

Brief Update on FOFA Reforms & likely Count response

Andrew Gale

Managing Director / Chief Executive Officer

Count 

Volume Related Payments (VRPs)

Two models considered by Federal Government:

- **Purist:** all VRPs would be prohibited irrespective of whether or not they potentially conflict advice
- **Pragmatic:** VRPs which have the potential to conflict advice would be prohibited, but VRPs which don't conflict advice and confer scale benefits to clients would be permitted.

Purist Model

Possible/likely implications:

- Favours vertically integrated: discretion as to where margin is realised;
- Licensees – large can transform their business model; more challenging for small-mid sized licensees
- Likely impacts:
 - Consolidation
 - Diminution in independent advice

VRPs – Minister’s Announcement

- Prohibits payments through to Licensees and advisers – but permitted through to platforms (Purist variation)
- Prospective change, with grandfathering – exact details to be determined

VRPs – Count Response

- Range of possible options
- Criteria:
 - Ensuring Count can receive margin to fund our valuable services;
 - Sound management of conflicts of interests;
 - Consistent with our highly regarded position as an independently owned entity;
 - Robustness; and
 - Resilience
- Our intention is that we become the IDPS Operator and RSE in respect of our strategic platform offerings

VRPs – Count Response

- Will source platform infrastructure and administration services from a couple of key platform partners
- Grandfathering arrangements
- IDPS: application for an additional AFSL for product/service offerings
- RSE: application for licensing by APRA and be subject to APRA prudential supervision
- Requirements – governance, risk management, ‘fit and proper’, capital requirements

VRPs – Count Response

- Had discussions with two of our key strategic platform partners - they agree that this is a robust response and they will act in a manner totally supportive of our intended business model transformation and being IDPS issuer and RSE;
- Will aim to leverage the capability of outsourced platform partners (e.g. process improvement, IT/systems)
- Can transfer functionality but not responsibility – Count to have a robust role in monitoring suppliers, governance, compliance, risk management

Superannuation Trustees and Superannuation Funds

- Superannuation Trustee: an entity licensed entity by APRA; Count must obtain an RSE licence for this purpose;
- A Superannuation Fund is a registrable superannuation entity (RSE);
- The Superannuation Industry (Supervision) Act governs the responsibilities of the Trustee. APRA is the regulator;
- The Trustee must have in place a Risk Management Strategy (RMS) that sets out reasonable measures to identify manage and monitor risks that arise

Superannuation Trustees and Superannuation Funds

- The Trustee must have in place a Risk Management Plan (RMP) that sets out reasonable measures that the RSE Licensee is to apply to identify, manage and monitor risks that arise in the Fund;
- Trust Deed and PDS required;
- Mandatory audit requirements including RMS/RMP and breach reporting;
- Count already has in place much of this governance and risk management infrastructure.

Grandfathering

- Further clarity required on parameters – applies to outstanding duration of platform contracts in effect prior to 1 July, 2012
- Our position to be finalised, but likely position:
 - **Strategic Platforms:** prefer not to utilise grandfathering subject to being able to transition ‘back book’ & issues such as CGT, stamp duty, ‘in specie’ transfers, etc
 - **Others:** utilise grandfathering – legacy book

Capital Requirements

Your capital requirements will be expanded

IDPS Operator Requirements	RSE Requirements
<p data-bbox="83 448 710 554">Additional Net Tangible Asset Requirements</p> <p data-bbox="83 619 865 776">All ASIC capital requirements not applicable if entity also regulated by APRA</p>	<p data-bbox="993 448 1682 496">Net Tangible Asset Requirement</p> <ul data-bbox="993 562 1649 776" style="list-style-type: none">• in Trustee (liquid assets or guarantee); or• included in a reserve in the Superannuation Fund
<p data-bbox="741 929 1190 978">Upcoming changes</p>	
<p data-bbox="83 1038 871 1138">ASIC CP 140 may require additional cash to be held</p>	<p data-bbox="993 1038 1837 1138">Cooper Review proposes Super Funds maintain a level of operational reserves</p>

Capital Requirements

- In becoming an RSE, Count will be regulated by APRA
- APRA resources and risk management requirements apply to APRA-regulated AFSs (instead of ASIC/Corporations Act requirements)
- APRA capital requirements are \$5M NTA (either held directly or via an approved guarantee)
- Count's NTA as at 31 December 2010 was \$106M

