BT Panorama

Accountants – Adapting to the new world

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CORE DATA

Contents

How did we get here? 2

Key considerations for accountants 4

New opportunities 7

The world changed fundamentally for accountants on July 1 this year, when the exemption for accountants offering advice on the establishment or winding up of self-managed super funds (SMSFs) was repealed by Federal Government. When take up of the Australian Securities and Investment Commission's (ASIC) limited licence was slow, industry pundits predicted a last minute rush among accountants to get licensed to provide advice – this didn't happen. ASIC had only approved 149 limited licence applications as of May 23 this year[1]. But while obtaining a limited licence wasn't as attractive to accountants as initially expected, it was just one of many options they had to consider as they grappled with how to respond to the new licensing regime. So what does the new world look like for accountants offering SMSF advice and what does the future hold for accountants that have not become licensed?

[1] Investor Daily: http://www.ifa.com.au/news/16264-accountants-shy-away-from-smsf-licensing

How did we get here?

Before we look forward, let's reflect on what's changed under the new licensing regime. The now defunct accountants' licensing exemption under Regulation 7.1.29A permitted a recognised accountant to recommend the establishment or winding up of an SMSF without being licensed under the Australian Financial Services (AFS) licensing regime. Providing unlicensed financial services is a criminal offence that risks severe regulatory action, so accountants that were previously operating under the exemption have had to make a choice to either obtain their own limited or full AFSL; become an authorised representative of another entity's AFS licence; refer all SMSF, superannuation and financial planning related queries to a licensed financial planner; or recruit or form a joint venture arrangement.

The limited AFS licence was available under streamlined transitional provisions between July 1, 2013 and June 30, 2016 – but that door is now closed. The limited take-up of the limited AFS licence is not surprising given research by CoreData carried out between July and November 2015 found that less than two in five (37.6%) accountants intended to alter or enter a new licensing arrangement within the next 12 months – and they were more likely to use another entity's AFS licence than to gain their own limited or full licence[2]. However, for accountants who have chosen this path, the estimated ongoing costs to maintain a limited AFS licence are around $5,838[3], assuming a sole practitioner or small public practice holding no client monies. The cost breakdown is provided below.

Ongoing costs	
ASIC Lodgement Fees	$579
Membership EDR	$275
PI Insurance Cover	$3,000*
Ongoing training and compliance	$2,000#
TOTAL	**$5,838**

Training cost is indicative for one person.

* Indicative total cost of the PI insurance policy, not just the additional cost to cover the limited AFS licence.
Note costs will vary between insurers.
Source: CPA Australia

[2] CoreData Accountants Report, February 2016

[3] CPA Australia: http://www.cpaaustralia.com.au/~/media/corporate/allfiles/document/professional-resources/financial-planning/information-guide.pdf?la=en

Accountants who have been granted a limited AFS licence are able to provide holistic financial advice on SMSFs and class of product advice – that is, advice that doesn't include a specific product recommendation, on:

- Superannuation
- Securities
- Simple managed investment schemes
- General and life insurance, and
- Basic deposit products

This means that they will still need a referral or joint venture arrangement in place for clients that require specific financial product recommendations. However, the focus on the removal of the accountant exemption has prompted a broader discussion about the blurring of the lines between financial planning and accounting and caused many accountants to think strategically about the future of their business. For those operating purely as tax agents it's a case of business as usual, but for those who have dabbled with the idea of incorporating a broader advisory offer into their practice or who were previously operating under the exemption – the landscape has changed fundamentally.

