

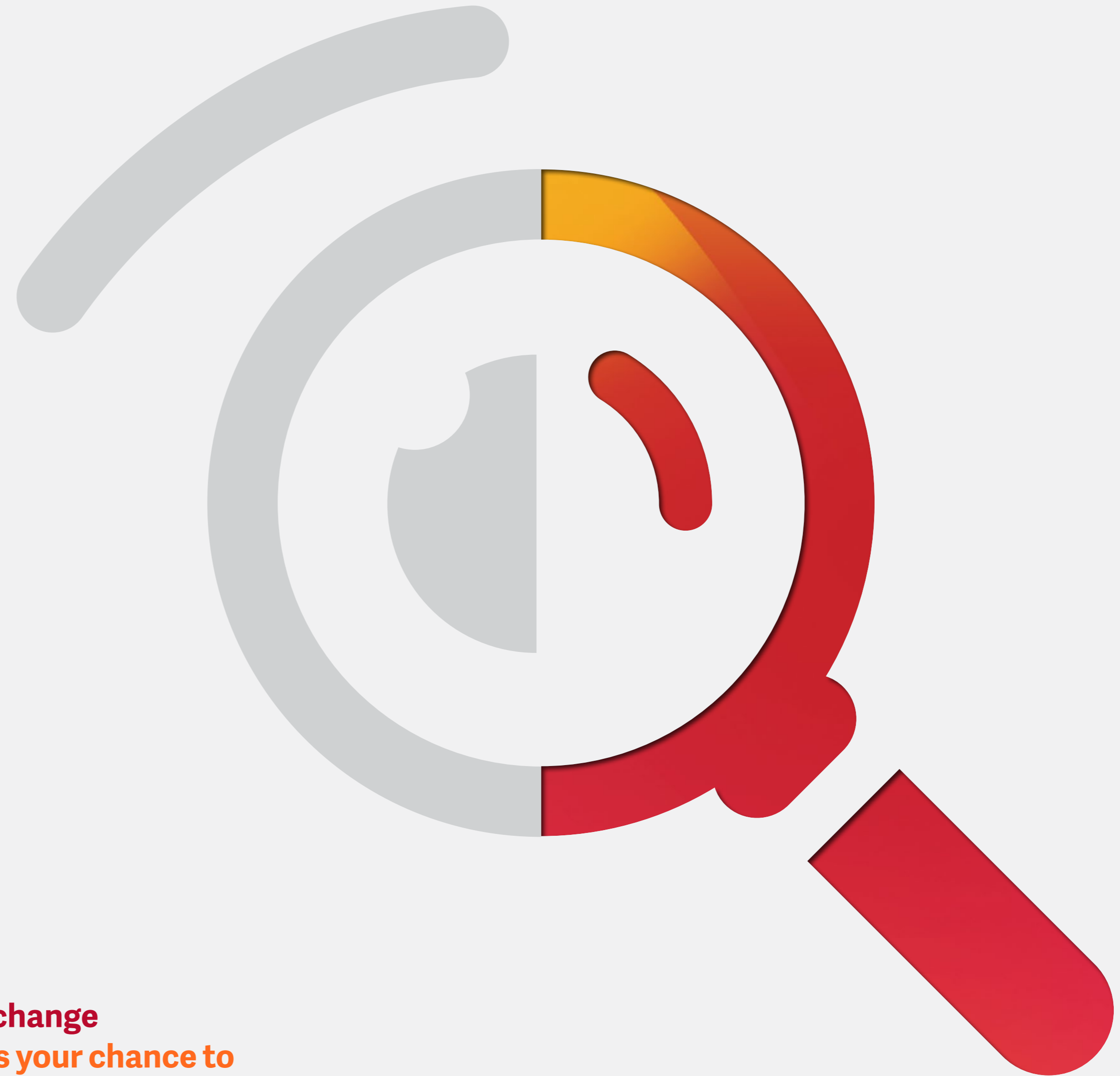
Your own AFS licence – what you need to know

Anticipate the benefits of establishing your own AFSL.

