



FAAA Pre-Budget Submission 2025

January 2025



Introduction

As our 2024 'Value of Advice'¹ research proved, Australians are in a better place financially when they receive high-quality, professional financial advice. Yet our critically-important profession continues to shrink, while both consumer demand, and the cost of financial advice, continue to climb. Our submission recommends a number of measures the government can take to increase the supply of, and reduce the cost of, professional financial advice.

Since the start of 2019, the number of financial advisers has declined from over 28,000 to around 15,500. The start of the 2019 year marked the introduction of the new education standards reforms, that has raised standards but also reduced the number of existing advisers and significantly limited new entrants.

This period has also seen the exit of the big banks and other larger institutions from financial advice, removing what had been the training ground for new entrants. The end of 2025 marks the end of the transition period for the higher education standard, which is likely to see a further material drop-off of financial advisers.

At the same time consumer demand for financial advice has risen significantly, with an estimated 800 Australians to retire per day over the next decade.²

Over the last decade, the cumulative regulatory costs of providing advice have significantly increased, further reducing the accessibility and affordability of advice for consumers.

The outcome of all of this is making financial advice very difficult to access for everyday Australians. The estimated average cost of professional financial advice has increased to \$5,500³, putting this important service well beyond the reach of the average Australian.

We believe that the government needs to take bold steps to encourage significant growth in new entrants to the profession, improving the supply of advice to enable more Australians to benefit from the services of a professional financial adviser.

Further action is also essential to improve the efficiency and reduce the costs of providing financial advice, so that advisers can service more clients at a high standard. Our recommendations complement the Governments' existing "Delivering Better Financial Outcomes" measures, which are primarily focused on simplifying the delivery of financial advice and introducing an additional, simpler class of financial advice. With our additional measures, aimed at increasing the supply of and reducing the cost of financial advice, we believe the total package will successfully achieve the government's stated aim of ensuring more Australians have access to high quality and affordable financial advice.

¹ <https://faaa.au/value-of-advice-index-shows-improvement-for-advised-australians/>

² NMG Consulting and the FSC, April 2023

³ 2024 Adviser Business Models Report, Investment Trends

Our recommendations are:

1. Fund the professional year and financial adviser exam
2. Enable ATO portal access
3. Enhance tax deductibility of advice
4. Lower the ASIC levy
5. Make the CSLR equitable and sustainable
6. Introduce 'Friends of AFCA and CSLR' roles.

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Fund the Professional Year and Financial Adviser Exam

To address the growing demand for qualified financial advisers and ensure the sustainability of the advice profession, we propose a package of government assistance including:

- Support payments for professional year (PY) candidates
- Exam subsidies

Support payments for PY candidates

To address the growing demand for qualified financial advisers and ensure the sustainability of the advice profession, we propose that the government make a payment of \$10,000 to each financial advice practice that appoints a PY candidate. The PY is a mandatory requirement for new entrants, offering practical training and mentorship. However, its costs, born by both applicant and employer, often act as a significant barrier to these positions being offered. Recent data indicates that there are only around 500 new advisers joining the profession each year.

With the exit of large institutions from the financial advice sector, it is small businesses that are essential to the employment of PY candidates. Often it is a struggle for these businesses to afford the cost to employ PY candidates, particularly when they face the risk that they will move elsewhere once having completed the program. Support for these small businesses to enable them to employ PY candidates would enable more places to be offered.

We recommend that the government provide subsidies to support PY positions, enabling advice practices to employ more PY candidates. An appropriate subsidy, aligned with at least what is being offered for apprentices, would ensure more roles can be offered, while maintaining professional standards. This could be achieved at minimal cost to government – if the government introduced this scheme with a cap of 1,000 places and a total cost of \$10,000,000 per year, that would double the new entrants to the financial advice profession each year.

Exam subsidies

Another barrier to new entrants is the cost of the compulsory financial adviser exam. At the current cost of \$1,500, this is a substantial expense for a new entrant and one that is excessive considering the recent changes to the nature of the exam which have made it cheaper to run. These fees impose an unnecessary burden on candidates already navigating the costs of education and professional development and are a disincentive for qualifying candidates to pursue the financial advice profession, when other options carry no upfront costs.

We believe this initiative will foster a steady pipeline of well-trained advisers which will in turn assist with increasing the affordability of financial advice for consumers.

2

Enable ATO portal access

Financial advisers, as Qualified Tax Relevant Providers, play a vital role in ensuring that clients' financial plans are both tax-effective and compliant. However, unlike tax agents or BAS agents, financial advisers cannot currently access the essential client tax information they need to do their jobs, through the ATO portal.

Accurate, up-to-date information, including taxable income, superannuation balances and contributions, is crucial for preparing, implementing and maintaining financial plans that serve clients' best interests. Currently, financial advisers often face delays and additional costs due to the need to source this information from accountants or individual superannuation funds, as clients themselves may not possess these critical details.

