been professionally advised with those who have not that advised clients typically have their tax affairs managed more effectively, have lower interest payments, and have their money working more efficiently for them. They also accumulate greater net wealth, enabling them to better face unforeseen life events. Financial advice is valuable for people with a low level of financial literacy or financial education. Individuals who receive financial advice become more confident about making financial decisions and are more likely to take greater control of their own financial situations.

The value of financial planning advice extends beyond monetary benefits to better overall lifestyle outcomes. Those who have recently received such advice have more positive attitudes towards financial advisers than those who have not.

The Association of Financial Advisers (AFA) reported the additional,

Figure 6: Generally speaking, if your accountant was able to provide you with strategic advice (advice on a general strategy or structure, but not advice on specific product selection) to meet your personal advice needs under a single licence or registration, how appealing would this be?



n = 1011

Source: CPA Australia survey of consumers and SMEs August 2019

significant emotional benefits of financial planning advice. A survey for the report found that almost 80 per cent of respondents agree that they have achieved greater peace of mind by having a strong advice relationship. A good advice relationship creates solid financial foundation that gives clients confidence in preparing for key life events. More than eight in 10 individuals who received financial planning advice reported being reasonably well prepared for retirement, compared to only three in 10 of unadvised clients.

Good advice clearly makes people wealthier at retirement, but it also creates value along the whole life journey. Financial planning advice addresses long-term structural habits and ingrains better behaviour. More than half (54.9 per cent) of survey respondents said they now save more as a result of receiving advice and about half (50.2 per cent) of clients who receive financial advice reported that they could cover living expenses for at least six months if they were suddenly unable to work while only a quarter (26 per cent) of unadvised individuals could say the same thing[16].

The royal commission's[17] investigation reinforces consumers' mistrust in financial planners

The royal commission found systemic issues and inappropriate practices in the financial planning advice industry. The reputation of financial advisers has been compromised by operating in a system where poor or unlawful conduct has not been identified in a timely manner, nor remedied effectively when it has been identified.

Even though ASIC was aware of conduct within the industry such as charging fees when no service is provided, it had not prosecuted the offending providers until immediately before the inquiry commenced. It had hitherto sought to work with the institutions to settle customer compensation without public admonishment or scrutiny.

The provision of inappropriate advice has been driven by three industry wide issues: financial advisers may receive financial benefits for the products or investment solutions they recommend, creating misaligned incentives; financial advisers do not have adequate skills or judgement when facing potential conflicts of interest; and financial services licensees (and to an extent, regulators) have been unwilling to identify inappropriate advice and rectify it.

The royal commission's inquiry reinforced perceptions that financial advisers do not act in consumers' best interests, but rather form part of distribution networks for product manufacturers. Consumers receive the greatest benefit from advice when there is a comprehensive assessment of their situation, which requires exposure of their current financial position, lifestyle requirements, risk appetite and future plans.

Even before the royal commission, a new regulatory framework had been introduced to improve transparency and the quality of advice, and to restore public trust and confidence in advice, by raising the entry threshold for individuals entering the advice industry for the first time, and by raising the education, professional and ethics standards of existing advisers (those advisers whose names were already on the ASIC financial adviser register on January 1, 2019).

The financial adviser register enables consumers to check the credentials of a financial adviser and be assured that they are appropriately authorised, and to flag any actions previously taken by the regulator against the adviser, as another step towards improving public trust and confidence in the providers of financial planning advice.

[16] 2018 Value of Advice – Association of Financial Advisers Ltd.

[17] Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry

"I actually feel more comfortable working with an accountant than a financial planner. The reality might be totally different but after everything I've seen in the last couple of years, I'm too scared to see a financial planner." (Consumer, Victoria)

"There's like a handful of people in your life that you want to be able to trust and I think your GP is one of them, probably your solicitor's, probably another one and accountant is probably for me, personally, is up there" (Consumer, Victoria)

Consumers and SMEs, mistrustful of financial advisers and turn to trusted professional accountants

Although not all Australians need financial advice, it is imperative that people who do need it are able to access affordable quality financial planning advice from professionals they are confident in and comfortable with.

CPA Australia surveys of consumers and small and medium-sized enterprises (SMEs) show that nine out of 10 consumers (90.4 per cent) and SMEs (90.0 per cent) trust their professional accountants to always service their needs in the best possible way. It also indicates that consumers are more likely to trust their professional accountants than other financial services professionals, especially financial advisers who are not also members of the accounting profession. It is clear that professional accountants are a popular choice to meet a growing demand for financial planning advice.

Consumers value the strength of a personal relationship with their accountant, who they have often found through the recommendations of family, trusted friends or colleagues. Most consumers have been with the same accountant for several years and they have established a significant level of trust. While SMEs are more interested in professional accountants' expertise on business and industry, both consumers and SMEs like their accountants to be easily contactable, knowledgeable and approachable. This indicates a great opportunity for accountants to extend the range and depth of services they offer, including financial planning advice.

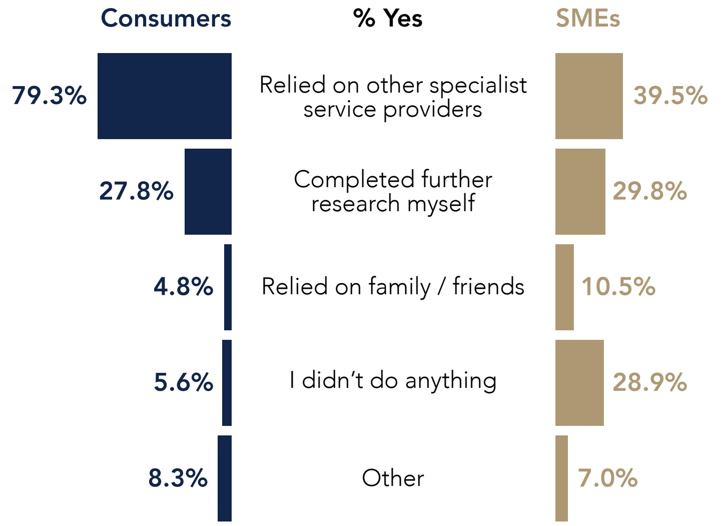
Unable to obtain the advice they want, consumers turn to sources that may be unqualified, or do without

When professional accountants are unable to bear the cost and compliance burden of providing financial planning advice, and when the motivations or priorities of financial advisers are perceived as not being aligned with the consumer's best interests, consumers tend to seek advice from unqualified sources.

