

9 August 2018

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Dr. Mark Brimble  
Acting Managing Director  
Financial Adviser Standards and Ethics Authority  
Australia

Dear Dr. Brimble,

**Re: Consultation Paper 6: Continuing Professional Development (CPD)**

On behalf of our members in Australia, CFA Institute and CFA Societies Australia (which includes CFA Society Sydney, CFA Society Melbourne and CFA Society Perth), we welcome the opportunity to comment on the Financial Adviser Standards and Ethics Authority's ("FASEA") proposed Guidance on Continuing Professional Development (CPD), (hereafter the "Guidance").

FASEA was established in 2017 to set the education, training and ethical standards of financial advisers licensed under Australian law. Our mission is to lead the investment profession globally by promoting the highest standards of ethics, education and professional excellence for the ultimate benefit of society.

We represent investment professionals, including financial advisers, before standard setters, regulatory authorities and legislative bodies worldwide in creating a world-class financial system that operates without conflicts of interest.

In the past three months, we have submitted to your office the following submissions:

- Our comment on FASEA's proposed Code of Ethics for Financial Advisers on 1 June 2018;
- Our comment on FASEA's proposed Guidance on Education Pathways for Existing Advisers on 28 June 2018; and
- Our comment on FASEA's proposed Financial Adviser Examination on 31 July 2018.

We now respond to Consultation Paper 6: Continuing Professional Development (CPD).

**Our feedback on FASEA's proposed Guidance**

Although we make more detailed comments on each of the specific questions asked in the Guidance, our principal response is that we fully support FASEA's view that a well-defined and robust CPD program is necessary for financial advisers. Combined with a suitable qualification pathway and a strong ethical philosophy, CPD is a key to a financial adviser's professional development.

To provide ongoing investor protection and to increase the trust between financial advisers, clients and the larger investment community, the education and training of advisers should continue after they become qualified for their job. Products, technology and clients' needs change continually and it is an adviser's job to understand these dynamics. A well-structured CPD program ensures advisers' qualifications remain up to date, increasing their technical knowledge and professional development.

Our responses to the specific questions raised by FASEA in the Guidance are below.

### **S3 Responsibility for Continuous Professional Development**

**Proposal: FASEA proposes that the relevant provider develops and maintains a Professional Development Plan (PDP) on a continuing basis, completes at least 50 hours of CPD activity in each CPD Year, maintains a continuous, up to date and accurate record of their CPD activities, and provides their records to the Licensee in order for them to meet their CPD requirements.**

Overall, and subject to the specific comments we make in response to individual questions, we agree with the proposal above. We support the creation of a PDP by each relevant provider, the keeping of accurate records and the accessibility of those records to the Licensee.

#### **3.1 Do you agree with the proposed requirements for 50 hours of CPD per year, 70% of which should be approved by the Licensee?**

There are three elements to this question: 1) 50 required hours, 2) 70% of which need approval and 3) approval is required from the Licensee.

##### **1) CPD hours**

We believe that the requirement for at least 50 hours of CPD per year is excessive. In all cases we have examined, CPD hours required by other regulators and professional bodies are fewer than the number proposed by FASEA.

A quick search of professional organisations shows minimum CPD requirements range between zero and hours per year, often with a three-year minimum, typically 120 hours in total. Regulators also have a wide range of requirements, with the UK at the top end with a requirement for 35 hours. In nearly all cases, the total required number of hours is broken down into sub-requirements such as structured learning, unstructured learning, compliance and ethics.

As a professional organisation, CFA Institute's requirement is for a minimum of 20 hours each year, two hours of which must be ethics based. Although it is not included in this letter, we are happy to share with FASEA our current approach to and guidelines on CPD.

Although there is no single correct answer to the question of the minimum number of CPD hours, the proposed 50 would be an outlier and, in our opinion, is unnecessarily high. An annual range between 20 and 40 hours a year seems to be more in line with other organisations, both professional and regulatory. Additionally, the idea of having a three-year minimum appears to reflect other approaches.

##### **2) Approval Level**

We support the idea that the majority of a relevant provider's PDP should be reviewed and think that 70% is a reasonable percentage. We also support the idea of giving some freedom to the relevant provider for some portion of their CPD. The suggested level of 30% gives advisers greater opportunity to identify and source development in ways that they find most applicable.

We do have some question regarding the approval needed. Does "approval" here refer to the nature or content of the CPD (for example, whether structured, unstructured, assessable, or non-assessable, the subject or topic of the training) or to the consumption method (for

example, whether attendance is required or on-line is acceptable). This information should be included in the CPD guidelines given to the approver and published on FASEA's website.

### **3) Licensee Approval**

We believe it is appropriate that the Licensee has approver responsibility to ensure that each relevant provider's PDP reflects the development they need. Without this oversight, there could be a lack of direction or focus in the CPD undertaken by an adviser.