Appreciate the challenges, risks and costs that come with having your own AFSL.

Find out what you need to do to apply for your own AFSL.

Learn how to manage your AFSL once you have it.



With change
comes your chance to
explore new perspectives.

Your own AFS licence – what you need to know

Contents

Introduction

- 03** A big decision
 - 05** The benefits and challenges of self-licensing
 - 08** How to apply for your AFSL
 - 11** How to manage your AFSL
-

Conclusion

- 15** Building your professional community
 - 16** About Netwealth
-

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Introduction

A big decision

The number of financial advice businesses obtaining their own Australian Financial Services Licence (AFSL) is growing. These include large, multi-adviser entities, an increasing number of smaller, boutique firms and even single-adviser licensees.

With some upheaval in the advice profession in recent years – including implementation of the Future of Financial Advice (FOFA) reforms and the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry – many advisers now feel they need to decide whether they should remain with their current

dealer group, move to a different dealer group, or obtain their own AFSL.

Adviser Ratings' ongoing research into the financial advice industry continues to shed light on trends. In its *2018 Australian Financial Advice Landscape* report (published in March 2018), Adviser Ratings specifically observed that the increase in the number of AFSLs granted by the Australian Securities and Investments Commission (ASIC) has far outweighed the growth in adviser numbers.

The number of AFSLs granted by ASIC grew by 32% (1,333 to 1,752) between 2015 and 2017, while



Introduction

total adviser numbers grew by only 10% (22,612 to 24,777) in the same period.

Investment Trends research director, Recep Peker, says the trend towards self-licensing is accelerating.

According to Peker, 20% of financial advisers have indicated they are already self-licensed or are under a boutique AFSL, with another 8% saying they would like to obtain their own AFSL in the near future.

If you believe having your own AFSL for your business could be the right move for you, it pays to carefully weigh the pros and cons before submitting your application. Becoming a licensee is a big decision that involves many additional responsibilities. It's

therefore worth considering all the relevant facts.

Before taking the plunge you might ask yourself, for example, whether becoming a licensee will:

- Enable you to better serve your clients?
- Be cost-effective in the short term and profitable in the long term?
- Increase or decrease risks to your business?
- Enable you to specialise in the type of financial advice for which you are most qualified?
- Ensure the long-term sustainability of your business?
- Enable you to fulfil your desired personal, professional and financial destiny?



Becoming a licensee is a big decision that involves many additional responsibilities. It's therefore worth considering all the relevant facts.

This guide is designed to help you with your decision. It outlines the benefits and challenges of self-licensing for financial advisers. It describes the application process. It also offers suggestions on how to manage your AFSL once you have it.

The benefits and challenges of self-licensing

Obtaining an AFSL is the right decision for many advisers and can provide potential benefits, such as:

- Increased control over the direction, operations, culture and reputation of your business
- Greater flexibility and choice (particularly in terms of product recommendations, platforms, systems, advice templates and support services)
- Freedom from dealer group restrictions
- Reduced compliance risks (due to not always having to follow dealer group directives)
- Improved outcomes for clients
- Increased business revenue and profit.

These are all, of course, possible benefits only and are by no means guaranteed. As with most things, the rewards you derive from self-licensing tend to be in direct proportion to the amount of effort you put in.

Sónia Cruz, head of licensing at The Fold Legal, believes many advisers are attracted to having their own AFSL due to the greater sense of control it can offer.

“The main benefit is that it gives you full control over how you present your value proposition to clients,” Cruz says. “Sometimes, when you’re an authorised representative and part of a big dealer group, there are a lot of rules and regulations around how you can provide your services and what you can and can’t do.”



“The main benefit is that it gives you full control over how you present your value proposition to clients” says Sónia Cruz.

She also identifies potentially simpler compliance processes as another attraction.