According to the CPA Australia survey, the most popular services its members offer are tax, bookkeeping and business advisory. There is rising concern that consumers and SMEs cannot adequately distinguish between those services and specific financial planning advice provided by professional accountants.

However, CPA Australia's surveys of consumers and SMEs show that when accountants are not able to meet a client's personal financial planning advice needs, then apart from relying on other specialist service providers, consumers and SMEs undertake further research by themselves or rely on family and friends. It is notable that almost three in 10 (28.9 per cent) SMEs opted to take no action on the relevant issue when they requested advice from their professional accountants and their accountant was unable to provide that advice.

Figure 7: As your accountant wasn't able to meet your personal advice needs, what did you do to meet these needs?



* Multiple answers allowed

n = 171, respondents who ever had an instance where their accountant wasn't able to meet their personal advice needs because they didn't hold the necessary licenses or registrations

Source: CPA Australia survey of consumers and SMEs August 2019

Consumers say they find it difficult having to develop new relationships with alternative service providers, such as financial advisers.

SMEs also express frustration at the limited scope of services offered by professional accountants. They believe that their accountant is a trustworthy source of financial planning advice and would prefer to have a one-stop-shop arrangement to satisfy all their needs, but they seem put off by the fact that their professional accountants are telling them that they aren't allowed to advise on specific areas.

"I prefer the one-stop-shop but if he (accountant) couldn't (offer), I would go to my circle of friends who work in various industries and have diverse interests and I would ask them, I probably trust them more than just a stranger, a financial adviser who I just found online."
(Consumer, New South Wales)

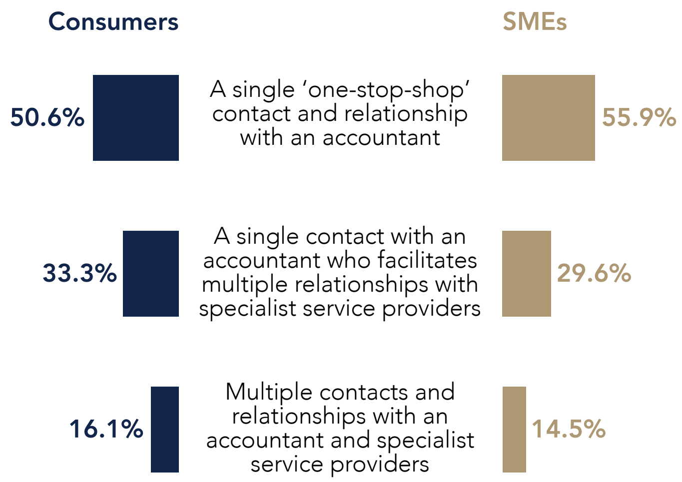
"I'm not keen on spreading my financial information to all and sundry, I've been with the same accountant for a long time, so they know all my family's history, financial history, I don't want to spread it around. If you go see someone new, you've got to start from day one, and then tell them the whole story and then pray that you didn't forget to say something."
(Consumer, Victoria)

Whether or not professional accountants are actually offering financial planning advice to clients appears to be contestable, depending on whose perspective is taken. Figure 3, based on CPA Australia's survey of consumers, shows that 45.5 per cent of consumers believe they receive financial planning advice from their accountant, while Figure 10, based on a survey of CPA Australia members, shows that only 24.2 per cent of professional accountants say they offer financial advice to clients. This may reflect a misunderstanding or a lack of awareness on the part of consumers over what constitutes financial planning advice.

When a one-stop-shop option is not viable, due to both increasing regulatory restrictions on service providers and the increasing costs involved for a single provider offering a range of services, consumers and SMEs often find themselves having to maintain multiple relationships with different professionals. However, a multi-relationship arrangement is often more costly and time-consuming, for both consumers and SMEs. As a result, to avoid costs, they may choose not to seek professional advice, thus leaving them vulnerable to making poor decisions or no decisions at all. The original legislative aims of access to affordable, quality advice, and appropriate consumer protection, are then lost.

"I think too, a lot of areas overlap. He [accountant] told me to do this, but was that financial planning advice? I asked my accountant a question and I think it would be better to have [the answer from] one [source] than several because areas do overlap."
(Consumer, New South Wales)

Figure 8: Generally speaking, which of the following relationship structures would you prefer in meeting your personal advice needs?



n = 1011

Source: CPA Australia survey of consumers and SMEs August 2019

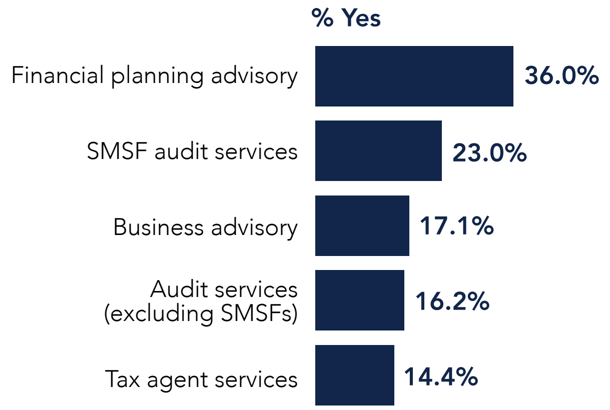
SUPPLY SIDE

Professional accountants must meet multiple requirements from different licensing bodies if they wish to offer a broad number of services to clients. According to a CPA Australia's survey of members in public practice, a third of members (34.6 per cent) are considering ceasing to provide at least some of the services currently offered to clients, driven out by the related compliance burden. The five services most likely to be withdrawn are financial planning advisory, SMSF audit services, business advisory, audit services (excluding SMSFs) and tax agent services.

