The Dover Guide to Preparing an Effective Statement of Advice

September 2011

The Dover Guide to Preparing an Effective Statement of Advice
And the Dover Model Statement of Advice September 2011

Introduction

This guide summarizes a range of thoughts, suggestions and statutory requirements for what makes a good statement of advice, or "SOA". It is intended to explain to Dover authorized representatives and other financial planners what they need to do to create an effective SOA that can be adopted in their practice.

This guide links to a number of model statements of advice provided by third parties, such as ASIC and the Financial Planning Association. It also provides a sample model of advice prepared by Dover's para-planning team based on John Smith, a financial planner, and includes guidance on how John should transition his practice from a commission based model to a full fee for service model (except for insurances) by 30 June 2012, under Senator Bowen's "Future of Financial Advice" paper released on 26 April 2010.

Disclaimer and copyright notice

What is a statement of advice, or "SOA"?

From an adviser's point of view a statement of advice or SOA is a written explanation of the adviser's advice to a client. It explains and records the advice, the reasons for the advice and how the advice is to be implemented. Its also provides various statutory disclosures designed to protect the client and to make sure the advice is reasonable and suited to the client's circumstances.

ASIC, in RG 175, emphasizes the client's point of view and the importance of the SOA as a communications tool, and states that: "A SOA is a document that helps a retail client understand, and decide, whether to rely on personal advice."

A SOA normally comes at stage four of the classical six stage financial planning process, and comprises an integral part of the process. The six stages comprise:

(i) the collection of client data;
(ii) the determination of the client's objectives;

(iii) the identification of financial issues;
(iv) the preparation of the client's SOA;
(v) the implementation of the SOA's recommendations; and
(vi) an on-going review of the plan for the client.

What should a good SOA look like?

Advisers will have different opinions as to what a good SOA should look like.

One common approach uses the following headings:

1 Your goals and objectives
2 Your personal and financial circumstances
3 Your attitude to risk
4 Our advice
5 Why our advice is appropriate
6 Any disadvantages connected to our advice
7 The financial consequences of switching products
8 What our advice does not cover
9 Whether we have any conflicts of interest
10 What you should do next
11 Appendices
12 Remuneration disclosure
13 A generic description of alternative strategies and classes of financial products and products considered
14 Any consequences and benefits lost on a product switch,

Within this framework, your SOA should have an individual flavor and should reflect your personal preferences and practice style. Your SOA must comply with certain Corporations Act requirements and should comply with certain industry accepted conventions, but its primary role is to explain your advice to your client. If it does do this it is an effective SOA.

The Corporations Act compliance is important, and necessary, but all the compliance in the world will not make a bad SOA into a good SOA. It's a mistake to over-emphasizes compliance issues, to the point that the SOA looks like it has been prepared by an over-anxious solicitor paralyzed by the risk of litigation, rather than a skilled and experienced financial planner, with sound technical skills, confident of his/her advice and its appropriateness to his/her client's circumstances.

The SOA should be first and foremost an effective client communication.

An effective SOA helps present a professional image and minimizes the risk of a complaint due to client misunderstandings or a failure to disclose information required under the Corporations Law.

There is a trend to shorter and more concise SOAs. Generally this is a happy trend. More is not necessarily better, and may often be worse, with your message and meaning being lost in a barrage of disclaimers, unnecessary explanations and irrelevant appendices. Effective brevity enhances a SOA as a communications tool, and improves the impression your SOA makes on your client's perception of you and your advice.

Your SOA should be tuned to your client's financial sophistication, literacy and level of wealth. What is appropriate for one client may not be relevant to another. An expansive explanation backed by detailed research and numerous learned articles may fit the bill for a recently retired engineer, who is obsessed with investment detail and who loves researching how to invest his $3,000,000 self-managed superannuation fund. But it will be lost on a time short young father of three who only wants quick advice on his industry superannuation fund life insurance options.

Your writing style should be concise and precise, and your English plain.

Some simple rules will help your client understand your advice:

(i) use short words and short sentences wherever possible;
(ii) no more than one thought per paragraph;
(iii) use headings to signpost the way;
(iv) use active speech rather than inactive or passive speech;
(v) use the first person wherever possible;
(vi) do not use industry or legal jargon, and do not use technical terms unless absolutely necessary, and provide definitions as appropriate
(vii) make effective use of executive summaries and checklists;
(viii) set out the follow up mechanism, ie what happens next;
(ix) do not reinvent the wheel. If there is a good explanation in a text book or on the internet copy it, or even link it, into your SOA, with any appropriate qualifications, and all appropriate citations;
(x) use appendices carefully, so that secondary information only is removed to appendices and not critical content. Key information should not be shown in appendices;
(xi) use clear cross referencing to avoid unnecessary repetition;
(xii) use language consistently, particularly important defined terms;
(xiii) make careful use of presentation materials such as:
    a. headings
    b. table of contents (for longer SOAs)
    c. executive summary, including a statement of purpose;
    d. use insightful tables and graphs;
    e. sequence content logically; and
(xiv) aim to explain, not impress. The good impression will automatically follow the good explanation.

The need for plain English

An effective adviser makes complicated matters sound simple, not simple matters sound complicated. Michele M Asprey in her excellent book "Plain Language for Lawyers" summarizes the issues well by writing:

"To change our way does not involve going back to kindergarten and writing in words of one syllable. We will still be able to show our skill. In fact we show our skill more keenly, more sharply, when we write in plain words. The frills, the frippery, the bells and the whistles are stripped away and what remains is pure and clear. No misunderstandings. Just the facts. A professional document that is accessible by its users. One that shows our skills and focuses its readers on the issues, rather than the periphery of unnecessary detail and unfamiliar style."

Automated SOA services

Australian financial planners rely heavily on automated SOA services.

These services have their good points and their bad points. On the one hand they are set to automatically cover all relevant Corporations Act compliance issues. On the other hand they look and feel like generic documents, and generally are perceived as such by clients as just that, generic documents that do not pick up the specific issues applying to the client. They are not seen as real advice created by a skilled professional, and can wreck what should have been a professionally prepared and delivered SOA and overall advice process.

Templates are an essential part of a professional's tool kit. Medical doctors create standard paragraphs that they use for their patient correspondence and reports. Solicitors subscribe to document precedent systems so they can provide a more complete service to their clients. Templates improve quality, improve compliance, reduce costs and generally create a more efficient and productive practice.

A skilled financial planner knows when and how to use templates, and when not to. It's an art, not a science. It's a judgment call about what works best for ech client having regard to that client's unique circumstances.

What works for one client may not work for another.

Templates are an individual choice. It's really up to you. Just remember that the best template is one that does not look like a template and instead looks like a well written, well researched and presented series of recommendations that creates a professional impression and persuades your client to act on your recommendations.

SOA compliance requirements

Part 7.7 of the Corporations Act controls the form and content of statements of advice prepared by financial planners by imposing a number of conduct and

disclosure obligations on advisers. These obligations are aimed at ensuring clients receive professional and reliable advice about financial products and that minimum disclosure and content requirements are met.

Serious penalties apply if these requirements are not met, and further the financial planner and the related AFSL holder may be liable for damages connected to any breach of these rules.

Section 946A requires a financial planner to provide a client with a written statement of advice at the time the advice is provided.

Section 945A requires a financial planner to have a reasonable basis for providing his or her advice and requires a determination of the client's "relevant personal circumstances", which includes their financial objectives and needs.

Section 947C sets out the main requirements of a SOA, including:

(i) a statement setting out the advice;
(ii) the information on which the advice is based (normally a "fact finder" or a similar document);
(iii) the name and contact details of the financial planner and the AFSL holder;
(iv) the financial planner's authorized representative number;
(v) the AFSL's number;
(vi) information about remuneration including commission;
(vii) information about any other benefits that may influence the advice;
(viii) information about any associations that may influence the advice;
(ix) any other charges, costs or lost benefits connected to the advice, particularly the disposal or acquisition of a financial product;

ASIC provides guidance on preparing a SOA in Regulatory Guide 175.

Personal advice or general advice?

You do not need a SOA for general advice, only personal advice. Section A of RG 175 explains that personal advice is:

"Financial product advice given or directed to a person (including by electronic means) in circumstances where:

- the provider of the advice has considered one or more of the client's objectives, financial situation and needs; or
- a reasonable person might expect the provider of the advice to have considered one or more of those matters s766B(3).

General advice is all other financial product advice. That is, "general advice" is defined by an exclusion, ie it's any "advice" that is not "personal advice" under the above definition.

The Corporations Law exempts general advice from the SOA requirements.
However, advisers should still take care with general advice because:

(i) the reference to "a reasonable person" in section A of RG 175 introduces an objective test and creates a situation where a financial planner may have provided personal advice even when they have not considered the client's specific financial circumstances, including their objectives or needs, and may have thought only general advice had been provided; and

(ii) section 949A(2) requires advisers to warn clients that the advice does not take into account the client's relevant personal circumstances when providing general advice. This warning should be in writing.

