



CFA Society of New Zealand
P O Box 105 083, Auckland

4 November 2009

Proposed Minimum Standards of Competence, Knowledge and Skills for Authorised Financial Advisers

To the Code Committee

Introduction

The CFA Society of New Zealand was formed to promote awareness of the aims of CFA Institute and the CFA Programme, and to lead the investment profession in New Zealand by setting the highest standards of education, integrity and professional excellence.

Our Society is an association of local investment professionals. Consisting of portfolio managers, security analysts, investment advisers, and other financial professionals, we:

- Promote ethical and professional standards within the investment industry;
- Encourage professional development through the CFA Programme and continuing education;
- Facilitate the exchange of information and opinions among people within the local investment community and beyond; and
- Work to further the public's understanding of the CFA designation and investment industry.

Our Society is the only local body affiliated to CFA Institute. Most of our members hold the prestigious CFA (Chartered Financial Analyst) designation and those who do not are either completing the CFA Programme or are already sufficiently experienced professionals who have met strict ethics prerequisites.

We welcome the opportunity to respond to the Commission's call for submissions on regulating and supervising financial advisers, consisting of a number of discussion questions.

We would be pleased to appear before the Commission to speak to our submission and/or assist in any way we can the progression of the work being undertaken.

If you wish to contact us, please either call the Society's Administration Manager, Ms Ginette Clarke, at 021 226 7611 or email her at info@cfasociety.org.nz.

Board of Directors:

*Mark Brighthouse CFA (President), Katrina Kruger CFA (Vice-President), Louis Boulanger CFA,
David McCallum CFA, Dr Ian Nield, Jeremy Simpson CFA and Charles Widdicombe, CFA*

Discussion Questions

1. Do you think the proposed minimum standards for competence, knowledge and skills are appropriate? If not, what should be the minimum standards for competence, knowledge and skills be?

We believe that the proposed minimum standard is adequate as a first step in the establishment of the profession. We would however expect the Code Committee to increase the required minimum standard over time.

We see Level 5 as an *introductory* qualification enabling an adviser to begin providing basic financial advice. It offers relatively simple product knowledge. We expect that adviser disclosure should highlight to investors that Level 5 ensures only a basic level of knowledge, and that is a *minimum* standard only.

It is inevitable that advisers will find themselves dealing with more complex advice, products and portfolios and a higher minimum standard should be introduced.

We would like to see a process whereby the proposed minimum standard is regularly reviewed in order to remain relevant. For example, the CFA Institute surveys members regularly to ensure that the CFA Candidate Body of Knowledge remains relevant and current.

2. Do you think the division between those AFAs who can provide unrestricted financial adviser services (Part 3 Table A) and those AFAs who can only provide financial adviser services to wholesale financial services providers (Part 3 Table B) is appropriate?

We believe that having a division between these two categories is appropriate. Knowledge of the financial planning process is not necessary for providing wholesale financial advice. However the committee must understand that there are significant issues in terms of this distinction that should be addressed:

- a. The definition of wholesale financial services providers is an incomplete description of the clients with whom a wholesale financial advice relationship would exist. For example, wholesale clients might be financial services companies, superannuation schemes or charitable trusts. They might range in size from just several million dollars to hundreds of millions or more. One consistent feature of such relationship is that the client does not expect a financial planning process nor would one be appropriate. For this reason we recommend a broader definition be given to wholesale clients along the lines of "clients for whom a financial

planning process would not normally be expected as a part of the advice”.

- b. However the committee should not assume that wholesale clients do not need the protection of high competency standards. A minimum qualification to operate in this area is also recommended. Many countries require passage of some or all of the CFA Programme as a minimum requirement to practice in the wholesale sector. We believe that giving wholesale authorisation to people who have attained nothing more than Standard Set B (and perhaps no tertiary qualifications at all) would diminish the status of all AFAs. In the interests of establishing a true AFA profession we recommend that wholesale AFAs have a higher minimum competency standard (but distinct for those engaging in financial planning).
- c. Our enquiries amongst our membership base suggests that even those Chartered Financial Analysts (CFAs) thought to be operating in the wholesale area are often called upon to assist with financial planning clients. There is not always such a clear distinction in terms of roles as the Proposed Standards assumes.

3. Are there groups of financial advisers who it is proposed must complete the revised National Certificate in Financial Services (Financial Advice) (Level 5) that you think should not be required to complete it?

We have no comment on the other categories. See our comments to Question 6 with regards to long standing experience.

4. Do you think the standards for financial advisers proposed as alternative to attaining the National Certificate in Financial Services (Financial Advice) (Level 5) are appropriate (as set out in Table A in Part 3 of this Consultation Paper)?