The one third (36.0 per cent) of professional accountants who currently provide financial planning advice are reconsidering their offering, as a result of a complex legislative and regulatory framework. Despite the increasing demand for financial planning advice and pressure on traditional accounting service areas from regulation, automation, technology and competition, professional accountants who are authorised representatives of an AFS licensee are hesitant about continuing to provide financial planning advice as the associated costs become unreasonable and compliance burden becomes too onerous.

Currently three in four (75.8 per cent) professional accountants do not provide financial planning advice. The number of professional accountants who are considering ceasing offering financial planning

Figure 9: Which of the following services are you considering to no longer provide?



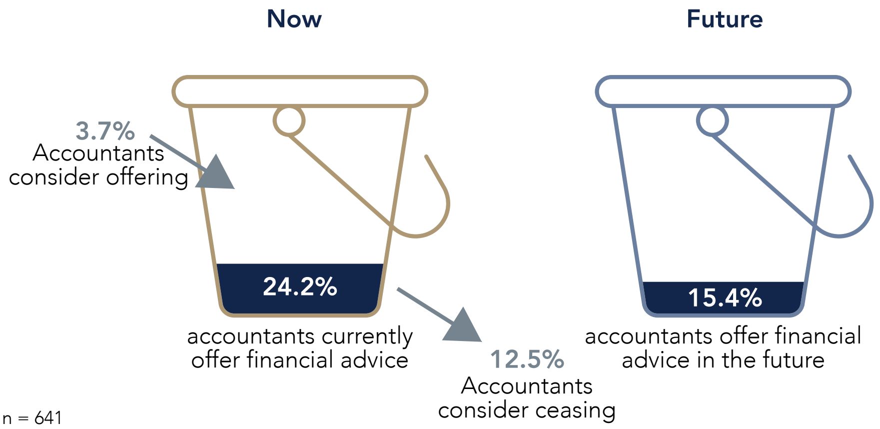
n = 222, respondents who consider ceasing to provide some services to clients because of the related compliance obligations

*Multiple answers allowed

*Top 5 responses only

Source: CPA Australia survey of members April 2019

Figure 10: Financial planning advisory



n = 641

Source: CPA Australia survey of members April 2019

advice services (12.5 per cent) is more than three times greater than the number of professional accountants who are looking to offer financial planning advice services and are not being prevented from doing so by compliance obligations (3.7 per cent). This imbalance will mean that in the future, it is likely that the number of professional accountants offering financial planning advice will decrease from 24.2 percent to 15.4 per cent.

A significant number of existing financial advisers may opt to gradually exit the advice industry as they are faced with significant time and effort to meet the qualifications detailed in FASEA's requirements. An estimated 6.5 per cent[18] of existing financial advisers have already left the industry in the second quarter of 2019. As a result, the financial advice industry will struggle to replenish its practitioner stock while the infusion of new blood from university graduates, as well as individuals entering the industry from other professions or occupations, will prove to be insufficient in the foreseeable future.

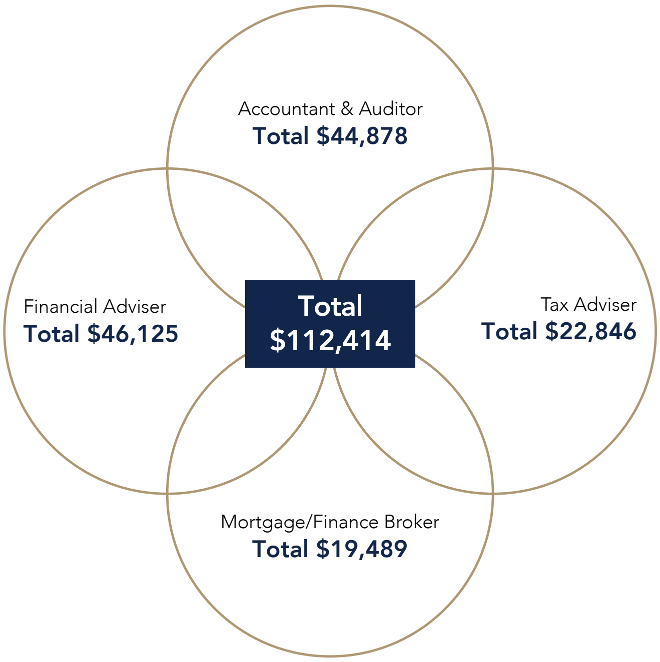
Complex regulation

Regulation of the financial system aims to maintain the public's confidence in the system, to secure an appropriate level of protection for consumers and to promote financial stability. However, new legislation and regulation as well as consistent amendments and additions to existing obligations over the past two decades have put professional accountants under an increasing compliance and regulatory burden. An individual accountant may face significant costs and be required to attain multiple and overlapping qualifications, registrations and designations, or risk breaching their compliance obligations.

A survey of CPA Australia members shows that differing legislative frameworks are a cause of confusion with three quarters (76.0 per cent) of members reporting uncertainty around their obligations, and a large majority (84.3 per cent) identifying the compliance burden as an issue.

"I've noticed now fewer and fewer young people want to get involved in our profession because it has become so complicated. A very big barrier. I cannot stress it any more than that."
(CPA, New South Wales)

Figure 11: Costs incurred by members in practice to meet compliance obligations



Source: ASIC website and professional association websites (MFAA, FBAA, FPA, AFA, the Tax Institute, NTAA, AIPA, CPA and CA)

[18] ASIC financial adviser register

Almost nine in 10 professional accountants are registered tax agents and they feel the limited scope of the advice they can provide is detrimental to their business and their clients' interests. Tax agents find themselves juggling multiple regulatory and professional obligations, which has a negative impact on their business and productivity.

"The problem is there is just so much variability. In fact, it's really annoying that you have to be a member of so many associations to keep up with your PD."
(CPA, South Australia)

Tax agents are also frustrated by the limited scope with which they are allowed to operate and feel their client relationships are being tested every time they are unable to advise on a simple financial matter, because it doesn't fall directly under the tax practitioner regime.

