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Seven mistakes accountants make about FOFA

By Scott Charlton FCA

Executive summary

The new FOFA rules will have profound ramifications for many accounting firms, particularly with respect to how clients will receive advice in areas which are deemed to be *financial services*. We are currently in a transition period which expires on 30 June 2016, following which a new regime of licensing will curtail the areas where an unlicensed accountant can advise. Although there may seem to be plenty of time, it is important to develop and implement a plan in order to be ready. The sections that follow discuss seven key areas that accountants in practice need to address in formulating their plans.

Introduction

This paper does not attempt to set out the FOFA rules. Rather, its purpose is to highlight areas that accounting firms should consider in tailoring their response to these rules. In this regard, it is suggested that the starting point should be the vision for your accounting firm - the services you will offer, clients' requirements and who will actually provide the advice now covered by FOFA. This is definitely not a case of one size fits all. It's up to you to determine a path that suits and to align with parties who can assist you.

The catalyst for writing this paper is my concern that many accountants have simply not turned their minds to what will be required and consequently will be forced to scramble for a solution as the deadline approaches. On the other hand, firms which take decisive action in coming months will be well prepared to take advantage of the opportunities, thereby enhancing their role as a primary financial adviser to their clients.

Although the title of this paper encapsulates *Mistakes*, I expect that you will find many practical suggestions about responding to FOFA in the sections that follow.

1. Head in the sand

Having been an accountant in practice, I totally understand the pressures of meeting day to day client commitments. Now, as a business coach to professional practices, I see how this busy-ness makes it challenging to think strategically about where one's Firm is going. In this regard, the extraordinarily lengthy transition period (three years) gives a false impression that there is plenty of time to prepare for FOFA. How wrong this is!

Some accountants also have the vague expectation that the new Federal Government will rescind the rules. However in this writer's opinion such an action is unlikely. Everything that could be said about accountants' key role in advising Australian businesses and taxpayers has been said. Be in no doubt the



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accounting bodies have fought the good fight on your behalf and that they have reconciled themselves with the outcome. In short, there is no change in sight and it's time to get with the program!

The new rules are in my view a reasonable attempt to establish a level playing field across the spectrum of financial services. Prudent risk management dictates that you prepare to meet the requirements of enacted legislation.

I expect that the vast majority of accounting firms will choose to become licensed in some capacity and hence it is important to develop a timeline which sets out how accountants in your firm will obtain the necessary education and licensing to operate under the new rules. Failure to address this issue will severely limit the advice your firm can provide.

For those currently operating in the SMSF space, it's my view that licensing will be unavoidable. Prompt action regarding financial planning qualifications is particularly important here as additional SMSF studies will almost certainly be required by your Licensee.

2. Think there's plenty of time

Although there is still adequate time to become FOFA-ready, you will need a plan to utilise the remainder of the transition period wisely.

For many accountants, it will be necessary to undertake one or more courses of formal study. Undertaking a Diploma of Financial Services (or equivalent) will be a basic starting point for most, followed in some cases by the Advanced Diploma of Financial Services. Practitioners advising clients with respect to SMSF's will most likely also need to undertake advanced studies in this area. It is also possible that a qualification in Finance may also be required, particularly for those who advise clients about debt strategies in SMSF's. Naturally, study options will be influenced by when the requisite subjects are available through the course provider selected.

Once the necessary subjects are completed, you will need to determine an appropriate AFSL solution. The choice is to obtain your own AFSL or align with a third party provider. Generally, it will be quicker to get authorised by arm's length licensee than create your own. I expect the majority of accountants will choose the third party option, in which case one still needs to allow enough time to go through the relevant application and induction processes, all before June 2016.

And for those expecting to "make partner" or "hang out the shingle" before 1 July 2016 it will be advantageous to complete their public practice certificate course as well¹. As an example, the Public Practice Certificate Course conducted by the Institute of Chartered Accountants in Australia is a 12 month program - another significant professional commitment to be accommodated in this time frame.

¹ Failure to do so will lead to more onerous hurdles post this date in order to demonstrate an appropriate level of financial services experience.



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Hopefully, the picture has been made clear. To accomplish all this in amongst the demands upon a busy practitioner, both in the office and at home, will require a well-considered timeline and appropriate allowance in one's diary for study leave and exams.

3. Overlook the opportunity

As a business coach I encounter accountants who view FOFA entirely as an exercise in red tape and paying fees. In the new regime, these accountants are simply aiming to keep doing what they have always done. With respect, I take a different view.

Embracing the new rules will help to ensure accountants remain a primary financial adviser for their clients. Being able to advise on a broader range of issues will not only help clients but prevent the firm being typecast as tax and accounting providers (only). Clients want their accountant by their side when they are making important financial decisions.

The process of getting FOFA-ready has the potential to provide significant new capability to you and your firm. Yes, there is a challenge to find a solution which is consistent with your firm's vision, culture and values. However positioning yourself as the best and most appropriate partner to guide clients throughout their financial life will ensure they turn to you first for assistance.

4. Underestimate what's involved

Following on from the above, it makes sense to approach this opportunity in a businesslike manner. Whilst not exhaustive, here are some considerations that will help prepare you for what lies ahead.