“Over the past 10 years, I’ve dealt with many financial advisers moving from some of the bigger dealer groups into developing their own practice,” Cruz says.

“When it comes to things like compliance, they discover how much simpler it is managing it on their own, as opposed to relying on a big dealer group – because big dealer groups will have so many rules and processes you have to follow. Because their monitoring and supervision is on such a large scale, they have to do it that way.

“In a small practice, with only two or three advisers and your own licence, you can simplify things significantly.”

The benefits and challenges of self-licensing

The challenges

Just as self-licensing comes with many potential benefits, it can also present additional challenges, costs and risks.

These include:

- Paying the initial and ongoing licence costs
- Establishing systems for managing compliance obligations
- Keeping up with regulatory change
- Researching investment products and developing your own approved product list (APL)
- Finding the time to handle the additional administration and maintenance tasks required
- Undertaking any required staff training, monitoring and management

- Maintaining relevant registers
- Producing new client documentation and client-interaction reporting processes
- Handling the personal stress of the additional responsibility that comes with self-licensing.

If you're currently with a large dealer group, it may already support many aspects of running an advice business. When you have your own AFSL, you'll need to handle these yourself or find a new, outsourced solution.

Geoff Rimmer, founding partner of GreenZone (a consultancy firm that helps advisory businesses transition from a vertically-integrated model to what he calls the 'green zone' – a conflict-free advice model), draws an analogy between an adviser who obtains an AFSL and an investor who sets up a self-managed superannuation fund (SMSF).



Just as self-licensing comes with many potential benefits, it can also present additional challenges, costs and risks.

"With an SMSF, the investor is the trustee and believes they have a lot of freedom to make interesting investments, gear into property and that type of thing. They also have a number of obligations, challenges and traps to consider," Rimmer says.

"Likewise, if you're a good adviser and want to spend as much of your time in front of your clients as possible, rather than growing your business, then maybe your own licence is not for you. You should join a dealer group where you're happy to forgo some control, because you have someone else worrying about fulfilling the many obligations of a licensee.

"If, however, you want to have complete control over the value proposition and, in particular, the approved product list, then you have to get your own licence."

The benefits and challenges of self-licensing

The right decision for the right advisers

The decision to apply for your own AFSL depends primarily on the type of person you are and the type of business you operate.

Steve Murray, managing director of Catalyst Compliance (a niche provider of compliance and back office services to AFS licensees), suggests this relates largely to skill sets.

“It all comes back to the skill set of each person, and whether they’re capable of doing it,” Murray says.

“Many advisers are with licensees and believe they can do it better. But when they get out there and have to make the decisions themselves, they’re not necessarily that good at it.

“This varies, obviously. Some of them have the skill set and others haven’t. In many cases they don’t know until they get there. That’s a risk they take.

“For some people, it’s just not suited to them to have that control. They’re better off not having to worry about all the extraneous things you have to worry about once you take on the responsibility of running your own licence. With other people, it’s not a problem – it’s relatively straightforward. They’re like a duck to water.”

Sónia Cruz argues that temperament is an important issue, and that managing an AFSL is probably not the best decision for risk-averse or undisciplined advisers.

“If you’re running the whole show, you have to be very disciplined and keep on top of things,” Cruz says. “It’s not like you can rely on somebody else to feed through what you need to keep up to date with, because you’re ultimately responsible for the business and the licence. If you don’t want to take on that risk, then it is really not for you.



If you’re running the whole show, you have to be very disciplined and keep on top of things.

“While it’s a huge benefit to be able to run the show yourself, it’s also a hindrance for some people who like to focus purely on just the advice and the relationship with the clients and developing strategies and things like that. They don’t want to be thinking about having to run a business, keeping up with compliance, and other administrative tasks.

“It depends on your focus. Some people don’t like that additional element, so operating as an authorised representative is ideal for them.”