"Many clients would prefer to get their advice from their accountant, I can guarantee that. A real simple case, somebody walks in with two superfunds and said, should I roll this into there. Then I'll say, no, look sorry I can't advise you. You've got to go and see somebody else."
(CPA, South Australia)

"You should be able to tell someone, what are the benefits of salary sacrifice! Not just from a tax perspective but from another, a different perspective, I mean a future perspective for them. But you can't do that."
(CPA, South Australia)

Focus groups of CPA Australia members also reveal that professional accountants who are not familiar with consumer credit find the complex regulatory environment in which it falls difficult to navigate. They report uncertainty around clearly defining what advice they are permitted and not permitted to give.

"It'll be pretty rare for any of us to actually recommend a product, but we may say, go and see this person or this bank because they're pretty good at helping your circumstance."
(CPA, Victoria)

As well as being regarded as restrictive and overwhelming, many professional accountants believe the regulatory environment is also inefficient and ineffective, especially when dealing with the regulatory bodies themselves. They believe the cost of regulation and licensing is very high, especially considering what they believe they receive in return.

"Well exactly right. If you simplify it all and didn't have all these layers, the regulator could get on with their job of actually trying to push out the rotten eggs, and it'd make people do the right thing, that there'd be less cost, less time, less effort to stay compliant because most of us try and do that."
(CPA, Victoria)

"I think part of the problem is with our regulators. They don't know us. They don't know any of us around this room other than we're a name on a register that we've gone through hoops and paid a hell of a lot of money to get. They know nothing about what we do on a day to day basis. They know nothing about the advice that we give."
(CPA, Victoria)

Education requirement and time constraint

Professional accountants who are qualified to give financial planning advice have been frustrated by the new education, professional and ethics standards introduced by FASEA. As shown by a survey of CPA Australia members, more than nine in 10 (91.0 per cent) professional accountants who currently provide financial planning services feel the FASEA requirements are unnecessary. There are concerns over the FASEA requirement for financial advisers to hold a relevant university degree or equivalent, or higher, qualification, despite professional accountants already being appropriately qualified to provide the services they do; as well as how the new requirements affect more experienced planners, and a potential loss of significant experience from the financial planning advice market as advisers leave the industry.

"Yeah, absolutely. It [FASEA] is mind-bogglingly backwards. Having to do three extra subjects on top of my degree and my financial diploma, my financial planning and 146 and all the other qualifications I've got is nonsensical."
(CPA, Victoria)

"I think unfortunately FASEA have treated those of us with limited licences as if we're financial planners. They haven't made the distinction that we're accountants and we don't want to be financial planners. So, everything is from the viewpoint that we are financial planners, even the CPD training is from the point of view that we're financial planners."
(CPA, Western Australia)

Consumers' best interests, conflicts of interest and reputational risk

Professional accountants who offer financial planning advice in their business cite that it is often difficult to meet the best interests duty and related obligations of the FoFA reforms. More than six in 10 (64.5 per cent) regard complying with the safe-harbour provisions of the best interests duty as an issue.

"Best interests duty is really hard to meet because here is the scenario: if I know there is a product out there that's lower [in price] or somebody is refunding commissions and I don't tell the client… you should've known… you're supposed to know everything. You're supposed to be the Wikipedia of best interest."
(CPA, New South Wales)

Accounting has long been a profession of perceived high integrity and objectivity, built on robust standards of professional practice, and an established public-interest ethos.

The process of financial planning resembles an accounting engagement, insofar as both require the provider of the service to assess the client's needs, determine an appropriate range or scope of services, price the service accordingly (and transparently), and deliver what they promise.

Confidence in professional accountants to deliver services in the best interests of consumers is reflected in the higher level of trust the profession enjoys compared to trust in financial advice. However, the reputation of the financial advice industry has yet to recover from the revelations of the royal commission, and a significant number of the revelations in that inquiry revolved around the financial advice industry's inability to identify, avoid or manage conflicts between the interests of consumers and the interests of service providers.

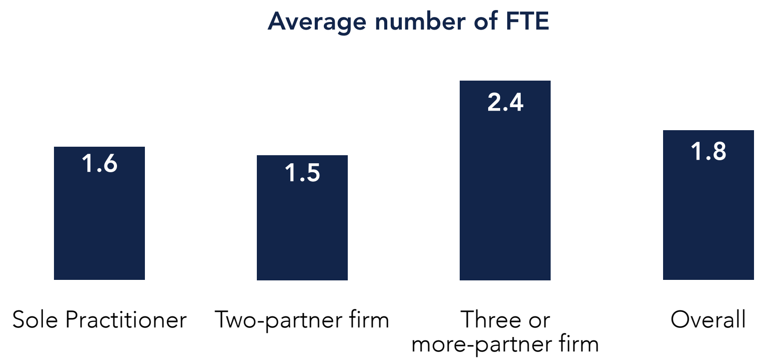
While professional accountants continue to enjoy a relatively high level of trust, professional accountants do raise concerns that reputational contagion from financial advice to accounting has the potential to compromise how the public views the delivery of financial advice, irrespective of the provider.

Impact on business

CPA Australia's survey of members found that the average practice employs 1.8 dedicated compliance staff on a FTE basis; that almost eight in 10 (79.0 per cent) accounting firms spend more time each week attending to compliance than they did five years ago; and that six in 10 (61.3 per cent) spend more time than one year ago.

A majority of professional accountants also report that compliance costs have risen. More than six in 10 (64.9 per cent) spend more on compliance now than they did five years ago, and more than half (52.5 per cent) spend more on compliance now than they did

Figure 12: How many dedicated compliance staff does your practice employ to meet its compliance obligations (on a FTE basis)?



n = 129, respondents who employ dedicated compliance staff to meet its compliance obligations

Source: CPA Australia survey of members April 2019

a year ago. One in four (22.9 per cent) CPA Australia members are spending 20 percent or more to meet compliance obligations in the last financial year.

