

Transitioning to an AFSL

A short guide for
financial planning professionals

Know what to expect from self-licensing for your practice



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The AFSL opportunity in financial advice

Finding your direction in a changing landscape

Disruption in the financial planning landscape has become a constant. Complex and far-reaching compliance changes resulted from recent government enquiries and regulatory change. The broader operating environment is also in a state of flux with technological advances changing client expectations and COVID-19 driving practices more to a digital approach.

These changes give rise to new opportunities and challenges for all financial planning businesses.

The AFSL option: push or pull?

As this cascade of challenges has continued for several years, many of the industry's larger players have exited from their financial advice operations. This has given the advisers operating under these licensees an opportunity to consider whether taking on their own AFSL could serve them – and their clients – best.

While some practices are compelled to make changes in their licensing arrangements, other business owners are looking to strike out on their own to better support their value proposition and business model. So it comes as no surprise that many more financial advisers decided to take on their own AFSL in 2020.

According to the Investment Trends 2020 Planner Business Model Report almost a third (30%)¹ of financial advisers made the transition to become self-licensed last year, with a two-fold increase in total since 2016. One in 10 advisers² of advisers operating under a licensee were reported to be considering a change to their own AFSL.

1 Investment Trends 2020 Planner Business Model Report

2 Investment Trends 2020 Planner Business Model Report



A guide to the AFSL journey

Licensing choices are critical for any financial planning business. This guide explores some of the key issues to consider in taking on an AFSL, plus we take a look at some of the practical implications in terms of time, costs and other resource requirements.

In this guide you'll discover:

- Some potential benefits of becoming an AFSL holder
- Some of the responsibilities that come with an AFSL and what they mean for your business
- An AFSL checklist: some of the requirements to consider for you and your team
- Information on potential initial and ongoing costs
- A summary of some key differences between operating under another party's AFSL and holding your own AFSL
- Where to go for more information and support



Why advisers are taking the AFSL route

More control over risk and compliance

For some financial planning businesses, their approach to advice may be limited by how a dealer group or license holder interprets and applies regulatory guidance. By taking on their own AFSL, practices can develop a risk management framework that better suits their client service approach. This could potentially streamline compliance processes for your practice.

Flexibility and choice

As well as having freedom to exercise your own judgement as to how each legislative requirement is applied, you'll also be independent in how you market your business and select products for your clients. You're free to make your own choices for platforms, templates and APLs rather than being constrained by the resources offered by your licensee.

A specialised, sustainable business

Running a business within a more flexible framework can open up opportunities to pursue different priorities and goals. For principals keen to focus on a particular type of advice or client, holding an AFSL can be critical to an effective change in business direction.



Your AFSL responsibilities

With the increased freedom in control over your decisions that comes with holding your own AFSL comes a broader range of responsibilities for practice principals and their team members. There are some general obligations you must meet and some of these are included below.

General obligations of a licensee:

- Do all things necessary to ensure that the financial services covered by the licence are provided efficiently, honestly and fairly;
- Comply with the conditions of the licence;
- Comply with the financial services laws (and take reasonable steps to ensure its representatives comply with financial services laws);
- Maintain competence to provide those financial services covered by the licence (and ensure that its representatives are adequately trained and competent to provide those services);
- Have adequate arrangements in place to manage conflicts of interest;
- Have adequate financial, technological and human resources to carry out business and supervise its representatives;
- Have a dispute resolution system; and
- Establish and maintain adequate risk management systems.

How AFSL obligations and responsibilities can impact your business

It's also important to understand how these obligations and other AFSL holder responsibilities can translate into changes to your operations and the resources you will need.

Governance	<ul style="list-style-type: none"> – Determining who is accountable for understanding and adhering to licensing and legal obligations – Identifying your Responsible Managers – Due diligence on product selection – Regular meetings to monitor compliance with obligations
Strategy	<ul style="list-style-type: none"> – Capacity for licensing obligations alongside other business activities – How your AFSL will support your business goals and priorities – Allocate resources for planning transition activities as well as new responsibilities as license holder
Staff	<ul style="list-style-type: none"> – Identify gaps in existing skills and competencies – Professional development and training and/or recruitment – Outsourcing tasks and responsibilities as needed
Resources	<ul style="list-style-type: none"> – Financial planning software – Investment research – Advice documents and policies
Costs	<ul style="list-style-type: none"> – Upfront and ongoing licensing costs – Professional indemnity insurance – Financial audits – Staff training and development

Getting your business AFSL ready

Thinking about what it will take to transition your advice practice to an AFSL can help you decide whether it's the right choice for your business.

