

**Senate Economics References Committee inquiry into the  
Scrutiny of Financial Advice  
Opening statement – Nicholas Moore**

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Good afternoon and thank you for the opportunity to attend today's hearing. Today I'm joined by Greg Ward, the Deputy Managing Director of Macquarie Group and head of Macquarie's Banking and Financial Services Group (BFS).

Personally, I have been with Macquarie for 29 years, seven of which have been as Chief Executive Officer. Greg has been with Macquarie for 19 years including two as head of Banking and Financial Services.

Macquarie is an Australian headquartered group employing more than 14,000 people in around 70 offices located in 28 countries. Last year more than two thirds of our revenues were generated outside Australia, principally in the US. Most of our clients are institutions and corporates who operate in the wholesale market.

Our retail business is conducted in our Banking and Financial Services group which contributed around 8% of Macquarie's net operating profit last year. This area includes mortgages (1.6% of the market), deposit-taking, specialist business

banking and the provision of products such as wrap platforms to other financial services providers.

Financial advice, the subject of today's inquiry, is provided through one of BFS' businesses, Macquarie Private Wealth.

Whilst it's true that most of Macquarie Group's business is wholesale, our retail business has special importance for us. For more than 35 years we have sought to provide premium and different services to our Australian retail clients.

Historically, insights from our institutional businesses have allowed us to introduce a service or product that has benefited our retail clients.

In the 1980s, Macquarie introduced into Australia the Cash Management Trust which provided retail investors interest rates that were, up until then, only available to the wholesale market.

In the 1990s, we offered wholesale funding for mortgage brokers through a new funding model called securitisation. This led to greater competition in the provision of home loans.

MPW has also benefited from our institutional businesses by being able to provide Australian retail stockbroking clients with

research prepared by our leading global institutional business. In addition we're widely acknowledged as providing a range of new opportunities, such as infrastructure investment, to retail investors.

MPW is primarily a retail broking and equities advice business that buys and sells shares on behalf of clients. MPW has approximately 300 advisers and 87,000 active clients, a significant number of whom are high net worth. Over 85% of assets under advice relate only to equities broking activities.

Macquarie does not have a retail branch network. Almost all the products held on Macquarie platforms and used by our advisers are either listed securities or managed funds that are issued by a wide range of product providers.

All of our businesses rely on trust and are heavily regulated. We answer to more than 190 regulatory authorities around the world and we have around 650 risk management and compliance staff providing independent oversight of our global obligations.

As the committee is aware, with regard to MPW, we entered into an Enforceable Undertaking with ASIC in January 2013. At the time, we acknowledged ASIC's concerns and believed they

were reasonably held, and we embarked on a two-year implementation plan that has resulted in comprehensive change to that business. The EU was concluded in January this year and ASIC has confirmed that all the deliverables had been met.

Extensive changes have been made. We have a new management team and additional compliance staff have been appointed. New processes, policies and technologies have been introduced which have significantly improved the systems underpinning the quality of advice we provide.

These changes have required substantial and necessary financial and resource investment – including \$49 million over two years and more than 12,500 hours of face-to-face training. It has involved rigorous external scrutiny by ASIC and the ASIC-approved independent expert, KPMG. The result is a transformed business and an ongoing commitment to continuous improvement.

Also ongoing is the process of remediating any clients who may have been disadvantaged by the services that were provided. Macquarie has sent 189,900 letters to current and former clients going back more than 10 years, to March 2004, so that clients were made aware that they could seek a review. Our

approach is based on consistent application of the Financial Ombudsman Service's approach and is scrutinised by Deloitte and ASIC.

To date, we have reviewed 975 cases with 108 cases eligible for compensation. So far we have paid more than \$9.5 million in compensation to clients. This is a work in progress and we expect that this number will increase as we complete further reviews.

With respect to this Inquiry's terms of reference, we have made several recommendations in our submission to the Committee which we believe would make a positive contribution to the level of consumer protections:

- With regard to the current level of consumer protections, we are supportive of the development of a comprehensive industry plan to raise the standards of financial planners. Such a plan could include the introduction of a code of conduct.

In addition, to help consumers make informed decisions, we support better disclosure of relationships between AFSL holders, their Representatives and other financial market entities.

- The Committee has also sought industry views on the appropriateness of existing compensation mechanisms.

In our submission, we stated our commitment to properly and adequately remediate those who have suffered loss through our conduct. I have already provided some detail about that client remediation process and we would be happy to answer any questions that Committee may have.

- Further, the Committee has sought industry views on mechanisms that would increase transparency regarding financial planners found to have breached any law or professional standard. We welcome the introduction of a Register of Financial Advisers which will detail an adviser's education, qualifications and sanction history to help consumers select a reputable adviser appropriate for their needs.

Macquarie would welcome opportunities to work with our industry colleagues, with the Government and this Committee on proposals to lift industry standards.

We would be happy to take the Committee's questions.