How do you know if you provide personal advice and a SOA is needed?

In some cases it will be extremely obvious that personal advice has been provided. If a client makes an appointment, comes and sees you in your office, completes a fact finder, signs a financial services guide, considers your thoughts and suggestions ,and then asks you to implement your recommendations then you have provided personal advice. A SOA is needed.

In other cases the situation is not so clear. For example, a wealthy friend may have received a SOA from you some years earlier, but not have consulted you since. You know she receives regular advice from another firm of financial planners. At dinner with other friends she asks whether you are advising clients to change their super from "high growth" to "capital stable". You answer her question as best you can, with some reference to her circumstances, and then observe that most of your clients are changing to "capital stable".

Your other dinner friends hear the conversation.

Have you provided personal advice? Is a SOA needed? Are you liable if something goes wrong? The answer is not clear.

You may think you haven't provided personal advice. But you may have. This is because it may be that a reasonable person, for example, one of your other dinner friends, may have thought your choice of words, your general tone and demeanor, your client/adviser history and the strength of your conclusion was such that you were providing personal advice.

If your other dinner friends are of the same view, and your former client changes her super from high growth to capital stable, and loses money as a result, then you may have a serious problem.

Advisers encounter these situations on an almost daily basis. Questions to ask to help decide whether your advice is personal advice include:

(i) what was your intention?
(ii) what was "the client's" expectation?
(iii) was there a previous client relationship that included personal advice?
(iv) did the client specifically ask you for personal advice or did they ask for "your general thoughts"?
(v) will you be paid for your advice?
(vi) was the advice provided one to one, in a small group or in a public forum?
(vii) did you warn that these were just your general thoughts and did not consider anyone's specific circumstances?

Suitability of advice

The advice in a SOA must be suitable to the client's circumstances.

This rule was introduced by CLERP 6 to help address the lack of client sophistication, particularly for clients with low sophistication where disclosure on its own does not provide enough safeguards. ("CLERP" stands for "Corporate Law Economic Reform Program", and CLERP 6 is part of the government's on-going law reform process.)

The suitability rule is logically connected to the requirement that the adviser must consider the client's reasonable personal circumstances and must have a reasonable basis for the advice.

Financial planners should take a cautious, even conservative approach to this rule.

The suitability rule means that a SOA should not recommend higher risk financial products including products involving direct or indirect gearing where clients:

(i) are not financially sophisticated, by occupation, education or social background;
(ii) have only an average or below average level of wealth;
(iii) have only an average or below average level of income;
(iv) are older, and have less chance of recovering any capital losses within a reasonable time;
(v) risk analysis shows only average or low risk adversity; and
(vi) have not specifically asked for such financial products (although a client asking for a specific financial product does not prove suitability: sometimes a good financial planner has to say "no").

A cautionary note on gearing and margin lending

The 80/20 rule posits that 20% of matters will cause 80% of your problems. It's a rough and ready rule, and it's a bit simple, but it's amazing how often it can be applied to the financial planning world.

Our view is gearing and margin lending are in the 20% of matters that cause 80% of financial planning problems. Minimizing or even eliminating gearing generally, and margin lending in particular, seriously minimizes the risk in your practice.

It makes sense to only recommend gearing when the client is clearly inclined to risk, and is aware of all the issues attached to risk. Further, it must be reasonable for the client to be so inclined, having regard to objective criteria. These criteria relate to the client's financial sophistication and include the client's:

(i) age;
(ii) gender (males are generally less risk averse than females);
(iii) education and training;
(iv) life experience;
(v) work experience;
(vi) income level;
(vii) ability to recover any losses
(viii) relative effect of any losses on long term lifestyle; and
(ix) the general level and composition of wealth.

We confess to not liking margin lending. It should be avoided whenever possible, and only used in extreme circumstances, if at all. Margin lending is more expensive than other forms of debt, has an increased risk of creating negative results, and the borrower has less control ,due to the risk of a margin call if the security value falls.

If the client's only source of borrowing is margin lending, then you be seriously questioning whether the client should be borrowing to invest at all.

SOAs that recommend debt or margin lending should contain clear and unambiguous warnings about the high level of risk and in particular the possibility of clients losing all or part of their capital.

When should a SOA be prepared?

RG 175.149 says that a SOA should generally be provided at the same time or as soon as possible after the advice is provided, which is presumably the client meeting or other connection. Section 946C(1) says that the SOA must be provided to the client before another financial service is provided, such as arranging for a financial product to be recommended to the client.

Section 946C(3) has an exception in "time critical" cases for a financial service to be provided before a SOA is provided. These circumstances are limited to where:

(i) the client has specifically instructed that the financial service be provided immediately or before a stated time; and
(ii) it was not reasonably practical to provide the SOA before that time.

Here the SOA must be provided as soon as possible and in any event within five days after the financial service being provided.

You should not make this exception your rule. It's not an excuse for not preparing a SOA on time. The two conditions are very limiting and it will be a very unusual set of facts where they can be relied on with any certainty.

Table summarizing the Corporations Act requirements

The various Corporations Act requirements are summarized in the following table, and are based on RG 175.164.

Corporations Law reference	Requirement
Section 947A	The title "Statement of Advice" must be shown on the front cover or near the front page
Sections 947B(2), 947C(2)(c) 947C(2)d and 912F	The name, contact details and licence number of the person providing the advice and the relevant AFSL holder, and a statement that the adviser is an authorized representative of the AFSL holder
Sections 947B(2)(a) and 947C(2)(a)	The SOA must include a statement setting out the advice
Sections 947B(2)(b) and 947(C)(2)(b)	The SOA must provide information explaining the basis on which the advice is provided, including as much detail as is reasonably required for the client to make a decision whether to act on the advice. The information should be clear and unambiguous, easy to read and understand, and include: • a summary of the client's relevant personal circumstances; • a generic description of the range of financial products or strategies recommended; and • a concise statement of why the advice is appropriate
Sections 947B(2)(d) and 947C(2)(e)	Information about the remuneration, commissions and other benefits expected to be paid or which otherwise may influence the advice (or reasonably could be expected to influence the advice). This includes all payments such as commissions, trailer commissions, soft dollar commissions, time based fees and "back office" subsidies
Sections 947B(2)(d) and 947C(2)(e)	Information about any referral fees or similar payments to third parties such as accountants or mortgage brokers
Section 947B(2)(e) and 947C(2)(f)	Details of any relationships that may influence the advice (example: the ownership of shares in the entity providing the financial products)
Sections 947(B)(2)(f)	Any section 945B warning based on incomplete or

and 947C(2)(g)	inaccurate information must be included in the SOA
Section 947D	If a product replacement or "switch" is recommended statements that: • the existing product has been considered; • the cost of the switch has been measured and considered; • potential lost benefits have been considered; and • details of any other significant consequences
Sections 947B(2)(g) and 947C(2)(h)	Any other statements or information required by the regulations
Sections 947B(3) and 947(c)(3)	These sections prescribe a level of detail that a person would reasonably require for the purpose of making a decision about whether to act on the advice
Sections 947B(6) and 947C(6)	These sections require SOAs to be worded and presented in a clear, concise and effective method

Further ASIC guidance on SOA content

ASIC has released extensive regulatory guidelines providing financial planners with further guidance on SOA content and what it regards as good practice.

Regulatory Guides 168 and 175 are expansive and will re-pay your close reading.

Some observations include:

(i) **incorporation by reference**. A SOA may in effect indirectly include another document if there is a clear reference to it and the other document is available from the adviser at no charge. This incorporation by reference rule allows Internet hypertext links and similar devices to efficiently improve the information content and format of a SOA;

(ii) **extraneous (non-mandatory) material.** Such material, eg research reports, should be clearly labeled and distinguished from the mandatory material**;**

(iii) **clear, concise and effective** means be as brief as possible without compromising accuracy;

(iv) **highlight important information**, particularly where the SOA is long, say more than ten pages;

(v) **the longer the SOA** the greater the need for navigational aids such as table of contents, executive summaries and so on;

(vi) **no compendious documents.** SOAs cannot be combined with other documents such as financial services guides and product disclosure statements (section 947E);

(vii) **dates and time limits.** SOAs should be dated and any time limit on the applicability of the advice stated;

(viii) **presentation is important.** ASIC believes presentation is as important as content as far as client comprehension is concerned; and

(ix) **avoid generic formats.** SOAs should be tailored to the client and should not include generic research or irrelevant information.

Disclaimers

Disclaimers are a useful way of limiting potential liability for the SOA.