As mentioned in Section 4, we strongly believe that guidelines from FASEA would assist both the approver and the relevant provider in ensuring that the CPD framework and responsibilities are understood by all parties. Guidelines are also important in ensuring that there is uniformity across the industry when the CPD framework is applied.

#### **3.2 Do you agree with the proposed Licensee approved CPD approach and the proposal for a published CPD policy?**

Yes, we agree with the proposal that the Licensee is the appropriate approver of 70% of a relevant provider's CPD, subject to FASEA publishing guidelines, as mentioned above.

However, we believe the need for the approving Licensee to publish their CPD policy would be unnecessary if they had to follow prescribed guidelines that were published by FASEA. There is no obvious benefit to the investing public if the Licensee publishes such a document. We would advocate that FASEA publish its CPD guidelines on its website, with a statement to the effect that all Licensees and therefore relevant providers must comply with them.

#### **3.3 Do you agree with the proposal to develop and maintain a Professional Development Plan (PDP)?**

We support the proposal that each adviser is responsible for developing their own PDP. Different advisers will be at different stages of their careers, with varying skills and experience. It is therefore appropriate that each adviser develops their own individual plan that reflects their career progression and developmental needs.

Most professional and regulatory organisations have, over the years, moved to the above approach, which is best described as an output model whereby the regulated person reflects on their developmental needs, takes action to satisfy them and then reflects on the effectiveness of their action. CFA believes that this, together with a requirement to satisfy a minimum number of CPD hours, is an appropriate approach.

### **S4 CPD Requirements**

**Proposal: FASEA proposes that an hours-based system for calculating CPD and that formal education will contribute to the CPD requirement.**

**FASEA also provides a framework for different categories of learning and the rules for accrual of hours for each category. FASEA will provide guidelines for Licensees to provide a self-assessment approval of different types of non-formal CPD.**

**FASEA requires CPD record keeping by the relevant provider and the Licensee and will provide a CPD activity template for guidance.**

#### 4.1 Do you agree with the proposal for an hours-based system of CPD calculation?

As mentioned in our responses to questions 3.1 and 3.3, CFA supports the rationale for introducing an hours-based system. However, we believe that the proposed amount of 50 hours per CPD year is excessive.

Although an hours-based approach is suitable, thought needs to be given to the minimum allowable CPD increment. Much adult learning these days is focused on very short training experiences such as a video with assessment. Such videos may be no longer than 30 or 45 minutes and may be as short as 15 minutes. Will FASEA acknowledge this and allow advisers to record CPD conducted in increments as short as 15 minutes?

CFA would recommend smaller increments be allowed, as they are also better suited to some unstructured learning activities such as reading articles.

#### 4.2 Do you agree with the types of CPD activities proposed? If not, why not?

Before commenting on the proposed types of CPD, we would like to address the proposed categories of CPD, as well as the minimum hours and the minimum approved hours for each category.

CPD categories should reflect and build on the proposed financial adviser exam structure, reflect the needs of practitioners and offer some flexibility. To this end, we suggest three changes to the proposal: a change in the category names, a change in the weighting, and changing to a range rather than a specified minimum.

These changes are outlined below.

FASEA Proposed Category	Proposed Minimum (hours)	CFA Institute Proposed Category	Proposed Range (% of total CPD hours)
Technical Competence	5	Technical Competence	20 -40
Client Care and Practice	5	Regulatory Compliance and Consumer Protection	20 -30
Regulatory Compliance and Consumer Protection	10	Personal Development (soft skills)	20 -30
Professionalism and Ethics	10	Client Care	10 - 20
Other Advisers/Licensee Selected CPD	20	Ethics	10 -20

The reasoning behind our suggestions are:

1) The change in category name supports the focus on technical competence together with compliance and legal awareness. It does not refer to professionalism but breaks that out into personal development and client care. It also highlights ethics as a stand-alone requirement.

The "other" category is eliminated, as we believe all CPD activity should fall into one of the categories that we have proposed. This does not remove the choice that Licensees and relevant providers have; it simply removes it as a separate category.

2) The change in weightings increases the proportion of CPD devoted to technical competence and calls out a minimum requirement for ethics CPD. These changes better reflect the

weightings in the proposed financial adviser exam. A specific element in the proposed exam structure, behavioural finance, would be included in the client care category.

3) Finally, we believe having a range gives more flexibility in the development of a PDP and should lead to the agreed CPD activity, better meeting the developmental needs of the relevant provider and Licensee.

#### **Responding to the proposed types of CPD.**

1) **Formal relevant education.** We support the proposal that this type of learning should be eligible for CPD. However, we question whether there could be a problem when deciding the relevance of the education. Would the relevant provider have to demonstrate the relevance to the Licensee?

This heading also covers “any formal study towards other qualifications and designations relevant to the practice of the relevant provider”. We would expect this to cover, for example, studying for the CFA exams, with the intention of becoming a charterholder, as it ticks all the boxes. This seems to conflict with the second type of CPD, which refers to studying to achieve a relevant professional designation as being non-formal education.