Key considerations for accountants

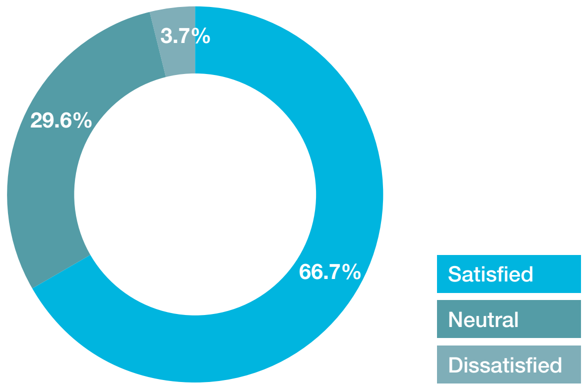
Regardless of the choice that accountants have made about how they will handle SMSF-related advice going forward, there are some key challenges to consider as they adapt to the new world order. One of the biggest challenges is properly documenting all client conversations – both for those in an unlicensed capacity, to confirm that they are indeed operating within the law and the information they are providing to clients does not require a licence – and for licensed accountants, who will need solutions for preparing statements of advice, records of advice, fact finds and other key aspects of the advisory process. Licensed accountants with their own limited or full licence will need to find their own solution to advice documentation, while those who have chosen to be authorised through another entity's AFS licence may be able to rely on their licensee for compliance and documentation support.

Unlicensed accountants

Accountants that have made a strategic decision not to provide in-house financial advice, either through their own limited or full licence or by becoming an authorised representative of another entity's AFS licence, but want to continue offering SMSF-related advice post-exemption, are likely to have already established a referral arrangement or recruited a licensed planner to their business. The referral model, while a great option for those who do not see financial planning as part of their core business in the future, is highly dependent on the ability of the accounting business to find a good quality financial planner they can trust, who is also a good cultural fit. This isn't an easy process. Accountants who have gone down this path will need to have contingency plans in place in case the referral relationship breaks down or clients are unhappy with the partner's service. This is to avoid risking losing those clients to another accounting firm – or indeed a firm that offers both accounting and financial planning in-house.

Encouragingly, CoreData's research suggests accountants who had existing referral arrangements with financial planners prior to the removal of the accountants' exemption are broadly satisfied with their referral partnership. Two thirds (66.7%) are satisfied while only 3.7% are dissatisfied with their relationship – suggesting that most accountants in referral relationships view these relationships positively.

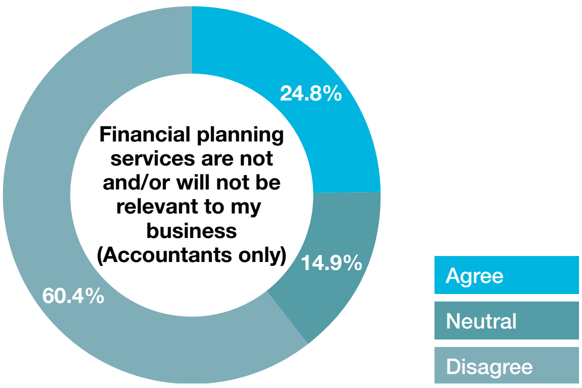
Overall how satisfied are you with the current financial planning referral arrangement of the business you work in?



Source: CoreData Accountants Report, 2016

If set up in the right way, a third-party referral arrangement can be a great source of business leads, but it needs to be nurtured over time to ensure it remains successful for both parties. Critically, both accountants and financial planners entering into such a relationship need to find a way to quantify the success of the relationship on an ongoing basis. For example, if the measure of success is the capacity for the relationship to produce qualified leads, then they need to define up front how many and what type of leads will generate the desired revenue uplift for their business. It's important for each referral partner to assess the relationship at least annually and consider whether there remains mutual benefit in continuing. What you want to avoid is referral partner apathy; things are so comfortable that you fail to realise that the relationship isn't working.

For accountants that are still yet to make a decision on the future of financial advice in their practice, there remain some options to consider. Indeed, CoreData's research suggests that while many accountants are not making immediate changes to their licensing regime, more than three in five (60.4%) believe financial planning services are and will be a relevant function for their business in the future.



While the option of obtaining a limited licence has been taken off the table by ASIC, becoming authorised via another entity's AFS licence is a great option for accountants that want to maintain full control over their client base and essentially offer a one-stop-shop solution. The most common driver among accountants in choosing an AFS licensee is an alignment with professional interests and values (47.4%), followed by satisfaction with past dealings and support (both 31.6%). If this is something you're considering, do your due diligence; make sure you understand what your dealership fee covers, and choose the arrangement that's right for you and your business.

