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Dear Mr Glenfield,

**RE: FASEA's CONSULTATION PAPER 3 – FINANCIAL ADVISER EXAMINATION**

The Financial Services Council ("FSC") is the peak industry body representing financial services businesses in Australia. We welcome the opportunity to make a submission to the Financial Adviser Standards and Ethics Authority ("FASEA").

The FSC has over 100 members representing Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks, licensed trustee companies and public trustees. The industry is responsible for investing more than \$3 trillion on behalf of 14.8 million Australians. The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange and is the third largest pool of managed funds in the world. The FSC promotes best practice for the financial services industry by setting mandatory Standards for its members and providing Guidance Notes to assist in operational efficiency.

Should you wish to discuss this submission further please do not hesitate to contact me on (02) 9299 3022.

Yours sincerely



**RONALD DE LA CUADRA**  
Policy Manager

## FASEA CONSULTATION PAPER 3: FINANCIAL ADVISER EXAMINATION

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## OPENING

The Financial Adviser Examination is an essential component in helping to assist the development of individuals into becoming proficient financial advisers with the capabilities of providing clients with professional advice.

FASEA has indicated that although the examination is not the sole test of a practitioner's competence, passing the exam is necessary for individuals to begin their Professional Year and provide personal financial advice to retail clients.

We consider that this position is inconsistent with the intent of the increased education reforms, and the Explanatory Memorandum to the Corporations Amendment (Professional Standards of Financial Advisers) Bill 2016, which supports individuals commencing their professional year prior to completing the exam. This is distinct from the Provisional Relevant Provider requirements whereby the exam must be completed before the provision of supervised advice.

We believe it is imperative for FASEA to address this issue. Without this, new entrants into the industry will not have the benefit of obtaining practical experience or the benefit of supervision before undertaking the exam.

The FSC's submission also sets out our concerns regarding the proposed content of the exam, particularly in circumstances where FASEA proposes that new advisers sit the exam before the professional year, in which case they will have little to no practical experience to assist them with completion of exam topics 3-5. We also have concerns regarding the exam length and have put forward a suggestion for how the exam can be structured with appropriate time for reading, benefit of support material that better reflects the way in which advice is provided and are supportive of reasonable exam duration.

Importantly, we also think it is critical that reading material and sample papers be provided to examinees to help prepare for the exam. Without this important reference material, individuals will limit their ability to properly prepare which will also limit their chance of success. Appropriate reading and learning materials are critical and we strongly recommend that FASEA provide this material.

We thank you for considering our feedback, which we have provided to assist FASEA to successfully implement the examination.

## PURPOSE OF THE EXAM

The last paragraph on page 2 notes that new entrants will be required to pass the exam before commencing their professional year. This position appears to be contrary to the position set out in the Explanatory Memorandum to the Corporations Amendment (Professional Standards of Financial Advisers) Bill 2016 (EM) which sets out in 2.28 and in example 2.5 that a person may undertake their professional year without having

completed their exam. That is, the person need not have completed the exam before completing their professional year.

In order to be authorised however, we note that a person must have completed a degree or higher qualification, and the exam, to be permitted to give advice during their professional year as a provisional relevant provider.

The Bill does not require an individual to be registered as a relevant provisional provider before commencing their professional year so long as they do not provide personal advice to retail clients. If this were the case, s922F(g) – the requirement to advise ASIC when an individual becomes a provisional relevant provider the day the individual began their professional year – would be redundant as it would be the same as the registration date.

New advisers should be permitted to commence their professional year prior to passing the exam (as permitted under the legislation). If this is not permitted, it will be unlikely that a new adviser will have a supervisor to assist them design a plan of study (as is suggested in the consultation paper). Prior to passing the exam, individuals could be involved in work and training that does not include the provision of personal advice to retail clients such as research, product and technical accreditations, Para planning, and preparing for the exam.

**Recommendation:** Consistent with the EM, new entrants and persons returning to the industry are permitted to commence their professional year prior to exam completion and commence work and training that does not include the provision of personal advice to retail clients.

#### EXAM SCOPE AND CURRICULUM

The following section outlines the FSC's feedback to questions 3.1-3.2.

