



NEW ZEALAND FEDERATION OF
FAMILY BUDGETING SERVICES (INC.)
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5 August 2009

Ministry of Consumer Affairs
PO Box 1473
Wellington

**SUBMISSION: Financial Advisers Act 2008: Disclosure Regulations -
Discussion Document**

Background

The Federation is a collective of community organisations that share a common code of ethics, philosophy, and commitment to delivering free, high-quality budgeting advice to families/whanau and individuals in Aotearoa-New Zealand. The Federation has been incorporated since 1979 and has provided free budgeting advice as a collective for almost 50 years.

Snapshot

The Federation comprises a total of 149 members in various categories nation-wide. Member services provide budget advice from Kaitia to Invercargill and, including the West Coast, Great Barrier, and Waiheke Islands, provide coverage to most towns and cities in New Zealand. As of 30 July 2008, Federation personnel included 670 certificated budget advisers, 224 service coordinators and staff, 597 other volunteers, 17 Federation tutors and 193 trainee advisers. In the 12 months to 30 July 2008, Federation services fielded over 293,000 enquiries, worked with more than 29,000 client families, and delivered almost 500 community education programmes.

It is from this depth of community knowledge and experience in the consumer finance sector that the Federation makes the following submission.

Introduction

1. Thank you for providing the community with the opportunity of providing feedback on the discussion document. The Federation, on the whole, endorses the proposed approach in the document and would like to offer the following amendments for consideration:

Submission

1. Question One

The Federation agrees that there may be times when disclosure could be made after the advice has been given. These situations, however, should only be for extenuating circumstances and these situations should be spelled out by the Ministry. Simply because advice is being given over the phone should not be a reason to not make disclosure (unless there is a matter of urgency).

2. Question Two

The Federation agrees with all of the questions under Question Two. The more standardised disclosure statements are made the easier it will be for all consumers to understand.

The Federation also believes that an 'obligations' category should be added to those prescribed that ensures a Financial Adviser discloses their, and their organisation's, obligations under their particular dispute resolution scheme.

3. Question Three

The Federation agrees that a guiding statement should be required in the disclosure statement and that the wording of this statement should be mandated by the Ministry. The more standardised the disclosure statements are made the better it will be for consumers

4. Question Five

Again, the Federation agrees with all aspects of Question Five. The headings that form the basis of the disclosure statements must be mandated and the content standardised right across the industry.

In the Federation's experience the Ministry has tried to achieve this standardisation in Credit Contracts under the CCCF Act with mixed results. Many contracts still have different headings and varying content. Standardising and mandating disclosure headings may achieve a more consistent standard.

5. Question Six

The Federation agrees that the different classes of adviser need to be disclosed. Importantly, the classes and what differentiates them needs to be explained in very 'plain' English.

6. Question Eight

The fees and potential commissions section of the disclosure statement is, arguably, the most important component for consumers. The Federation prefers option 3 from those offered. All fees and commissions should be separated and written in a simple way that provides the consumer with a quick understanding of exactly what level of compensation the Financial Adviser will receive.

Also, the Federation agrees that, where an Adviser is not receiving any commission, they should be allowed to acknowledge this in the statement.

7. Question Ten

The Federation agrees that disclosing only those disciplinary actions taken by the Code Committee should be disclosed. Again, the 5 year period of disclosure is adequate but only if there is a procedure in place that allows the Code Committee to assess the Adviser before the requirement to disclose the action is removed.

8. Question Eleven and Twelve

The Federation agrees that disclosure of criminal convictions and adverse findings is unnecessary as long as the Securities Commission provides thorough and robust checks each year on all registered and authorised Advisers.

9. Question Thirteen

The Federation believes that Advisers should be required to disclose whether or not they hold indemnity insurance as it is important for consumers to know if their Adviser is covered.

10. Question Sixteen

The Federation believes that not only should category 2 Advisers be allowed to disclose at the same level as authorised at Advisers but rather that the Ministry mandates this.

The Federation is concerned that a category 2 Adviser can advise a client on different insurance options under a credit contract and not, under the prescribed regime, be required to disclose whether commissions are being earned by the Adviser for giving that advice.

Another example is a category 2 Adviser advising a client to purchase a loan consolidation product. The Adviser may only be making this suggestion based on the commission they will receive; the advice may even be contrary to what the consumer's actual needs are

There is little in the CCCF Act to protect clients from this type of advice and there appears to be nothing in the prescribed disclosure requirements to provide for this protection either.

Call to Action

The New Zealand Federation of Family Budgeting Services Inc thanks the Ministry for offering it the opportunity to make this submission on the Discussion Document.

The Federation asks the Ministry to carefully consider all of the points raised in this submission and incorporate the changes offered, where it finds appropriate, into its plans.

Yours sincerely

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