



31 July 2018

Email: consultation@fasea.gov.au

Re. Consultation Paper 3: Financial Adviser Examination

Dear Sir/Madam,

We thank you for the opportunity to comment on *Consultation Paper 3: Financial Adviser Examination*. We generally support the proposed guidance on the exam. We do highlight that, given the diversity of technical specialisations in financial planning, behavioural finance and financial plan construction – which necessarily involve a technical component – would be better assessed in formal education, CPD or the professional year.

We have outlined our concerns and suggestions below for your consideration. If you have any queries or comments, please do not hesitate to contact me at dante.degori@fpa.com.au or on 02 9220 4505.

Yours sincerely

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Chief Executive Officer
Financial Planning Association of Australia¹

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The Financial Planning Association (FPA) has more than 14,000 members and affiliates of whom 11,000 are practising financial planners and 5,720 CFP professionals. The FPA has taken a leadership role in the financial planning profession in Australia and globally:

- Our first "policy pillar" is to act in the public interest at all times.
- In 2009 we announced a remuneration policy banning all commissions and conflicted remuneration on investments and superannuation for our members – years ahead of FOFA.
- We have an independent conduct review panel, Chaired by Graham McDonald, dealing with investigations and complaints against our members for breaches of our professional rules.
- The first financial planning professional body in the world to have a full suite of professional regulations incorporating a set of ethical principles, practice standards and professional conduct rules that explain and underpin professional financial planning practices. This is being exported to 26 member countries and the more than 175,570 CFP practitioners that make up the FPSB globally.
- We have built a curriculum with 18 Australian Universities for degrees in financial planning. Since 1st July 2013 all new members of the FPA have been required to hold, or be working towards, as a minimum, an approved undergraduate degree.
- CFP certification is the pre-eminent certification in financial planning globally. The educational requirements and standards to attain CFP standing are equal to other professional bodies, eg CPA Australia.
- We are recognised as a professional body by the Tax Practitioners Board.

CONSULTATION PAPER 3: FINANCIAL ADVISER EXAMINATION

FPA submission to:

FASEA

31 July 2018

INTRODUCTION

Overall, we support FASEA's proposed guidance. We are particularly impressed by the focus on assessing the application of professional reasoning and knowledge.

We note that there is a risk that some elements of the proposed curriculum, in particular behavioural finance and financial plan construction will necessarily have a technical component. Given the variety of technical specialisations within financial planning, we would prefer these areas to be excluded. If they are nevertheless included, we recommend that care be taken to ensure that only scenarios that the typical generalist adviser would encounter are examined.

We also note that there is a longstanding tradition of open-book capstone exams in the profession. In addition, such exams are typically no more than three hours. We ask that you defer to these traditions unless there are strong countervailing reasons for setting different requirements.

In the body of our submission, which follows, we highlight these and other concerns. We also refer to the results of a recent survey of our members about FASEA's consultation paper on the exam, which had over 1000 respondents.

CONSULTATION QUESTIONS

S3 Exam Scope & Curriculum

Proposal: FASEA proposes the exam allows candidates to demonstrate professional reasoning and apply knowledge acquired to actual financial advice scenarios at AQF7 level. Skills to be examined are detailed in Section 3.

Question

S3.1 Do you agree with the scope of the proposed examination? If not, why not?

FPA response

We are broadly supportive of the scope of the exam and we agree that the exam should focus on applying professional reasoning and knowledge to financial planning scenarios. However, we are concerned about the difficulties of assessing technical skills in an exam intended for advisers in general.

It would be prohibitively expensive and cumbersome for the exam to assess each adviser's particular technical specialisations, and at any rate these specialisations will be assessed through an adviser's formal education, CPD or professional year. This point was raised by some survey participants, who expressed concern about the duplication of assessment of behavioural finance and financial plan construction.

The education and CPD components of the framework will ensure advice providers have the initial and ongoing technical grounding to provide the advice they specialise in (given this is a condition which their licensee must ensure is met). The professional year will ensure new financial advice providers have the skills to provide advice. Therefore, the exam can reasonably be limited to ensuring - regardless of the adviser's chosen area of specialisation - that they are all able to show that they understand their statutory, professional and ethical obligations when providing advice to consumers.