Section 945B effectively requires a disclaimer if for any reason a financial planner believes the information on which the SOA is based is incomplete or inaccurate.

Disclaimers may related to the class of persons who may rely on the advice, the time frame in which the advice remains current, the future investment performance of specific assets, the performance of the economy or specific sections of the economy, taxation issues, or future interest rates. Disclaimers should appear in the body of the SOA and should not be shoved off to/hidden in a, rear appendix.

Disclaimers are limited at law and, for example, cannot override a statutory obligation such as the disclosure of remuneration.

Statements of Additional Advice and Records of Advice

A Record of Advice ("ROA") may be used as an alternative to a SOAA. Section 946B deals with where a SOA is not required and allows a ROA to be used where:

(i) a SOA has been prepared within 12 months;
(ii) the client's relevant personal circumstances have not significantly changed;
(iii) the basis of the advice has not significantly changed; and
(iv) the client requires prompt advice, or it is in the client's interest that further advice be provided promptly.

For example, if a client rings and asks whether she should pay an extra $20,000 cash into a CMT trust you recommended in a SOA six months earlier, there is no need for a new SOA, and a ROA can be used to document your advice. However, if your client then asks whether she should borrow $100,000 to buy some USA shares, and the earlier SOA did not discuss this strategy, a new SOA would be required.

Is your advice limited to an approved product list?

Most AFSL holders only allow their representatives to advise on products included in their approved product list. Your SOA should clearly state this, and offer to provide a copy of the approved product list if the client wishes to view it.

Conflict of interest

Your SOA should clearly disclose any apparent or perceived conflict of interest connected to your recommendations.

An authority to proceed

The Corporations Act does not require a SOA to include an "authority to proceed" form, authorizing the adviser to implement the recommendations on behalf of the client. However, it is an industry convention and good practice to include such a document, at least as a sample, as an appendix to the SOA.

Each model SOA shown below includes and "authority to proceed" form.

What your SOA does not cover

Your SOA should clearly describe any relevant or potentially relevant matters that are not discussed in it. Examples of matters not discussed may include:

(i) taxation advice (and if appropriate recommend a source of taxation advice);
(ii) superannuation advice (and, if appropriate, recommend a source of advice);
(iii) general insurance (and if appropriate recommend a source of advice);
(iv) how to invest or otherwise deal with future cash flows connected to recommended investments.

Educational and research materials

It is good practice to provide educational and research materials to clients, or at least those clients who have expressed an interest in receiving such materials. These materials should be clearly marked as additional materials, and included by way of appendix or hypertext link, and not form part of the core materials.

The provision of generic educational and research materials does not replace the need for competent and complete advice, and full disclosure of all relevant matters under the Corporations Act.

Are there any model SOAs?

Most dealer groups can provide authorized representatives with sample or model SOAs. Most financial planning textbooks provide sample or model SOA, and recommended layouts and similar materials. Search engines can generate interesting precedents, although obviously some care is needed when the provenance of a particular document is not well known. An interesting example is a precedent obtained from the www.djcarmichael.com.au website on 15 August 2010 and can be accessed directly here: Sample SOA: use with caution

ASIC released a model SOA in RG 90 dated August 2005 and provided an extensive commentary to help explain the issues and the reasons it settled on the final form of the SOA. You can access RG 90 here: ASIC model SOA

The ASIC SOA focuses on Joe and Sue's life and income continuance insurance requirements. It aims to showcase how a SOA can be brief and concise yet still be an effective client communication and achieve all statutory compliance requirements.

The ASIC model SOA has attracted its fair share of public criticism. For example John Myatt of Turks Legal has questioned whether the ASIC has achieved this aim, and believes it is arguable that the sample SOA is deficient in a number of key respects. His thoughts are set out here: Has ASIC Done Enough? John Myatt of Turks Legal.

Whether ASIC has done enough in its sample SOA can be debated, but RG 90 remains a useful document to study. Readers should pay particular attention to ASIC's short form approach and its use of explanatory materials.

In June 2008 the Financial Planning Association released a statement of advice detailing a tax effective investment strategy for a middle aged married couple. The FPA SOA was discussed with ASIC before it was released, particular its allocation of 70% of assets to riskier growth assets.

The FPA model SOA was criticized for this heavy reliance on riskier growth assets, and whether this sort of a strategy is suitable for the model clients. For example, Macquarie University professor of economics Geoffrey Kingston told an audience at the 17th Colloquium of Superannuation Researchers forum in Sydney that:

"This investment advice is controversial for people who are nearing retirement," "My main objection to the model plan concerns the fact it recommends such a high proportion to growth assets, which are really risky assets.

"This investment advice does not take into consideration the risk return proposition in investment portfolios. The model plan view is that risk management is about trading off prospective high returns against prospective low volatility of returns."

"The FPA's next model plan should be supplemented by an insurance concept. The [current] model entails unsuitably high levels of risk for clients who want a

significant floor under the periodic payments from their account-based pensions and are on the cusp of retirement."

Professor Kingston's paper is titled "Financial Plans for Baby Boomers. How Much Risk?" and is dated February 2009. It can be read in full here: Professor Kingston's Paper on the FPA Model SOA.

The FPA should be complimented for tabling such a comprehensive document, and exposing its work to public scrutiny. Professor Kingston's analysis and comments display the inherent difficulty in ensuring that any SOA is suitable to the client and how two different advisers can have divergent views on what is suitable and what is not suitable to a particular client.

The Dover Model SOA

Dover has prepared a model SOA, with a particular emphasis on disclosure and ASIC compliance, and creating an effective client communication that covers all aspects of a client's business and investment life, including succession planning, and is not limited to a few financial products.

This model SOA is based on a financial planner as a client, who is interested in growing his practice and successfully transitioning to the new fee for service regime applying from 1 July 2012 on.

This model has secondary purposes of:

(i) exploring issues connected to business plans for financial planning firms; and
(ii) exploring issues connected to taxation planning for financial planning firms.

No liability is accepted for any deficiency or error in this model statement of advice.

The Dover model SOA is included in the attached appendix.

DOVER FINANCIAL ADVISERS

MODEL STATEMENT OF ADVICE
AND TAX PLANNING MEMORANDA
PREPARED FOR
JOHN SMITH
BY A MODELPLANNER
authorised representative No. (XXXXX) of
DOVER FINANCIAL ADVISERS PTY LTD
AFSL 307248
ABN 87 112 139 321
OF 71 TULIP STREET CHELTENHAM VICTORIA

16 September 2011

A Model Planner
Address
Contact details
Telephone number
amodel@optusnet.com.au

PART 1 EXECUTIVE SUMMARY OF ADVICE

Introduction

This part of the statement of advice summarizes our advice. If you do not understand or agree with any aspect of our advice you should contact us immediately to clarify the advice or correct any error or misunderstanding. There is no problem with a further meeting or a further statement of advice if you feel that this is appropriate.

Our Financial Services Guide was provided to you at our meeting. If you do not have a copy let me know and I will send you another copy as soon as possible. Product disclosure statements for each recommended financial product were also provided at our meeting and can be obtained from the product issuer's website or from our office. Please let me know if a further product disclosure statement is needed.

Our advice to you

We recommend you:

(i) apply for $1,000,000 of term life insurance with XYZ Insurances Pty Ltd as a superannuation arrangement so all premiums are tax deductible;

(ii) apply for $500,000 of trauma life cover with XYZ Insurances Pty Ltd;

(iii) apply for $120,000 a year of income protection insurance with XYZ Pty Ltd, with a 90 day waiting period;

(iv) invest your cash in paying off your home loan ($150,000) and completing your planned renovations/extensions ($200,000) once this is done, investing the remaining cash in the XYD Capital Stable Fund ($200,000)and the XYD Capital Growth Fund ($300,000);

(v) increase your employer superannuation contributions to $25,000 a year;

(vi) change your superannuation arrangements from the ABC Retail Fund to your own self-managed superannuation fund "(SMSF") ($700,000), and then arrange for your SMSF to invest in an index fund 60% - i.e. $420,000) and a cash management trust (40% - i.e. $280,000);

(vii) start a transition to retirement superannuation pension between age 55 and age 60 depending on circumstances that exist at that time;

(viii) start retiring early, and continue to work on a reducing part time basis to say age 72, depending on the circumstances that exist at that time;

(ix) transfer your business to a family trust, to create better future capital gains tax efficiencies and immediate income tax planning efficiencies;

(x) develop your business so it becomes independent of you and attracts a more favorable valuation multiple; and

(xi) arrange for a fresh will creating a testamentary trust in favor of your partner and children, which maximizes the prospects of defeating any related party action.

PART 2 CORPORATIONS ACT DISCLOSURE REQUIREMENTS

The Corporations Act 2001, and established industry "best practice procedures", prescribe a number of matters including disclosures and disclaimers which must be disclosed to you as part of this statement of advice. These matters are set out below.