The additional time and resources required to deal with compliance requirements is passed on to consumers and SMEs, where professional accountants continue to offer a service. Where the cost and time burden become too onerous it may leave consumers and SMEs vulnerable to not receiving appropriate advice should their accountant cease to provide a service.

Reforms should be introduced and implemented taking into consideration existing legislative obligations, interactions with other relevant regulatory regimes and importantly any associated increase in the compliance burden and cost. Recent reforms do not appear to follow the principles of good regulation[19] such as having clear objectives in the public interest, being proportionate and balanced, and being consistent, but rather have created inefficiencies from conflicting and duplicate regulations, which have erected barriers to professional accountants in providing financial planning advice services.

Unable to provide financial planning advice

Complex regulations and varying education and experience requirements across different licences and registrations have increased compliance costs for professional accountants providing financial planning advice. For example, to be authorised under a licence and to provide financial product advice, an individual must meet requirements of the Corporations Act 2001 and will pay an ongoing fee for the support and services of the AFS licensee. To be eligible to advise on the tax consequences of a financial product, a financial adviser needs to meet additional requirements and to be registered as a tax (financial) adviser with Tax Practitioners Board (TPB).

In the cases where a professional accountant is also a financial adviser, it is very likely that their practice is also registered as a company tax agent and is authorised as a corporate authorised representative (CAR) of an AFS licensee. These multiple layers of regulation drive up costs.

Separate authorisation with additional fees applies if professional accountants or financial advisers wish to provide advice regarding loan arrangements based on their clients' debt positions. The National Consumer Credit Protection Act 2009 requires them to be a credit representative with an Australian credit licence (ACL).

Figure 13: Majority of practices increased their costs to meet compliance obligations since years ago

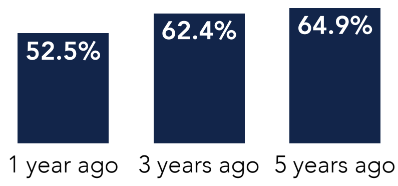


Figure 14: Majority of practices increased time spent on compliance obligations since years ago

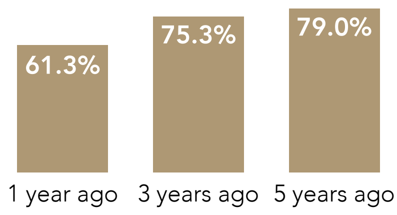


Figure 12: 1 year ago n = 604; 3 years ago n = 591; 5 years ago n = 575

Figure 13: 1 year ago n = 562; 3 years ago n = 553; 5 years ago n = 536

Source: CPA Australia survey of members April 2019

[19] From crisis to confidence: the role of good regulation – International Federation of Accountants

Strategic financial planning advice differs in that it would not include the recommendation of a specific financial product, but rather be restricted to an overall financial strategy. A system where strategic financial planning advice can be provided by professional accountants under existing registrations and regulations would lower compliance costs and eliminate much of the reluctance accountants have to providing financial planning advice. It would allow professional accountants to provide advice to consumers and SMEs based on their financial circumstances, without the need for the authorisations and compliance required for financial product advice, which from a professional accountant's perspective can be duplicative and expensive.

Conflicting regulations are also a problem for professional accountants. Currently, exemptions to the Corporations Act permit a tax agent who is not authorised to provide financial planning advice to provide tax advice on financial products provided they do not receive a benefit as a result of the client receiving the product, there is an appropriate disclaimer and the advice is related to the product in question. However, ASIC states that if they are authorised to provide financial planning advice, they cannot rely on this exemption to provide tax advice on financial products[20]. Professional accountants see this as a layer of complexity and confusion, adding to a reluctance to provide financial planning advice.

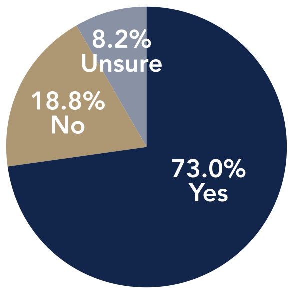
"We've got our tax agents practice and we've got a limited licence, a limited licence separately, and…tread a very fine line in providing taxation advice under the carve-out provisions and trying to keep within that."
(CPA, Western Australia)

In this case, changes are required to the tax registration system to eliminate conflicting regulation

Professional accountants' views of the impact on clients

Regulation is costing professional accountants not just financially, but also in the quality of the relationships that they have with consumers and SMEs. The price of inefficient oversight and regulation is borne by service providers and then passed on to consumers. CPA Australia's survey of members found that in the past five years the majority of firms (52.1 per cent) have increased fees charged to clients to cover higher compliance costs. Three in four professional accountants (73.0 per cent) believe these fee increases have made services less affordable for consumers and SMEs, with tax agent services, business advisory and financial planning advisory most affected.

Figure 15: Do you feel increasing your client fees has made your services less affordable for some clients?



n = 437

Source: CPA Australia survey of members April 2019

[20] Green Paper – Regulatory Burden and Advisory Services – CPA Australia 2019

The majority (67.2 per cent) of professional accountants believe clients prefer to have a relationship with a single, multi-disciplinary service provider rather than maintaining multiple relationships with specialist service providers. This finding is consistent with consumers' and SMEs' own views on their preferred relationship structures, as well as with their reluctance to share personal and financial information with multiple service providers. It takes a lot of time and effort for clients to establish and maintain multiple relationships, which most professional accountants also acknowledge as an issue.

"Clients want to see one person to do everything, but unfortunately, we can't."
(CPA, Western Australia)

"This idea of one-stop-shop is going further away from the fact of financial burden here, regulators are going to almost force you to specialise."
(CPA, New South Wales)

Figure 16: Member sentiment of multiple service providers

n = 641

Source: CPA Australia survey of members April 2019

RECOMMENDATIONS

The financial services sector is highly regulated in Australia, and has the aim of maintaining efficient and well-functioning capital markets and high levels of consumer protection. However, it is clear that the current regulatory framework creates barriers to both professional accountants in providing advice, and to consumers and SMEs in accessing quality, affordable advice. Professional accountants are not seeking less regulation, but rather, clearer and proportionate regulation with uncertainties, duplications and contradictions reduced or eliminated. Consumers are also aware of the regulatory burden faced by professional accountants, with 28.6 per cent also supporting changes to the regulatory framework that will allow professional accountants to maintain or broaden the scope of services they offer.