We note the December 2024 Treasury consultation on 'Review of tax regulator secrecy exceptions' which discusses the potential for financial adviser access to the ATO portal. We suggest that this opens the door to changes in this area.

In light of the profession's increased regulatory transparency, including a publicly accessible register highlighting advisers' tax and licensing statuses, now is the right time for reform. FAAA again proposes the introduction of a new, read-only class of access to the ATO portal for licensed financial advisers.

This access would follow a similar framework to that used by tax agents, linking to the ASIC Financial Adviser Register and allowing clients to authorize their adviser directly. Crucially, this access would be limited to information retrieval only, with no capacity for making changes – minimising the cost and risk of the proposal.

By enabling this streamlined process, the government would reduce unnecessary delays and costs, ultimately supporting better outcomes for Australian consumers seeking financial advice.

3

Enhanced tax deductibility of financial advice

FAAA has long argued that financial advice should be fully tax deductible, given the significant benefits that it delivers to consumers, and the high cost of financial advice given the substantial regulatory obligations. More recently we have worked with the ATO to assist them in the updating of the Tax Determination on the deductibility of financial advice fees. This process has resulted in greater clarity around the ability of clients to claim a deduction for tax financial advice (Section 25-5), however it has not led to any change with the deductibility of upfront advice, under the general deduction (Section 8-1).

FAAA has argued that upfront financial advice should be deductible, to the extent that it relates to generating assessable income, rather than classified as being of a capital nature. In most cases this advice relates to advice on existing investments, not just the deployment of cash sitting in a bank account. Further, there should be no limitations with respect to the deductibility of advice fees related to new investments that add to an existing portfolio which is generating assessable income. We propose a standard approach, that all financial advice from a licensed professional with respect to the establishment and review/monitoring of an investment portfolio that generates assessable income, should be deductible to the client.

The current deductibility regime, following the release of the ATO's Tax Determination in 2024, remains complex, creating multiple different scenarios, depending upon the product type, the deductibility provision and whether it is initial or ongoing advice. What we propose will significantly reduce the level of complexity for consumers and advisers.

Whilst we continue to advocate for the broader deductibility of financial advice, we recommend, as a short term measure, that the Government enable initial advice with respect to an assessable income generating investment portfolio, to be treated as tax deductible.

4

Lower the ASIC levy

The FAAA remains deeply concerned about the ongoing high cost of the ASIC levy to financial advisers.

It is disappointing that little has been done to reduce the impost of the ASIC levy, despite longstanding suggestions by both FAAA and the wider financial services sector. These issues, and suggestions, remain constants since the unfreezing of the levy in 2023.

A foundational issue with the levy is the “moral hazard” embedded in a model where compliant small businesses must bear the cost of enforcement actions against a small number of non-compliant entities. This includes unlicensed businesses or those no longer operating.

Another critical issue is that even when ASIC successfully pursues fines from non-compliant businesses, advisers see no reduction in their fees. Advisers are forced to fund enforcement actions regardless of success, while ASIC faces no financial risk. Furthermore, advisers have no say or transparency regarding how their money is spent. Notably, the government is making a significant profit from ASIC, much of which is funded by compliant small advice businesses.

A third significant issue is the lack of transparency from ASIC regarding how sub-sectors are charged for its activities. Requests for additional information on funding decisions have been consistently denied, resulting in a profound lack of trust among regulated entities.

To address these concerns, the FAAA offers several recommendations:

1. The government should review and implement Treasury’s recommended changes to the ASIC Industry Funding Model (IFM) before finalising the next financial year’s levy.
2. ASIC and the Government should not profit from risk-free enforcement actions. Proceeds from successful enforcement should offset costs before compliant businesses are charged..
3. Costs for action against fraudsters and unlicensed operators should be shared across the entire financial sector, as the entire industry benefits from consumer confidence when such individuals are prosecuted.
4. ASIC must disclose more detailed information about its spending to ensure transparency and accountability, which will foster confidence and help address misallocations.
5. The proposed “new class of adviser” – part of the “Delivering Better Financial Outcomes” package, which will allow financial product issuers (including banks, life insurers, and superannuation funds) to offer advice on their products using non-professional financial advisers – risks further confusion regarding the allocation of ASIC enforcement costs. Clear allocation to the employing entity’s sector must be ensured, rather than to the professional financial advice sector.

These measures are essential to create a fairer, more transparent funding model that does not unduly burden compliant small advice businesses or discourage the provision of affordable financial advice to consumers.

The ASIC levy costs however should not be seen in isolation. Coupled with the costs derived from the CSLR, both are acting in tandem to reduce financial adviser confidence in the system, and presents a significant disincentive for new entrants to join the profession.