The exam examines the following five areas:

1. Corporations Act (emphasis on Chapter 7 – financial services and markets)
2. The FASEA Code of Ethics
3. Behavioural Finance; Client and consumer behaviour, engagement and decision making
4. Financial Advice Construction – suitability of advice aligned to different consumer groups
5. Applied ethical and professional reasoning and communication

#### *Knowledge areas true to label*

The consultation paper proposes that preparatory material or courses will not be made available to examinees. For reasons set out further below we believe that course material should be provided to enable advisers to prepare for the exam. However, should FASEA choose not to provide any preparatory material, we note that the

language used to describe the knowledge areas needs to be precise to ensure individuals are able to target appropriate pre-study.

### **Topics 1-5**

We understand that the intention is for existing advisers and new advisers to be examined on these five topics. Topics 4 and 5 may present some difficulty for new entrants given that new advisers are unlikely to have a great deal of practical experience with financial advice construction strategies and experience applying knowledge can be limited.

This raises the question of whether the focus of these topics is to test technical knowledge or to assess the ethical approach to these topics (or it may involve assessment of both). Given that all advisers (both new and existing) will be required to demonstrate their technical competency by meeting new minimum education standards via various pathways, and meet ongoing requirements through continued professional development education, we do not consider that it is necessary or appropriate to test the technical knowledge via the exam.

We recommend that the exam content be limited to relevant legislative and regulatory requirements (such as relevant sections of Chapter 7 of the Corporations Act 2001, TASA, AML and CTF requirements) and ethical obligations common to all financial advice providers. We consider that focusing on compliance and ethics components is consistent with the legislative intent of the professional standards reforms and the primary purpose of the exam according to FASEA.

**Recommendation:** We recommend the exam content cover the statutory and ethical obligations common to financial advice, specifically the proposed components: i) Corporations Act, Chapter 7 – (Financial Services and markets) and legislation which entails obligations in the financial advice process (e.g. TASA, AML and CTF and common law fiduciary duties); and ii) The FASEA Code of Ethics.

### ***Exam Questions for New and Existing Advisers***

The exam questions should be set at a level commensurate with the knowledge and experience of both new and existing advisers. This may involve setting a single question set appropriate for both cohorts or having two question sets, with a different question set for each cohort given the difference in technical and applied knowledge levels. If there are different question sets, the exam should recognise the knowledge areas new advisers have studied and been assessed on as part of their degree.

Referring to the Corporations Amendment (Professional Standards of Financial Advisers) Act 2017, the intent of the legislation is for a single exam to be set, irrespective of experience, education or specialisation. For consistency and to adhere to the intent of the legislation, a single exam should apply equally to both new entrants and existing advisers.

### ***Support Material***

Furthermore, we strongly support the inclusion of recommended reading material and sample exam style questions to assist advisers to prepare for the exam. Apart from new entrants, who are unlikely to have a great deal of financial advice construction experience, the exam will be completed by financial advisers who have a diverse background/as well as diverse professional focus. For example, there may be advisers who specialise in life insurance advice or self-managed superannuation fund advice.

There will also be a significant cohort of individuals who have not set exams for a long period of time, possibly many years or even decades, and who may be approaching the exam with reservation or a sense of trepidation. Support material including practice and sample exam questions and pre-reading will be of great assistance to these individuals and in fact all advisers, enabling people to better prepare for the exam.

**Recommendation:** To assist all advisers, we strongly recommend the establishment of recommended reading material and sample exam style questions.

### ***Topic 3 -5***

We consider that the components Behavioural Finance; Financial Advice Construction; and Applied ethical and professional reasoning and communication are better suited to a course of study, rather than an entrance exam, given their 'interpretational' context and practical nature. The legislative context of the Corporations Act (Chapter 7) and the FASEA Code of Ethics lends itself to clearly define 'correct' answers not subject to interpretation. Behavioural Finance theory may lend itself to 'correct' answers to specific questions, however which behavioural finance theory to apply to explain different examples of consumer behaviour is in itself subject to interpretation. Hence, the first two components above [Corporations Act (Chapter 7) and FASEA Code of Ethics] are best suited to an exam designed to test knowledge, particularly in a multiple choice format, which is explored later.