We do not believe that the standard proposed for a Chartered Financial Analyst to attain AFA registration is appropriate. We do not agree with the Committee’s proposal that charterholders are required to complete Standard Set C as we believe that the Body of Knowledge of the CFA Programme adequately covers Standard Set C.

We understand that the Committee’s recommendation could be based on a perception that the CFA Curriculum and Candidate Body of Knowledge focuses on institutional investment management. Also we are concerned that the Code Committee may not be aware that in order to be awarded with a CFA charter, candidates are required to be certified by both their employer and an independent charterholder to have had four years of relevant investment and/or financial advice experience.

In addition, in order to maintain and improve professional competence, the CFA Institute recommends members complete a minimum of 20 hours of continuing education activities, inclusive of a minimum of 2 hours in the content areas of Standards, Ethics, and Regulations, each calendar year. Members are active users of periodicals, podcasts, webcasts and refresher readings. The CFA Institute also has a dedicated Private Wealth Management Forum, which host annual conferences aimed towards Private Wealth management.

Qualification content and structure

The CFA Curriculum is grounded in the practice of the investment profession. CFA Institute regularly conducts a practice analysis survey of investment professionals around the world to determine the knowledge, skills, and abilities that are relevant to the profession. The survey results define the Candidate Body of Knowledge (CBOK)TM, an inventory of knowledge and responsibilities expected of the investment management professional at the level of a new CFA charterholder. The survey also determines how much emphasis each of the major topic areas receives in the CFA exams.

A committee made up of practicing charterholders, in conjunction with CFA Institute staff, designs the CFA Programme curriculum to deliver the CBOK to candidates. The exams, also written by practicing charterholders, are designed for candidates to demonstrate mastery of the CBOK as set forth in the CFA Programme curriculum. The exams test mastery of the CBOK and the practical application of that knowledge.

There are three levels to the CFA Curriculum and Examination process based on practice analysis. At Level I, candidates are asked basic knowledge and comprehension questions and must perform some analysis. At Level II, the emphasis is on analysis and application, while Level III focuses on synthesis and integration.

Level I coverage includes: tools and concepts that apply to investment valuation and portfolio management, basic concepts regarding securities and markets, and the CFA Institute Code of Ethics and Standards of Professional Conduct. Level II coverage includes asset valuation, application of tools and concepts of investment valuation, industry and company analysis, and the CFA Institute Code of Ethics and Standards of Professional Conduct. Level III coverage includes management of institutional and individual portfolios, management of specific asset class portfolios, and the CFA Institute Code of Ethics and Standards of Professional Conduct. At each level, the exams consist of a three hour morning exam and a three hour afternoon exam. The Level I exam is given twice a year and Levels II and III once a year.

The recommended study time for each level is between 150 and 250 hours. Over the course of the programme a candidate must read and understand over 7,000 pages of material. In terms of numbers of

candidates that enrol in the programme, less than one in ten end up with a charter given the demanding nature of the study and practical experience requirements.

Candidate Body of Knowledge (CBOK) applicable to Private Wealth

It is important to look beyond the financial planning process itself, and look at all the knowledge, skills, and abilities necessary to be an effective wealth manager, including professional and ethical standards, rigorous investment knowledge, and unique aspects of wealth management. With regard to the latter, for example, the curriculum covers:

1. Asset Allocation
2. Goal Setting
3. Risk profiling
4. Constructing an Investment Policy Statement
5. Capital Needs Analysis
6. Individual investor portfolio constraints
7. Psychology of risk
8. Behavioural finance influences
9. Estate Planning
10. Trusts
11. Tax considerations in invested
12. Comprehensive and integrated view of the client
13. Personality typing
14. Life cycle investing
15. Insurance
16. Legal Constraints
17. Wealth transfer tools
18. Global Estate Planning

We attach three Learning Outcome Statements (LOS), selected from each level. The LOS describe the knowledge that a candidate is expected to acquire from the financial planning and private wealth portion of the CFA curriculum. We ask that this is kept confidential as the information contained in the attachment is proprietary to the CFA Institute.

Relevance to the advisor's role

The three levels of the CFA Programme build on each other. Although Ethics and Professional Standards are foundation material at each level, the first level focuses on building knowledge and comprehension in areas that are foundational to all financial professionals, including those advising private clients (e.g., quantitative methods, economics, and international financial reporting and analysis). The second level applies this knowledge to the analysis of financial instruments (e.g., equity, fixed income, alternative investments, and derivatives) and similarly builds competencies relevant to all financial professionals, including wealth managers. The third level focuses on portfolio management and wealth planning (e.g., asset allocation, tax management, estate planning, risk management, behavioural finance, performance evaluation and attribution). At this level,

60% to 95% of the material directly pertains to private wealth management.