How to apply for your AFSL

To apply for your AFSL, visit the relevant page on the [ASIC website](#). This is where you'll find most of the information you'll need, including the AFS Licensing Kit.

The application process can be challenging in terms of the amount of time it takes and the level of bureaucracy you may encounter. Most advisers who apply for an AFSL engage a specialist compliance consultant to help them. This can save you considerable time and effort, so it's worth researching and comparing the credentials of different service providers.

Before you apply

Even before you get to this stage, however, you should review your vision for your business, your professional future and your personal lifestyle.

You need to clearly anticipate how you propose to operate an effective, profitable practice as a licensee, while delivering outstanding value to your clients. You should also consult with your spouse and other family members, as your business transition may affect them. Obtaining an AFSL can be exciting, but the process also carries risks, which you and the people closest to you need to be comfortable with.

It's then worth considering the following questions:

- When do you plan to make the transition? (It's good to have a specific date to aim towards)
- Who will be with you in the licensee business? (Will obtaining an AFSL require any change to your business'



The application process can be challenging in terms of the amount of time it takes and the level of bureaucracy you may encounter.

staffing? Do you have the internal and external expertise available to transition effectively? Can you recruit people with the right expertise to serve on an advisory board for your business?)

- What level of professional indemnity insurance will you require?
- Will you have the right technology in place to support the licensee business?
- Will you have adequate access to high-quality investment research (enabling you to provide the most appropriate product and strategy recommendations to your clients)?
- Will you have a rigorous governance framework in place?

How to apply for your AFSL

Steve Murray insists that you should think through your business plan in detail before you even consider obtaining a licence.

“Many people think licensing is just submitting an application with ASIC and away they go,” Murray says. “In fact, they need to first ask, ‘What’s our service offering?’, ‘How are we going to do this?’, ‘How’s the business going to work?’, ‘Who’s going to be involved?’

“If there’s going to be a number of advisers, for example, it gets complicated with monitoring and supervision. If the business is just two people operating out of the same office – and they’ve worked together for years and implicitly trust one another – it’s much easier.

“A lot of advisers go down the path of self-licensing because they

believe they’ll make more money out of it, and that’s potentially correct. Inevitably, however, many of them have never really considered how much a licensee does in the background before they get there. It’s always a surprise to them.”

Leaving your dealer group

You will also need to negotiate your departure from your current dealer group. This will involve ensuring that you are not in breach of contract terms and conditions, and reaching an agreement on ownership of client accounts and referrer arrangements.

Be as open and transparent as you can with the dealer group management and document your severance agreement in as much detail as possible.

At the end of the day, it will be your clients’ decision as to whether they

follow you to your new business entity or prefer to stay with your (now) former dealer group. It’s therefore essential that you keep your communication with clients as open, honest and positive as possible.

The application process

You can apply for your AFSL online, using ASIC’s ‘eLicensing’ system, which tailors the application to your business.

Table 1 outlines the key steps involved in applying for an AFSL.

As explained on its website, ASIC will assess your application by considering whether you are competent to carry on the kind of business you specify, have sufficient resources to operate the business, and can meet all other licence obligations, such as training, compliance, insurance and dispute resolution. You will need to demonstrate these with documented proof.

Table 1 – The AFSL application process

- | | |
|--|---|
| <ol style="list-style-type: none"> 1. Applicant completes online application, using ASIC FS01 form, and is required to provide: • ‘Core proofs’ (including business description, organisational competence proof, people proofs for each responsible manager, financial statements and financial resources procedures) • ‘Complex product proofs’ (for complex products such as derivatives, FX, custody and crowdsourced funding) and ‘Part C proof’ (to demonstrate capacity to provide services in relation to these products) • ‘Additional proofs’ (demonstrating procedures to manage representatives, training, resource adequacy, product research, dispute resolution, | <ol style="list-style-type: none"> compliance, risk management or compensation arrangements). 2. Applicant lodges online application, core proofs and any Part C proof together – with application fee (ranging from \$2,233 to \$7,537, including GST, or more for paper-based applications). 3. ASIC assesses business risk and complexity, and may ask for additional proofs or further information. 4. Once ASIC is satisfied, it will issue a draft AFSL. 5. Applicant must then provide information about professional indemnity insurance. 6. When applicant accepts licence conditions, ASIC grants final AFSL. |
|--|---|

Source: Summarised from The Fold Legal, ‘Australian Financial Services Licensing’.