From a new entrants perspective, we are concerned with the inclusion of the components Behavioural Finance; Financial Advice Construction; and Applied ethical and professional reasoning and communication in the exam. We are concerned that new entrants will not have the professional experience nor professional context in order to competently and practically apply the theoretical learnings arising from these two topics. In short, the majority of new entrants will have had little real world experience nor professional 'context' in which to refer to when answering questions around Behavioural Finance; Financial Advice Construction; and applied ethical and professional reasoning and communication.

Given then the intent of the legislation is for a single exam to be set, by default, these components should not form part of the single exam to be set for both new entrants and existing advisers.

**Recommendation:** We recommend a single exam should apply to new and existing advisers. Behavioural Finance; Financial Advice Construction; and Applied ethical and professional reasoning and communication should not be excluded by default as new entrants will not have had the professional experience nor professional context in order to competently and practically apply knowledge from these components.

If FASEA's proposal changes, such that new advisers can commence their professional year without having completed the exam first, then we would be supportive of the five content areas being included in the exam for all participants.

#### ***Topic 4 & 5***

Topic four includes assessing the suitability of advice to different consumer groups. We seek clarification on whether it is envisaged that this topic will include a technical component, as financial advice construction is implicitly technical in nature. Further, it appears that this topic may be poorly worded as it could be interpreted as encouraging "cookie cutter" advice that would not align with an adviser's best interest's duty. It may be that the focus of this topic is intended to be on Financial Advice Construction and the suitability of advice more generally, and if so, we would suggest relabelling the topic to remove confusion.

For example, it could be better described as "Identify suitability of advice strategies considering the different needs, objectives and circumstances of individuals". The exam should test an adviser's ability to scale and scope and determine the subject matter of advice.

Financial Advice Construction (assuming this is still within scope) and Applied ethical and professional reasoning and communication are better suited to a short answer/short essay style assessment based on case study analysis. With these two components, there are no exact 'right' or 'wrong' answers, however there are responses that sit along an ethical spectrum based on an individual's personal values, ethical compass and conscious adherence to a relevant professional code. There are many existing advisers who have completed ethics courses and certification programs with dedicated ethics modules (e.g. CFP, FChFP) who will attest there can be a range of responses to various ethical scenarios.

#### **EXAMINATION FORMAT**

It is proposed that the exam format includes selected response style questions as well as written response style questions, with a focus on case study style questions. The exam is intended to focus more on the application of knowledge to actual financial advice scenarios although also relying on a factual knowledge base.

We understand the exam is proposed to be a closed book exam, it would be helpful for the exam papers to include relevant reference material such as tax rates and

thresholds to better reflect real life practices which involves application of relevant legislation and tax rates for example.

### ***Exam Length and Duration***

The exam is proposed to consist of 75 questions, including written responses and to be between 3-4 hours duration.

We have concerns about the exam length and proposed timeframe. If you consider how much time an examinee has on average to answer 75 questions, the examinee will only have on average 2.4 minutes a question in a 3 hour exam or 3.2 minutes a question in a 4 hour exam. This is before the examinee takes the time required to read each question and digest the case studies. Given the exam requires written responses, a more suitable timeframe is required.

We are concerned that there are too many questions for the proposed exam duration, particularly in light of the exam focusing primarily on case studies which may take additional time to understand. Further, if the written response questions require lengthy answers, the exam times/or the number of questions included in the exam, should be amended accordingly.

Furthermore, we understand it is common for exams at AQF level 7, at undergraduate level to be three hours in length. In line with common practice, we recommend that the exam be limited to 3 hours in duration.

**Recommendation:** We recommend the exam be limited to 3 hours in duration, and that sufficient reading time is provided.

### ***Exam Format***

It is proposed that the exam consist of selected response style questions as well as written response style questions, with a focus on case study style questions.

