

Association of Independently Owned Financial Professionals
Code of Ethics (“Code”)
and
Standards for the Professional Practice of Financial Advice
 (“Standards”)

This Code and Standards has been created to guide members of the Association of Independently Owned Financial Professionals (“Association”) in relation to their ethical obligations, both to their clients and the financial services industry at large.

While many of the elements contained herein are outlined as part of the financial services legislation governing the financial advice industry, the inclusions here are to serve as the “spirit” of the profession in which its members operate.

Further, a key consideration in outlining the code and standards for this Association is for that of giving “Independent” advice to clients, and what the obligations are to those financial professionals who are operating in this space.

Code of Ethics (“Code”)

As a key participant in setting standards for those responsible for giving advice in the financial services industry, the Association expects the following elements to be basis of the way that a financial services professional will approach the way that they provide advice:

Element 1 – Objectivity

A key tenet of the decision to operate as an independent financial professional is to not be shackled by any external influence. Therefore, to be truly independent, a member will be objective in the way that they operate, with that objectivity being driven by a duty to act at all times in what would be regarded as being in the clients’ best interests.

To further demonstrate their objectivity, a member will operate free from the following conflicts of interest in how they provide their advice:

- *No conflict in remuneration* – the way in which the service is paid for will not bring influence as to the recommendation of any particular product or service.
- *No conflict in ownership* – the preference for use of any particular product or service will not be due to the advice provider also being a financial product developer or distributor.
- *No conflict in research* – opinions on products or services used to support recommendations will be free of any relationship to any product or provider, either through ownership or any other financial arrangement.

Element 2 – Proficiency

In dealing with a client’s financial situation, a member will be making recommendations that do not just affect a clients’ purchase today. The recommendations will have also ramifications into the future and can affect how a client may experience their future lifestyle.

Because a member will provide strategies requiring the understanding of knowledge across a range of disciplines (including but not limited to legal, taxation, Centrelink and various investment concepts) and likely recommend various complex financial products, the level of knowledge required is beyond that of simply requiring the advice provider to be simply “competent”.

It is for this reason that a member is expected to demonstrate a proficiency in the areas in which they choose to provide advice.

This is not to say that a member must specialise in a certain area of advice, but rather that if they choose to provide advice on a specific financial area, they must not only be able to show knowledge of that area of advice, but be proficient enough to adequately analyse and assess the client’s situation and develop a strategy that will place the client in a position superior to that if their current situation were to continue.

A member will also be deemed to be proficient if their specialisation allows them to assess that a client’s situation requires specialist attention and makes a referral to the relevant professional on that basis.

Element 3 – Integrity

A member will at all times operate their business and manage their client interactions in a manner that is honest and transparent. Further, a member’s integrity will be demonstrated by being

conscious of the inequity between their level of knowledge and that of their clients, and not taking advantage of any client because of this.

Element 4 – Confidentiality

It is recognised that in operating a financial advice business that a member will become aware of details of the client's situation, some of which may be highly sensitive.

Accordingly, a member will ensure that any information provided by a client will remain confidential and will not be passed on to any third party without having obtained the express permission of the client to do so.

This element is an ongoing obligation that continues even after the relationship between member and the client has been terminated.

Element 5 – Professionalism

A member will, in the way they conduct themselves in their business and in the public eye, do so in a manner that causes the general public to regard the financial services/advice industry as worthy of being deemed a "profession".

Along with adherence to the previous elements of this code, a member will demonstrate their professionalism by showing respect and dignity to both their clients and peers, as well as professionals in other business related activities.

A member acknowledges that by acting in an unprofessional manner they run the risk of not only their personal reputation being damaged, but also damaging the reputation of the financial services/advice industry as a whole.

Standards for the Professional Practice of Financial Advice (“Standards”)

In addition to the behaviours outlined in the Code of Ethics for how a member should act in their business, the Association also designates the following models as being the minimum standard for how a professional advice practice would operate.

While some of these standards reflect what is legislated for the industry, this reflects our belief that these are in actual fact best practice for the protection of both the consumer and the advice practice.