- The right business model. There is a range of options, from referring exclusively to third parties right through to a comprehensive in-house capability. Which option you choose depends upon a number of factors, including the size and capability of your firm, the extent to which you are involved with SMSF's, who on your team has completed financial planning studies and the needs of your clients.
- Legal entity. It may be a requirement of your AFSL and/or PI insurer to conduct a separate entity with respect to your financial services activities.
- Training and new procedures. Venturing into the financial services environment will require you to comply with a new set of requirements. You and your team will need to be thoroughly conversant with the expectations of both ASIC and your AFSL.
- Who will need to be licensed. Authorised representative status is conferred per individual, rather than the Firm as a whole. It will therefore be necessary to consider who in your firm is providing advice which comes under the FOFA umbrella. All such advisers will require a study and licensing plan incorporating the issues covered in Point 2 above.
- Who you will be licensed with. Optimal outcomes will only be achieved by partnering with an AFSL attuned to your requirements – refer below.



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5. Judge an AFSL strictly on price

Following on from Point 3 above, if you view complying with FOFA as a grudge purchase then it stands to reason that your sole criteria will be to pay the least amount possible. Respectfully, such an important strategic alliance deserves more earnest consideration.

- Positioning. If you are like most accountants, your clients perceive you to be their bastion of informed and independent advice. How then is this consistent with being closely aligned with an AFSL conducted by a prominent product provider? What message are you sending when a product provider's logo is on your letterhead, newsletters and PowerPoint slides?²
- Support for where you want to go. Will the AFSL actively support your Vision and have the capability to assist you to achieve it? Growth-orientated accounting firms should align with a progressive support partner who can complement their plans. Team training, practical professional development and business coaching are all means by which an AFSL can add genuine value, along with advice templates, modelling tools and sound methodology.
- The audit experience. Regardless of the AFSL chosen, you should expect that there will be a compliance program, a feature of which will be an auditor reviewing the financial services advice you provide to clients. Depending upon the experience and calibre of your auditor and the brief that he/she has been given, your audit experience could range from being extremely helpful through to time consuming and obstructive. Your AFSL should be adding value through its audit program, the induction you receive upon joining, the policy documents you are provided with to follow and supplying you with helpful compliance information.

6. Underestimate the study

For many, obtaining the necessary qualifications in financial services will entail returning to study after a long absence. Yes, it's easy to pick a course which is conducted exclusively over the Internet but this may not be the most appropriate choice for you.

- Learning style. Not everybody is suited to studying in solitary confinement. For some it's better to listen, rather than read. Still others prefer to discuss with colleagues or engage in a combination of media for optimal absorption of new knowledge³. Ideally, you not only want to pass the assessments but retain valuable information that you can later use with client assignments.

² You can expect that references to your AFSL on advice and information provided to clients will be an ongoing requirement. Welcome to the world of financial services!

³ For more information about learning styles in general and to ascertain your learning style in particular, refer to <http://vark-learn.com/english/index.asp>. This site includes a brief questionnaire which will help to determine how you learn best.



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- Don't learn anything. Yes, a short form, simplistic course may give you a piece of paper, but are you any more capable as a result? If you are going to commit time to this process, then why not aim to enhance your professional capability in the process?
- Support required. Whilst there will doubtless be areas in your course which are familiar to you, many other aspects will be new. The primary example is an assignment which requires you to prepare a *Statement of Advice*, including all of the statutory requirements to ensure your client is fully informed. To the uninitiated, this can be quite a daunting task. Often students find it helpful to have a mentor and/or to participate in a workshop to resolve queries in order to understand what constitutes advice which meets all expectations. Busy practitioners are advised to incorporate such support in their study program!
- Undergoing a formal assessment. It may be some time since you have had to undergo a formal exam. The good news is that the basic rules of allowing sufficient time for quality study, reviewing past papers and good exam technique have not changed. However, because they are no longer second nature to you these skills may need to be refreshed⁴.

7. Not seek external advice

The world of financial services licensing and the related compliance environment can be intimidating to the uninitiated. It makes good commercial sense to consult with a friendly colleague who is able to provide guidance in this area. Not only will this save time but you are likely to achieve a better solution to your requirements. Ideally, this colleague will have run an accounting practice, experienced the challenge of part-time study whilst holding significant responsibility and have practical insights to share about thriving in the financial services environment you will be operating in.

Conclusion

Progressive accounting firms will embrace the incoming FOFA regime. Best results will be achieved by tackling this in a businesslike manner. Developing a plan and aligning with supportive partners will assist in making the right decisions and turn this opportunity into reality.

⁴ For further insights regarding the return to study, refer to Chapter 14 of "Your Professional Headspace", available through Thomson Reuters Australia.



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Scott Charlton is an Author, Business Coach, Speaker and Chartered Accountant with 20 years' experience in professional practice, including 14 as a working owner. For the past 12 years Scott has been a business coach specialising in working with accountants and financial planners. Scott's particular interest is helping the two professions collaborate effectively to achieve optimal outcomes for their clients. He is the author of two books, the first of which is "Your Professional Headspace", a guide to achieving career success and personal fulfilment as a professional in practice Scott's second book, "Partnering with Financial Planners" is a guide to growth for accounting firms. A third book, "Partnering with Accountants" was released mid-2014. Scott is a founding director of Slipstream Coaching and a sought-after speaker. He can be contacted on 0409 870 330 or via email scott@scottcharlton.com.au