**We recommend that studying for the CFA charter be recognised as formal relevant education and be accepted as CPD under this heading, with the proposed maximum up to 50% of the total required CPD hours.**

2) **Non-formal education.** See the above point regarding the CPD recognition of studying for a relevant professional designation. This heading appears to include both regulatory training and training on specific products, both of which we support.

3) **Other CPD.** This appears to be a catchall heading for any CPD activity that does not lead to a formal degree or professional qualification. It references conferences, PD days and update sessions, with the caveat that they relate to financial advice, for both approved and non-approved CPD.

We believe that, taken together, there is over-emphasis on formal learning and that not enough attention is given to the need for technical updates, personal skills development and ethics training. In our opinion these, especially personal skills and ethics, should be highlighted separately and given more prominence in this section.

Other potential types of CPD-earning activity that are not mentioned in this section include writing, lecturing, giving talks, and grading professional papers. We propose that FASEA include these wider CPD opportunities.

Types of CPD should also consider:

- The acceptability of classroom-based training versus online;
- Whether acceptable CPD should be assessable or not (although the proposal does indicate that education should be measurable) and the difficulty of assessing such CPD as attending a conference or presentation and personal development. One way to assess these types of activities is to require that the relevant provider writes and submits to the Licensee a brief report highlighting what they have learnt;

- The balance between structured and unstructured CPD, although the proposal does suggest that reading, which is unstructured, should have a maximum of 7.5 hours. The term “structured” also needs to be defined and could relate to assessment; and
- Who will decide how many CPD hours a certain activity, such as attending a conference, will earn.

We strongly propose that FASEA recognise any CPD activity that an adviser has to do in order to comply with the requirements of a professional organisation to which they belong. For example, if a relevant provider is a CFA charterholder and is therefore complying with the CFA Institute’s CPD requirements then, to avoid duplication, that activity should also be acceptable to FASEA. As noted previously, we are happy to share with FASEA our current CPD guidance.

**4.3 Do you agree with the proposed evidence and record-keeping requirement?**

We agree that evidence of CPD activity is a requirement and that a digital solution is best. To avoid duplication, we think it appropriate that the relevant provider has the responsibility for maintaining CPD evidence, although this could be on a digital platform maintained by the Licensee. The Licensee should have access to the record at all times.

A template provided by FASEA would be very helpful. CFA recommends that FASEA create a central web-based digital record accessible to relevant providers and Licensees, with the relevant provider being responsible for maintaining it.

**4.4 Do you agree with formal education as a contribution to the CPD requirements?**

Yes, although our reply to 4.2 references our belief that too much emphasis has been placed on formal education and possibly, by inference, classroom-based training.

**4.5 Do you agree with the CPD framework which provides examples of the different categories of learning activity and the rules for hours accrual in each category?**

As we have highlighted in our reply to question 4.2, we think providing categories is good, as is guidance on weightings. We have suggested changes to both categories and weightings.

We also believe that within the Guidance more prominence should be given to personal development or “soft skills”. It may be that FASEA believes this type of CPD is implied in the proposed professionalism category but, in our opinion, it should be highlighted separately as it is such an important element in CPD.

**4.6 Do you agree with the proposal that FASEA will not accredit CPD activities or providers, but will provide a guide with principles, to optimize the consistency in the Licensee self-assessment approach?**

We support the proposal that FASEA will not accredit CPD activities as it is our belief this is best left to the relevant provider and the Licensee to decide. It would also be impractical from both a resource and time perspective for FASEA to get involved in this degree of CPD detail.

The proposal suggests that the Licensee, rather than FASEA, will be responsible for accrediting relevant providers. We support this approach.

Does FASEA plan to introduce sanctions against Licensees if they fail in any of the obligations that will be placed on them by FASEA? As previously mentioned we think that a guide, published by FASEA, is a vital component of this proposal.

**S5 Proposed templates as guidance only**

**Proposal: FASEA proposes that it will make available CPD activity and professional development plan templates as a guide only.**

**5.1 Do you agree that templates are useful and should be used as a guide only?**

CFA agrees that templates are useful and provide guidance rather than strict rules. The important thing is that the CPD guidelines themselves provide understandable and suitable guidance. Flexibility without ambiguity is the desired outcome.

**5.2 Are there any other templates that would be useful?**

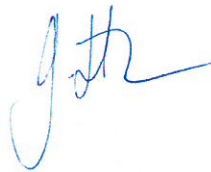
We do not believe so at this time.

Should FASEA wish to discuss any aspects of this letter, the CFA Institute and the CFA Societies Australia would be very pleased to respond to any questions or to arrange a meeting with relevant local members and / or CFA Institute staff. If you have any questions, please do not hesitate to contact us at [exec@cfas.org.au](mailto:exec@cfas.org.au).

Yours sincerely,



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