Business strategy

A sound decision on the best licensing arrangements for your financial planning business should come from a deep understanding of how your business operates now, as well as your plans for the future. By considering your strategic foundations and trajectory, you can determine whether your practice can continue to run successfully while you make the shift in resources and operations to support your AFSL obligations, as well as impacts of exiting your existing licensee arrangements.

It is also important to be clear on whether this new commitment will deliver sufficient benefits to the business to make the transition worthwhile. Above all, your practice leaders and team must be ready to examine regulatory guidance and make choices about how to apply this to your own operations.

People and culture

Even though changing to an AFSL may help your business offer a more personalised service tailored to client needs, it's important to know that it will divert people and their time away from client service activities.

As you review capacity for making this transition in your operations and culture, there are important questions to answer about the skills and competencies you have within your team. Do you have employees with an appetite for the added responsibility that comes with an AFSL? As a business leader, you will be taking on a large share of this responsibility yourself, as well as keeping others accountable for their role in meeting AFSL obligations. Identifying knowledge gaps, for yourself and others, will help you determine training and/or recruitment needs for supporting your new business commitments.

Planning and communication

It will be important to plan and prepare for the transition to make sure you limit the risk of falling behind on due diligence, data capture or reporting obligations. This can involve introducing new meetings, reporting and oversight mechanisms to business routines and processes. Creating workflows to track and measure AFSL tasks and milestones is a good way to assign ownership and drive accountability. Introducing new processes in this way makes it clear to your team that regulatory processes and outcomes are just as important as client service deliverables.

You will also need to communicate the change to clients, so they understand both the 'why' and the 'what' of changes to your business processes and their customer experience. Consider how you can use a combination of routine and one-off communications and one-on-one conversations to make your AFSL transition seamless from each client's perspective.

Your AFSL application checklist and costs

Your AFSL application: what you may need to prepare

You can apply for your AFSL using ASIC's eLicensing system, which tailors the application to your business, however most businesses engage a specialist consultant to help them through this process. Before starting this process, you'll need to dedicate time to preparing the following for your application:

Core proofs – these include business description, organisational competence proof, people proofs for each responsible manager, financial statements and financial resources procedures.

Complex product proofs – if your practice delivers advice on complex products, such as derivatives or foreign exchange, you'll need to demonstrate capacity and capability to provide services for these products.

Additional proofs – demonstrating your procedures to manage representatives, training, resource adequacy, product research, dispute resolution, compliance, risk management or compensation arrangements.

Application fee – ASIC fees for processing your application depend on whether you lodge online or using paper documents, what type of clients you'll be serving and the complexity of products you provide.

Application process and timing

Application assessed – once you've submitted your application to ASIC, they'll review all your documentation. They may request additional documents or proofs after their initial assessment.

Draft AFSL issued – if your application is successful your business will be issued with a draft AFSL. The full license will be subject to your business formally accepting conditions and providing proof of professional indemnity insurance.

Visit the ASIC website for more information on how to apply or speak to your compliance / legal adviser.

According to the ASIC service charter, they aim to decide 70% of applications within 150 days of receiving a complete application and 90% within 240 days. Applications can take longer if they are incomplete or raise complex, or new, policy issues.

Ongoing costs

When you are part of a dealer group some of your business costs are absorbed into the overall licence fee. As you transition to your own AFSL there will be upfront fees for your application and ongoing costs for your licence, but there are also other business costs that you'll be paying for, instead of your annual fee to your dealer group or licensee.

These costs may include:

- AFCA/TPB membership fees
- Professional Indemnity Insurance premiums
- Ad hoc legal services
- Technology costs (including advice software migration and maintenance)
- Charges for accountant/audit services
- Other professional services/associations
- Education costs (e.g. PD days, CPD)
- Transition support
- Revenue collection support
- Research
- Cost of meeting ongoing compliance and governance requirements (e.g. external audit, compliance manual)
- Disclosure documentation (e.g. FSG, SoAs)
- Capacity in staffing levels required to support the new obligations.

