# Broking: Legislation, Regulations, Codes of Practice

written activity

1. Relevant Legislation, Regulations and Codes of Practice.

In a manner that would be appropriate to include in the induction package of a new employee, identify and outline the legislation, regulations and codes of practice that affect the broking industry.

This task must be completed within 45 minutes.

1. Key Products Available In the Broking Industry.

Develop an information flier explaining at least 3 of the key products available in the broking industry.

Fliers must be completed within 30 minutes.

1. Organisational Guidelines and Procedures on Assessing Impact of Risks and Documenting Broking Recommendations.

Conduct some research and detail the common organisational guidelines and procedures that are to be applied for assessing the impact of risks and for documenting broking recommendations.

This task must be completed within 30 minutes.

1. Relevant Risk Issues.

In a manner that would be appropriate to include in the induction package of a new employee, explain the risk issues that relate to each of the following:

1. Borrowing risk and gearing.
2. Economic risk.
3. Specific product risk.
4. Institutional risk.
5. Risk factors and return expectations of the client.
6. Volatility of income and capital.

This task must be completed within 45 minutes.

4-5 line response required for below questions

1. What information do you need to identify when you are exploring and discussing with client’s risk issues and tolerance?
2. Why is it important to ensure that discussions with clients are conducted comprehensively and ethically?
3. Briefly explain how to use a risk profile to assess the impact of risks to the client or organisation.
4. What methods could you use to engage in further questioning and information gathering if you have not gathered sufficient information to complete an adequate risk profile? Discuss at least 2.
5. Briefly discuss the types of information that you would include on complaints resolution, both internal and external, in the client materials.

## Answer

****Relevant Legislation, Regulations and Codes of Practice****

****Consumer affairas act**** – this legislation is controlled by the minister for consumer affairs and following are the areas covered in this law:

o Credit Act 1984

o Consumer Credit (Victoria) Act 1995

o Credit (Administration) Act 1984

****Australian**[Consumer Law](https://www.abcassignmenthelp.com/competition-and-consumer-law-assignment-help)** – In order to provide fair trading and consumer protection Australian consumer law is applied. This is a national law, and Australian Competition and Consumer Commission (ACCC) controls it.

****Consumer credit code**** – Australian government built a division known as  ASIC or Australian Securities and Investment Commission (ASIC) to control the National Consumer Credit Protection Act 2009 (NCCP) (Henley, 2004).

****Contract law**** – This law comes under the Common Law and it

covers rules regulations that are aimed to enforce specific commitments. Mainly there are five types of Contract law

o Remedies for breach of contract

 o Scope and content of contracts

o Contractual information

o Avoidance of contractual obligations

o Performance and termination of contracts

****Corporations Act**** – The Corporations Act 2001 is Commonwealth legislation that controls businesses in Australia with respect to development, fundraising, takeovers, and responsibilities of higher authorities.

****Disclosure of any conflicts of interest**** – ASIC defines conflict of interest as the cases where some or all of the clients (interests of people) to whom a licensee (or its agent) provides financial services are incompatible with, or diverge from, some or all of the clients of the agents or its representatives.

****Industry codes of conduct and practice**** – In finance business there are several different codes of conducts that are required to be followed. Following are the code of conduct involved in the finance industry:

o General Insurance Code of Conduct

o Code of Banking Practice

o Customer Owned Banking Code of Conduct

o Insurance Brokers Code of Conduct

****Insurance act**** - The Insurance Act of 1973 Act of Insurance and the 1984 Act of Insurance Contracts are the laws that monitor the insurance industry. The Act of 1973 includes items that cover the safety and minimum levels of capital, while the Act of 1984 assures a that the interests (capital) of both consumers and providers are preserved fairly.

****State and territory legislation**** – There are different laws of different starts that support the Laws of Commonwealth.

****Competition and Consumer Act 2010**** – This Act was stated in order to replace the old Act of 1974, Trade Practices Act 1974.  Competition and Consumer Act 2010 is simply made to “enhance the well-being of Australians by using the act of competition and fair trading and provision for consumer safety”

****Trust law 1973****  – The trust Act of 1973 outlines the rights and responsibilities of trustee and beneficiaries. This law helps in main maintain a relationship in which the trustee holds property or rights for the benefit of the beneficiaries.