How to apply for your AFSL

Timing

From beginning to end, the process of applying for your AFSL will generally take at least a month, but probably much longer, depending mostly on how prepared you are before you apply.

You will need to provide a detailed description of your business, including a comprehensive account of your experience, skills and resources, along with business references, financial records and evidence that you can obtain adequate professional indemnity insurance cover.

The processing time for an AFSL depends on a number of variables relating to the quality of the application.

The application process requires an investment of time at the beginning to position your case, prepare all the proofs and get all the documents together.

ASIC issued a guidance paper in November 2017 saying they endeavour to get 70% of applications done within five months and 90% within eight months.

Initial costs

While the revenue you can generate from obtaining an AFSL is potentially higher than the income you earn with a dealer group, so are the initial costs.

In a *Professional Planner* article in October 2017, Fortnum Financial Group founder Ray Miles is quoted as saying the cost of obtaining an AFSL can be around \$25,000 (including pre-assessments and paperwork, compliance manuals and anti-money laundering requirements) and that establishing an advice framework can cost another \$25,000. Professional indemnity insurance might cost an additional \$30,000 or more.

You'll need to ensure you can cover costs (as itemised in Table 2) before you even consider applying.

Table 2 – Elements to be costed when establishing an AFSL

The following list shows the elements that need to be costed in the process of establishing an AFSL:

1. Application:

- ASIC application
- Provision of proofs and policies to ASIC
- Legal advice (in relation to all agreements, including CAR, AR etc)
- Anti-money laundering and counter-terrorism financing procedures – including a template risk register to consider these risks posed by services to customers, service delivery methods and jurisdictions dealt with
- AFS licensee fee

2. Building advice framework:

- Advice complier and text
- Documentation (SOA, ROA, fact-find)
- Disclosure (FSG/FDS)

3. Technology:

- Advice integration
- Workflow
- Administration

4. Governance:

- Establishment and implementation of policies and templates
- Compliance

5. Approved product list:

- External consultant to build investment APL and model portfolios
- Investment research
- External consultant to build risk APL
- Risk research

6. Insurance:

- Professional indemnity insurance
- Cyber-fraud insurance
- D&O insurance.

Source: GreenZone, <https://greenzone.com.au/>.

How to manage your AFSL

Having your own AFSL for your financial advice business involves additional time-consuming responsibilities in terms of administration, risk management and compliance.

To meet ASIC's requirements, you'll need to train and manage the responsible managers in your business, maintain an appropriate level of professional indemnity insurance, stay up to date with legislative and regulatory changes, and ensure you are always compliant.

You will also require access to fund research and industry specialists, relevant tools and templates, and state-of-the-art technology solutions. All this, while maintaining a high quality of advice to clients.

That's why having a clear vision for your business, including any systems and processes you should implement, is essential.

Outsourcing

You will also need to acknowledge that you cannot do everything yourself. Some outsourcing will be necessary in areas such as strategy, governance, technology, compliance, research, education, technical services and documentation.

There are many experienced professionals (specialists in handling the issues you face) that you can call on for external advice. At the very least, it's a worthwhile idea to establish an advisory board for your business, ideally comprising people who have previous experience in AFSL

management. It's also worth becoming more involved in your professional association of choice.

Steve Murray suggests the tasks you outsource depend on the skill sets you possess in-house and those you lack.

"The things I'd be outsourcing would be legal advice and accounting," Murray says. "Clearly, licensees need to appoint an external auditor anyway for their end-of-year financials for ASIC. Depending on skill set, they might look at external compliance support and research. They might also use an external software system like Xplan or Coin. And IT support.

