

## **GUIDANCE NOTE 151 INVESTMENT ADVICE**

### **APPLICATION**

This Guidance Note applies to advice or information provided by members of the Institute of Actuaries of Australia which is likely, directly or indirectly, to be relied on by a person or entity in making investment decisions. Members who are not qualified actuaries are reminded that any advice they give must not be in a form that appears to be actuarial advice (as defined in the Code of Conduct and Guidance note thereon) or could be construed to be actuarial advice by the client.

### **LEGISLATION**

In conjunction with this Guidance Note, the member must have considered the effect of relevant legislation in relation to the giving of advice, and on the person or entity in relation to their investment circumstances.

### **FIRST ISSUED**

August 1996

### **DEFINITIONS**

These definitions give the meaning ascribed to words used within this Guidance Note. They are to be interpreted with emphasis on the principles involved rather than precise literal meaning.

**Client:** The person or entity which is likely to make investment decisions as a result of the advice.

**Actuary:** A Fellow or Accredited Member of the Institute of Actuaries of Australia

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**Associate:** A person or entity (other than the Client) with a business or employment association with the member; or an Associate as defined in Corporations Law.

**Investment Objectives:** The aims the Client seeks to achieve as a result of investment decisions.

**Investment Policy:** The guidelines to be followed and broad criteria to be met by the investments to be used to achieve the Client's Investment Objectives.

**Member:** A member of the Institute of Actuaries of Australia.

## **FINANCE ADVICE:**

This Guidance Note does not include specific application to advice on financial contracts, borrowing or other forms of raising finance. In the absence of specific Guidance Notes and guidance notes on these matters, an actuary is expected to observe a duty of care in such advice which is consistent with the provisions of this Guidance Note as applied to investment matters.

In particular, the member should:-

- consider the extent and quality of advice provided by other parties on the matter in areas where the member is not competent to advise; and
- be satisfied that all significant facts regarding the situation of the Client and all parties to a contract are likely to be provided.

## **GUIDANCE NOTE**

### **1. ACTIONS PRIOR TO ADVICE**

1.1 Prior to agreeing to provide the advice, the member must:-

- Be satisfied that where necessary the member is properly authorised under the licensing provisions of the Corporations Law and any other relevant legislation.

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- Inform the Client of limitations which will apply to the scope of advice.
  - Where required by relevant legislation, inform the Client of the basis of the fee for the advice and any other income or benefit which the member or an Associate of the member is likely to receive in connection with the provision of advice.
  - Be satisfied that all significant facts regarding the Client's situation sufficient to justify the advice to be provided, are likely to be provided to the member.
- 1.2 Where similar recurring advice is provided a repetition of previously provided information on the points in Section 1.1 is not required if there has been no change and the member believes the Client remains aware of this.
- 1.3 Members should avoid giving unsolicited advice particularly in cases where facts are insufficient or limitations too extensive for the advice to be of value to the Client.

## 2. THE SCOPE OF ADVICE

- 2.1 Members must limit the scope of advice to the extent to which the member has specific technical competence, investment experience, training or education which allows the member to properly advise on such investment.
- 2.2 Subject to Corporations Law and other provisions of this Guidance Note, actuaries are generally expected to be able to advise on and monitor the Investment Objectives and Investment Policy of a person or entity, where investment relates to a life insurance fund, a general insurance fund, a superannuation fund, a friendly society or other financial institution or a superannuation benefit payable to an individual and where such advice and monitoring is auxiliary to other actuarial advice to such person or entity.
- 2.3 Where advice relates to persons or entities other than as stated in Section 2.2 or where advice to any person or entity encompasses the selection of specific investments and specific investment products or the appointment of specific investment manager(s) or tactical changes in investments, recommendations on these matters should only be

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included in the scope of the advice if the member has appropriate experience and information resources and holds any relevant proper authority or licence where this is required under Corporations Law.

- 2.4 Where the member is only providing investment monitoring information and calculations the member must consider whether sections of this Guidance Note other than Section 7 apply.
- 2.5 Where the member provides advice or information in the form of software or techniques to a person or entity, the results of which may be relied on by the Client of that person or entity the member should take such precautions as can reasonably be taken to ensure such results are likely to be presented to that Client in the form which would have been required by this Guidance Note if the advice had been provided directly by the member to the Client.