Part 1 – Client engagement

1. Scope of advice

Prior to the client participating in the process of receiving advice, it should be clear as to the extent of the advice that is to be given. This clarity should be in three aspects:

- I. The adviser should be clear as to any limitations that apply to the Australian Financial Services Licence (AFSL) that they are authorised under.
- II. The adviser should be clear as to any limitations that have been applied to the advice that they can give by the AFSL (i.e. whether the AFSL has restricted the advisers access so they may not provide advice on the full range of authorisations under the AFSL).
- III. The client has stipulated that they are only seeking advice in a certain area of their financial needs and that they do not want the adviser to provide them with any advice outside of those financial needs specified.

2. Remuneration

Further clarity should be provided to a client in terms of how the adviser/advice practice will be remunerated for the provision of that advice.

Where an adviser/advice practice will be remunerated by a flat fee to be charged to the client, the client should be made aware of:

- I. How such a fee will be calculated; and
- II. Where the fee will be sourced from (i.e. paid by client own accounts or sourced from transactions occurring from recommendations made).

Where remuneration will be received in the form of commission, the client should be advised of how this arrangement will operate; and

- I. Whether any shortfall is to apply the client will need to pay the difference; or
- II. Where any amount may be rebated over certain thresholds that may apply.

It should be noted that the Association does not favour one form of remuneration over another (fees or commission) – the manner of how an advice practice determines its income strategy is for that business to decide. However, whatever the method that is used, the client must be left in no doubt as to their obligations to pay for the advice service to be provided.

3. Instigation

In addition to points 1 and 2 above, the client should also have explained to them:

- I. The requirement for them to provide details on their current situation;

- II. The need for them to express what they are hoping to achieve from the advice process (i.e. their objectives);
- III. That where they don't wish to provide details of their current situation that the adviser can't be held responsible for a recommendation that fails to take that aspect into account; and
- IV. That if the client has limited the scope of the advice to be provided, that this may see aspects of their financial situation that require attention unattended to.

Upon informing the client of how the advice process will proceed, the client should be asked to sign off on their understanding of the terms discussed.

Part 2 – Advice Preparation

Prior to completing the written Statement of Advice (SOA) for presentation to the client, preparation of this document should involve the following:

- I. A review of the clients' objectives has taken place to determine that the provision of such advice falls within the proficiency of the adviser and the scope of the AFSL authorisations;
- II. Ensuring that all relevant information about the clients' position has been provided for analysis;
- III. The analysis covers the clients' current position to determine whether any recommendation for change is justified; and
- IV. That the recommendations place the clients in a better position to achieve their objectives.

Support for point IV will be seen to be evident where more than one alternative to the current situation has been considered. These rules do also recognise that a single alternative option may be sufficient – especially where the scope of the advice has been limited by the request of the client to do so.

If recommendations for change do not project to meet the clients' objectives, this does mean that no recommendation should take place. These rules recognise that in some situations it may not be possible for any recommendations to meet the stated objectives of the client.

In an instance where a client's objectives cannot be met, a strategy for change can be recommended where it can be supported that what is recommended is of greater benefit for the client than to maintain their current situation.

Part 3 – Ongoing Client Management

Where a client accepts, the advice presented, there is an obligation to offer the client an Ongoing Service Arrangement (OSA), whereby the advice given is reviewed on a regular basis. In offering such a service, an advice practice should ensure that:

- I. The service being offered is appropriate to the financial situation of the client and the sophistication of the strategies that have been implemented.
- II. It is clear to the client what the service will entail and what they can expect from participating in the review service.
- III. The client understands what is expected from them to effectively participate in the service on offer.
- IV. The cost of the service and how the fee for this is levied is clear and that the client fully understands how this will operate.

Where an OSA is offered to a client, the expected time between meetings to review the clients' situation should be no more than annually.

Where a client agrees to participate in an OSA, this agreement should be documented with the points above (at a minimum) and signed off by both the client and a representative of the advice practice.