Please do not hesitate to contact me should you have any questions or concerns and you should not act on our advice unless you are satisfied our advice suits your circumstances.

Referral arrangements and fees

We do not have any referral arrangements which could influence this statement of advice and we have not paid any person for referring you to us.

Conflicts of interest

We do not have any relationships that may create a conflict of interest or potentially influence our advice to you.

Salaries to staff

The payment of staff salaries does not influence our advice in any way.

Incomplete or inaccurate information

Our advice is only as good as the information it is based on, including the information you provide to us. If the information you have provided to us is incomplete or inaccurate you should not rely on our advice and you should contact us immediately to provide complete and accurate advice and we will then prepare a further statement of advice for you.

Do you understand our advice?

This information has been prepared in a clear, concise and effective manner. If for any reason you are not sure what we are recommending, or why, you should not rely on our advice and you should seek clarification and further explanations from us before acting on our advice.

Recommended product list

Our recommended financial products are limited to the financial products on our approved product list and do not include all available financial products.

The Dover approved product list is available to you if you wish to read it.

Risk disclosure and no guarantee of performance

All financial products including products presented as "capital stable" contain some risk. "Risk" means there is a possibility that you will lose capital value and/or the actual income from the financial product will be less than expected or some other aspect of the financial products performance will fall below expectations.

This risk derives from the general economic environment and the legislative environment as well as the specific circumstances of the product provider. Risk applies to the general class of financial products we have recommended as well as the specific financial products.

Further information about risk is set out in appendix 2.

We do not guarantee the performance of any financial products in any way.

Time limits and responsibility for implementing our advice

You should not act on any recommendation contained in this statement of advice after thirty days has elapsed since the date of this statement of advice without us confirming in writing that our recommendations are still suited to you.

You should not act on any recommendation contained in this statement of advice unless you instruct us to implement the advice for you. This is to ensure implementation is effective, is completed in accordance with accepted professional standards and is covered by our professional indemnity insurance arrangements.

We are not responsible for our recommendations if any other person implements them or if we are not asked to implement them for you, except as provided under the Corporations Act.

Annual review process

Our statement of advice should be reviewed on a regular basis to ensure it is appropriate to you. Economic conditions, the characteristics of a recommended financial product and your personal circumstances are all likely to change over time. You should request a review of your statement of advice if any of these change, and in any event within 6 months of this statement of advice.

The bi-annual review process is an integral part of your financial plan and the simplest and most cost efficient way to ensure your financial plan remains suitable to your circumstances.

No responsibility is taken for our recommendations if you do not request a review within 6 months of this statement of advice or if the underlying economic or investment conditions change adversely within 6 months of this statement of advice.

Cooling off period

There is a cooling off period of 14 days on most insurances and some managed funds and you may change your mind without penalty during this period if you acquire such a product.

Protection of personal information

Your personal information is protected by Dover Ethics, and the privacy laws. Your personal information will not be provided to anyone or used for any other purpose unless this is necessary to comply with the law. The Corporations Law requires your personal information to be retained by Dover Financial Advisers Pty Ltd for seven years.

Product disclosure statements

You should read all product disclosure statements provided to you and ask questions if you do not understand the information contained in them or require further information regarding the recommended products.

Wholesale investor (if client has been certified as a wholesale investor)

You have been certified as a wholesale investor by **Name of accountant** on **date of certification**[1]. This means that many of the Corporations Act 2001 disclosure and content requirements do not apply to this statement of advice. Nevertheless, as part of our commitment to good practice principles we have prepared this statement of advice as if these disclosure and content requirements apply to you.

[1] Bear in mind for superannuation products section 761G(6) states the trustee must be a trustee of a fund with more than $10,000,000. Few SMSFs meet this requirement.

PART 3 THE INFORMATION ON WHICH OUR ADVICE IS BASED

Scope of our advice

We met on 1 August 2010 to discuss all aspects of your financial position and what can be done to improve it. The scope of our advice is not limited to any particular, strategy, issue or product except as stated in the following paragraphs.

You are a financial planner, with two equivalent full time financial planners working with you, and your income at present is largely comprised of commission income including trailer incomes with a small amount of fee for service revenue.

You expressed general concern about whether you can afford to retire in ten years time at age 55 and whether it will be tax efficient for you to do so. We explained that we generally recommend self employed clients start retiring early, but never stop, and instead continue working on a reducing part time basis, with an appropriate succession plan included in their overall business plan.

You are interested in safe and secure investment strategies and are not interested in borrowing to invest. You are concerned about life insurance, income protection insurance and trauma insurance.

You are interested in superannuation and are currently a member of a retail superannuation fund, known as Aussie Care. You are concerned about costs and commissions and are interested in setting up and running your own self-managed superannuation fund.

You have asked for advice covering:

- your business structure;
- your business plan, and particularly whether and how you can transition to the new “no commissions’ regime applying from 1 July 2012 on;
- taxation planning;
- your life insurance, income continuance insurance, your trauma insurance;
- your superannuation, and whether you should set up a self-managed superannuation fund, what the fund should invest in and when and if you should start a transition to retirement pension;
- your tax planning strategies;
- your investment strategies, and in particular whether you should acquire certain managed funds; and
- estate planning and whether you need a power of attorney and a new will creating a testamentary trust.

Key financial data		
		Comments
Name	John Smith	
Address	10 Smith Street Smithsville	
Health	Good. No known medical complaints	
Age	47 (DOB 1 August 1963)	
Occupation	Run a small financial planning practice with four staff. Company format	Business has a low market value as presently constituted and is dependent on personal connections and knowledge and is largely commission driven
Relationship status	Not married but have a partner	Recommend you include your partner in your financial plan
Children	Two children, Jack age 15 and Jill age 19	Shared custody of son with mother. Jack is at school. Jill is a university student
Superannuation	$700,000 in a retail superannuation fund	
Home	$800,000	$150,000 non-deductible debt remaining
Other assets	$850,000 cash recently inherited from the estate of your late mother and accumulated from business activities	
Income	$280,000 a year salary from your company (has been at this level for the last three years). $12,000 of employer super. $5,000 car allowance. $40,000 of investment income.	
Annual consumption	$100,000 a year	
Do you have a current statement of advice?	No	
Do you have a current will?	No	Fresh will is urgently needed
Any other relevant comments?	Will only consider "balanced growth" classification	
Risk profile	Your business is risky and therefore want all other assets to be relatively low risk with low or no debt	We assume you have a conservative attitude to risk

You should let me know immediately if the above information is incorrect or inaccurate, or if any material information has been omitted from this summary.

You should not act on this advice until the information has been corrected or completed.

Your risk profile

We have discussed risk and you believe that you are a conservative/balanced investor and you do not want to commit more than 50% of your total investments (excluding your business and your home but including superannuation) to growth assets such as shares and properties and you prefer the balance to be predominately invested in cash deposits.

You do not want to invest using debt.

This means that your investment returns may be lower, but the risk of a negative return or even losing your capital is reduced compared to other investments.

Risk is discussed further in appendix 2.

PART 4: OUR ADVICE TO YOU

This part of our advice specifies our advice to you in detail. It also discusses other aspects of our advice, such as why it is appropriate for you, its advantages whether there are any disadvantages, the consequences of switching one product for another and the matters our advice does not cover.

You should read this carefully and let me know immediately if you have any questions or concerns regarding our advice.

Our advice covers:

- your business structure;
- your business plan, and particularly whether and how you can transition to the new "no commissions' regime applying from 1 July 2012 on;
- taxation planning;
- your life insurance, income continuance insurance, your trauma insurance;
- your superannuation, and whether you should set up a self-managed superannuation fund, what the fund should invest in and when and if you should start a transition to retirement pension;
- your tax planning strategies;
- your investment strategies, and in particular whether you should acquire certain managed funds; and
- estate planning and whether you need a power of attorney and a new will creating a testamentary trust.

Business structure recommendations

We recommend you change your existing company structure to a family trust structure, and then transfer your business from the company to the new trust.

This will improve your tax planning opportunities by allowing you to distribute business profit to your partner and your children, and will take better advantage of the capital gains tax (CGT) small business concessions on ultimate sale of your business to a third party.

Dover's legal team has estimated your tax savings will be more than $30,000 cash each year, but this needs to be confirmed by your own taxation adviser. We can arrange this confirmation for you.

Business plan recommendations

Businesses are the best investments and your business has the potential to earn significant maintainable profits above your salary/time reward in the business, and to be ultimately sold at a significant and tax free capital gain.

We believe you should create and implement a business plan to ensure this is achieved.