5

Making the Compensation Scheme of Last Resort (CSLR) equitable and sustainable

The FAAA again strongly urges the government to address the growing inequities of the CSLR. We have repeatedly made the point that the CSLR has been implemented in a retrospective manner, rather than prospective, contrary to the policy intent and commitments. In the context of the Dixon Advisory collapse, this has placed a huge cost on the financial advice sector. The Government also committed to paying for the first 12 months of the scheme, yet later reduced this to just 3 months. We recommend that the Government address these concerns by picking up a much greater share of the legacy claims.

This scheme - intended to protect consumers by compensating victims of financial misconduct - unfairly burdens small, compliant financial advice business with disproportionate costs.

FAAA had previously been very vocal that advisers were expected to shoulder an estimated \$135 million of compensation claims, solely driven by the collapse of Dixon Advisory – part of the large and (at the time listed) entity of E&P Financial Group. January 2025's estimate of costs also gave an update on the huge burden that the failure of United Global Capital will impose on the scheme. We are now aware that the exposure for the financial advice sector across the 2025/26 and 2026/27 years could be around \$200 million⁴ in the absence of intervention from the Government. These costs are being imposed on the profession, despite the vast majority of financial advisers having no connection to the misconduct. This situation is unjust, risks crippling small advice firms, and undermines the availability of affordable financial advice for Australian consumers.

A fairer and more sustainable model would see the costs in any one year that are above the sector cap being paid for by the Government or spread more equitably across the entire financial services sector, which collectively benefits from maintaining public trust.

The government must make an immediate decision about what will happen to all costs above the \$20 million industry cap to confirm that advisers will not have to cover the more than \$70 million that is burdening the scheme currently. In the context that the 2026/27 financial year is likely to be worse, action this year that applies in future years is critical. Should the advice profession be forced to cover this estimated \$200 million over the next two years, this would amount to around \$13,000 per adviser. This is a huge disincentive for new entrants to enter this profession or for existing businesses to employ new advisers. Action from the Government that provides confidence to potential new entrants and existing practices is essential. This cannot wait.

The FAAA has otherwise provided many recommendations to fix the CSLR mess.

⁴ Estimate based upon CSLR Actuaries Initial Estimate for 2025/26 Report (Tables 1.1, 7.6 & 8.2)

Introduce 'Friends of' AFCA and CSLR Roles

'Friend of AFCA' Role

As a further measure to address the problems with the CSLR, we propose the establishment of a government-funded 'Friend of AFCA' role. This role would represent the advice community in cases brought to AFCA where the advice firm has become insolvent. Acting as an impartial advocate, the "Friend of AFCA" would ensure fair representation of the advice sector, in situations where there is otherwise no-one left to speak on behalf of the advice given. By bridging this gap, the initiative promotes accountability while reducing systemic risks associated with unrepresented claims, ultimately benefiting consumers and the broader financial ecosystem.

In all legal cases and external dispute resolution models, it is important for both sides of the case to be presented and fairly represented. Often when a financial firm goes into administration or liquidation, there is no longer access to management to answer questions or provide copies of client files that help to demonstrate what transpired. Equally, during the consideration of the case, it is essential that preliminary findings can be challenged and the loss calculation methodology can be questioned.

We are also aware of CSLR cases where financial advice was provided by someone who was not authorised to provide personal advice, however AFCA assessed it to be personal advice, which would enable payment by the CSLR. Whilst this is an issue in the design and funding of the CSLR, this demonstrates that some oversight of these assessments is needed.

As demonstrated by the ongoing Dixon Advisory scandal (which could ultimately cost the financial advice profession \$135m), when the stage is vacated by insolvent companies, it is the financial advice profession that is blamed for poor consumer financial outcomes and expected to take responsibility. The government could go some way to addressing this imbalance by supporting the above proposal.

'Friend of CSLR' Role

In the short life of the CSLR, we have already observed a number of financial firms going into administration or liquidation, leaving clients exposed to a loss of investments and an inability to make a claim to recover the loss. The CSLR has provided a pathway for these clients to seek remediation, however this places the CSLR in a position where they need to then seek recovery from the firms where funds may be available or recovery action may be possible against the firm, directors or officers.

This activity, including the resources to investigate the underlying conduct, is important in seeking to minimise the cost to those who would otherwise need to contribute to the cost of funding claims paid by the CSLR.

The CSLR needs additional powers to undertake that activity, however we also believe that they need to be separately and appropriately funded to undertake this activity to ensure that those responsible for misconduct are held to account for their actions.

We believe this role could be played by an entity established and funded by Government as a 'Friend of CSLR'.

We seek government funding to support the establishment of a 'Friend of AFCA' and a 'Friend of CSLR' role.



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