Financial Standard

BEST PRACTICE

SEMINAR SERIES

SOA – helping advisers to apply managed accounts

Michael Butler

Head of Compliance

Australian Financial Services

Disclaimer

- THIS DOCUMENT IS ISSUED BY AFS GROUP LIMITED ("AFS") A MEMBER OF THE AFS GROUP OF COMPANIES COMPRISING AFS AND AUSTRALIAN FINANCIAL SERVICES LIMITED. BOTH AFS GROUP LIMITED AND AUSTRALIAN FINANCIAL SERVICES LIMITED HOLD AUSTRALIAN FINANCIAL SERVICES LICENCES 259586 AND 297239 RESPECTIVELY.
- THIS PRESENTATION IS INTENDED FOR THE GENERAL INFORMATION OF AFS FINANCIAL ADVISERS ONLY. THIS DOCUMENT MAY NOT BE REPRODUCED OR TRANSMITTED WITHOUT THE PRIOR WRITTEN PERMISSION OF AFS. IT IS NOT TO BE PASSED TO RETAIL INVESTORS.
- THIS DOCUMENT HAS BEEN PREPARED WITHOUT TAKING INTO ACCOUNT YOUR, OR YOUR CLIENTS', OBJECTIVES, FINANCIAL SITUATION, OR NEEDS. YOU SHOULD CONSIDER THESE MATTERS BEFORE ACTING ON THE INFORMATION CONTAINED IN THIS PRESENTATION. THIS PRESENTATION DOES NOT CONSITITUTE AN OFFER FOR THE SALE OF ANY PRODUCT OR A SOLICITATION OF ANY SUCH OFFER. YOU SHOULD CONSIDER THE RELEVANT PRODUCT DISCLOSURE STATEMENT BEFORE MAKING A DECISION AS TO WHETHER TO ACQUIRE OR HOLD INTERESTS IN A PRODUCT.
- THE INFORMATION IN THIS DOCUMENT IS COLLATED BY AFS IN ITS CAPACITY AS AN AFSL HOLDER. AFS MAKES NO GUARANTEE, REPRESENTATION OR WARRANTY AND ACCEPTS NO RESPONSIBILITY OR LIABILITY AS TO THE ACCURACY OR COMPLETENESS OF ANY INFORMATION IN THIS PRESENTATION.
- THE INFORMATION IN THIS PRESENTATION IS DERIVED FROM SOURCES AFS REASONABLY BELIEVES TO BE RELIABLE BUT WHICH HAVE NOT BEEN INDEPENDENTLY VERIFIED. REFERENCE TO INDIVIDUAL COMPANIES OR FINANCIAL PRODUCTS IS INCLUDED SOLELY FOR THE PURPOSES OF ILLUSTRATION AND DOES NOT CONSTITUTE A RECOMMENDATION.
- AFS DOES NOT MAKE ANY GUARANTEE AS TO INVESTMENT PERFORMANCE OR THE RETURN OF CAPITAL. PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE PERFORMANCE AND THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN AS WELL AS UP.

Agenda

- The AFS MAM
- MDA or MIS
- MDA
- SMA (MIS)
- QAA

The AFS Model

- AFS advisers utilize both SMA and IMA facilities under both MIS and MDA authorizations'.
- Versatility and appropriateness for the client is the key rather than providing only one solution.

AFS Model (cont)

- SMA use is primarily a white-label version of the Black Rock CPS facility with a number of investment program options including both "in-house", "research house" and Fund Manager options.

AFS Model (cont)

- SMA use is primarily a white-label version of the Black Rock CPS facility with a number of investment program options including both "in-house", "research house" and Fund Manager options.

AFS Model (cont)

- In the IMA space we operate with 2 internal providers and also have a limited arrangement with 1 external party.
- The internal providers offer differing services to their clients however both are high touch and directed at the High Net Wealth segment of the market.

MDA –V- MIS in the SOA

- MDA
  - Initial advice has specific requirements and is more complex.
  - Specific Class Order warnings required.
  - Addresses the service not the investments.
  - Given as separate specific advice.
- MIS
  - Initial advice has the same requirements as managed funds.
  - Remember RPAR
  - Addresses both the administration and the investment program.
  - Easily forms a part of multi strategy advice.

MDA Requirements Investment Program/SOA

- In addition to the base requirements of an SOA the MDA operator must ensure the IP:
  - Is appropriate for the client
  - Includes the basis for the recommendation to enter the MDA contract
  - Sets out, in as much detail as a retail client would reasonably require to clearly understand:
    - Any significant risks associated with the nature and scope of the MDA operators' discretions under the MDA contract and the strategies that are to be applied in exercising those discretions; and
    - Whether and if so how the client may give instructions to the MDA operator that effect the discretions under the MDA contract; and

Continued

- Warnings that the MDA contract:
  - May not be suitable for the client if the client has provided to the MDA operator limited or inaccurate information relating to the clients personal circumstances; and
  - May cease to be suitable if the clients relevant personal circumstances change; and
- Details of when and by whom the suitability of the MDA contract to the client's relevant personal circumstances will be reviewed as required.

Continued

- The detailed nature of the Investment Program is flexible and can contain either a very detailed description of the financial products or classes of financial products that the MDA operator uses or it may contain just a broad investment strategy or an identified goal that allows the operator a broader description to make investments.
- Excluded classes of products if appropriate (i.e derivatives or an unregistered scheme)

Selling the MDA

- The MDA is a different type of investment and most clients would have an initial apprehension in providing the MDA Operator with a Power of Attorney.
- In reality this is little difference to Managed Funds and the SOA needs to explain how the operator will apply the Program.
- Key Risks such as the operator making an inappropriate investment, failure or fraud by an external party or the MDA operator are covered in the MDA Agreement.

Key Benefits

- Transparency of portfolio, taxation and performance fees if applicable.
- Clients individual taxation positions taken into account in decision making
- Customized portfolio of assets
- Cost to client should be more transparent and less.
- Improved reporting.

SMA requirements for the SOA

- The key issue for PDS based offerings is that they are not subject to the same advice requirements as those utilizing an MDA authorization.
- The common issues include the need to meet the obligations of s945A, s945B, s946 s947 et al – that is Reasonable basis, Warnings, Disclosure and Replacement of a Financial Product.

How we use SMA SOA's

- In most cases the SMA forms only a part of the clients overall strategy in primarily the Equity Allocation and as the licensee I look for the Basis of the Recommendation to include:
  - A description of the SMA
  - Who are the key parties

SMA Key Risks

- The key risks associated with an SMA are no different than that of any Managed Fund and include the obvious Regulatory, Market and Investment Risks.
- The Risk peculiar to an SMA is that of the scheme where in most cases the RE and/or a model provider can be changed or terminated and this may result in changes to fees or other costs associated with the change. In reality this is little different to Managed Funds as most clients have little idea as to who is actually managing their money.
- If gearing is involved do not forget to include the risks associated with either margin lending or borrowing against equity.

Conclusion

- Consider the advantages of offering an SMA/IMA/MDA they are the future.
- If you are going to look to offer an MDA read the Regulatory Guide and the Class Order before going any further.
- Don't forget the SOA requirements that apply to all advice.
- Use the SOA to showcase the product not just bury it in standard terms & template information.
- Sell the benefits explain the risks.