Examining behavioural finance and financial plan construction will inevitably involve assessing technical content. Due to the breadth of specialisations and expertise in the financial advice profession, there is significant diversity in the type and level of technical knowledge held by advice providers. To create an exam that tests specialist technical knowledge would require multiple modules to be developed and regularly updated, significantly adding to the implementation and running costs of the exam. It would also likely require advice providers to sit multiple exams to cover the breadth of their technical areas of specialisation.

For these reasons, we recommend restricting the scope of the exam to relevant law and ethics. This means that behavioural finance and financial plan construction should be excluded. These knowledge areas will be assessed through formal education, CPD or the professional year. Further, given most advisers who need to study bridging courses will complete these courses after the deadline for completing the exam, there is also a practical case for excluding some of this content from the exam.

Recommendation

The FPA recommends the content of the exam cover law and ethics.

Question

S3.2 Is the proposed scope of the exam appropriate for new entrants? If not, why not?

FPA response

We believe the content of the exam should be the same for both new and existing advisers. It follows from our response to S3.1 that we regard the proposed scope of the exam as not entirely appropriate for new or existing entrants.

Recommendation

The proposed scope of the exam should be the same for both existing and new entrants.

Question

S3.3 Is the proposed scope of the exam appropriate for existing advisers? If not, why not?

FPA response

We believe the content of the exam should be the same for both new and existing advisers. It follows from our response to S3.1 that we regard the proposed scope of the exam as not entirely appropriate for existing or new entrants.

Recommendation

The proposed scope of the exam should be the same for both existing and new entrants.

S4 Exam Format

Proposal: FASEA proposes the following parameters:

- A total of 75 questions - split between a maximum of seventy (70) selected response and a minimum of five (5) written response questions
- Proportion of questions testing each domain of the curriculum
- The duration of the examination is expected to be between 3 to 4 hours
- A scaled passing score of 65% overall and a minimum pass mark in each knowledge area

Question

S4.1 Is the type and mix of questions proposed for the exam appropriate (i.e. selected vs written)? If not, why not?

FPA response

43% of respondents said the exam should be made up entirely of multiple choice questions. A further 9% agreed with having multiple choice and short-answer questions but said that the mix should be changed; a common concern among this cohort was that there should be less emphasis on multiple choice questions.

Multiple choice exams can test competence as effectively as other modes of assessment, but with certain lower costs of administration (e.g. marking costs). This would be the case if the exam is made up of a series of client based case studies. The use of case studies would require advice providers to interpret their statutory obligations and apply them to realistic client situations, ensuring the effectiveness of the exam in testing competency.

In addition, multiple choice exams can be marked by machine. This would result in faster marking turnaround times, and is likely to result in lower marking costs, than the marking of short-answer questions by human examiners. Further, given the numbers of candidates attempting the exam, FASEA's proposed model would require many tens of thousands of short-answer questions to be marked at a time. We question whether it is feasible to mark this number of questions in the required time. At any rate, we are concerned about the risk of delays in marking turnaround times posed by short-answer questions – especially considering the number of candidates involved.

Regardless of efficiency considerations, there is a long history of capstone exams in financial planning being made up entirely of multiple choice questions. For example, the exam for the capstone module of the Certified Financial Planner® education program is made up entirely of multiple choice questions. We would suggest that deference should be given to this tradition if there are no strong countervailing reasons for preferring an alternative mode of assessment,

Recommendation

The FPA recommends:

- The exam be set as a multiple-choice exam
- An appropriately large bank of questions is developed
- Use of real-world case studies to frame the series of questions

Question

S4.2 Is the curriculum proposed to be covered appropriate? If not, why not?

FPA response

57% of survey respondents said that they supported the proposed topic areas of the exam. However, a significant minority (32%) of respondents held that the scope of the exam should be narrower. The FPA is concerned that it may be impractical to assess technical skills in a single exam. In addition, the FPA is concerned that some elements of the proposed legal topics to be assessed may be too broad and that some legal areas are missing.

We recommend that the exam focuses on those topics that are most closely related to the typical financial planner. For example, the examination of Chapter 7 of the *Corporations Act 2001* should focus on Parts 7.6, 7.7, 7.7A, 7.8 and 7.9.

In relation to the legal requirements, we note that the law relevant to financial planning is not limited to *Corporations Act* and also include:

- *Tax Agent Services Act 2009*
- *Anti-Money Laundering and Counter-Terrorism Financing Act 2006*
- Common law (e.g. fiduciary relationships; and professional negligence)

In turn, we recommend that these areas are also covered by the exam.

