



The Money Managers Limited Policy Statement - Soft Dollar Incentives.

The Money Managers Ltd (TMML) prides itself on its ability to provide high quality advice to consumers of financial services. It is critical that the advice given is able to be relied upon and that it is not influenced by any third party incentives. There is a fiduciary relationship between the adviser and consumer and at all times TMML will abide by the Code of Ethics and Rules of Professional Conduct of the Financial Planning Association of Australia (FPA). The Founder of TMML, Kevin Bailey CFP was involved in drafting and implementing these rules. Rule 106 specifically states that a member must disclose in writing all remuneration, fees, commissions or any other pecuniary or non pecuniary benefit in dollar terms where practicable.

On 10th June 2004, the Australian Securities and Investments Commission (ASIC) released a research report titled "Disclosure of Soft Dollar Benefits" that examines current industry practice in relation to legal requirements and conduct after the introduction of the Financial Services Act in March 2004. A key principle of the Corporations Act is that consumers must be in a position to decide whether to rely on advice. Consumers need to know if an adviser has the potential for a conflict of interest. The Act assumes that consumers want to know how much they are paying for advice (both directly and indirectly). The term 'soft dollar' covers any benefit received by a financial planning firm or its representatives or associates, other than a basic cash commission or a direct client fee.

It is the Policy of TMML to operate on a fee for service basis so as to align the interests of the firm with those of the investor. The ASIC research report in June 2004 identified eleven kinds of benefits that are being paid within the financial services sector that have the potential to create a conflict of interest. TMML's policy on each of these benefits is detailed in this Policy Statement.

- 1. Free or subsidized business equipment or services, such as computers, financial software, and industry association membership fees.** Some suppliers and advice licensees offer a range of free or subsidised services or office supplies to advisers who meet sales volume targets. TMML has a policy of not accepting free services as they have the potential to compromise our independence. All of our authorised representatives are paid a salary and bonus based on criteria relating to qualifications, experience and the level of business sourced by that representative.
- 2. Hospitality, such as tickets to sporting events.** Many suppliers provide a range of hospitality and gifts ranging from a bottle of wine at Christmas or a business lunch to invitations to a corporate box for the AFL Grand Final or tickets to the Olympics. Some individual benefits are worth up to \$5000 per adviser and

are used as part of a relationship building strategy to influence the adviser. It is the policy of TMML that none of its authorised representatives accept any corporate gifts or hospitality that would have the ability to influence advice. However, we recognise that in the course of doing business there is a need to attend functions and sometimes to meet over a meal in order to build relationships that can benefit our clients and our practice. To this end TMML has a policy of not accepting corporate gifts or hospitality if the dollar equivalent exceeds \$300 on any occasion.

- 3. Adviser conferences.** Product providers organise a wide range of adviser conferences. These range from short educational events to reward focused luxury international events. ASIC has categorized conferences into the following three types;

 - a). Open educational and non-subsidised events that are for education and training where the adviser pays the cost. These are not seen to be soft dollar incentives and it is the policy of TMML to encourage our advisers to participate in educational conferences.
 - b). Luxury international or resort based conferences that are part of adviser incentive schemes. The cost per adviser ranges from \$7000 to \$24000 per adviser and are invitation only based on volume of revenue or sales generated for the institution. Often spouses are invited based on performance of sales targets and luxury extensions are offered for 'elite' salespeople. 'Top earner' conferences are a key cultural tool for sales driven organisations to motivate and retain top revenue earners. These incentive trips have a clear potential to create bias and must be disclosed. It is the policy of TMML to prohibit our advisers from accepting invitations to incentive based luxury conferences.
 - c). Events with a modest subsidy that are typically two thirds business content and one third leisure. Costs per adviser are typically \$2000 to \$5000 and are partially subsidized by product providers. Many licensees require contributions of \$20,000 or more from product providers towards the total cost with the implication that they will not be recommended unless they comply. These subsidies can influence advice and should also be disclosed. It is TMML's policy not to receive subsidies or to request contributions to any training conferences we are involved in.
- 4. A higher share of commissions paid to an adviser.** Most retail product providers make commission payments to advisers. These commissions are usually shared between the licensee and adviser. In some firms top salespeople are entitled to a larger share of the commission. It is the policy of TMML to rebate all commissions received and to be remunerated on a fee for service basis in preference to commissions. In most cases further cost savings can be made for investors by using lower cost, non-commission products and achieving wholesale access to markets whenever possible.
- 5. Higher commission rates based on volume.** A volume bonus (or override) is where a higher rate of commission is paid for certain volume levels with a product. TMML rebates any commissions that may be received back to clients where they are paying a fee for service.
- 6. 'Marketing support' payments.** In some agricultural schemes, so called 'marketing support' may increase commission from 5% to 10% or even 15% of funds invested. ASIC considers that the term 'marketing support' can be

misleading in some circumstances. TMML has a policy of not receiving marketing support from any suppliers due to the conflict it creates.