This business plan should contemplate at least a part time role for you after the normal retirement age of 65. Working past the normal retirement age, on a part time basis, is

recommended whenever a client enjoys their work, enjoys good health and has a balanced outlook and other active interests.

Succession planning and locating an appropriate buyer or buyers, perhaps from staff, for your business should feature in your business plan.

The key component will be your transition to a fee for service model by or before 30 June 2012, when commissions on new investment products (but not insurance products) cease. This represents a major threat to your cash flow, profitability and value and needs to be addressed well before 30 June 2012.

This transition requires you to:

(i) increase the number of your clients;
(ii) acquire and improve existing skills;
(iii) increase the range of services provided to your clients;
(iv) establish yourself as the principal advisor to your client on all business, investment and financial planning matters;
(v) ensure your fees are tax deductible wherever possible; and
(vi) change the culture to a sustainable fee for service model based on a mix of agreed fees and time based charges, with some commission income from risk insurance products. Fees should be charged in instalments over time for on-going monitoring and review of all recommendations and to make sure our recommendations stay relevant and assessable income is maintained and increased.

Increase the number of clients

This will be done by:

(i) moving to better placed and presented premises;
(ii) creating a new website;
(iii) direct marketing via letterbox drops;
(iv) local newspaper advertisements; and
(v) generally improving the quality of service and number of services.

Acquire and improve existing skills

Complete further external training and private reading in identified growth areas, including:

(i) SMSF advice;
(ii) risk insurance advice (to secure and increase your existing commission income);
(iii) estate planning principles, including will preparation through Dover's legal team;
(iv) basic taxation planning principles including negative gearing and advanced gearing, through Dover's tax planning team;
(v) business planning principles;
(vi) property advice and consulting, through Dover's real estate agent team;
(vii) direct share advice;
(viii) SMSF compliance, by arrangement with Dover;
(ix) Centrelink services; and

(x) tax return preparation service, by arrangement with Dover's tax agent team.

Increase the range of services provided to your clients

This is done by acquiring the skills listed at (i) to (viii) above and then introducing them to the increased number of clients, using team members rather than yourself wherever possible and using Dover Profit Improvement Program.

Establish yourself as the principal advisor to your clients

Create systematic and regular communications, using website, e-mail, and traditional mail.

Introduce regular six monthly meetings to discuss developments, up-date and extend statements of advice and introduce/explain/recommend new services.

Arrange controlled third party solutions so your clients do not need to deal with any other financial advisors such as accountants and solicitors. Become the doorkeeper on all financial matters, out-sourcing work to controlled contractors/associates as needed.

Ensure your fees are as tax deductible as possible

The Australian Taxation Office's views on the deductibility of investment advice fees are expressed in Taxation Determination TD 95/60. In summary they will be deductible to the extent that they are on-going management fees or retainers incurred in servicing or managing assessable income earning investments, including switching between such investments, and not related to the acquisition of new investments.

Tax advice fees charged by a registered tax advisor or a solicitor are tax deductible.

Business advice, such as ideas for a business plan or a marketing plan, and employer superannuation contributions, are generally tax deductible.

Fees for Centrelink advice, personal superannuation contributions and estate planning advice are generally not deductible.

You should review your fees structure to ensure your fees are as tax deductible to your clients as possible, as this reduces the after tax cost of your advice to your clients.

Change the culture of your firm

Improve the technical quality, aesthetic appearance and delivery of your statements of advice to create perceived value, using Dover para-planners where needed.

Introduce tax planning services where appropriate, by arrangement with Dover, to help improve your client's cash flow and net wealth position, and to make your advice a value adding proposition.

Introduce "set plays" such as negative gearing strategies, advanced gearing strategies, model portfolios, retirement planning strategies and similar strategies.

Demonstrate your value to your client in regular communications and bi-annual meetings.

Systemise the advice delivery process, without losing personality and individualism, to reduce costs and to allow you to increase volume.

Create a team by attracting and retaining talented staff and allowing them room to grow.

Change the content and form of your statements of advice to ensure they are tax deductible to your clients, where appropriate, thus reducing the after tax cost of your advice.

Communicate your fee structure to your client. Explain the advantages of the fee for service model, including potential tax deductibility, transparency and less scope for a perceived conflict of interest.

Emphasize long term, ie 20 year plus, relationships, and de-emphasize product placement.

Develop the form and content of your statements of advice to cover much more than just product placement, so they are a full and complete financial planning process.

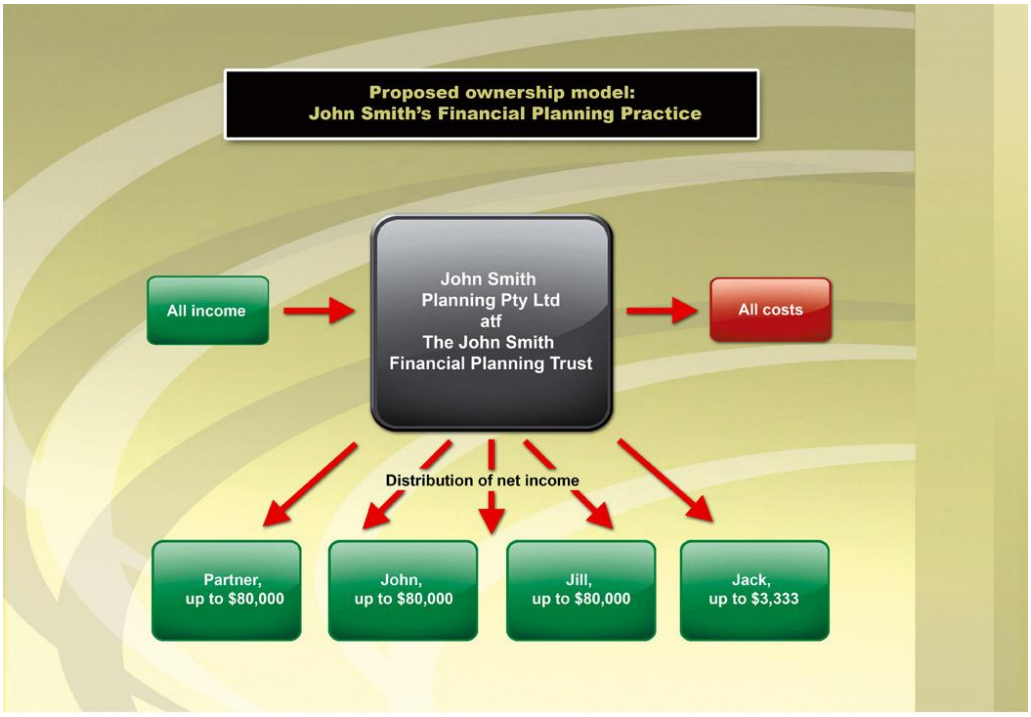
Implementing this strategy will maintain and increase your income streams/profits, and increase the value of the multiple applying to your practice, thereby significantly increasing your tax free capital value and the free cash flow available to invest in other investments.

Taxation planning

Your practice is a business for income tax planning purposes and this means there is no restriction on its legal form and you are able to own your practice through a family trust.

We recommend you transfer your practice from your company to a new family trust and run your practice through the family trust, and distribute and pay its net income (ie its profit) to your family members and, if necessary, an investment company to cap tax at 30%.

The idea is shown here:



The reasons for this recommendation include:

(i) payroll tax savings on what would otherwise have been your salary income;
(ii) more modern practice structure, amenable to future business plans including practice growth, acquisitions and mergers;
(iii) easy and simple to set up and run, with lower operating costs than a company;
(iv) legitimate tax planning deferral as you change from the pay as you go withholdings system to the pay as you go installment system;
(v) improved CGT efficiency, by becoming eligible for the 50% discount on assets owned by trusts for more than 12 months and
(vi) a potentially lower income tax liability on your overall practice profit depending on how the trustee distributes net income each year.

There will be a small CGT liability on transfer of your practice from the company to the trust.

Other tax planning strategies

You should pay maximum age based deductible super contributions of $25,000 a year.

You should employ Jack part time holidays and you should consider funding a $1,000 non-concessional contribution to trigger the Federal Government's $1,000 co-contribution.

You should provide each of your partner and your daughter Jill with an appropriate company car: there is no limit on the number of company cars able to be provided under the statutory method of computing fringe benefits tax.

You should consider paying deductible super contributions for your partner (assuming she is an employee for these purposes), up to her age based limit of $25,000), with a transfer back of these benefits to you under the spouse super transfer rules if appropriate.

You should consider paying deductible super contributions for your daughter Jill (assuming she is an employee for these purposes), up to her age based limit of $25,000.

You should arrange a study tour in the USA, to identity new trends in financial planning to help maintain and increase the assessable income from your existing business and professional activities.