"Nine times out of 10, new licensees will try to replicate what they have with their current licensee. If they're using Xplan, they'll probably stick with Xplan, because there's no change. They just need a new log-in and everything can be transferred across. If they're using Morningstar for research, they'll probably continue because they're used to it."



Nine times out of 10, new licensees will try to replicate what they have with their current licensee.

How to manage your AFSL

Compliance

In terms of ongoing compliance, you will need to:

- Develop and maintain an up-to-date compliance manual
- Provide transitioning clients with new statements of advice (SOAs)
- Ensure all recommended investment products and strategies are appropriate to client needs (and are in the clients' 'best interests' at all times)
- Facilitate frequent compliance checks (along with regular external audits)
- Train staff and monitor adherence to compliance systems and standards, and
- Maintain a register of breaches and complaints.

While all this may seem intimidating, it is achievable with the right external support, rigorous internal processes and a positive business culture.

Sónia Cruz maintains that licensees should ensure they have an appropriate system in place to help them comply with their obligations, because there are a number of things they need to check off periodically.

"It's important to develop a process that is suitable for the size, scale and complexity of your business," Cruz says. "For example, if you're setting up a licence and there are only two advisers and two support staff, there's no point in setting up a compliance committee.

"That's just inconsistent with the size and scale of your business. You need to focus more on what your business is going to look like, as opposed to what

other people are doing, because they might have different structures."

Ongoing costs

The ongoing costs of being a licensee depend, to an extent, on how many advisers are part of your business.

These ongoing costs include public indemnity insurance, external dispute resolution (EDR) membership through the Australian Financial Complaints Authority (AFCA), compliance support, external audits (a significant cost per adviser), technology (software, systems and support) and research.

It is generally more expensive to have your own AFSL in the first year than to be part of a dealer group, because of the many soft costs involved. Self-licensing can, however, be more cost-effective in subsequent years.



"It's important to develop a process that is suitable for the size, scale and complexity of your business" says Sónia Cruz.

How to manage your AFSL

Table 3 – Costs of AFSL ongoing management

The following list shows the possible tasks you should consider costing in the ongoing management of your AFSL:

Tasks	Mandatory	Best practice	Optional	One-off
AFSL board				
Independent chair		✓		
External responsible managers			✓	
Responsible manager – CPD points	✓			
Business supervision		✓		
Meeting costs			✓	
Compliance				
Risk and compliance committee – independent chair		✓		
AFSL annual audit		✓		
Authorised rep audit		✓		
Compliance manual and policies maintenance		✓		
Issuing a proper authority		✓		✓
Cancelling a proper authority		✓		✓
Bespoke advice framework		✓		
Third-party supplier agreements – maintenance	✓			
Client complaint handling		✓		✓
ASIC enquiries/responses		✓		✓
Ongoing legal support	✓			✓
Technical support	✓			
EDR membership	✓			
TPB	✓			
ASIC levy	✓			
ASIC annual lodgement fee	✓			
Annual accounts to ASIC via accountants	✓			
Annual audit via accountants	✓			
Investment and insurance committee				
External consultant/chair to maintain investment APL and model portfolios		✓		
Investment research		✓		

Year one often involves a transition process and set-up of new administration processes.

In year two, you will already have the framework in place. After that, it's 'rinse and repeat'.

Table 3 provides a comprehensive list of potentially outsourced tasks that may need to be costed in your ongoing management of your AFSL.

You will need to assess each of these costs in relation to the scale of your business and your budget (including projected revenue) to determine whether you will financially struggle or thrive as a licensee.