1. Review definitions of key terms

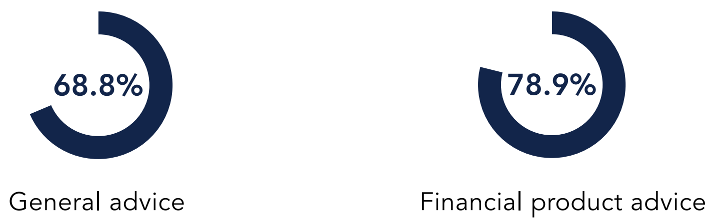
Survey results show that there is confusion around the definition of some key terms such as general advice, financial product advice and credit activity. The majority (68.8 per cent) of public practice members offering financial planning advice believe the definition of general advice should be reviewed and more than three quarters (78.9 per cent) of them believe the definition of financial product advice should be reviewed. The classification of general advice, product advice and personal advice confuses both professionals and consumers.

Q: Why do you have this view? (Yes probably, the definition of financial product advice should be reviewed)

"Too broad, it's very difficult to have a conversation with a client without stepping over the boundary as to what now constitutes financial advice."
(CPA, Australian Capital Territory)

"There is no such thing as general advice anymore. Everything now is specialised. No person can be a master of all the sub-categories covered by FP advice."
(CPA, Queensland)

Figure 17: The proportion of members who believe the definition of advice should be reviewed



n = 155, respondents offering financial planning advisory
Source: CPA Australia survey of members April 2019

2. Redefine product advice and introduce strategic financial planning advice

Introducing strategic financial planning advice is a recommendation aimed at tackling the growing financial planning advice gap. Redefining product advice to separate the strategic elements of financial planning advice into a distinct definition may allow professional accountants to be authorised under existing registrations and regulations and give advice that meets clients' needs, and to be more focused on delivering holistic advice.

Strategic financial planning advice differs in that it would not include the recommendation of a specific financial product, but rather be restricted to an overall financial strategy. For example, an appropriately qualified adviser may recommend a superannuation contribution strategy that does not involve recommending a specific superannuation product. The majority of professional accountants who offer financial planning advisory services (62.3 per cent)[21] believe that this new definition for strategic financial planning advice should be created.

The majority of consumers and SMEs find strategic advice appealing, as shown in Figure 6. The overwhelming majority of consumers (88.1 per cent)[2] and SMEs (82.5 per cent)[2] believe that strategic advice could be enough to satisfy their personal advice needs, if it was available to them.

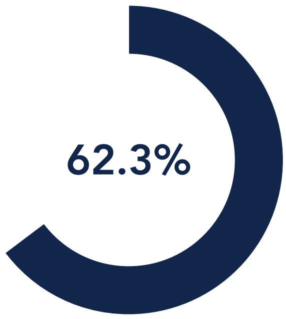
Focus groups found that consumers and SMEs looking for financial planning advice are not necessarily looking for product recommendations, but rather more strategic guidance through their personal and business journey.

"Possibly providing advice for my financial situation. As I am a contractor, advice on where to go from here to help my finance."
(Consumer, New South Wales)

"Because you're trusting somebody with your personal and your business affairs, for me it's critical that they are able to advise the best way to go about things."

(SME, Victoria)

Figure 18: The proportion of members who believe a new definition for strategic financial planning advice should be created



n = 155, respondents offering financial planning advisory

Source: CPA Australia survey of members April 2019

[21] CPA Australia Regulatory Burden Survey, CoreData 2019

These consumers are also hesitant to have multiple relationships with different advisers. They prefer a one-stop-shop who knows their complete situation. In addition, they worry about having to develop a trusting relationship with someone new to provide them with financial planning advice. The introduction of strategic financial planning advice would allow professional accountants to be a single destination for commonly required services like tax advice, in addition to financial planning advice strategies.

"I don't want my personal financial information getting spread quite far abroad. I prefer to keep it concentrated and then have that person know what the real strategy is, not only from an investment perspective but also from a legal perspective."
(SME, New South Wales)

"Trusting somebody new, like I don't know, unless it's recommended and you're not 100%. How do you know they're good? If you already have a relationship with one, you know that you've been dealing for say 10/15 years, you already know what to expect."
(SME, New South Wales)

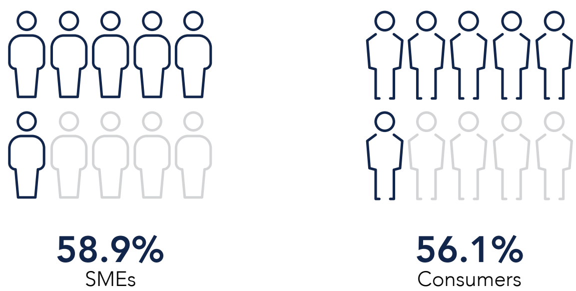
Consumers express frustration at the limited scope of services offered by professional accountants but are largely (58.9 per cent SMEs and 56.1 per cent consumers, respectively) unconcerned about the need for their professional accountants to hold multiple licences and registrations to meet their personal advice needs. While more than four in 10 (43.9 per cent) consumers say they are very concerned or somewhat concerned about their accountant having to hold multiple licences or registrations, they nevertheless do not fully understand why their accountant can answer some questions but not others; and they feel let down by professionals that they otherwise trust and expect to meet all of their needs.