- 7. Shares (or options) in the product provider or advice licensee.** Advisers can be rewarded for meeting specific sales volumes with free or discounted shares or options in the fund manager, platform provider or advice licensee. TMML is wholly owned by the directors or related parties of the directors and does not offer shares or options based on placement criteria. TMML is an IDPS (Investor Directed Portfolio Service) operator and runs its own administration service to more efficiently service clients needs. We have developed relationships with a group of boutique advisory practices to provide a low cost administration service which provides greater economies of scale and cost benefits. We are currently contracting BTPS to provide back office wrap account functions for this service. TMML is able to on sell these services to other advisers including DKN which is a listed company in which TMML has shares. Under existing contracts effective from 1 July 2004, there is no link between the placement of TMML client funds and entitlement to shares in DKN as we feel this would compromise our independence and create a potential for conflict of interest.
- 8. Buyer of last resort agreements.** Some advice licensees offer their advisers a buyer of last resort agreement to guarantee the adviser a minimum sale value for their practice based on the recurring revenue being generated. The multiple of earnings is usually higher for using 'in-house' products and can therefore influence recommendations. TMML has not in the past and will not in the future participate in any of these arrangements.
- 9. Cash sponsorship of licensee's adviser conference.** A widespread practice has emerged of advice licensees seeking 'sponsorship' payments from fund managers and platform providers that are used by the representatives of the licensee. A large licensee may raise up to \$500,000 from 20 sponsors (\$15,000 to \$20,000 each). For one licensee observed by ASIC, the sponsorship money exceeded the direct cost of the conference. Conference sessions and written programs often include requests for advisers to support the conference sponsors with their clients' money. A likely consumer question is: 'Has this brand been included in the preferred product list because it is one of the best, or is it an average brand that was prepared to pay sponsorship money?' Sponsorship creates a very real potential for conflict of interest and therefore TMML is not prepared to be involved in any way.
- 10. Loans.** ASIC has observed that several advice licensees have received loans from product providers. These loans often have subsidised interest rates or variations in the interest rate dependant on the level of funds under management with the product provider. A significant loan, interest subsidy or loan guarantee from a product provider is a benefit that must be disclosed. TMML has no such loan arrangements with any product provider.
- 11. 'Fee rebate' or profit sharing arrangements.** There exist a number of fee-sharing arrangements between entities involved in advice and funds management. These are often described as fee rebates. An example of this is where a fund manager pays a fee rebate to a platform provider. The policy of TMML is to pass this rebate on to the client if it is able to be negotiated. Another

example is where the contract with a service supplier allows for a rebate of the fees charged to the licensee based on volume of business transacted. TMML owns and operates its own IDPS and is able to negotiate better rates and reduced fees with its suppliers than many competitors due to its collective buying power through the arrangements with other boutique licensees. As a result TMML is able to offer more competitive fees for its services and any rebates negotiated are able to be passed on to consumers via direct rebates or reduced charges. There have been some rebates that have been negotiated that are difficult to apportion to individual client accounts. Where this is the case a separate account has been opened that collects these amounts and each year these funds are given to Charity as a donation. It is the policy of TMML to source the most appropriate investments in the most cost effective manner and we have opposed fund managers being charged 'shelf space' to appear on platform menus. This is a fee similar to the fees supermarkets charge suppliers to put their stock in high profile shelf positions.

Financial Planners are in a unique position as gate-keepers between consumers and managed funds. To some extent, fund managers are competing to attract advisers to their products rather than purely competing to offer the best benefit to the end customer. Most basic commissions and soft dollar benefits come indirectly from higher fees charged to consumers in order to create incentives for financial planning firms that have the capacity to influence advice. ASIC recognises that the exception is where funds pay no commissions or soft dollar benefits and advisers are paid by their clients on a fee-for-service basis.

For this reason TMML has a policy of operating on a fee-for-service model. The law doesn't prohibit soft dollar arrangements or commissions and incentives but it does demand full and proper disclosure of these benefits. It is the view of TMML that a far more appropriate and professional way to operate in the provision of advice is where the payments are in the control of the consumer under a 'terms of business' contract.