How to manage your AFSL

Table 3 – Costs of AFSL ongoing management (cont)

The following list shows the possible tasks you should consider costing in the ongoing management of your AFSL:

Tasks	Mandatory	Best practice	Optional	One-off
Portfolio construction support		✓		
External consultant to build risk APL		✓		
Risk research		✓		
Insurance claim disputes		✓		
Investment management				
Independent chair		✓		
External consultants		✓		
Technology				
Hosted Xplan site		✓		
Xplan licensing and support		✓		
Revenue fee processing/support		✓		
Professional indemnity insurance				
Preparation for PI reviews and tender process	✓			
PI insurance costs	✓			
Business management				
Market intelligence		✓		
Business coaching		✓		
Client Marketing				
- Newsletters			✓	
- Social media			✓	
- Lead generation			✓	
Staff management				
Professional development days	✓			
Conferences			✓	
CPD monitoring	✓			
HR manuals and support			✓	
Employment contracts			✓	
Ongoing employment support			✓	
Other				
Moving advice risk onto your balance sheet				✓



“In year one, it is generally more expensive to have your own AFSL than to be part of a dealer group, because of the many soft costs involved. Self-licensing can, however, be more cost-effective in subsequent years,” says Ryan Goodfellow.



Conclusion

Building your professional community

If freedom, independence and control are high on your personal and professional values list, then self-licensing could be the right move for you. If you're prepared to put in the time and effort required, you are likely to succeed.

"I think it's certainly worthwhile exploring the idea of having an AFS licence as an option," says Sónia Cruz, "particularly if you're entrepreneurial and want to develop something outside the box and promote your own value propositions. It certainly gives you that control.

"I've worked with many clients over the years who have started off relatively small and now have a nice healthy practice, and they're very comfortable driving things themselves.

"There's also a huge network of support services out there, so you're not alone. If you need compliance, legal or consulting advice, whatever it may be, you always have access to those resources."

While having an AFSL offers a degree of freedom, you don't want to become so free and independent that you experience 'professional loneliness'.

To avoid this, it's worth thinking of your licensee business less as an autonomous entity and more as the hub of an engaged, integrated community – a community that includes your partners, staff, clients, advisory board members, external service suppliers, peers and even competitors.

When you're with a dealer group, this sense of community is likely to exist as a

matter of course, often promoted by the dealer group principals. When you are the licensee, you need to be proactive in building, and continually connecting with, your wider professional network.

It pays to surround yourself with a formal and informal community of high-quality professional experts in various disciplines. As you grow your licensee business, these people will be around to warn you of impending risks, inform you about potential opportunities, and help to keep you on track.



It's worth thinking of your licensee business less as an autonomous entity and more as the hub of an engaged, integrated community.

About Netwealth

We are a technology company, a superannuation fund, an administration business. Take advantage of Netwealth's robust and fully-featured platform that is both powerful and flexible enough to meet the evolving needs of your business and clients.



Rated Australia's #1 platform

Rated by Investment Trends as number 1 in overall satisfaction by users in 2013, 2014, 2015, 2016 and 2017, and rated number 1 by analysts as best overall platform in 2015, 2016 and 2017.



Technology

Access the latest technology and innovations. Our focus is on ease and efficiency, which means we give you and your clients enormous capabilities without the complexity.



Efficient administration

No matter how big or small your business, or what stage it's at, we give you the support you need to take the right steps forward. Our team makes running your business easier by providing support with regulatory changes, efficient direct equities handling and a timely turnaround on applications and liquid redemptions and tax reports.



Choice and flexibility

Netwealth has a solution for all the wealth needs of your clients. Whether they are looking for superannuation, SMSF administration, wrap accounts or insurance, we offer you and your clients real choice that can be tailored to match individual circumstances.



Support


Making sure your business runs smoothly and efficiently is as important to us as it is to you. That's why Netwealth offers a four-tier support system, so whenever you need help, training or guidance someone from our dedicated team will be there to help you.




Managed accounts

Not all managed account technology is equal. Enjoy the efficiency and scale benefits Netwealth's Managed Account can provide your business. And it is fully integrated with our super and wealth services.

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