As discussed above, we believe the scope of the exam should be limited to the knowledge areas of law and ethics. This means behavioural finance and financial plan construction should be excluded. If you nevertheless include these knowledge areas, there are some concerns that need to be addressed.

In relation to behavioural finance, there is a risk that the exam will focus on the application of financial theory to the investment specialisation within financial planning. We would caution against this and recommend instead that every exam assesses the application of financial theory to a broad-based case study. For example, case studies involving clients with wealth accumulation needs, protection needs and retirement planning needs could be used.

Further, while the technical aspects of the different financial planning specialisations will inevitably form part of such questions, we would strongly recommend that the case studies are developed so that the technical content is that which a typical generalist adviser would encounter and not the esoteric technical content that only a specialist would encounter.

Similarly, given that different advisers specialise in different areas, we would recommend that if, despite our concerns, technical content is examined, then questions on advice construction are in the form of case studies based on scenarios that the typical generalist adviser would encounter. This approach is appropriate as specialist technical competence will be assessed through formal courses and through the professional year or practice.

Recommendation

The FPA recommends that the curriculum focuses on those topics that are most closely related to the typical generalist adviser. In particular:

- The examination of Chapter 7 of the *Corporations Act 2001* should focus on Parts 7.6, 7.7, 7.7A, 7.8 and 7.9
- The examination should also cover:
 - *Tax Agent Services Act 2009*
 - *Anti-Money Laundering and Counter-Terrorism Financing Act 2006*
 - Common law
- We recommend that behavioural finance and finance plan construction are excluded.

Question

S4.3 Is the proposed duration of the exam appropriate? If not, why not?

FPA response

The FPA recommends that a 3-hour exam plus reading time be set for the exam. Indeed, 81% of respondents said that the exam should only be 2-3 hours duration. This is in line with the duration for other capstone exams such as the CFP® certification exam and AQF 8 and 9-level university exams.

Recommendation

The FPA recommends:

- The exam be set at 3 hours plus reading time

Question

S4.4 Is the proposed overall scaled pass mark of 65% and the additional individual knowledge area pass requirements appropriate? Should the Code of Ethics knowledge area pass mark be set at 75% or other level and the other knowledge areas at 50% or other level?

FPA response

There was some concern among survey respondents that a 65% pass mark may be too high, with at least 43% of respondents holding that the pass mark should be 50%. On the other hand, 44% agree with FASEA's proposal. The FPA's view is that a 65% pass mark is appropriate if the exam is designed to assess competence rather than to arbitrarily restrict adviser numbers.

If candidates reasonably expect to be assessed on any areas within the potential scope of the exam, we accept the proposal that, in order for a candidate to pass the exam, they would need an overall mark of 65%.

While we appreciate that ethical reasoning is a particularly important knowledge area, we note that ethical reasoning will be assessed through formal study and CPD. In our view, all knowledge areas should have a 50% pass mark requirement.

In relation to scaling, we are concerned that scaling of results (especially the scaling up of results) will be misunderstood by the community. Given the exam is intended to help improve consumer confidence, there is a risk that scaling will undermine this goal. Ideally, different versions of the exam would instead, not be materially different in their level of difficulty.

If ensuring approximately the same level of difficulty is not feasible, we would recommend that great care be taken to ensure that cohort effects are taken into account. For example, the candidates for a particular sitting of the exam might be smarter or better prepared than other groups. We understand that there are techniques, such as setting a common set of 'anchor' questions among different versions of the exam, to take into account these cohort effects. We would strongly recommend that before committing to a policy of scaling results, FASEA consult on their proposed scaling methodology.

We would also recommend that results are reported to candidates as "competent" or "not yet competent". Further, any public reporting of results should only report that an adviser is competent.

Recommendation

The FPA recommends:

- 65% pass mark overall

- 50% pass mark for all other knowledge areas
- Results be reported to candidates as "competent" or "not yet competent"
- Public reporting should be limited to reporting those who have achieved a "competent" result

S5 Sitting the Exam and Delivery Mode

Proposal: FASEA proposes that the:

- Candidate meets the relevant criteria to be able to sit the exam.
- Candidates have a maximum of 2 resits per individual with a defined period between each resit. In addition, candidates can apply for a resit in exceptional circumstances.
- Exam will be in face to face locations, with the option of online delivery with periodic availability to a set timetable See section 5 for more details.