In terms of whether this is an appropriate format, it is relevant to consider the context relating to exam completion;

- The volume of over 23,000 existing advisers required to sit the exam within a compressed 18 month period;
- The expected 'bottleneck' in the last quarter of calendar year 2020 as advisers will 'leave it to the last minute' to sit the exam (Note: procrastination is a well-recognised human condition not limited to financial advisers);
- Australia's large geographical footprint and potentially large distances to suitable 'supervised' exam venues in remote locations; and
- The availability of technology to deliver to deliver the exam efficiently.

Given the factors outlined above, a pure multiple-choice model is the most appropriate format to meet the purpose(s) of the exam. Whilst we acknowledge there are both



advantages and disadvantages with multiple-choice exams, the exam is only one component of the professional standards reform package. Given that all advisers will need to complete some form of mandated education to meet the new education standards, it is highly likely that these subjects will already incorporate assessment methods such as short answers and essays.

Delivering the exam in a multiple-choice format will alleviate the potential for bottlenecks, be easier to administer and be much more cost effective overall.

**Recommendation:** We recommend the exam be structured to be multiple choice format only. We recommend an even 50/50 split between Corporations Act (and related) questions and the FASEA Code of Ethics (and related [if applicable]) questions.

We understand that when lawyers sit the NSW Bar Exam the format includes: 30 minutes of reading time, the exam is divided into Part A and Part B with a short break between the two. Reading time is necessary to allow candidates enough time to read each case study and determine how much time to spend answering each question. We consider this to be a very pragmatic exam format approach and would be supportive of the Financial Adviser Exam adopting such a format.

We recommend that if the exam is more than 3 hours in duration (plus reading time), then the exam be split into two components of equal duration, and providing the adviser with the option to sit both components in the same sitting, or each component in separate sittings.

#### ***Proposed Pass Mark and Knowledge Areas***

Provided that appropriate support material, in the form of a recommended reading list and sample exam questions, and an appropriate timeframe is provided to enable advisers to complete the exam we are supportive of the proposed scaled pass mark and the different knowledge areas. This is particularly important where a higher threshold for a pass rate is included in the exam.

Scaling of results is commonly employed by higher education providers to ensure that irrespective of the group, only a certain number of individuals are deemed 'competent' in the examination. Given that the intent of the professional standards framework is to ensure that advisers are competent to provide compliant advice to consumers, all advisers should be given equal opportunity to demonstrate competency on a level playing field. Therefore, results should not be scaled.

**Recommendation:** We do not recommend the scaling of results.

#### ***Exam Results***

The consultation paper proposes a 4-6 period of time for providing examinees with exam results. This is quite a long period of time to await in circumstances where

advisers may be awaiting exam results so that they can plan to resit the exam if necessary.

Under current proposals advisers will have less than 18 months to complete the exam, with the exam expected to be available for new advisers from January 2019 until December 2020. Given the scale of advisers who need to sit the exam, and may require a resit, wherein they will lose time awaiting results, before arranging a resit and likely undertaking further exam preparation, it is important to keep the provision of exam results to a minimum.

In comparison, we note that it is common practice amongst higher education providers that exam results be made available 3-4 weeks after exam completion.

Therefore FASEA's estimate of between 4 and 6 weeks is unreasonable and below the current standard in the higher education sector. This delay in exam results publication can be avoided altogether if FASEA employ a multiple choice format, and chooses a specialist services provider that has the technology which is able to report exam results upon the completion of the exam.

We believe it is important for exam results to be made available no later than a 3-4 period and consider it important that the selection criteria for the Exam Provider includes the ability to provide exam results within this time period.

**Recommendation:** Exam results should be made available to examinees within a 3-4 week period.

### ***Publishing Results***

We note that the consultation paper is silent on whether exam results will be made public. We are supportive of publication meaning that exam results will be made available for individual advisers to check within the proposed time period, and does not mean that results will be made available on a public forum.

The ASIC FAR captures adviser's education, qualifications, experience, and licensee history (and in future which Code Monitoring Body they are registered with), so a "Complete/Not Complete" indicator is deemed an appropriate measure of disclosure. By an existing adviser remaining on the ASIC FAR from 1 January 2021, then by default they have passed the exam.

Further, we do not think it is appropriate nor necessary to publicise a person's individual exam result or how many times they have sat an exam.