### 3. **FORMAT AND CONTENT OF ADVICE**

- 3.1 Advice should generally be provided in writing. Where advice is not provided in writing directly from the member to the Client, a record of the advice should be kept which accurately summarises advice given by the member to the Client, or any advice given through an Associate of the member based on advice by the member to the Associate.
- 3.2 Members should consider advantages and disadvantages to the Client of the recommendation and comment on these where they are significant.
- 3.3 Where relevant to the Client's interpretation of the advice, information sources and approach to research upon which the advice is based should be identified within the advice.
- 3.4 Members should consider the costs and risks associated with implementation of the advice provided, and include within the advice comments on actions the Client could consider taking to minimise these costs and risks of implementation.

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- 3.5 Advice must include a summary of the Client's situation, including all facts which have been made available to the member and which are relevant to the investment advice. Where recurring advice is provided to the same Client, explicit restatement of the Client's situation may be omitted so long as the member can demonstrate if required, a current awareness of all facts relating to the Client's situation.
- 3.6 Measurements of past returns and other measures relating to investment should conform with any relevant professional Guidance Notes and guidelines. If past returns are quoted within the advice, and it is reasonable to assume they will influence the Client's investment decisions there should be comment on the relevance of those returns and other measures to expected future returns and the recommendations made in the advice.
- 3.7 Any subjective basis for recommendations should be described in the advice, particularly where the recommendations on any investment products and services are not an obvious consequence of the research and analysis in the advice.
- 3.8 A checklist is included in Section 8 to assist members in reviewing the format and content of the advice.

#### 4. **POST ADVICE RESPONSIBILITIES**

Members should:

- Advise the Client of actions which should be taken by the Client to monitor investments against the Client's situation and Investment Objectives following implementation.
- Clearly state whether or not the member will initiate any monitoring activity or whether this is solely the responsibility of the Client.
- Where it is practical to do so, contact the Client to ensure any written advice was received and understood.

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## 5. **ADVICE WHERE OTHER ACTUARIES ARE INVOLVED**

Where an actuary is known to be advising on the funding of liabilities of the Client the member providing advice covered by this Guidance Note should take account of the influence of that actuary's advice (where the Client provides a copy of such advice) on the Client's Investment Objectives.

## 6. **ABBREVIATED ADVICE**

6.1 Where clients are themselves investment market professionals, there are certain client relationships with members (who may be working as stockbrokers or fund managers) which are conducted on a basis accepted by participants according to normal market practice and which are often characterised by abbreviated and/or expedient advice and opinion. In these circumstances the member must consider which sections of the Guidance Notes may have been effectively complied with by implicit limitations of format and scope of advice understood between the member and client.

6.2 In such cases the member should have considered whether the client may have an unstated wider reliance on the member for advice on investment decisions than covered by the abbreviated advice or opinions provided by the member.

## 7. **INVESTMENT MONITORING**

Where the member (either directly or through an Associate) provides investment monitoring information and calculations for a Client they should conform with any relevant professional Guidance Notes and guidelines and be presented in a manner which will allow the Client to draw conclusions relevant to the Clients' Investment Objectives and Policy.

## 8. **CHECKLIST FOR INVESTMENT ADVICE**

The following is a check list which the member should review before providing investment advice. It is for the member's professional judgement to determine which checklist items are relevant to formulation of advice to particular Clients and whether there are other items not mentioned in the list which are also relevant.

Client's Situation

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- Client profile
  - Investment Objectives
  - Investment time horizon
  - Total assets and liabilities at a recent date
  - Income and Expenditure/Outgo
  - Projected future cash flow requirements
  - Contingencies likely to impact on Investment Objectives and corresponding options and flexibilities required by the Client
  - Information items not provided which would be relevant to the advice if available

#### Legislative Issues

- Taxation influences
- Legal restrictions on available alternatives
- Licensing credentials of the member where required

#### Limitations on Advice

- Investment policy issues not covered
- Investments not considered
- Implementation issues not covered

#### Factors Considered in Reaching Recommendations

- Asset classes characteristics
- Diversification
- Non-diversifiable risks

- Costs and efficiency of making, managing and redeeming investments
- Range of outcomes in relation to Investment Objectives
- Other risk factors

#### Statement of Recommendations

- Alternatives recommended
- Advantages and disadvantages of each alternative
- Research sources upon which recommendation is based
- Qualifications regarding conflict of interest and other remuneration sources of the member
- Implementation of recommendations
- Duration over which advice remains current and changes in circumstances which require advice to be revised
- Third party implications
- Advice on future monitoring

### **END OF GUIDANCE NOTE 151**