"I asked something pretty simple and I felt they were just pawing me off and looking at the clock."
(SME, New South Wales)

"I was a bit peeved off, that did annoy me because I thought well, you did have the expertise. You were just telling me; however, your focus now is more on this so you're just not going to help me."
(SME, New South Wales)

"There's probably a grey area between where a structural advice becomes personal advice and like who is to determine? Where does the accountant know where to draw the line?"
(Consumer, New South Wales)

Figure 19: The proportions of SMEs and consumers who are unconcerned about the need for their professional accountants to hold multiple licences and registrations to meet their personal advice needs



n = 400, SMEs; 611, consumers

Source: CPA Australia survey of consumers and SMEs August 2019

CPA Australia members believe that current regulations around financial planning advice should be reconsidered within reason, so they can provide advice that they are already proven competent to provide, and which is beneficial to clients. Focus groups of CPA Australia members revealed that they know their clients well but are frustrated by the restricted scope of services they can provide within the current regulatory framework. They want the authorisation to give strategic financial planning advice without unnecessary additional costs and compliance requirements.

"They also turn it around and add to the regulatory burden because you have to have a separate entity to do your financial planning licence. Right, sitting with a client and saying Should I do super? Should I set up a super fund? Sorry, I need to go and swap and become a different employee, from a different entity, charge you a different invoice for that and do this work for you"
(CPA, Australian Capital Territory)

"They come to their accountants because they're knowledgeable. They know what's going on out there and they want recommendations from their accountants in regards to some of these basics. I don't know how many clients I've had that have said, you know which business banking account should I set up or I'm going overseas or I'm doing some overseas transactions and I need to dodge the transaction fees. We can't do it theoretically within an ACL."
(CPA, Victoria)

"I look like an idiot when I say, I'm sorry I can't do it and I have to call my colleague in and then they say, how much is this going to cost me? How do you justify the fact that you are not, as an accountant, allowed to say to your client, you've got all this money in your cheque account, you should just put it in a term deposit?"
(CPA, New South Wales)

Professional accountants also revealed that they want the freedom to speak about certain issues without having to feel like they are holding back from fully supporting their clients. Financial planning advice often includes topics like budgeting, estate planning, lifestyle and retirement planning, which are not necessarily, or indeed actually, related to financial products.

"The financial services act is really difficult. You know, we can state the facts of something but we can't recommend when the client should do something like put money into super for a tax deduction. They go, are you telling me to put money into super? No, I'm saying if you do, you'll get a tax deduction. Well is that a good thing?"
(CPA, Australian Capital Territory)

3. Individual licensing or registration of financial advisers

More than half (59.3 per cent) of professional accountants offering financial planning advice favour the concept of individual licensing or registration of financial advisers, according to the CPA Australia survey of its members. Under the current system, individuals are not directly licensed by ASIC, but rather operate as authorised representatives (ARs) of Australian financial services licensees, which are licensed by ASIC.

AFS licensees are empowered to restrict or direct the types of advice their ARs can provide, the financial products they can recommend, service pricing and clientele. In addition, ARs could be threatened with removal of their authority if they breach a licensee's standards or practices. Direct licensing would lead to greater individual responsibility and accountability, requiring greater personal commitment to integrity, competence and ethics. Supporters of this recommendation believe that moving to a system of individual licensing would also reduce or remove conflicts of interest between consumers and licensees that may arise in the current regulatory context.

Q: Why do you believe individual licensing or registration should be introduced for financial advisers?

"It is the individual providing the advice not the company. Plus, it would make everyone independent."
(CPA, New South Wales)

"To ensure currency, qualifications and ethics."
(CPA, Victoria)

"Reduce red tape, centralise registrations."
(CPA, Victoria)

Figure 20: The proportion of members in public practice who favour individual licensing or registration of financial advisers

n = 155, respondents offering financial planning advisory
Source: CPA Australia survey of members April 2019

4. Align codes of ethics, and CPD requirements

A member of CPA Australia must complete 120 hours of continuing professional development (CPD) every three years with a minimum of 20 hours of CPD per year[22]. For advice on tax, CPD is regulated by the TPB. Requirements include mandatory professional indemnity insurance and undertaking 60 hours of CPD each triennium. Tax accountants must also comply with the Code of Professional Conduct in the Tax Agents Services Act 2009[23]. To provide financial advice, individuals are required to complete 40 hours of CPD each year of which 70 per cent must be approved by their licensee[24].

To be able to continue providing tax (financial) advice as an accountant, one needs to fulfil at least 60 hours of CPD every year. Some of the content in each CPD program overlaps, particularly in relation to ethics. Some members revealed in focus group that they are confused by the different existing requirements.

When multiple regulatory codes are written, formatted and presented in differing ways, interpretation are likely to be uncertain and the ultimate outcome is likely to be inconsistent. There is a strong call from professional accountants for the alignment of CPD requirements and codes of ethics.

"As I said before, the component share of that CPD requirements just doesn't make sense. It's not practical. There's far too much emphasis on ethics and not enough on competency."
(CPA, Victoria)

"For a lot of the public practitioners that I review, it seems to me not that they don't have a professional attitude or a professional mindset but I do think that there is a certain amount of box ticking that goes on just to meet the hours requirements without necessarily giving too much thought to the type and topics being covered in the CPD"
(CPA, Queensland)

"Having Multiple CPD requirements for several different bodies is frustrating. Needing different areas within the one body is confusing and not easy to determine how to cover the minimum requirements across all bodies. Regulatory bodies need to have clearer and affordable CPD requirements."
(CPA, Queensland)