A client should have confirmed for them annually the following:

- I. What elements were included in the review service was that the client engaged the advice practice for;
- II. What elements of that review service were provided during the previous twelve (12) months;
- III. What elements of that review service were not provided during the previous twelve (12) months; and
- IV. What payments were received by the advice practice from all sources for the provision of the service agreed to.

Where a client has entered into an OSA, an advice practice will be required to re-confirm that the client wishes to continue with such an arrangement. While this should occur, each time the points above are confirmed with the client, the confirmation of continuation of an OSA must occur at least every two years from the date of the client's previous acceptance of the OSA.

Part 4 – Ongoing Professional Maintenance

In order to provide quality advice to a client, an adviser will recognise that it is important to ensure their knowledge continues to be up-to-date with the current market in which they operate.

To ensure that their advice will take the current financial market place into account when determining strategies for their clients, an adviser will ensure that they undertake the required level of Continuing Professional Development (CPD).

The required amount is that deemed to be sufficient to keep the adviser relevant. While it is acknowledged that the minimum standard for meeting ongoing CPD requirements for the financial services industry is thirty (40) hours per year or 120 hours over a 3-year rolling period, it should be recognised that this amount is a minimum benchmark – it does not necessarily reflect what an individual requires to meet their needs for the advice market in which they operate.

In the same way that each client that receives advice has similar characteristics but is essentially different, so too is an adviser in terms of their need for ongoing CPD. Because of this, each adviser will have their own training plan devised to meet their professional requirements.

Each training plan will take into account:

- I. The business plan for the advice practice, and any marketing campaigns and advice specialisations that are specific to it;
- II. The demographic trend of the current clientele being serviced by the advice practice;
- III. Changes in the economic climate and legislation that will bring affect in this area;
- IV. Any areas of advice that the adviser wishes to develop skills and knowledge in to extend what advice they can give to their clients; and
- V. Ensuring that their current knowledge of advice (both strategy and financial product) remain up-to-date and relevant.

A training plan will recognise that while knowledge is an important part of any CPD program, an adviser must continue to renew and develop the skills required to ensure that they can effectively deal with clients and:

- I. Understand their objectives;
- II. Identify their needs;
- III. Help them understand any risks involved;
- IV. Assist in prioritising any 'trade-off' required; and
- V. Communicate these concepts to them verbally and in writing.

After taking these things into account, the training plan will provide a recommended amount of CPD to be performed by the adviser in that year that will be no less than the minimum benchmark figure noted above.

Administration of the Code and Standards

To ensure ongoing commitment to the code and standards, a range of administration procedures are in place:

Availability

The code and standards will be available for promotion in the following ways:

Member of the Association

- A copy of the code and standards will be provided to each member to read when issued with their application; the application will contain a section to declare that the applicant has read the code and standards and agrees to be bound by its terms in the way that they operate their business activities.
- Upon being issued with their membership certificate, another copy will be provided along with a reminder in their letter of acceptance that they have agreed to abide by the code and standards.
- A copy of the code and standards will be available for download from the member section of the Association website.
- A licensee member of the Association is encouraged to note the existence of the code and standards in their marketing materials and business introduction documentation, and that it's representatives will adhere to them.

Members of the public

- The Association will have a section of their public website that summarises the code and standards and emphasises that all members of the association are bound to act by its terms when providing advice to clients.
- A full copy of the code and standards will be available for download for those members of the public who wish to view them.
- Members of the Association will be encouraged to inform clients of the code and standards and that they are committed to upholding them. It is recommended that this occur when clients are introduced to the financial planning process that is about to occur.

Monitoring

Having committed to the code and standards upon becoming a member, the Association will monitor the adherence to the code using the following means:

1. Annual declaration

Each member will annually be asked to declare their adherence to the code and standards as part of their membership renewal. This declaration will be signed off stating that the member:

- I. Will continue to act with clients in a manner that meets the code and standards;
- II. Will not act in a manner that may bring the industry into disrepute;
- III. Has completed their required CPD in the previous year; and
- IV. Has a training plan determined for the following year that will:
 - a. Renew their current knowledge and skills; and
 - b. Provide ongoing development for the benefit of their clients.

