

Australian Investment Securities Commission
5 Market Street
Sydney NSW 2000
Email: submission@financialliteracy.gov.au

17 November 2017

Dear Sir / Madam

CFA Societies Australia: Submission to the Australian Investment Securities Commission (ASIC) on the National Financial Literacy Strategy

The National Financial Literacy Strategy (National Strategy) provides a framework to guide financial literacy initiatives. The National Strategy 2014–17 was led by ASIC and released in 2014. ASIC now aims to refine and update the National Strategy for 2018 and has released a consultation paper for public comment and discussion.

CFA Societies Australia (CFA) accepts ASIC's invitation to further engage in this endeavour and to participate in addressing the very important issue of financial literacy for all Australians.

In its consultation paper, ASIC notes that "we all confront significant financial decisions at key points in our lives." CFA believes supporting people around these catalyst driven requirements should be a focus and the responsibilities of the financial services industry is critical in relation to the matter of financial literacy and the financial well-being of beneficiaries of Australia's financial services system. Our submission talks to these responsibilities as we believe it provides an important context in framing the broader National Strategy.

Should the ASIC wish to discuss any aspects of this submission, 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.

We attach Appendices for your reference: Overview of CFA Societies Australia and its advocacy charter; and the CFA Professional Integrity Framework.

Please direct all enquires to Susan Morey, Head of Advocacy for CFA in Australia and New Zealand at: advocacy@cfas.org.au.

Yours faithfully



Anthony Serhan, CFA
President
CFA Society Sydney



Graeme Bibby, CFA
President
CFA Society Melbourne



Rob Huth, CFA
President
CFA Society Perth

Positioning Statement in relation to the Australian Investment Securities Commission (ASIC) Consultation Paper on the National Financial Literacy Strategy

The aim of financial literacy

The need to improve the financial literacy of the broader community is undisputed. The influence of financial education on the productivity and stability of the economic system is becoming increasingly self-evident and further heightened during the Global Financial Crisis (GFC). Poor financial decision-making played a significant role in the US sub-prime mortgage market, which many believed sparked the crisis in the United States and ultimately led to the catastrophic event that impacted markets globally.

Furthermore, developments in the financial services industry mean individuals are being forced to take more responsibility for their financial well-being. This fact is even more pertinent in Australia where our mandated superannuation system makes every Australian fully accountable for their retirement savings. In this context, improved financial literacy is a win-win for the community, industry, governments and regulators.

While discussion prevails as to the extent the community should be financially capable and how to achieve that outcome, we nearly all agree that individuals would benefit from a deeper understanding of money matters. This is clearly ASIC's mission and CFA wholeheartedly supports this important objective.

Experts note the strong link between financial knowledge and financial behaviour. Researchers have identified five criteria that make a person 'financially capable'. These include an individual's ability to:

- Control or record daily spending
- Budget or live within ones means
- Plan or prepare and save for future knowns and unknowns
- Choose or select between alternative financial products
- Get help or know where to go for help

However, if we accept these are the behaviours that make an individual 'financially capable', we must acknowledge there are also limits to what can be achieved in terms of creating a financially literate community that is appropriately knowledgeable to manage all and any variation of the above criteria.

Our community is made up of individuals, each of whom have a varying capacity or interest to understand finance or even desire to change financial behaviour. Therefore, we must also concede that any endeavours to improve the financial literacy of the broader community will be inconsistent at best.

The responsibilities of stewardship

Any topic of debate in financial services must begin and end by acknowledging who owns the money. The answer is simple: the beneficiaries of the system.

Industry's role is that of a fiduciary to whom the funds are entrusted as stewards of that money. Financial stewardship is essentially the role of the financial services industry; this is fundamentally why we exist. By its simplest definition, it is the assumption of responsibility of the financial well-being of another or a group. The expectation being that this responsibility will be carried out with great care, keeping in mind the good of the individual or group being served.

The economic advantages of the fiduciary role have created in financial services a vital and very wealthy industry that has benefitted and continues to benefit enormously from the weight of money flowing through the system.

Despite the benefits to industry, financial consumers are increasingly expected to understand complex financial products and processes, an expectation industry must realise is not realistic or achievable with all members of the community for whom the products and processes are designed. Industry has participated in wasting too much money to this effect.

This raises the question: as fiduciaries, to what extent should we as an industry expect the onus of financial literacy to become the duty of the community?

CFA strongly believes that as stewards of other people's money, industry's role carries considerable responsibility and accountability that cannot – must not - be passed on to beneficiaries.

CFA believes investment products and processes must be designed and adapted to meet an acceptable level of financial literacy in the community, not the level of literacy expected of the community by industry. To do this, we as an industry and as individuals must be smarter and, most importantly, more professional, meaning the level of financial literacy expected of beneficiaries is minimalised and realistic.

This concept is commonly-practiced in the health industry. Patients entrust their doctors with their physical well-being. They believe unreservedly that their doctor is providing them with the best care and advice pertaining to their health. The community must be able to trust financial services professionals with their financial well-being in the same way.

However, this idea of trust in the industry, is an issue.

In Australia, a litany of breaches in recent years has meant industry is rightfully under scrutiny from the government, regulators and the community to better our standards and professionalism. Community trust is at an all-time low and we are being taken to task over it. CFA / Ernst & Young released a survey last year that found four out of five Australian customers don't trust their bank to give unbiased advice and put their interests first.