---

[22] Now you're a CPA, what's next? , CPA Australia

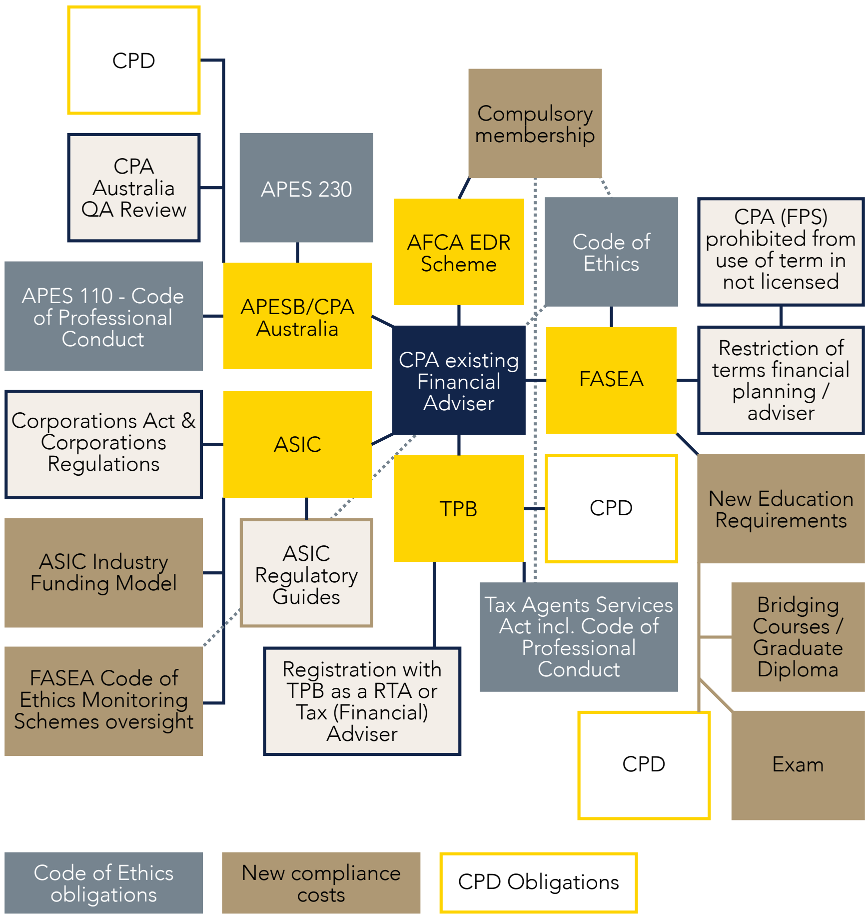
[23] Green Paper – Regulatory Burden and Advisory Services, CPA Australia

[24] Continuing professional development standards, The Financial Adviser Standards and Ethics Authority

The final report of the royal commission[25] noted the complexity of the existing financial services regulatory regime and recognised that just adding more regulations simply results in an extra layer of intricacy and complexity that will not necessarily assist industry or consumers.

However, the royal commission itself recommended the creation of a centralised disciplinary body, which appears to overlap with or duplicate the aims of a requirement that from January 1, 2020, financial advisers must adhere to a new statutory code of ethics issued by FASEA. Advisers' compliance will be monitored by ASIC-approved code monitoring bodies, and these bodies must report breaches to ASIC for the regulator to consider what action to take. These extra layers of regulation and additional complexity are a contributing factor to the creation of conflicting regulatory frameworks.

Figure 21: Conflicting regulatory frameworks



Source: CPA Australia Green Paper – Regulatory Burden 2019

[25] Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry

5. Consider changes to the tax registration system

CPA Australia's survey of members found that two thirds (66.7 per cent) believe that changes are needed to the tax registration system to avoid multiple registrations for those who offer financial planning advice and taxation services. Streamlining this system and eliminating conflicting regulation will relieve CPA Australia members (and non-members, offering the same services) from overlapping and confusing regulation. This in turn will potentially bring down costs and reduce professional accountants' reluctance to providing financial planning advice.

"Surely it makes sense to have one registration system - perhaps just with multiple options - so you are a registered tax agent and this registration also shows you are licensed to give financial advice (or not) - I find the multiple registrations annoying, expensive and confusing for both the adviser and the client."
(CPA, Western Australia)

"Being an accountant and a trusted adviser overlapped this tax agents licence and financial planning. Accountants advise clients on wealth creation so tax and financial planning largely overlap. Perhaps one body could administer several overlapping licences."
(CPA, New South Wales)

RESEARCH METHODOLOGY

The regulatory burden report has been prepared based on:

- CPA Australia Member Survey. There are 641 valid respondents, all of whom are CPA Australia certified accountants.
- CPA Australia consumer and SME survey with 611 complete responses from consumers and 400 complete responses from SMEs.
- Both CPA Australia Member Survey and CPA Australia consumer and SME survey are developed by CoreData in conjunction with CPA Australia and sent to CoreData's proprietary panel of consumers and SMEs who use the services of an accountant at least once a year
- Qualitative research conducted by CoreData as a component of the Regulatory Burden work being performed for CPA Australia to reflect consumers and SMEs' view on their relationship with accountants. This element consisted of four focus groups, through which participants could provide CPA Australia with feedback, comments, and suggestions regarding Regulatory Burden. The focus groups were conducted on the 10th and 11th of July, with two focus groups held in Sydney, and two in Melbourne. Both cities hosted one consumer focus group, and one with owners of small to medium enterprises (SMEs). There were 25 consumers and SMEs in total in four focus groups.
- Qualitative research conducted by CoreData as a component of the Regulatory Burden work being performed for CPA Australia to reflect regulatory issues faced by their members. This element consisted of eight focus groups around Australia in the following cities: Adelaide, Bendigo, Brisbane, Canberra, Launceston, Melbourne, Perth and Sydney, which were conducted from the 11th and 18th of June, which 60 CPA Australia members attended in total.
- Desktop research and analysis undertaken by CoreData

Who constitutes consumers and SMEs?

"SMEs" refers to owners of businesses with an annual turnover less than $10 million. "Consumers" refers to individuals who have an accountant and use their accountant at least once a year.

Assumptions	
General	• Single operator with 400 clients in total • Duplicate fees are removed for the total aggregate fee calculation
Accountant & Auditor	• 120 SMSF clients • Software includes SMSF administration and accounting with licence for up to six users
Tax Adviser	• Software includes accounting with licence for up to six users
Mortgage/Finance	• Credit Rep of an aggregator • Assumes annual volume of $6m of home loans written
Financial Advice	• Authorised representative of an Australian financial services licensee
Exclusions	• Rent, salaries and general office expenses • ASIC fees do not include one off application fees • Time taken out of the business and any costs associated with CPD

Level 20, 28 Freshwater Place
Southbank VIC Australia 3006
cpaaustralia.com.au

Research conducted by:

CORE DATA