You should consider progressively transferring your wealth to your SMSF, via large non-concessional contributions, to take full advantage of your SMSF's low tax rate (and its nil tax rate after you turn age 60 and start a pension). This means the investment income otherwise derived by you, and taxed at higher rates, will be taxed at lower rates.

Tax savings

We estimate these changes may save you up to about $70,000 cash a year, each year. This is shown on the following table.

Before and after tax profile

	Now		Soon	
	Income	**Tax**	**Income**	**Tax**
Jack's salary	$280,000	$103,750	$61,223	$12,835
Jack's super	$12,000	$1,800	$25,000	$3,750
Jack's investment income	$40,000	$18,600	Nil	Nil
Super's investment income	Nil	Nil	$40,000	$6,000
Partner's income	Nil	Nil	$61,222	$12,835
Daughter's income	Nil	Nil	$61,222	$12,835
Son's income	Nil	Nil	$3,333	Nil
Partner's super	Nil	Nil	$25,000	$3,750
Daughter's super	Nil	Nil	$25,000	$3,750
Super co-contribution	Nil	Nil	Nil	($1,000)
Tax deductible cars (est)	$5,000	Nil	$20,000	Nil
Overseas study costs	Nil	Nil	$15,000	Nil
Total	$337,000	$124,150 or 36.8%	$337,000	$54,755 or 16.2%

Notes

This table is indicative only and is subject to a number of assumptions regarding future events. All tax suggestions have been provided by Dover's legal team and need to be confirmed in writing as applicable to your circumstances before they are implemented. They should not be implemented without this confirmation.

Life insurance, income continuance insurance, trauma insurance recommendations

Our insurance recommendations are summarised in this table:

Insurance	Insured sum	Premium	Insurer	Specific policy
Term life insurance (through superannuation)	$1,000,000	$4,000 a year	XYZ Pty Ltd	"Life Forever"
Income protection	$120,000a year	$8,000 a year	XYZ Pty Ltd	"Life Forever"
Trauma	$500,000	$3,000 a year	XYZ Pty Ltd	"Life Forever"

A product disclosure document for "Life Forever" was provided to you at our meeting. Let me know if for any reason you need a replacement product disclosure statement.

The income protection will be a 90 day waiting period option to reduce your premium. The risk of a short term loss of income between 60 and 90 days is not significant to you.

The life insurance premiums will be included as deductible superannuation contributions in computing your age based superannuation limit of $25,000 a year.

These sums insured are sufficient to protect you and your family against the financial consequences of your premature death, trauma or a health event that stops you from earning an income.

Superannuation fund recommendations

We recommend you set up a self-managed superannuation fund ("SMSF") and that you transfer your existing benefits to it and arrange for all future contributions to be paid to it.
You have expressed interest in running a SMSF, you have sufficient benefits for the SMSF to be run on a cost efficient basis, and we expect that the operating costs will be less than the fees and commissions you pay now on your retail fund.

We recommend your SMSF invest in the Vanguard Index Australian Shares Fund (up to 40%) and the Macquarie Cash Management Trust (up to 60%), hand that over time it also invest in direct blue-chip shares through a low cost broker such as CommSec subject to further written advice at that time.

We recommend your SMSF invest in the VIASF because this fund does not pay commissions and has very low operating costs and is a simple way of investing in the Australian share market.

A product disclosure statement for each of a SMSF, the Vanguard Index Australian Shares Fund and the Macquarie Cash Management Trust was provided to you at our meeting. Let me know if for any reason you need a replacement product disclosure statement.

We will ensure you have replacement life insurance before the benefit rollover is completed.

Other superannuation recommendations

You should start a transition to retirement pension between ages 55 and 60, depending on circumstances that then exist, including your tax profile, the tax law, your salary level and whether you are still interested in working full time or part time.

After age 60 all investments in the SMSF and the pension paid to you will be tax free.

As age 60 approaches, and thereafter, you should consider paying non-concessional contributions to your SMSF, so that these income tax benefits are maximized.

You should ensure you pay the maximum concessional contributions for your age (currently $25,000 a year) each year (including the life insurance premiums through the super fund).

Management of your SMSF

We can handle all relevant compliance tasks for your new SMSF, including setting the SMSF up, its administration, its audit, its accounts and its tax compliance.

Our fees for this will be $1,500 plus GST to set up the SMSF and $3,000 plus GST a year for all aspects of its compliance.

Separate time based fees apply for any investment advice for the SMSF's investments.

Investment of cash reserves

We recommend that you use your cash reserves to:

(i) pay off your home loan ($150,000), since eliminating non-deductible debt is the best investment that presents to you, achieving a very high equivalent pre-tax return with virtually no risk;

(ii) complete your planned renovations/extensions ($300,000), which will add value to your capital gains tax free principal residence and improve the amenity of your home environment, which is an important lifestyle consideration; and

(iii) invest the remaining cash in the XYD Capital Stable Fund ($200,000) and the XYD Capital Growth Fund ($200,000) possibly owned by your SMSF, after a non-concessional contribution of $400,000.

The assessable income from the XYD Funds will be about $40,000 a year.

If the XYD units are owned by your SMSF the income will not be derived by you and will be taxed at 15% and nil % once you start a pension. If the XYD units are owned by you this income will be considered when distributing net income from the new family trust, so that your taxable income will not be more than about $80,000, being the point where the 30% tax rate ends and the higher 37% tax rate starts.

A product disclosure document for each of the XYD Funds was provided to you at our meeting. Let me know if you need a replacement product disclosure statement.

Issues connected to switching financial products

Section 947D of the Corporations Act requires additional information to be disclosed where a SOA recommends one financial product be replaced in full or part by another. We have recommended you invest the remaining cash in the XYD Capital Stable Fund ($200,000) and the XYD Capital Growth Fund ($200,000) possibly owned by your SMSF, after a non-concessional contribution of $400,000 and we have fully the relative merits of both these products and the original products.

We have recommended you do this to get a higher interest rate.

There are no significant costs connected to the recommended action. There are no other significant consequences of switching to these funds.

Estate planning recommendations

We will ask the Dover legal team to prepare a fresh will for you, leaving your estate to your partner and your children under a testamentary trust arrangement.

The will and related documents will be drafted to defeat a family maintenance action by your former spouse, to the extent possible under the law.

Our solicitors will also prepare a power of attorney medical treatment and an enduring general power of attorney.

Our fees for arranging this for you including procuring the wills this will be $1,000 plus GST.

Wills creating testamentary trusts normally cost much more than this if sourced direct from solicitors because of the significant extra time expended collecting and comprehending information already in our possession.

Why our advice is appropriate to you

We believe our advice is appropriate and is suitable to your personal financial circumstances as explained to us in our meeting and supported by your fact finder documents.

Our general business advice and the taxation planning advice provided by the Dover legal team shows how you can significantly increase your net wealth position while reducing your overall risk via diversification of income sources and lower tax liabilities**.**

If you die, having $1,000,000 of life insurance with a reputable insurer such as XYZ Pty Ltd will ensure all your debts can be paid out, your business will not be forced to be sold at a low price, and your family will have enough to fund a reasonable quality of life until your partner is able to resume employment and your children are financially independent.

We decided against having more than $1,000,000 due to your observation that you enjoy better than average health, are not overweight, do not take part in any risky activities and your family has a history of male longevity, such that you do not want to spend more on insurance since as you say “it’s a bet you will probably lose”. We are mindful that you have a reasonably high level of wealth, your partner is financially independent and your children, while dependant now, will be independent soon, and their current dependency does not represent a significant financial risk for your family.

Your business will have a significant value even if you die, and this reduces the need for high sums insured.

The recommended $500,000 of trauma life cover, supported by the recommended $120,000 of income continuance cover, (indexed until age 65 with a 90 day waiting period), represents sufficient insurance cover to allow you to deal with an unexpected serious illness or injury, and remain financially viable. Bear in mind our goal of your business becoming independent of you, and not needing you there on a day to day basis: this reduces the consequences of you becoming disabled.

The 90 day waiting period is not an issue because you have sufficient cash reserves, cash flow and borrowing ability to easily fund living costs in this period. Our real concern is the “bus that hits you but does not kill you” but leaves you unable to earn a living, and we believe these sums insured will provide sufficient long term security for you and your family, having regard to your estimated annual living costs of $100,000 cash a year (which realistically will fall as your children become more independent).

XYZ Pty Ltd minimizes the premium needed to obtain these sums insured compared to other insurers, without compromise on definitions/exclusions that may limit a claim. We have considered other life insurance policies and other life insurance providers but believe this is the best policy for you. We have dealt with XYZ in the past and our dealings have always been satisfactory. XYZ enjoys a good reputation in the industry.

Managed funds such as the XYD Funds are expected to achieve a reasonable rate of return in line with your long term objectives, without exposing you to undue risk outside your risk/return preferences.