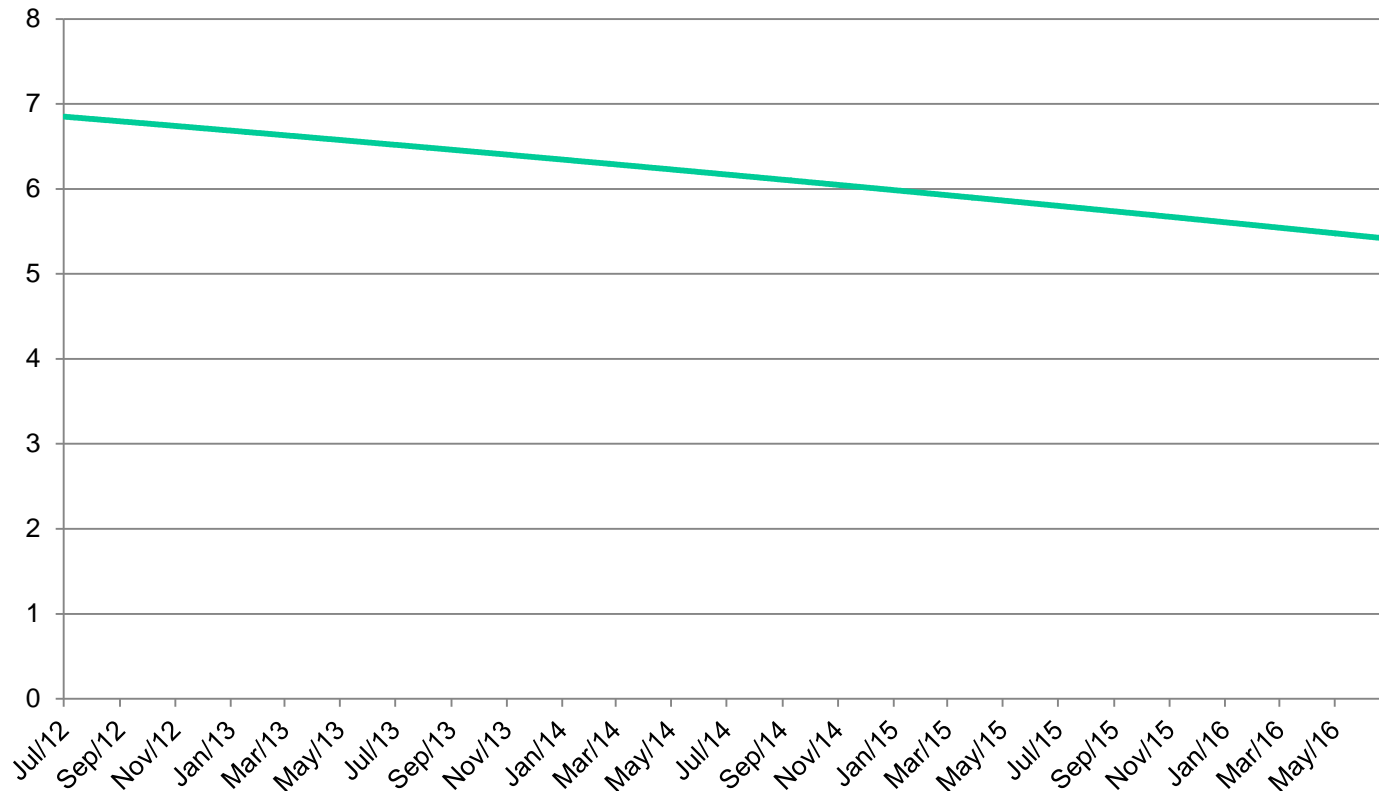
Commercial Impacts

Initial Assessment:

- Capital Commitment – based on current platform FUA, requirement is expected to be \$5M NTA (at 10 Dec 2010 Count NTA was \$106M)
- Implementation costs < \$500K
- Additional ongoing costs: \$1M - \$1.5M (\$0.7 - \$1M post tax)
- Revenue margins resilient
- Grandfathering Protection; and
- Consolidation benefits – only need ~ \$400M incremental FUM to be ahead
- Independently owned: will become increasingly appreciated/valued if it becomes rarer.