### ***Licensees and Exam Results***

It may be necessary for FASEA to consider how a Licensee can be notified that their authorised representative has passed or failed an exam attempt. This will require the adviser to provide upfront consent (at the point of registering for the exam?).

## SITTING THE EXAM

The consultation paper proposes that individuals are able to resit the exam for a maximum of 2 resits. It also proposes that persons who are ill and satisfy special consideration requirements, are able to sit the exam at a later date which we understand would not count as a resit. It would be helpful if FASEA could confirm if this is the case.

Depending on how the exam is structured, for example Part A and Part B, will a person only need to resit the section of the exam which they have failed or would they resit the entire exam?

### *Maximum Resit*

The exam proposes a maximum of two resits. Does this enable a person to re-register and sit the exam, with further resits, at a later date, after having failed the exam previously on three occasions?

If a person is unable to register and sit the exam beyond the two resits, we have significant concerns as to the implications this has for existing and new advisers, who will be unable to practice in the industry going forwards if they have not successfully completed the exam. Whilst we would hope that the majority of advisers will be able to successfully complete the exam within 3 sittings, assuming the exam is set at the appropriate level and supported by relevant material, there may be a small minority who do not pass in three sittings. This could simply be as a result of not having sat an exam for a long period of time, poor time management in the exam, or simply having exam anxiety and being unable to perform on the spot.

Many people will have invested significant time, money and effort to complete relevant degrees and meet pathway requirements, with existing advisers also having invested years or even decades to the provision of financial advice. If these people are unable to complete the exam after three unsuccessful resits, these people will be precluded from having a financial advice career going forwards which will have significant adverse consequences for the adviser, their respective families (from a financial standpoint for example) and their clients who may lose their longstanding adviser.

We seek clarification from FASEA as to how they propose to treat advisers who do not pass all components of the exam within the proposed number of resits. Will advisers be given an opportunity to re-register for the exam by paying another fee? Will advisers be forced to wait for a period of time before they are allowed to re-register? Will licensees be required to remove their authorised representatives from the ASIC FAR should they fail to successfully complete the exam by 1 January 2021? These are important questions as they affect the livelihood of many advisers and particularly for those that own financial planning businesses.

These practicalities also need to be considered in light of other obligations on advisers, such as “Opt In” requirements which require advisers to provide renewal opt-in notices and fee disclosure statements to retail clients within 60 days after the clients' renewal notice day. It would be confusing to say the least if a client needs to be transferred temporarily to another adviser due to timing differences between when an adviser is allowed to resit the exam post 1 January 2021 and obligations under FoFA. We recommend FASEA consider appropriate safety net measures to avoid unintended consequences on advisers and clients alike.

The legal profession enables individuals to resit the NSW Bar Examination when the exam is next conducted<sup>2</sup> and we understand that it does not stipulate there are limits on the number of exam resits.

Similar to the legal profession, we consider that individuals should be able to sit the exam without limitation provided they pay the relevant exam fee notwithstanding that there may also be a defined period between resits/re-registration. In this regard, it would also be helpful for FASEA to provide guidance on how much time is proposed within the resit period.

**Recommendation:** Persons should be able to sit the adviser exam without imposing a limitation on the number of permissible resits.

#### ***Proposed Mode and Frequency***

The consultation paper proposes that the exam will be supervised and held in face to face locations in cities and will utilise digital delivery in remote areas. The frequency of exams will vary depending on location and whether the adviser is a new or an existing adviser.

We understand that the proposed frequency of the exams is likely to be limited by the delivery mode – requiring venue availability for face to face exams and digital invigilation for regional and remote areas.

With technological advancements in recent years we understand digital invigilation is now available which enables a person to sit an exam online. Some education providers allow students to sit exams ‘remotely’, including from home and remote geographic locations. This approach allows for more flexibility with respect to exam delivery and can be securely managed via the use of dedicated logins unique to each adviser; secure exam portals, and for FASEA’s purposes, potentially linked to an advisers Authorised Representative Number, enabling data updates on the ASIC FAR. Further, where employed, higher education providers also have policies and processes in place to ensure the exam can be delivered remotely and securely under supervision to protect the integrity of the exam delivery process.