XYD has sound management, a stable profit history and is an ethical fund manager. We have enjoyed a good relationship with this manager over the years and it has responded promptly and efficiently to all client questions and concerns.

The XYD funds do not pay commissions and have a very low cost structure.

Paying off your non-deductible home loan is a tax efficient strategy and although you do not earn any interest you avoid paying non-deductible interest, which greatly improves the effective after tax rate of return.

Increasing your deductible contributions to your age based maximum of $25,000 a year is a simple and tax effective way of building up your benefits and increasing the amount of transition to retirement pension payments potentially payable between age 55 and 60.

Your non-concessional contributions will have a similar effect.

You should be aware that all your contributions are preserved until age 55 at the earliest and will more probably stay in the fund until you are at least age 60 (at which time a transition to retirement pension will definitely start, and possibly until age 65 when you can access the benefits as a lump sum tax free without stopping work.

You have the skill and competence to set up and run a self-managed superannuation fund and this option will provide you with:

(i) lower costs;
(ii) more control;
(iii) less risk, since you control your money at all times; and
(iv) no commissions.

A 2010 Federal Government survey indicated self managed superannuation funds achieve significantly better results than both retail funds and industry funds.

Building up your super reserves now maximizes your ability to (start to) retire earlier than usual, say between age 55 and 60, rather than the conventional age 65 (or later under government policies). You identified this as a key objective in your financial planning.

The benefits of investing through superannuation include:

(i) a tax deduction for amounts paid to the fund;
(ii) low tax on earnings in the fund up to the time a pension is paid, and no tax thereafter; and
(iii) low or no tax on benefits paid by the fund.

This strategy allows you to start a transition to retirement pension at age 55 or 60 depending on your preferences to achieve tax free investment income and low taxed (under

age 60) or no taxed pension income, and helps achieve your stated goal of early retirement but continuing part time past the normal retirement age.

The pension strategy will not be activated for eight years, at least, and hence is very subject to change, whether it be a change in your circumstances or a change in the law, particularly the taxation treatment of pension payments made by superannuation funds.

A testamentary trust is a tax effective and asset protected way of making your sure your partner and children are provided for after your death, and minimizing the risk of the capital being lost through poor mismanagement.

Your estate planning is complicated by your relationship status and we recommend you engage Dover's legal team to advise you on the precise form and content of your will.

Dover's legal team will also be able to advise on related matters such as whether a binding death benefit notice or a power of attorney is needed.

Our other recommendations are suitable to you and are reasonable having regarding to your financial profile, your education and training, your work experience, your income level and your wealth level**.**

We have made sure the expected risk is within your express instructions and preferences.

PART 5: OTHER MATTERS REQUIRED TO BE DISCLOSED

Risks in our advice

The major risk in our advice is that the actual investment performance of the recommended investments will not meet the expected rate of return of 6% per annum over the next ten years due to economic conditions.

This risk is unavoidable and in an extreme case may mean the value of the units will fall.
This risk could also apply to the investments of your superannuation fund.

It is possible the law regarding transition to retirement pensions or other relevant laws could change before you are able to start such a pension.

Salary sacrifice strategies may have an effect on your employment entitlements such as long service leave and annual leave.

Any capital gain on disposal of your units in the XYD Funds may give rise to an income tax charge in your hands in the year of disposal.

What our advice does not cover

Our advice does not cover general insurance.

We have not considered taxation apart from salary sacrifice superannuation contributions, a family trust, deductible overseas travel and cars and similar matters. We believe your income tax profile is inefficient and can be improved. We are able to arrange for a more detailed review of your taxation planning profile through McMasters' Solicitors, Accountants and Financial Planners at a cost of $3,000 plus GST. Please let me know if you wish us to arrange this review for you. This should be considered in our next meeting after our initial recommendations are completed.

We have not considered property investments. We are able to advise on property through Buying Bayside, a REINSW and REIV estate agent and recognized property experts. This should be considered in our next meeting after our initial recommendations are completed.
We have not considered cash flow specifically as your current living costs are well below your after tax income and cash flow management is not seen as an issue.

We have not completed a risk analysis questionnaire as your instructions on risk appear reasonable and in line with established industry norms and expectations regarding risk.

Does our advice have any disadvantages?

There are minor transaction costs connected to each recommendation, including possible bank fees on early repayment of your home loan, withdrawal fees on early exit from the XYD Funds and management fees for each of the XYD Funds and the Vanguard fund.

Our recommended investments do not include underlying assets from each major asset class or geographic region. This means you may not benefit if these underlying assets generally rise in value.

We are not aware of any significant disadvantages connected to our advice

Consequence of replacing or switching one financial product with another

We have not recommended you replace one financial product with another other than changing from your retail superannuation fund to a self-managed superannuation fund.

The advantages and disadvantages of this "switch" are disclosed and discussed above and in summary you will experience lower costs, no commissions and we expect better investment performance than with your retail superannuation fund.

There are no significant entry or exit costs connected to this strategy and there are no lost benefits or advantages.

The CMT does not pay commissions.

Other matters

Your advisor may be paid a salary by the Corporate Authorised Representative.

What are our fees?

Our fees are summarized in this table:

Service	Fee to set up	Estimated annual fee
Attendance at initial meeting and preparation of this statement of advice and related compliance tasks	$3,000 plus GST	
Completing your business plan	$3,000 plus GST	
Setting up a SMSF	$1,500 plus GST	
Arranging your will and related estate planning matters	$1,000 plus GST	
Arranging your insurances	$2,000 plus GST	
Arranging your XYD investments	$1,000 plus GST	
Arranging your Vanguard and CMT investments	$ 500 plus GST	
Arranging your new trust and related transactions	$3,000 plus GST	
Arranging a tax planning report	$2,000 plus GST	
Annual accounts and related compliance SMSF		$3,000 plus GST
Annual review		$1,500 plus GST
	$17,000 plus GST	$4,500 plus GST

This table should be completed wherever commissions are paid.

Product	First year premium	Our share of initial commission	Dover share of initial commission	Our share of trailer commission	Dover share of trailer commission
Life insurance					
Income continuance					
Trauma insurance					

The XYD Funds both charge a management fee of 0.5% per annum, being about $X a year, and the Vanguard Index Australian Shares Fund charges a management fee of 0.4% per annum, being about $X a year.

No other benefits will be received in any way including back office subsidies, non-cash fringe benefits or so called "soft commissions".

The above summary is a full and complete disclosure of all fees and commissions payable to us in connection with our recommendations. This includes:

(i) time based fees;
(ii) first year commissions;
(iii) later year commissions whatever they may be called;
(iv) any indirect benefits;
(v) any soft commissions such as sponsored overseas travel and similar benefits.

Tax deductions for our costs

The annual costs of $4,500 are tax deductible. Of the $17,000 set up costs, $6,500 plus GST are tax deductible, on a time spent apportionment basis. This should be confirmed by your tax agent as you lodge your tax return.

The next step

The next step is for you to read and understand this statement of advice and the recommendations it contains. You should contact me immediately if for any reason you do not understand any part of this advice.

If you wish to proceed with the advice you should sign the attached "Authority to Proceed" Form and forward it to us.

We will not implement the advice without receiving this authority from you.

We will need to meet again to discuss some of the detail and in particular the estate planning and taxation planning issues and the business plan issues.

Do you need more information?

Please do not hesitate to contact us if more detailed explanations and expansions are needed. This can be done by meeting, teleconference or e-mail, and we recommend this happen if for any reason you are unsure of what we are recommending or what you need to do to adopt our recommendations.

It is also important that you communicate with us if you experience major changes in your circumstances as it might be necessary to make adjustments to the recommended strategy.

Yours faithfully

A Model Planner Pty Ltd ABN 45 VVV 672 TTT
Corporate Authorized Representative of Dover Financial Advisers Pty Ltd AFSL 307248; ABN: 87 112 139 321
71 Tulip St, Cheltenham Vic 3192
Telephone: (03) 9583 6533
Fax: (03) 9583 6733

APPENDIX 1 AUTHORITY TO PROCEED

This is the Authority to Proceed referred to in the Statement of Advice dated 16 August 2010 prepared for John Smith by A Model Planner being an authorised representative number XXXX of Dover Financial Advisers Pty Ltd of 71 Tulip Street Cheltenham Victoria.

I confirm that:

(i) I have read and understood the statement of advice;

(ii) I accept its recommendations;

(iii) I agree with its assessment of my risk preferences;

(iv) I accept the disclosed fees and charges;

(v) I have received and read a financial services guide;

(vi) I have received and read a product disclosure statement for each financial product recommended in the statement of advice;

(vii) I authorise the release of my tax file number and similar information to be released to financial institutions and used on documents where a tax file number must be shown or declared;

(viii) I have returned this authority to proceed to A Model Planner as confirmation of my instructions;

(ix) I authorise A Model Planner to proceed with implementing the recommendations

(x) the information underlying the advice is complete and correct;

(xi) all my questions have been answered; and

(xii) the recommendations meet my goals and objectives.

