

# Why 'Best Practice' should be your driver in setting standards

Leonie Wallwork, Adviserlink professional education director, details the forces of change impinging on financial planners and how they can adapt to the new world order of advice.

The message has been hammered home from all factions that regulation is nigh – be it this year, next or 2009. This proposed regulatory framework supports the notion of industry-wide standards for financial intermediaries in terms of competence, 'business conduct', ethics and quality of information and advice.

Although the wheels of regulation may grind slowly, we all know in our busy 'business as usual' world how long it can take to acquire new knowledge and then practically apply this knowledge in a meaningful way. The beauty of this lead-in time is that business has time to integrate these standards into everyday business and develop a 'best practice' culture that is durable and robust regardless of other influences in the industry – such as regulation.

The potential impact of the inevitable legislative and regulatory changes is being recognised across the financial sector. While the exact impact remains unclear, the forces driving the change give as good a guide as any. Discussions with institutions, potential APBs, individual participants and other suppliers reveals a strong desire to not be left behind.

## So what are the forces supporting the early adoption?

There is no doubt that the media are well-versed in what should be the guiding standards in the wealth management and financial services sector. Worldwide there is a demand for properly processed and structured financial planning, product management and services delivery.

The 'war' stories are easy to find where people have lost everything including their life savings and it is recognised that much of this can be better managed by improved knowledge, greater transparency, acknowledged accountability, better disciplines and risk management. Media commentators will constantly prod and challenge the public to ask questions and demand standards.

The industry as a whole identified the need some time ago to work in collaboration to establish recognised national qualifications based on competency standards that would set



By Leonie Wallwork

the benchmark for industry. The Financial Services Sector Education Steering Committee was assembled early in 2004 and has contributed many hours of voluntary work to developing these qualifications through the help of ETITO, the Industry Training Organisation, our Australian counterparts and various sector working groups.

The committee has made enormous progress in this area and demonstrates the commitment across the industry to drive the standard setting process rather than being mandated to do so.

Adviserlink has also been independently involved with various organisations in establishing education and career pathways and learning support mechanisms to help build the talent pool of successful competent and professional advisers across a broad spectrum of disciplines.

It is very encouraging to see pockets of the industry adapting early and really embracing the pending changes.

The global shift to the need for self-responsibility in retirement funding and the knowledge to achieve it is never far from the minds of those having dinner on a Saturday night swapping money stories. Consumerism demands that a trusted relationship is backed by evidence of an ability to deliver in real terms. Those who do not keep up with the latest technical issues, market awareness, product knowledge and commonsense concerns will fail to make their way in the new environment.

## Will you fall below the competitive bar?

Any organisation that prides itself on running a good business knows that its people are at the heart of its future success. It is well acknowledged that each organisation must become a 'learning organisation' and look to constantly build and develop capability within the business. Without a thirst for better knowledge, know how, technology, disciplines and the training that delivers them you will soon fall behind. Eventually you will not be an employer or business of choice.

There is a worldwide shortage of qualified people in financial services and wealth management. Internationally the ability to find 'talent' is the number one problem. Skilled talent is simply not

available so if you want to make progress personally then become as well trained and highly skilled as you can – You will be in demand! Conversely, if you don't facilitate the training of your staff then they will either leave you for someone who does or fall behind and endanger your business through poorly delivered work.

The scary thing about the future is the utter absence of a decent supply of suitably qualified advisers to either join your ranks or buy your business. Discussions with recruiters, planners and institutions confirm this. If you do not facilitate or undertake learning and training as a priority you could be left behind as those who are skilled will not see you as a preferred career/business option. Early recognition of gaps, fixing them and creating a professional environment attract the best people and the most success for your business.

### Are you protecting your brand?

Protecting your brand is not just about image, but in what that image means as a meaningful client experience with your organisation. This can so easily be lost because of inadequate training and poor delivery of services at all levels of staff and associates. A bad call here, wrong advice there, soon there is a poor name created or worse still legal or professional problems. Knowledge is power, and the businesses that see themselves as strong learning organisations make the least mistakes and hence protect their brand and enhance their profile.

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### Are you building capital value in your business?

For those who own a business and want to sell or exit in the future there is a need to recognise that true value lies in presenting a well-managed and structured business. Unless your staff are well-trained, skilled and knowledgeable, your business has little value to a potential buyer as it minimises any chance for a real return on their investment. You owe it to yourself to ensure that your business sees training and learning not as a cost but as an investment in your future wealth.

We are seeing the major players recognise early the importance of getting on top of the gap analysis and assessment requirements and then fixing them with learning solutions. Unless you know what you don't know then how are you going to measure up to the regulators requirements and the demands of your clients?

The job of people like Adviserlink is to work with you to find the skill gaps and fix them. We think it's pretty simple as a concept. Everyone in the industry should have a gap analysis completed. It doesn't cost much and getting it sorted out now for you and your staff means you are fully aware of how big or small your skills and talent gap is and sets you firmly on track to being ready for any industry changes.

Some say the changes will take some time to implement and take hold. The successful don't care; they are getting on with being ahead of the game anyway. **A**



By Grant Henderson

#### QUESTION

A property investor is building up a property portfolio. Can it deduct costs for pre-purchase building inspections and travel expenses?

#### ANSWER

It is assumed that the business element is not a minor and incidental purpose of the trip, that is, the main purpose of the trip is to inspect potential rental properties and not a holiday.

When a taxpayer is in the business of earning income from rental property, it should be able to obtain a deduction for the cost of travel undertaken to inspect potential rental properties. This can be likened to feasibility studies.

However, when the actual property has been identified the process may be too far down the track to argue deductibility. The generally accepted and correct position is that feasibility study costs incurred in connection with an established business are deductible up until the point that a commitment is made to proceed with the new investment or project. In a corporate context this commitment arises at the time Board approval is given to acquire, bid or develop the asset.

If the person does not proceed with the purchase the expenditure would be "black hole expenditure" i.e. neither deductible nor depreciable for tax purposes.

The Inland Revenue Department has stated in draft interpretation statement IS 2783 "Deductibility of Feasibility Expenditure":

"Once a decision has been made to proceed with a particular course of action, e.g. to acquire a particular capital asset or seek to obtain an advantage of enduring benefit, any expenditure incurred after that time will more readily be treated as being related to the underlying capital project and thereby to the profit-making structure of the business and will not be deductible."

#### References

*Income Tax Act 2004, ss DA 1*

*CCH, New Zealand Master Tax Guide 2006, para 10-940*

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