

Retirement, Advice and Investment Division
Treasury
Langton Cres
Parkes ACT 2600

Via Email: financialadvice@treasury.gov.au

10 January 2024

Dear Treasury,

Financial adviser exam – changes in exam delivery

The Financial Advice Association of Australia¹ (FAAA) appreciates the opportunity to provide feedback on Treasury's consultation on changes to the financial adviser exam.

The FAAA supports the proposed changes to the financial adviser exam, including the removal of written answers for the exam, and the amending of Principle 5, allowing greater flexibility in who can sit the exam, and when.

The financial advice environment has changed greatly since the exam was launched in the middle of 2019, and we believe there are strong grounds to make these changes now.

Retaining the integrity and standard of the exam is very important for a number of reasons, including providing confidence to consumers in the consistent knowledge of financial advisers. We do not believe that these proposed changes damage the integrity of or lower the standard of the exam.

¹ The Financial Advice Association of Australia (FAAA) was formed in April 2023, out of a merger of the Financial Planning Association of Australia Limited (FPA) and the Association of Financial Advisers Limited (AFA), two of Australia's largest and longest-standing associations of financial planners and advisers.

The FPA was a professional association formed in 1992 as a merger between The Australian Society of Investment and Financial Advisers and the International Association of Financial Planning. In 1999 the CFP Professional Education Program was launched. As Australia's largest professional association for financial planners, the FPA represented the interests of the public and (leading into the merger) over 10,000 members. Since its formation, the FPA worked towards changing the face of financial planning, from an industry to a profession that earned consumer confidence and trust, and advocated that better financial advice would positively influence the financial wellbeing of all Australians.

The AFA was a professional association for financial advisers that dated back to 1946 (existing in various forms and under various names). The AFA was a national membership entity that operated in each state of Australia and across the full spectrum of advice types. The AFA had a long history of advocating for the best interests of financial advisers and their clients, through working with the government, regulators and other stakeholders. The AFA had a long legacy of operating in the life insurance sector, however substantially broadened its member base over a number of decades. The AFA had a strong focus on promoting the value of advice and recognising award winning advisers over many years. The AFA had strong foundations in believing in advocacy for members and creating events and other opportunities to enable members to grow and share best practice.

Background

The financial adviser exam was launched by the Financial Adviser Standards and Ethics Authority (FASEA) in June 2019. Over the subsequent two and a half years, the exam was held 15 times, with over 24,000 candidates attempting the exam. On average 1,600 candidates sat each exam. In those first two and a half years, the exam was held six times a year and the vast majority of people sitting the exam were existing advisers. It took six to eight weeks for candidates to get their results. Advisers had a deadline by which they needed to pass the exam, however failing to pass did not prevent them from continuing to practice until the deadline was reached. Initially, sitting the exam cost \$540 plus GST, which would have been a deductible business expense to most candidates.

In 2023, the exam was held four times, with a total of 811 candidates sitting the exam (an average of 202 per exam – one eighth of the earlier period). Exams have been held remotely since 2022, and the cost has now risen to \$1,500 (more than 2.5 times the original cost). It is assumed that the majority of people sitting the exam now are new entrants who are doing their professional year, and many will not have the ability to claim the cost as a tax deduction as they are not yet practising.

There are two major problems that have broader consequences. Firstly, the exam is far too expensive for university students and career changers. This is a factor as a disincentive for some to pursue a career in financial advice. Secondly, the timing considerations for a professional year candidate are challenging, as the infrequency of the exam, the time taken to provide results, and the consequences of failing the exam and being unable to move on to the second half of the professional year are problematic, potentially extending the “Professional Year” well beyond 12 months.

As part of the consultation on the exam in 2018, the AFA called for an entirely multiple-choice exam in order to reduce the cost of the exam and to better facilitate the timely delivery of results. These arguments are even stronger now, given the decline in candidate numbers and the substantial increase in cost. Timeliness of results is also very important for new entrants sitting the exam, which is a pre-requisite for them moving on to the second half of their professional year.

For these reasons it is appropriate, at this time, to make some key changes to the exam.

Multiple choice questions

The FAAA, for reasons of cost, flexibility and clarity, is in favour of a wholly multiple-choice financial adviser examination. As has been highlighted in Treasury’s explanatory statement, moving to multiple-choice examinations rapidly speeds up the process of marking the exams and should substantially bring costs down. Without a need for subjective assessment of answers, the marking process can be largely automated removing the risk of human error and subjectivity.

In terms of the integrity of the exam, it is important to take into account that these new entrants also need to complete a university degree. The financial adviser exam is not the only exam they need to pass to commence a career as a financial adviser. Multiple-choice is also an extensively used and valid assessment technique. In this context, we do not believe that the removal of the short answer questions is problematic, or will lead to an undermining of the integrity or standards of the exam.

Speeding up marking should also shorten the time taken to issue results. To date this has typically been six to eight weeks, although for more recent exams, this timeframe has been improving. We suggest ASIC set a benchmark of around two weeks to issue results, consolidating recent improvements.

ASIC now also has more discretion over the total number of questions that will make up the exam. We are keen to see the number and level of questions remain equally challenging, as it is important to retain the integrity and standards of the exam, ensuring new entrants are held to the same high standards as existing practitioners.

Eligibility for and stage of sitting the exam

The FAAA favours changes to the exam process that will give students greater flexibility and control over their academic careers, such as allowing candidates to sit the exam while completing their tertiary studies. This would also provide greater certainty to employers appointing a professional year candidate if they had already passed the financial adviser exam.

Recently, exams have been infrequent and the timing has not always lined up neatly with the end of the academic year. As a result, students who had completed their studies, have sometimes had to wait many months for the opportunity to take the exam – a problem that is further exacerbated if a student fails.

There are also benefits in removing the strict requirements for who can sit the financial adviser exam. At present candidates are limited to someone who is an existing provider or someone who is a professional year candidate (provisional relevant provider) and has completed an approved degree. This prevents students from sitting the exam where there is an issue with their qualification, even if they have applied for approval from the Minister. It also excludes other people in the financial advice sector who might benefit from completing the exam, such as AFSL Responsible Managers, compliance managers and so on. We see no basis for limiting who can sit the exam and suggest that any person who wishes to do so should be able to attempt the exam.

Other feedback

The last sentence of the Explanatory Memorandum states “Item 7 repeals the redundant 2019 Exam Determination”. We believe that this should be ‘Item 1’.

Conclusion

We welcome the opportunity to provide Treasury with feedback on the proposed changes to the financial adviser exam.

The FAAA supports these proposed changes. We believe that they are appropriate, will deliver genuine benefits and will not undermine the integrity or standard of the financial adviser exam.

The FAAA would welcome the opportunity to discuss the issues raised in our submission in more detail. Please contact me on 02 9220 4500 should you have any questions.

Yours sincerely,

**Sarah Abood**

Chief Executive Officer

Financial Advice Association of Australia