Completion of this declaration will be noted before accepting the next year's membership renewal.

2. Random audit

A random audit of at least 10% of individual members take place annually. This will require a member to submit the following:

- A copy of their CPD register for the financial year preceding the request;
- A copy of their training plan for the financial year in which the request has been made;
- A copy of a Statement of Advice that closest meets holistic advice given to a client by the adviser in the financial year preceding the request; and
- A copy of their advice practice initial engagement and OSA agreements

These documents will be reviewed by an officer of the association. Where it appears that there has been a breach in standards from the documentation provided this will be referred to a member of the AIOFP Compliance Service (ACS) for confirmation and determination of any remedial action to be taken (refer section "Discipline").

3. Complaints

Where a Principal Practice(licensee) Member of the Association receives a complaint regarding a member in their ordinary course of business, the licensee member will determine as part of their review of the complaint whether there appears to be a breach of the code and standards of the Association.

If it is determined that such a breach has occurred, this complaint will be referred to the Association where it will be reviewed by an appointed officer.

Should the officer determine that action needs to be taken on the complaint with regard to the code and standards, this will be referred to the Association Disciplinary Committee for confirmation and determination of any remedial action to be (refer section "Discipline").

Where a complaint has been referred to a licensee's External Dispute Resolution procedure (i.e. being reviewed by an Ombudsman) a licensee will automatically refer this to the Association to review as to whether there has been any breach of the code and standards. If the member is found to be in breach of the code and standards this will be referred to the Association Disciplinary Committee for confirmation and determination of any remedial action to be (refer section "Discipline").

A complaint may also be brought directly to the Association by a member of the public. Where such a situation occurs:

- I. The complaint will be acknowledged by the Association to the complainant within 5 business days of its receipt;
- II. The licensee member that authorises the member being complained about will be notified;
- III. The complainant's file will be requested from the member in question who will provide this to both the licensee and the Association within 48 hours of the request for the file being made;
- IV. A response to the complainant will be provided within 20 business days of the complaint having been acknowledged.

Where a breach of the code and standard is identified and the complaint upheld, this will be referred to the Association Disciplinary Committee for confirmation and determination of any remedial action to be (refer section "Discipline").

4. Discipline

Any breach of the code and standards will be reviewed by the Disciplinary Committee of the Association. This committee will comprise:

- An officer of the Association;
- A member of AIOFP Compliance Services (ACS); and
- A Certified Financial Strategist member of the Association

Where a breach or complaint is brought forward it will be recorded in a register of code and standards violations. It will then be reviewed by the officer of the Association member of the Disciplinary Committee. Where the officer sees cause the case will be brought to the attention of the other members of the Disciplinary Committee for their review and comment.

Each of these individuals will then review the case being brought forward and determine if any breach of the code and standards has occurred. This review will determine:

- I. If any breach has occurred; and
- II. Where a breach is deemed to have occurred, what remedial action is required.

If consensus is reached at this point between all members of the Disciplinary Committee, the officer of the Association member will contact the party concerned and inform them of the outcome and (where applicable) any action required to be taken.

Where the Disciplinary Committee does not initially reach a consensus in relation to the outcome a meeting of the Disciplinary Committee members will be organised to discuss the case and agree on an outcome.

The outcome will be reported to the Board of the Association for their comment within 24 hours of the outcome being decided by the Disciplinary Committee. If the Board has any questions or comments they will communicate this to the officer of the Association on the Disciplinary Committee for any feedback or action. Once the board is satisfied the results of the investigation can then be communicated.

The outcome will be determined and actions communicated within 25 business days from the time that they become aware of or are notified of the possible breach of the code and standards.