Question

S5.1 Is the proposed number of resits appropriate? If not, why not?

FPA response

53% of respondents to our survey agreed that only 2 resits should be allowed. A significant minority, 45% held that more resits should be allowed. In the general case, a candidate should be able to resit the exam after one month. This is consistent with our survey results, with 75% holding that one month is an appropriate wait between resits.

The FPA agrees in principle that two resits should be allowed. However, we would add that there should be a 'show cause' procedure for those who fail to pass the exam within the allowed number of resits. Especially given the high stakes involved, failed candidates should have an opportunity to be granted a resit in defined circumstances. This process should be consistent with 'show cause' procedures of tertiary institutions.

For example, if the candidate has been suffering severe hardship from which they couldn't reasonably have removed themselves, it might be appropriate to allow them the chance to resit the exam after the waiting period for a normal resit. In circumstances outside the prescribed categories the candidate should be able to resit the exam after a prescribed period.

The 'show cause' procedure should still be available if a student fails on a resit after the second resit. If FASEA is concerned that this effectively allows unlimited resits, it may be appropriate to require struggling candidates to undertake a remedial program such as the professional year.

In relation to eligibility to sit the exam, it appears that an adviser who meets the education and training standards may nevertheless need to pass the exam again if they have a break from practice of more than five years. We seek further details about the requirements for advisers who take a break from practice – including any effect on an adviser's status as an existing adviser.

Recommendation

The FPA recommends:

- In general, a candidate may resit the exam up to two times
- In general, a candidate should be able to resit the exam after one month from their last sitting
- If the candidate fails to pass the exam within the allowed number of resits, they may 'show cause'
- If a 'show cause' request is approved, the student may resit the exam after the normal waiting period
- If a show cause application isn't approved, the student may resit the exam after a prescribed waiting period
- FASEA clarify the requirements for advisers who take an extended break from practice

Question

S5.2 Is the proposed mode and frequency of delivery appropriate? If not, why not?

FPA response

We broadly agree with the proposed frequency of exams. Indeed, nearly 70% of survey respondents held that holding exams monthly is appropriate with 25% of respondents holding that the exam should be held more frequently. The FPA believes exams should be held monthly regardless of the candidate's location or whether they are a new or existing adviser. Further, in the lead-up to the deadline for existing advisers to complete the exam, exams should be held more frequently.

In relation to the mode of delivery, we believe that all candidates should have the opportunity to take their exam at an examination centre that is within a reasonable distance (say 120 kilometres) of the location where they're based; or to take their exam digitally at a location of their choosing. Indeed, 55% of survey respondents held that all advisers should have the option of being able to take the exam online. In the case of digital delivery, consideration should be given to allowing appropriate supervisors (e.g. someone of good character who is not related to or otherwise connected with the candidate) or digital invigilation.

Given the already significant regulatory cost on advisers, we believe that at the very least advisers should have the option of choosing an exam option that best suits their preferences. Some will prefer the externally managed environment of an examination centre, while others will prefer the convenience of taking their exam remotely.

Recommendation

The FPA recommends:

- Exams for all candidates should be held monthly
- However, in the lead-up to the deadline for existing advisers to complete the exam, exams should be held more frequently
- All candidates should have a choice of taking their exam:
 - at an examination centre that is within a reasonable distance (say 120 km) of their base location; or
 - digitally at a location of their choosing (e.g. their home or workplace)

S6 Examination logistics

FASEA will engage specialist services providers for the development and delivery of the examination. An EOI for this, leading to an RFP, was released on 7/06/2018. Candidates will be required to complete a registration processes including payment processing. Candidates will be required to bring their booking receipt and two pieces of identification, including photo ID to the examination centre to be able sit the examination. We envisage a variety of security processes in place at venues. Candidates will not be permitted any reference material (electronic or hard copy) during the examination. Mobile phones and other equipment (including pens and paper) must not be taken into the examination. Access to the internet will not be permitted in the examination rooms or in the examination waiting areas. Failure to comply with any rule or instruction by an adjudicator or supervisor will be regarded as a breach of discipline and may lead to exclusion from the examination and the candidate deemed to have failed. More serious breaches of examination rules or security may result in disciplinary or criminal action.