****Availability Of The Key Products In the Broking Industry****

****Direct investments**** - According to the International Monetary Fund (IMF) Direct Investment is known as the investment that is done in order to get the permanent interest in an industry which is operating in an economy rather than that of the investor. The main purpose of the investor's in the management is to have a powerful voice. In practice, this transposes through an equity holder of 10 percent or more in the outside firm

****Loan products**** – The loan products are giving money for specific time period while charging interest on money. It include home loans, consumer loans etc (LeVine, et.al.,2001).

****Insurance products**** - A common financial systems through which an insurer states the guarantee to pay on covered claims is known as the Insurance Product. To get the insurance on a product consumer agrees to pay a monthly premium cost to the insurer company.

****Organisational Guidelines and Procedures on Assessing Impact of Risks and Documenting Broking Recommendations.****

Each client is prepared to take a different level of risk. With interaction and conversations with the client, broker can determine the best level of investment risk client can take.

Finding of these risks takes following three factors into consideration:

* The risk required – the gain on investment that the buyer is endeavoring to get to his goals comes under this factor.

• The risk tolerance – the level of risk that stays within the comfort zone of a client.

* The risk capacity – a physical number or level of financial risk that the client can able to take (Saunders & Cornett, 2003).

From these procedures, assessment of risk impact can be done quite simply.

****Following are organizational guide for documenting broking recommendation****

Client details must be there

A summary of client details must be mentioned alongwith goals and objectives

Recommendations outline must be provided with explanation

Risk assessment with recommendations

Specific advice if any

External/internal complaint process must be mentioned

Fee and charges

****4. Relevant Risk Issues.****

1. Economic risk - This risk is applied in case of both domestic and international investment. In case of domestic investment, the return on investment such as shares and property might get affected by the economic factors.
2. Institutional risk- This risks involve the postulates that are made concerning the false institutional performance. For example, the institutional failures or the market failure only ocurs where no one expected. In case of Institution client should be aware that the risks linked with potential nonperformance.
3. Borrowing risk and gearing - This means borrowing the funds to invest in a particular stock or commodity. This can be a risky business but because of the high returns when markets are rising.  In Borrowing risk and gearing the losses can be huge in case the market drops.
4. Specific product risk- There is always a degree of risk is associated with all the products. For instance, an Interest Only provide the Loan the risk that the asset carries has decreased over the interest-only, while the principal amount will stay the same.
5. Risk factors and expectations on returns by the client- There is nothing that assurance that Investment Advisors will reach or surpass clients’ expectations. However, the agent never uses the falsities and alter the material facts on their deal with clients and proposed clients.
6. Volatility of income and capital- The risk concerning the size of changes in a security value of the chances of uncertainty is known as Volatility. Higher volatility refers to the security values that can potentially be cast over a more extensive range of values. While lower volatility implies that security values do not vary dramatically, but does changes the value at a steady speed over time.

****QUESTION AND ANSWERS****

****1. What information do you need to identify when you are exploring and discussing with client’s risk issues and tolerance?****

At the first meeting with client, it is important to clarify the reason behind initial discussion. Broker should encourage client to share information about objectives, aspirations and needs. It will help broker to analyse about client’s risk profiling. An initial rapport or trust enables broker to get details about client’s risk issues.

****2. Why is it important to ensure that discussions with clients are conducted comprehensively and ethically?****

Financial services are very crucial for anyone as it involves the hard earned money about individual. Hence, it is likely to expect from the point of client to talk clearly with transparency. Transparency can only be maintained with comprehensive and ethical conduct of broker.

1. ****Briefly explain how to use a risk profile to assess the impact of risks to the client or organisation.****

Risk profiling help to address the client’s attitude towards risk. It also addresses client’s risk capacity. Determination of risk profiling of spouse/ business partner also help to discover about the attitude of client towards risk. The recommendations about suitable products largely dependent on risk assessment of client, which can’t be completed without risk profiling.

****4. What methods could you use to engage in further questioning and information gathering if you have not gathered sufficient information to complete an adequate risk profile? Discuss at least 2 methods?****

Risk Profile Questionnaire- It contains many questions to judge the client’s attitude towards various financial outcomes. Each response has particular grade and overall score is calculated. The score is compared again risk profiling categories. The categories range from conservative to aggressive.

Risk Tolerance method- in this tool, a scale is prepared. Client is asked to tick on particular place on scale. The scale usually has five-ten points. It ranges from low risk tolerance to high-risk tolerance.

1. ****Briefly discuss the types of information that you would include on complaints resolution, both internal and external, in the client materials.****

The contact details of person or department or team who are responsible for complaint must be mentioned in complaint resolution. It should also attach a complaint copy from client.