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MANAGED ACCOUNTS: THE 'BITCOIN' OF 2018?

Sean Graham & Evelyne Albrecht

"There is a tide in the affairs of men, which, taken at the flood, leads on to fortune" – William Shakespeare, Julius Caesar Act 4, Scene 3.

At the moment, the single most popular topic of adviser conversations is Managed Discretionary Accounts.

Particularly surprising is the bizarre mix of enthusiasm and trepidation that most advisers demonstrate when they introduce the topic.

Below, Sean Graham of Assured Support and Evelyne Albrecht from MDA Guru provide their perspective.

1. Managed accounts are the 'bitcoin' of 2018. Won't I be left behind if I don't start recommending them?

Evelyne Albrecht (EA): Not necessarily, it really depends on your business model and your clients. Managed accounts can be a valuable proposition for your clients and an efficient manner in to provide portfolio services but it is not an offering that will suit everyone.

Sean Graham (SG): Managed Accounts, Managed Discretionary Accounts (MDA) and Individually Managed Accounts (IMA) are getting a lot of attention at the moment. As the regulatory burden increases and margins get squeezed and as good busi-

nesses struggle to continue to provide exceptional services to their clients, these facilities seem incredibly appealing.

They can improve the client experience, reduce the inconvenience and inefficiencies associated with non-discretionary models and provide a scalable risk-management solution. But they're not the solution for all clients or the answer for all businesses.

Obviously, the 'nature, scale and complexity' of your business is a key consideration about whether they'll help your clients prosper and your business grow, but FOMO shouldn't drive your decision making process.

2. I'm a small licensee and managed accounts seem interesting but too complicated. Who's the 'operator', who's the 'manager' and what role do I play?

EA: The 'operator', or now called 'MDA Provider' in RG179 is the entity that holds the relevant AFSL authorisation to offer MDA services, and is the entity who has the discretion to implement the MDA according to the MDA contract and Investment Program.

The manager, or 'MDA Adviser', is the person who provides the investment advice, firstly in determining whether the MDA and which investment program is appropriate, and provides the ongoing



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ing investment decisions to be effected on the MDA.

The MDA Provider and MDA Adviser are often operating under the same AFSL, but a MDA Provider can also operate with external MDA Advisers from another AFSL.

Your role as a small licensee will be to determine firstly whether or not a MDA offering is appropriate for your business. If that is the case, you will need to decide if becoming a MDA Provider is the right step, or if being a MDA Adviser affiliated to a MDA Provider is more appropriate.

The advantages of being a MDA Provider yourself is that you have full control of the MDA operations but of course you are also responsible for meeting all the compliance requirements of operating a MDA, and will need to ensure that you have the correct AFSL authorisations in place.

SG: A 'managed account' facility can be no more complicated than a largely passive, infrequently-traded model portfolio of managed funds with automatic rebalancing. It can also be highly complex, highly diversified and frequently traded portfolio of securities, derivatives and leveraged instruments.

Think of it less as a platform and more as a facility (a service and a product) that can be used in a variety of ways.

Being a 'small licensee' shouldn't drive your decision making process rather you should consider whether your clients need a discretionary facility to achieve their goals and objectives AND whether you have the competencies to support it.

3. Apart from the time I'll save, if I use managed accounts I can retain a margin and take on more clients with less work. Why should I bother with other platforms?

SG: Let's park the conflicted remuneration issues and start with what should underpin all your decisions as an advice professional - the best interests of your client. You operate in a commercial environment and need to have a sustainable business, but your professional and legal obligations require you to prioritise your clients' interests.

If your clients have diverse, frequently traded and equities-focused portfolios, a discretionary facility (with appropriate controls) may provide them with significant benefits - it will support active trading, facilitate immediate responses to threats and opportunities and improve the efficient, transparent and fair service your clients engage you to provide. Other clients may simply not need the facility to achieve their goals and objectives.

EA: While that sounds inviting, managed accounts are not going to be in the best interests of all your clients, and you do need to consider what alternatives you will continue to offer.

4. I understand that a key advantage of using managed accounts is that the Operator bears all the liability. Is that true?

EA: Yes and no. The MDA Operator bears the responsibility when it comes to ensuring that all the conditions for providing a MDA are met. An external MDA Adviser, though, may still bear some of the liabilities, as the MDA Provider is effectively outsourcing some of the advisory aspects. It is also important to understand that there are likely to be contractual liabilities resulting from a relationship between a MDA Provider and an external MDA Adviser.

5. The ASIC Class Order relief expires in October. Does that mean I need to apply for my own AFSL (or variation) now or can I wait until October?

SG: If you're only now considering your options, you've probably left it too late. Even if you apply for an AFSL (or variation) today, it's unlikely that you'll obtain it before the end of the transition period.