The CFA Curriculum develops analytical models and a global framework that allows charterholders to apply knowledge across borders. This conceptual approach is exemplified particularly well in some recent wealth management curriculum developments. For example, a reading on tax management surveys the structure of major tax regimes around the globe and introduces models of tax-efficient wealth accumulation and investing (e.g., tax loss harvesting, treatment of various taxable entities, tax-adjusted portfolio optimization) that can be applied in all markets. Similarly, a global estate planning reading surveys the basic elements of major tax regimes (e.g., legal systems, probate, lifetime gifts and testamentary bequests, gift and estate tax, spousal exemptions) and examines the available tools and cross-border issues involved achieving clients' estate planning goals (e.g., trusts, foundations, life insurance, controlled foreign corporations, double taxation, transparency and offshore banking).

Approximately 30% of CFA Institute members manage private client assets globally. Perhaps due to the high regard as a global passport enjoyed by the CFA Program, U.K. and European private banks such as Barclays, HSBC, UBS, Credit Suisse, and Deutsche Bank are among the top employers of CFA charter holders. Some institutions, such as Wells Fargo Wealth Management, place significant emphasis on the CFA charter in recruiting private client portfolio managers.

Please find attached The Wealth Process Management Overview. These two slides illustrate the financial advice process as demonstrated in the Programme, and also outline the development of Private Wealth in the Programme over time. This information is proprietary to the CFA Institute and we ask that it is kept confidential.

CFA Charterholders and licensing regimes globally

In the majority of US states, Canadian provinces and 5 other countries (Australia, Greece, Hong Kong, Singapore, Turkey and Vietnam), CFA Charterholders and certain candidates in the CFA Programme enjoy waivers from regulatory licensing or qualifying exams. In addition, four other countries (Indonesia, Pakistan, Philippines and Thailand) require the passage of one or more levels of the CFA exam in order for investment professionals to practice. There are a growing number of regulators who are recognising that the CFA Programme is the best minimum standard for an investment professional.

5. How do you think 'wholesale' financial service provider should be defined in terms of the second class of AFA (as set out in Table B in Part 3 of this Consultation Paper)?

We believe that part of the definition of wholesale financial advice should incorporate a reference to whether a personal financial planning process is

expected as part of the advice. Please see part C of our response to question 2.

In addition, we have a long held view (expressed in other submissions in this area) that wholesale clients deserve the protection of regulation. A relevant minimum standard of competency in this area should be required; we would recommend that to continue to work in this area the achievement of the one or more levels of the CFA exams are required.

6. Do you think that the minimum standards of competence, knowledge and skills required for those financial advisers who have been deemed certified on the basis on long standing experience (see Part 3 Table A – last category of the table) are appropriate?

We are strongly opposed to the concept of grandfathering on the basis of time spent in the industry. Education is a very important part of competency and experience alone is not a claim to superior competency.

We are concerned that some organisations and industry bodies in New Zealand may already have members that have been grandfathered previously, so they may have already avoided the need to achieve a formal qualification or minimum level of education. There is a risk that some organisations may look to grandfather more members ahead of the new regime to protect some members who lack formal relevant qualifications which could undermine the whole process of establishing a minimum level of educational standard.

7. Do you have any comments to make regarding the practicalities of achieving the proposed minimum standards? Do you have any comments on appropriate timeframes for compliance with the minimum standards of competence knowledge and skills?

We are concerned that there may be practical difficulties for people who possess the knowledge to become AFAs and are operating in other areas of the financial services industry. We would recommend that these people are able to demonstrate their knowledge through examinations that occur regularly and without the need to provide evidence from the workplace.

Assessment through evidence from the workplace would be a barrier to people who are involved in the provision of financial advice but do not have client files to demonstrate that knowledge. Examples of such people might be those who supervise financial planners. We would recommend that assessment is possible on the basis of examination alone.

We would also recommend that examinations are unbundled from training as many people may already have the knowledge and just wish to be tested on that knowledge. Ideally, exams should be available even before

the new regime comes into force, to enable competent individuals to demonstrate their knowledge without delay.

8. Do you have any comments on minimum standards of competence, knowledge and skills for foreign-regulated financial advisers?

No comments.

9. Are there any other matters you would like to comment on?

No comments.

Yours faithfully

Katrina Kruger CFA
President

For and on behalf of Directors and Members of CFA Society of New Zealand