FPA response

The purpose of the exam should be to test application of knowledge, not the ability to recite information. For financial planners, who need to apply many different areas of technical knowledge, and use diverse implementation solutions and cope with constantly changing laws and benefits, the ability to find and apply information rather than recall it is critical. We also note that research² has shown that individuals generally find open book exams to be less stressful than closed book exams. Further, over 71% of respondents to our survey said that the exam should be open book. In turn, we recommend that the exam be open book.

Admittedly, we know of no research that conclusively shows that open-book exams are better than closed-book or vice versa. That is, we don't know for sure that only open-book exams can effectively test the performance in applying knowledge from such a broad field as financial planning, Nor do we know for sure whether one mode is more efficient than the other, that is whether one mode can accurately and with reasonable certainty assess performance using less resources overall than another mode.

By contrast, we do know that there is a longstanding practice of having open-book exams for capstone exams for financial planners (e.g. capstone exam for the CFP® certification module). Given that the legislation doesn't prescribe whether exams should be open or closed book, we request that you to respect this longstanding practice of open-book exams unless you can show there are strong countervailing reasons for a closed book exam.

Recommendation

The FPA recommends:

- The exam be open book.

² Open-book testing and education for the future. M Feller - Studies in Educational Evaluation, 1994 - Pergamon

S7 Additional Needs

Proposal: FASEA proposes that candidates with a disability or other special needs will be able to request support to provide appropriate assistance to allow them to sit the examination.

Question

S7.1 Are the proposed arrangements in relation to additional needs appropriate? If not, why not?

FPA response

We agree with the proposal. However, we recommend that guidelines be developed for candidates with mental or physical impairments. We recommend that candidates with appropriately verified conditions be, at minimum, able to complete the exam with the help of support tools or human assistance but only if the responses to the exam remain entirely the candidate's.

Recommendations

The FPA Recommends:

- A special assistance framework be developed to assist candidates with learning difficulties or who require special assistance in sitting the exam
- The proposed guidelines for candidates with mobility, visual or hearing impairment apply
- Guidelines are developed for candidates with mental or physical impairments

S8 Special Considerations

Proposal: FASEA proposes Special consideration is available to candidates who are unable to sit or complete an examination due to exceptional circumstance beyond their control with all applications submitted in writing within 14 working days of the date of the examination (depending on the nature of the request).

Question

S8.1 Are the proposed arrangements in relation to special considerations appropriate? If not, why not?

FPA response

We broadly agree with the proposed arrangements for special consideration. However, we believe that candidates who do not show up for an exam and have reasonable excuse for their absence should not have the sitting counted towards their allowed number of sittings. Instead, such a candidate would need, within a prescribed period of time, to satisfy the administrator of the special consideration arrangements that the candidate has a reasonable excuse for their absence. For example, a candidate who develops a cold just before the exam may wish to wait for another sitting. Whether such a candidate should be charged for not showing up to a booked exam is a separate matter.

There is no mischief in not showing for an exam other than, potentially, wasting pre-allocated resources and denying other candidates the chance to participate in a sitting of the exam that is already at full capacity. The wastage issue could be managed by requiring reasonable excuses to avoid having a no-show count as a sitting of the exam; and by generally charging a fee for no-shows.

Further, in addition to procedures for special consideration, candidates should have an opportunity to appeal results. For example, if a candidate makes an arguable case that an exam question was ambiguous or likely to have been marked incorrectly, they should be able to have their exam remarked. It may be appropriate to charge for this service. However, if the candidate's claim is upheld, any fee should be refunded.

Recommendations

The FPA Recommends:

- Special consideration arrangements be available for candidates who attend an exam and to whom exceptional circumstances apply
- Candidates who do not show for an exam and have a reasonable excuse for their absence should not have the sitting counted towards their allowed number of sitting
- There should be appeal arrangements in place

9. Learning/Study Materials

FASEA may publish a recommended reading list to guide candidates preparing for the examination on the FASEA website. The reading list is recommended but not mandatory and there are many publicly available resources that complement those in the list. FASEA does not intend to provide examination preparation courses. Candidates preparing for the examination should use their judgement about how to prepare and consult their supervisor in designing a plan of study based on the curriculum.

FPA response

We strongly recommend that FASEA publish a reading list well in advance of each exam. The reading list should be a reasonable representation of the material that could be examined. The list should include the latest primary material, and a reasonable selection of secondary material, that could be examined.

In addition, sample exams should be provided to help candidates prepare

Recommendations

The FPA Recommends:

- FASEA publish a reading well in advance of each exam.
- Sample exams should be made available