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<sup>2</sup> <https://www.nswbar.asn.au/coming-to-the-bar/bar-examination/bar-examination-policy>

We consider that this form of digital invigilation, supported by an independent supervisor present in the exam, should be utilised more broadly and be available to all examinees.

We recommend FASEA consider greater flexibility in exam mode and delivery.

This option will facilitate flexibility and enable a person to sit the exam at frequent and regular intervals. This flexibility would also greatly assist the 23,000+ existing advisers and new entrants to complete the exam. As stated previously, given that the effective duration in which existing advisers will be able to sit the exam has been reduced to 18 months (i.e. from “from mid-2019 until December 2020”), we anticipate there will be an oversubscription of exam registrations in the last quarter of 2020 in particular, meaning the system will likely be unable to cope with expected demand.

In order to facilitate the digital delivery of exams and to enable an uninterrupted sitting of the exam, minimum technical specifications must be identified, published and agreed to when registering for the exam (e.g. internet access, minimum download speeds, minimum PC operating system etc.).

For all advisers, we recommend the exam be made available on a demand basis, but with a system in place so that advisers can pre-book regular (daily/weekly) fixed exam timeslots with a specialist services provider appointed by FASEA. There are existing reputable RTOs providers in the financial services industry (e.g. Kaplan Professional) as well as other higher education providers (e.g. Macquarie University’s MGSM) who manage this process well, inclusive of strict security and identification requirements. Such providers are highly experienced in delivering online exams to large cohorts of students.

An online exam can be supported by supervision, whereby the supervisor would need to meet an independence definition, which could for example be someone who is an authorised witness<sup>3</sup> for statutory declaration purposes, such as a doctor, lawyer or Justice of the Peace and is not a family, colleague or friend.

For those who are unable to arrange an independent supervisor or would prefer to attend face to face locations in all capital cities, this option could be made available at the frequencies proposed.

**Recommendation:** For all advisers, we recommend the exam be made available via digital delivery and on a ‘demand basis’, but with a system in place so that advisers can pre-book regular (daily/weekly) fixed exam timeslots with a specialist services provider appointed by FASEA.

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<sup>3</sup> The list of persons who are Authorised Witnesses for witnessing a statutory declaration is set out on the following page: <https://www.ag.gov.au/Publications/Statutory-declarations/Pages/List-of-authorized-witnesses.aspx>

Where the exam is offered on a closed book basis, exam material should include quick reference guides including, for example, latest tax rates and thresholds to better reflect real practices which involves application of knowledge.

#### ADDITIONAL NEEDS

We support the proposed arrangements to assist those with special needs. We also support mental health considerations being included under the category of “Additional Needs”.

FASEA should also retain the flexibility to be able to consider any special needs on a case by case basis.

#### SPECIAL CONSIDERATION

The consultation paper notes that a candidate will be able to resit the exam without incurring additional examination fees where special considerations are met. As noted earlier in the submission we seek confirmation that the resit for special consideration does not count as a formal resit, should there be restrictions on how many resits are allowable (e.g. where the person has never sat the exam, and missed their scheduled exam date as a result of illness, the person would still be able to sit the exam a further three times).

Acute illness is noted as a special consideration. We question whether acute illness is an appropriate threshold? We would be supportive of illness supported by a doctor’s note confirming that a person is not well enough to sit the exam to be an appropriate threshold rather than acute illness, which may be too restrictive.

#### LEARNING AND STUDY MATERIALS

As raised earlier in the submission we strongly support, and request, the provision of a recommended reading list, as well as example exam questions. This will be an important component of a candidate’s preparation for the exam to ensure they have been studying the correct material.

We note that not providing any guidance for exam preparation and reading material seems to be at odds with the stringent approach taken to the knowledge areas, proposed pass marks and limitations on resits. We consider that the publication of a recommended reading list should be mandatory.

Referring to common higher education sector practice, there is usually a prescribed text(s) for a subject, complemented by recommended readings. Given an objective of FASEA is to ensure advisers have a good understanding of the legislative and ethical standards required and expected of financial advice providers, we recommend FASEA provide more prescriptive guidance in this regard.