We're happy to help you if that's the path you're determined to take, but given the timeframe I think you're best talking with MDA Guru about alternative options.

EA: If you wish to continue offering MDA services after October 2018 under your AFSL and been operating under an ASIC 'No action' letter, it is essential that you apply for a licence variation as quickly as possible. ASIC variations can easily take 3 - 6 months or longer, so the quicker you apply the better.

In addition, until October 2018 ASIC have stated that for the purposes of responsible managers, the previous experience operating under a 'No action' letter will be considered relevant experience if the MDA service is offered via a regulated platform.

6. Are managed accounts only worthwhile for HNW clients?

SG: For High Net Worth (HNW) clients - particularly those with diverse, frequently-traded and equities-focused portfolios - a discretionary facility will provide them with active, immediate and responsive management at a cost appropriate for the service they obtain. It's often more convenient and using a facility like this often frees advisers to develop better engagement with the clients by giving them time to explore non-investment focused goals, needs and objectives. Increased convenience, heightened responsiveness and better tailored on-going services would benefit most clients, but the costs (and particularly the transaction costs) may make the proposition less appropriate for them. You've also got to be careful about generalising, some HNW clients are happy to maintain relatively passive, long-term portfolios because they have other options available to them.

EA: In my view, this will very much depend on the type of managed account you offer, the costs of the se-

vice, whether or not assets are held through a custodial relationship or not, as well as the assets held as part of the managed account service.

Given the above, you may need to consider different offerings for different types of clients.

7. Are managed accounts the solution for high touch, low value clients?

EA: As with all types of service offerings this will depend very much on what you are offering in terms of managed accounts and of course potential costing. Generally, Managed Accounts mean that the client hands over control over their assets to their adviser, and therefore may not be right for a client that is 'high touch' when it comes to investment decisions. That said, other clients may appreciate the product offering, with their need for contact focussed on other areas, in which case this may be a valuable solution for both you and your clients.

8. Do I need to use an external investment manager or can I do it (and collect a fee for the service)?

EA: When offering managed accounts, you need to consider who will be undertaking the research and making the investment decisions. If you already have solid research and investment processes in place internally, including having the appropriate resources and expertise available, then an external investment manager may not be required, and this can of course be reflected in your fees charged to the clients.

But you may not wish to spend internal resources and time on the research that may be needed, in which case outsourcing to an external investment manager can be a valuable solution, though you will need to factor in costs and conduct the appropriate due diligence when selecting the provider.

Ultimately, it comes down to your business model and the services you wish to offer to your clients.

SG: I'm confident that Evelyn will nail the operational considerations so I won't address those but I will suggest that you consider whether your choice creates more problems than the fees represent. Consider whether your proposed fees (or the way they're calculated) are conflicted remuneration.

Remember, that benefits that could "reasonably ... expected to influence the choice of financial products [or the] financial product advice given to retail clients" are generally prohibited. If the fees are paid to you by the Provider, and they're asset based fees, they'll be presumed to be conflicted remuneration and therefore can't be paid to, or received by, your Licensee.

It's not a disclosure issue and it would be difficult, if not impossible, to rebut that presumption. Volume-based benefits are automatically presumed to be conflicted remuneration, and to determine whether your 'fee model' is actually conflicted remuneration think about

- how you gain access to the benefit,
- who is providing the benefit,
- when, and under what circumstances, the benefit is given or accepted,
- why the benefit is being given,
- how the value of the benefit is determined, and
- the nature, characteristics and features of the benefit.

9. How can technology help me implement or maintain my managed account solution?

SG: This is actually a question with two parts. Firstly, I wouldn't recommend considering any facility that does not have the capacity to transparently provide transaction records, account data and client reporting. The best providers have invested in the technology the facility needs and most of these are excellent solutions. Secondly, you need to consider how technology can better manage the engagement and service aspect. Once a client is in the managed account facility their technology will address the operational aspects, but how will you manage (or monitor) the advice aspects. Technological solutions can provide you (and the Operator) with the interface needed to manage these risks efficiently and effectively.

EA: As with any client service offering, technology is an essential tool to ensure that the service is provided efficiently and effectively. While managed account solutions may result in reduced levels of paperwork, you still will need to ensure the service is provided in line with your agreement with the client and meeting any relevant regulatory requirements. Technology can assist with these requirements. In addition, if you as small licensee have a number of advisers, technology solutions can be a valuable tool in ensuring the services are provided in a consistent manner and assist with supervision requirements.

10. Where can I go if I need help?

SG: The team at Assured Support are always ready to provide you with the advice, support and help you need, or you can also talk to our friends at MDA Guru. If you're just after more information, you can read our other articles "10 Managed Account questions answered" or "Understanding MDA, SMA and IMA". **FS**