Grandfathering illustration

FUA (\$B)



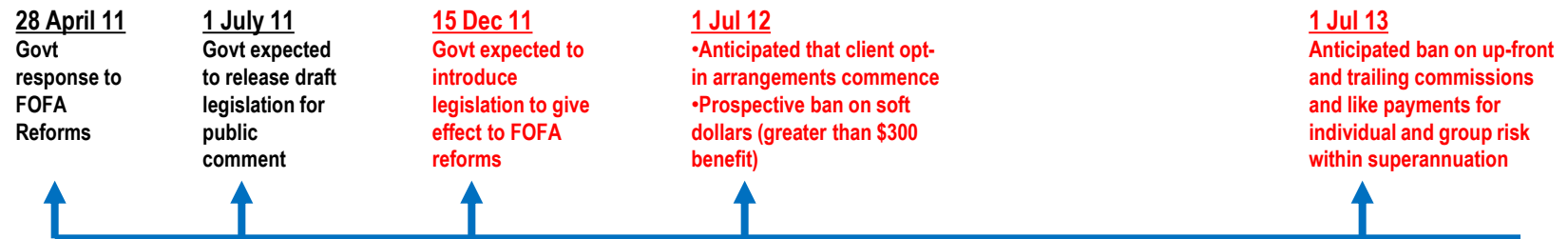
Assumptions:

1. Grandfathering is applied to all Platform FUA as at July 2012
2. 7% market returns, after fees but before tax (50/50 income & capital growth)
3. Effective tax rate of 7.5% for super (nil for investment)
4. Non-super income is not reinvested
5. FUA running off at 10%pa from July 2012

Timeframes to coincide with FOFA Reform timetable

The key reforms include:

- A prospective ban on conflicted remuneration structures (including commissions and volume based payments)
- A prospective ban on up-front and trailing commissions and like payments within superannuation from 1 July 2013
- A requirement for advisers to obtain client agreement for ongoing advice fees (opt in every two years)



Opt-In

“Opt-in” – superficially attractive, but 3 key reasons why not in clients’ interests:

- Increased cost of advice – initial adviser investment in client relationship needs to be amortised over shorter period
- Advisers migrate to “higher value” client segments – risk of “Middle Australia” being disenfranchised (depends on banks and industry funds)
- Unintended/inadvertent lack of attention to “opt-in” – clients not covered by advice: PI issues, etc.

Having said that:

- 2 years better than 1 year
- Extension of scalable advice a welcome development and an important mechanism for advisers having a ‘lower cost to serve’ and less expensive models for certain clients.

Commissions & Insurance

- Proposed ban on up-front and service/trail commissions within superannuation as from 1 July 2013 (individual & group);
- Proposed not to ban commissions or like payments outside of superannuation;
- Potential to distort advice;
- Far preferable to make the distinction on group/individual rather than insurance being inside/outside super.

Other FOFA developments & comments

- **‘Best interests’ - Good proposed structure**
 - Focus on actions/process rather than outcomes
 - Recognises differences between trustee-style obligation and financial adviser;
 - ‘Reasonable in the circumstances’ assessment’ (including commensurate with client needs and scalable – e.g. intra/limited)
 - Not required to broker the entire market.
- **Scaled Advice:**

positive development if properly managed; increases access; care needed in defining ‘intra’ and ‘limited’
- **Accountant exemption & streamlined SMSF licensing:**
 - Discussions continuing – recognition of relevant experience of accountants, ‘streamlined’ licensing; transition periods
 - Treasury reporting to Government at the end of May 2011

FOFA reforms, implications for Count and strategic response

- Vast majority of franchisees/advisers are accountancy firm based, professional and already provide majority of services on fee for service basis.
- Approximately two-thirds of platform business is already fee based advice.
- Volume Related Payments (VRPs):
 - Response needs to ensure strong conflict management, meet our commercial imperatives, and satisfy robustness and resilience criteria;
 - Our intention is that we become the IDPS Operator and RSE in respect of our strategic platform offerings
- Likely consolidation impact – Count should be a beneficiary
- ‘Opt-in’: 2 years preferable to annual; extension of scalable advice welcome
- Proposed prohibition on commissions on insurance in super:
 - Potential to distort advice;
 - requires further debate;
 - group/individual distinction would be preferable
- Sound ‘Best Interests’ approach and definition
- SMSF licensing (streamlined): Count well positioned to be a solutions provider

Other Count Developments

- Voyager (Xplan) implementation on track: significant productivity enhancements in advice (SOAs) and reviews;
- Platform enhancements being implemented over the next 2 months – wealth-e-account/Platform2; Star Portfolio; reopened IOOF
- Establishing SMSF Centre – including licensing solutions
- Advice offerings:
 - Post Retirement optimisation – pilot program commences in July 2011 in conjunction with Mercer
 - Expansion of estate planning services & panel
- Network expansion: ‘Make it Count’ campaign

QUESTIONS