Licensed accountants

Licensed accountants should start the initial conversation with an accounting client about establishing an SMSF by asking one key question: is an SMSF right for this client? Any recommendation should consider the alternatives to SMSFs, such as Small Australian Prudential Regulation Authority Funds (SAFs), in the Statement of Advice. A SAF is similar to an SMSF but with a professional, licensed trustee who takes on the compliance, administrative, audit and accounting duties. They should also pay due attention to exit strategies when advising clients about the establishment of an SMSF, as well as reasons why an SMSF may need to be wound up in the future.

Accountants who are licensed to provide advice have the opportunity to play a much broader role in their clients' lives and build a diversified, multi-disciplinary practice. However, they should not underestimate the administrative, operational, legislative and regulatory requirements of a full or limited AFS licence – as well as the differences between the provision of financial and taxation advice. As a starting point, accountants who have recently begun providing financial advice to clients under a partial or full AFS licence should make sure they've spoken with their Professional Indemnity insurer to clarify the scope and nature of the advice they are providing under their new licence. Once this is sorted, they should spend some time thinking and talking with business partners or staff about the implications of the shift from a practice that's providing accounting services, to a practice that's licensed to provide financial advice as well.

While accounting and financial planning are aligned, there are some aspects of the provision of financial advice that accountants may find challenging without the appropriate training and support. Good financial planners possess soft skills that aid them in really getting to know their client's goals and objectives – and from a client perspective, this is a critical foundation of a good planner-client relationship. CoreData's Keys to Growth research suggests ease of doing business and trust are key switching drivers for financial planning clients, ahead of expertise on investment strategy and tax[4]. Accountants operating under their own licence will need to ensure they source the appropriate support and training to maintain strong client relationships, potentially via their professional association membership, as they make the shift from an accounting practice to an accounting and financial planning practice. Those accountants who have become authorised under another entity's AFS have the ability to partner with their licensee to make sure they're getting the tools, training and documentation they need to assist them with client engagement, are undertaking ongoing professional development and training to equip them to deal with the breadth of advisory issues facing clients in today's environment, and have sufficient staff and resourcing to help their business grow their advisory book.

[4] CoreData Keys to Growth Report, 2014

New opportunities

There are a range of options accounting practices can explore to grow their new advisory book, however key to profitable growth is first honing the customer value proposition to ensure it reflects the type of client they are looking to attract. A risk for businesses that don't align their advice CVP with their accounting CVP is that they end up growing a book of new clients who don't fit the business' philosophy or approach to client relationship management. The new landscape offers an opportunity to deepen the financial planner-client relationship through means such as peer-to-peer mentoring, referral partnerships and joint venture arrangements. Relationships can also be formed through recruitment of qualified financial planners to act as the authorised representatives within accounting businesses with no existing advice capabilities or licence to provide financial advice.

Collaboration is being made all the more seamless through the use of technology solutions that bring accountants and financial planners closer together. The proliferation of advice and compliance technology as well as integrated software solutions that allow accountants and planners access to client accounts through a shared portal give both parties line of sight to important client information. These technological advances should in theory improve the efficiency of referral and joint venture partnerships as well as provide a more fluid client experience.

Those that will benefit most from the change will recognise the opportunities, rather than threats, that the new licensing regime provides for both accountants and planners in terms of the potential for new lead generation, diversified revenue streams and new client segments. Technology-based innovation is also making the provision of financial advice more efficient by increasing the amount of 'face time' financial planners can spend with their clients – as opposed to doing administrative and compliance related tasks. New technology platforms automate part of the advice process, increasing efficiencies in portfolio management and administration and lowering the cost to serve for financial planners. Accountants that are broadening their focus on advice services post-exemption may find such solutions allow them to grow their advisory book quicker and more profitably, due to the time that is freed up to spend on client engagement and prospecting.

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