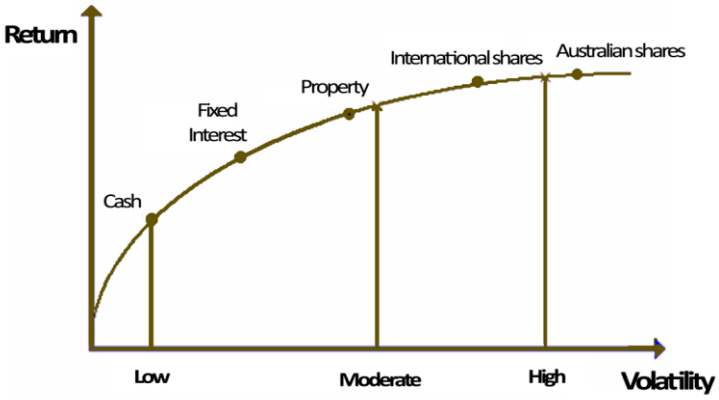
Date	Signature	Name (print please)

APPPENDIX 2 MORE INFORMATION ABOUT RISK AND YOUR ATTITUDE TO RISK

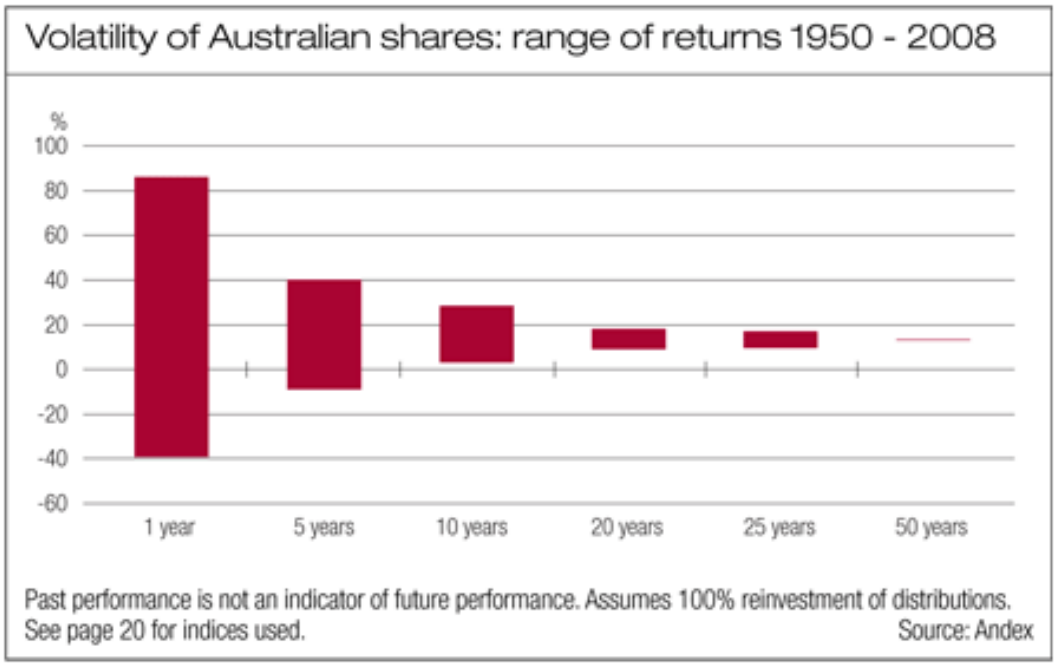
Investing involves risk. Risk is the chance that an investment will not give you the returns you hoped for or that you will lose money. Almost all investments have risk, but some have more than others.

Generally, investments that are expected to pay higher returns involve more risk. Examples of risky assets are shares and property. While these investments are likely to produce higher returns over time than more conservative investments, over short periods they can fall in value and lose money.

The relationship between risk and return in different asset classes is depicted in this graph:

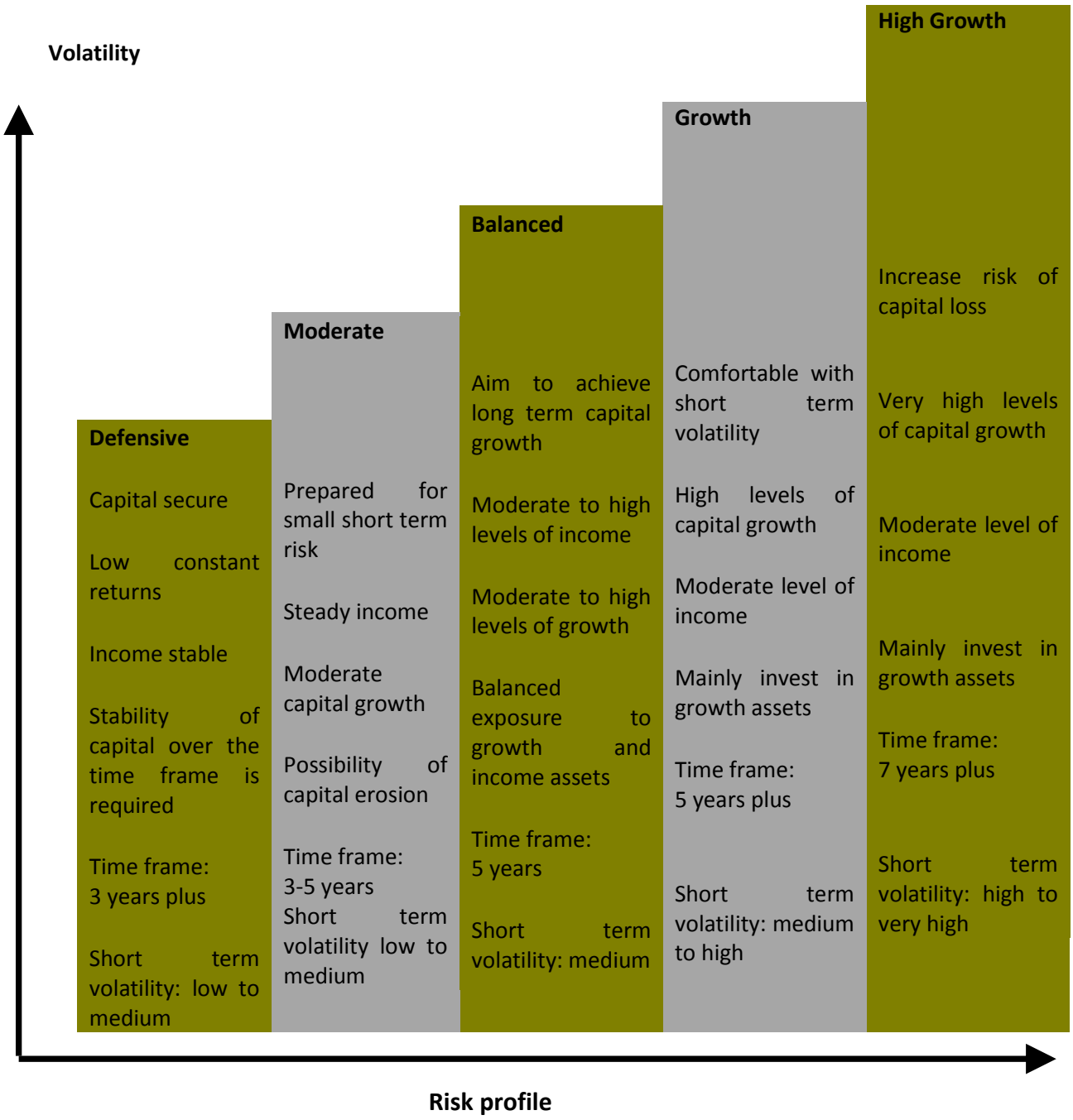


The graph below illustrates how shares are a risky short term investment, but are not very risky over the long term:



Once a 10 year time frame is considered, the Australian share market, as measured by the All Ordinaries Index, has never lost money. Therefore, if your time frame is more than 10 years, you should consider having a reasonable proportion of shares in your portfolio.

YOUR RISK PROFILE



We understand that you are comfortable taking a long term view on your investments, and understand that short term price volatility does exist when investing in growth assets. You have told us that you have a **conservative risk profile** given that:

- you have a long term investment horizon for your superannuation (at least 8 years until you can begin to access your superannuation benefits at age 55);

- you are prepared to accept fluctuations in the value of your investment over the short to medium term; and
- your occupation as a self-employed business man is relatively risky and you want your investment and retirement strategies to compensate for this, by assuming lower risk.

We believe you should be classified as a “Balanced Investor” in the above table.