The role of professionalism

To fulfil and deliver on its mission of stewardship, financial services must adopt a principles-based approach to professionalism. Professionalism must be cross-functional and multi-disciplinary in nature, build frameworks that are genuinely embedded in day-to-day operations of an organisation and has as its foundation three fundamental ingredients:

- Competency
- Compliance (codes and standards)
- Ethics

Competency means the individuals serving as industry stewards continue to grow their skills, knowledge and knowhow as they progress through an organisation. Their technical capabilities are appropriately aligned with the responsibilities and accountabilities directly associated with the requirements of their role.

While 'competence' does not make an individual more ethical, a highly competent person is more capable of interpreting data and information correctly, making educated decisions and providing highly-informed advice. Most importantly, they are more aware of when they are making a wrong decision and the impact it will have on beneficiaries of the system.

The **compliance** (codes and standards) that governs an institution in the context of professionalism must mirror the structure of the organisation it inhabits, addressing the organisation at three distinct levels: whole of enterprise, business unit and individual.

At enterprise level, compliance is often represented by a series of high level mission statements and values that are set and audited internally and therefore are difficult to evaluate in any tangible way. Organisational leadership heavily influences organisational culture, but most codes and standards are not publicly pledged by leadership or regularly repeated and they are rarely held to account to them.

At business unit level, codes and standards are not sufficiently detailed, dedicated or prescriptive to provide an efficient governance framework for each of the businesses and disciplines that make up an organisation.

At individual level, codes and standards are often set during on-boarding and then promptly forgotten. Organisations rarely put compliance front and centre of employee's minds as part of daily operations; they also rarely redress and test employees to ensure standards are being maintained and more importantly embedded.

Ethics, and their essential embodiment in professionalism, is largely about moral compass. It is the behaviour of understanding and living 'do the right thing' in the context of the individual's ability to competently assess and make appropriate decisions within a robust set of guidelines based on key moral principles of honesty, fairness, equality, dignity, diversity and individual rights.

In an organisational sense, ethics is about building strong moral creed by continuously educating and instilling a high awareness of what constitutes ethical behaviour at individual, business unit and whole of enterprise level to make it innately fundamental to the organisational mindset.

It is the essential glue that binds high levels of competency and strong compliance frameworks together to form the third element of professionalism.

Professionalism is fundamental to the long-term sustainability of the financial services industry and the necessary and crucial relationship between the industry and the beneficiaries of the community it serves.

Building an industry based in the highest standards of professionalism and integrity is key to resolving the issue of financial literacy.

Appendix I: CFA Societies Australia

CFA's greatest acknowledged strength as an association is that it has managed for many decades to establish and sustain the highest standard of technical excellence and ethics of any such group globally. We have the capacity, capability, track record and desire to support Government, regulators and industry in creating a world-class financial system in Australia.

Our community of charterholders number 142,000 investment professionals employed in more than 30,000 firms worldwide that set the standard to professional excellence. We are a champion for ethical behaviour in investment markets and a respected source of knowledge in the global financial community. Our goal is to serve the greater good by creating an environment where investors' rights come first, markets function at their best and economies grow for the benefit of the greater community.

In Australia, there are nearly 3,000 charter holders in professional positions across our industry ranging from fund managers and analysts to accountants and financial advisers. Our charter holders include some of the most highly-regarded members of the financial services industry in our country.

As an association of like-minded individuals, we do not represent the interests of a single organisation or institution, but that of an independent industry voice that is completely without conflict of interest.

Being a CFA charter holder means more than just earning the right to use the initials 'CFA' after our names. As members, we've all made a personal commitment to always uphold the CFA 'Code of Ethics and Standards of Professional Conduct' in whichever country we work. This is a pledge we recommit to every year. More importantly, it means that as individuals we have taken a personal pledge to protect the rights of any member of the community who entrusts us with their money.

We believe the community has the right to demand two things from our industry: the highest standards of competency and skills to inform technically superior decision-making; and an instilled sense of good governance and ethics to drive outcomes synonymous with an industry of high cultural integrity.

We have long-stated that our aim is to partner with industry to build a strong financial services industry in Australia that is:

- Regarded by the community as highly competent and deserving guardians of their money and as trusted champions of their rights and financial welfare
- Acknowledged by regulators as an industry whose culture instinctively is largely self-governing and serves only the best interests of the community, who must be respected always as the rightful beneficiaries of the financial services system

Appendix II: Professional Integrity Framework

The Professional Integrity Framework (Framework) is a principles-based, three tiered (organizational, business specific and individual) 'whole-of-enterprise' framework, which aims to first build organisational professionalism, the natural output of which will be overtime a high integrity culture based in high standards of competency, compliance and ethics.

The Framework is targeted towards any organisation in the financial services industry regardless of size, nature or complexity but whose business is based largely on the guardianship of other people's money.

PROFESSIONALISM HAS THREE CORE COMPONENTS

- 1. COMPLIANCE**
Dedicated, detailed & succinct standards & codes
- 2. COMPETENCY**
Highest standards of technical excellence
- 3. ETHICS**
Innate understanding of organizational, business & organizational values to guide ethical behavior

PROFESSIONAL INTEGRITY FRAMEWORK