Note: many of these costs are common across self-licensing and fees paid to operate under another AFSL holder. Therefore it is important to understand what services are included in your current licensee fees or costs you may incur when self-licensing.



Weighing it all up: what will change if you switch to an AFSL?

Dealer group/licensee	AFSL
You take direction from your licensee on many business decisions including compliance, product selection and support services	You have control over all business decisions. You will need to have oversight of a more complex business in order to meet all license obligations.
Licensee takes a view on regulatory requirements and instructs advisers on how to comply with legislation.	Principal and Responsible Manager/s will need to stay up-to-date on regulatory changes and implement and review business practices to ensure compliance with all license obligations.
Your business reputation can be impacted by the conduct of the AFSL holder and other advisers operating under the AFSL.	Any reputational risks are yours to manage. You will handle complaints or issues through your own dispute resolution process.
Licensee may provide support services as part of licensing fee/ arrangement, including advice technology, business management services, marketing, insurances, education etc.	Your business is responsible for arranging professional indemnity insurance and financial audit, plus support services.



Making a decision: 5 key considerations

1. Have you identified strengths and opportunities within your business that support your case for transitioning to an AFSL? What are the weaknesses and challenges that would hold you back if you were to choose this path?
2. Does your working culture and value proposition align with the core activities and obligations of an AFSL holder? Or does it make sense for your business to maintain a focus on client service and outsource some of your risk, compliance and administration functions to a licensee?
3. Do you have the skills, competencies and experience among your staff needed to manage your AFSL processes and responsibilities? If not, how would you go about securing these skills, through training, recruitment or outsourcing for example?
4. Are you and your team ready to identify and work with suitable third-party suppliers for the technology, products and other services needed to support you as an AFSL holder?
5. Do you have access to peers and support networks who can provide you with guidance, mentoring and advice to help you in making the most of an AFSL for your business and client services?



Where to go for additional information and support

Exiting from current arrangements with your licensee or dealergroup can bring more freedom and control to your business. But you'll also be stepping away from existing support services and peer networks. Building your relationships with service providers and other advisers operating under an AFSL can support a successful and sustainable transition for your practice. Speaking with other practices who have taken this path may help you identify best-practice providers for services and technology as well as tips for embedding new responsibilities and routines in your business.

Service providers

There are many areas where you might need support and finding the right partner could make a big difference to the success of your business. Drawing on professionals who can advise you will allow you to continue focussing on running your business and delivering services to clients.

Depending on the strengths and competencies of your business you may need support for:

- AFSL application
- Governance and compliance support
- Transitioning from your existing licensee
- Professional development
- Advice software
- Revenue collection/payment systems
- Adviser File Audits

- Financial audit of the licence
- Professional indemnity insurance
- Research
- Legal advice



The right partnerships and peer community can bring practices up the curve quickly, in both their attitude and their actions, to assist in making critical changes in their team and processes to deliver on their AFSL responsibilities.”

Brian Pollock, National Manager, Corporate Governance, BT Principals' Community

BT Principals' Community offers access to a range of services including peer learning from a community of like-minded businesses, governance support, ongoing professional development and networking events.

You also get access to negotiated pricing from a range of third-party service providers such as advice software companies, research houses and education providers.

Peer support from the adviser community

If your practice identifies moving to an AFSL as an important part of your business strategy and value proposition, the changes before you are significant. Learning from advisers who have travelled this path can help you make the most of opportunities and prepare for the challenges.

BT's Principals' Community is a community of successful self-licensed advice businesses. As well as access to our comprehensive AFSL transition support service, members also benefit from the extensive ongoing support for:

- Governance
- Education and engagement
- Advice and technical

“

To succeed in the rapidly changing world of financial services, you need to align yourself with the right partners; those who can provide support where it's needed, allowing you to focus on what you do best.”

Kon Costas, Head of BT Principals' Community



What's next?

You can speak with our BT Principals community team to find out more.

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