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## Count Financial's response to FoFA reforms

**5 May, 2011 –** Leading accountant-based financial planning network Count Financial Limited (Count) said today it is well positioned with regards the recently announced FoFA reforms announcing its intention to become the Investor Directed Portfolio Services (IDPS) operator and Responsible Superannuation Entity (RSE) in respect of its strategic platform offerings. After 12 months of extensive consultation by Treasury and the Government, Count said it was good to have additional certainty with regards the proposed FOFA reforms.

Key stated objectives of the Government's FOFA reforms are removing any potential conflicts to advice, and increasing the accessibility and affordability of advice. Count already operates a business model which minimises conflicts of interest.

The government's FoFA reforms announced last Thursday prohibit volume related payments (VRPs) through to licensees and financial advisers, regardless of whether they conflict advice, but it is understood that payments through to platforms will be permitted. Grandfathering provisions will be available; the exact details of which are yet to be determined.

Count chief executive officer Andrew Gale said this so-called purist model of reforms favours the vertically integrated business model where planning groups are institutionally owned by fund managers and platform providers.

Based on Count's current understanding of the FoFA VRP reforms, Mr Gale said "Our intention is that we become the IDPS Operator and RSE in respect of our strategic platform offerings.

"Larger licensees, such as Count, are well placed to transform their businesses to ensure they can continue to receive revenue essential for service provision and financial viability while smaller to mid-sized licensees will find such model transformation more challenging. An anticipated outcome is industry consolidation due to the resultant financial pressures. The impact on consumers may well be a reduction in the number of non-aligned planning networks, which would be an unfortunate outcome for consumers and investors.

"However, for Count, this presents a strong growth opportunity as it is anticipated we would be one of the consolidators and any associated revenue on additional funds under advice and management is expected to offset any additional costs," he said.

In developing the most appropriate response for Count's business, Mr Gale said a number of criteria were considered.

"Any new business model needs to ensure conflicts of interests are not introduced into our advice offering, governance and risk management practices need to be sound, and we obviously need to receive a reasonable margin for our services. Therefore, our intention is to become an IDPS operator and RSE, replacing our current arrangements with platform providers, and subject to the detail of the grandfathering arrangements," he said.

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Under this arrangement, the intention is Count will source platform infrastructure and administration services from a couple of key platform partners and will apply for an additional Australian Financial Services License (AFSL) for product and service offerings and to be the registrable superannuation entity (RSE) for superannuation offerings. Count will continue to leverage the capability of outsourced platform partners in the areas of product development, process improvement and IT systems, but assume full governance and risk management responsibilities.

Mr Gale said Count can transfer functionality but not responsibility. "Becoming an RSE will involve applying to the Australian Prudential Regulatory Authority (APRA) for a license and will mean we will be subject to APRA prudential supervision. As a result, we will have an important role in monitoring suppliers, governance, compliance and risk management while our capital requirements may increase," he said.

Mr Gale said that although this new model brings additional costs and responsibilities, it also presents compelling growth opportunities. "Achieving this transition requires scale that many non-aligned planning groups don't have. We expect some will look to merge with larger networks that are in a stronger position and are better placed to absorb additional costs and to meet governance requirements."

For Count, the revised business model is expected to involve implementation costs and a moderate increase in ongoing costs, which would be offset if incremental funds under management (FUM) is achieved through consolidation or organic growth.

Mr Gale confirmed Count's key strategic platform partners were fully supportive of this transition and agreed it was a sound and appropriate response.

In terms of grandfathering provisions, while these are yet to be finalised by the government, Count may not utilise these provisions with its strategic platforms (subject to key issues such as a reasonable basis for transferring clients, CGT, stamp duty and the ability to do 'in specie' transfers) but will take advantage of the arrangements with its legacy book.

Commenting on other reform areas, Mr Gale said the requirements for clients to opt-in for advice every two years had potentially unintended consequences for clients and investors. "We believe opt-in will increase the upfront costs of advice as financial advisers can place a lesser reliance on a longer term relationship over which they can amortise their initial costs in establishing a client relationship. As a result, financial advisers will favour higher value client segments, increasing the issue of average Australians not receiving the advice they need to secure their financial future."

"Count has been preparing for the new regulatory environment for some time and we're well-advanced with putting in place the arrangements to transition the business. We look forward to capturing the growth opportunities that are likely to arise from industry consolidation," Mr Gale concluded.

**Media enquiries**


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