Where a breach of the code and standards is identified, a range of a sanctions can be applied member in question. Sanctions can include (but are not limited to):

- A written warning from the Association that any further evidence of such behaviour will result in their membership of the Association being withdrawn.
- Requirement for the completion of training to address the issue concerned.
- Requirement to advise other clients who may be affected because of the breach.
- Loss of professional designation associated with membership of the Association (e.g. Certified Financial Strategist).
- Loss of membership including any designation provided with that membership (e.g. Certified Financial Strategist).
- Additional requirements for annual declaration to maintain membership of the Association.
- Where appropriate, restitution of any financial loss suffered as a result of the conduct in question.

Where a breach of the code and standards is upheld by the Disciplinary Committee and is found to be of serious concern this can be reported by the Association to the relevant regulatory authority after having notified the individual member and their licensee member.

Any sanction given to a member by the Disciplinary Committee will be noted publicly. This may take place in one or more of the following methods (but is not limited to such):

- As an item at a meeting of members of the Association.
- During a presentation to members of business relating to the Association.
- In written format to the licensee member to be distributed to their authorised representatives.
- To other licensee members to be distributed to their authorised representatives.
- To the general public as an article on the website of the association.
- To the general public as a press release for general publication.

5. Review of the Code

The code and standards of the Association will be reviewed regularly in order to ensure that they remain up-to-date and relevant. This will occur by two (2) means.

Ongoing Review

The Association will appoint an officer to maintain the code and standards on a regular basis. This will involve that officer monitoring changes in legislation and market dynamic to ensure that the code and standards remain both in line with legislative requirements for the financial services industry, as well as meeting the changing expectations of the general public for the behaviours of participants in the financial advice profession.

Where any change is proposed from this review method it will be reported to the Board for their consideration.

- If the Board is happy to accept the change they will communicate this to the members for their consideration and comment.
- Where no comment is received from the membership the change recommended will be instituted.
- Where comment is received it will be considered and adjustments made where the Board feel necessary.
- Where the Board believe more clarification is required they will seek input to finalise the matter from:
 - A member of ACS; and
 - A Certified Financial Strategist.

Upon the Board finalising the issue, the code and standards will be adjusted accordingly. In this event, a new copy of the code and standards issued to all members and the Association website will be updated to reflect this.

Where a change is seen as substantial and changing the key tenets of the code and standards, a copy of the changes will be provided to the regulator of professional standards for confirmation that the changes meet their requirements.

Formal Review

At a time period of no longer than three (3) years the Association will organise for a committee to formally review the code and standards to ensure that it still complies with:

- I. Industry professional standards; and
- II. The standards and philosophies of the Association.

The committee appointed for this purpose will comprise of:

- An officer of the Association;
- A Certified Financial Strategist;
- An education consultant; and
- A member of ACS.

Each Certified Financial Strategist, education consultant and ACS member of the committee will prepare a report on the code and standards and how it compares to the legislation and market sentiment at that time. The reports will be provided to the appointed officer of the Association to collate the findings into a single report for discussion.

The collated report will then be discussed at a meeting of the members of the code and standards review committee, the outcome from which will form recommendations for consideration for the Board of the Association.

The Board may ask the committee for explanation of any aspect of any changes as they see fit. If adjustments to the recommended changes are to be made, the recommendations for these adjustments are to be recorded for final Board approval.

Upon the Board giving final approval for any changes to the code and standards, these changes are to be presented to a meeting of members who will then vote on the adoption changes. If the members vote against any changes, the review process will be followed again taking the concerns of the overall membership into account before seeking further Board ratification and membership approval.

Once changes to the code and standards have been accepted, the code and standards should be adjusted and noted as having been done so as at the date of the approval by the membership. This version and date should be noted on copies of the code and standards being made available to members and the public.

If the recommendation of the review committee is that no changes to the code and standards are required, this is the recommendation to be taken to the Board for their approval and subsequent confirmation by the membership.

Where no change is to occur, copies of the code and standards available for members and the general public should still be noted as being a version of the code as at the date of approval of no required change

The (3) year period for review will be 3 years from the adoption of the Code and Standards which was March 2017. The next periodic review will commence in March 2020 and be every three years thereafter.