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CONFIDENTIAL

29 January 2018

By email

FSRCSolicitor@royalcommission.gov.au

Dear Sir or Madam

Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry

We refer to your letter of 15 December 2017 and respond as follows adopting your numbering.

Mortgage Choice

Mortgage Choice Limited is a public company listed on the ASX and included in the ASX 300. It holds an Australian Credit Licence (ACL) to act as a credit intermediary and it holds an Australian Financial Services Licence (AFSL) through its wholly owned subsidiary Mortgage Choice Financial Planning Pty Ltd (MCFP) that allows its Authorised Representatives to provide advice to consumers on Tier 1 products. The Company distributes credit advice, primarily on residential lending, and financial planning advice services to consumers through a franchise network of 490 independently owned small businesses across Australia. Mortgage Choice represents a strong financial brand that is well respected in the market and has delivered quality service to consumers for over 25 years.

Separate compliance functions exist in the broking division and the financial planning division (the latter of which is in part externally resourced). These functions undertake training as well as comprehensive audits and reviews of our Credit Representatives pursuant to our ACL and our Authorised Representatives under our AFSL. Further details of these compliance functions and the related policies and procedures are set out in the Appendix 1.

Our philosophy is to:

- promote a culture of compliance throughout the Company and the franchise network;
- create an understanding of the relevant laws at all levels;
- minimise the possibility of a contravention of the law and manage any legal risk;
- enhance the Company's corporate image and customer service; and
- market, promote and sell the Company's services in a way that is competitive, ethical, honest and fair, and in compliance with the law.

The Company implements this philosophy through several mechanisms. First and foremost through a strong compliance culture which is described throughout the remainder of this letter. But at the core of Mortgage Choice's offering to the public is our "Paid the Same"

philosophy. Our brokers are paid based on the average rates we receive across our lender panel. This reduces the incentive on the broker's part to place an application with a particular lender based on commission levels. Our advisors only charge a flat fee for financial advice and receive commission on risk insurance products based on the average commission rate across our insurance panel. Again, the advisor is not incentivised to place the insurance contract with a particular insurer based on commission levels. All brokers and advisors have always been required to register soft dollar payments and we applaud that this will now become the standard across the broking community as it has been in the financial planning community. Volume bonuses are no longer paid in the broking sector but when they were, volume bonuses were shared across the network without reference to which lender that paid them and or the lenders used by the individual brokers. Our financial planning business, started in 2012, has been structured from day one to be FOFA compliant.

The centrepiece of any compliance program is education. We use a web based tool which covers the key legislative and regulatory obligations: Competition and Consumer Law, Privacy, Equal Opportunity, Workplace Health and Safety, Technology, Franchising, National Consumer Credit Protection Act, Anti Money Laundering and Counter Terrorism Financing. Staff are required to complete all modules relevant to their roles and must repeat the program at prescribed intervals. The program has also been rolled out to the franchise network.

The Company expects its employees, franchisees and Representatives to actively support its compliance program. It is each employee, franchisee and Representative's responsibility to make use of the training systems and support offered by the Company. Non-compliance with the law or failure to comply with the compliance program is treated as a serious matter that can result in disciplinary action, including termination.

Commonwealth Bank, Westpac Bank, Macquarie Bank and other lenders have conducted reviews of our compliance processes and systems. Feedback has been positive and, we have sought to incorporate opportunities for improvement identified as part of the external reviews into our processes. We have obtained an independent review of our adherence to our AFSL requirements and have received a positive result in relation to it.

Questions

1. ***Excluding cases of theft from the entity itself, or from an associated entity, has the entity identified any misconduct by the entity (including by its directors, officers or employees, or by anyone otherwise acting on its behalf) which occurred at any time after 1 January 2008? If so, what is the nature, extent and effect of that misconduct?***

We have identified, from record searches to date, a number of incidents during the relevant period concerning the conduct of Credit Representatives acting under Mortgage Choice's ACL or Authorised Representatives acting under the AFSL of our wholly owned subsidiary Mortgage Choice Financial Planning Pty Limited (MCFP). The incidents described below have been divided by license and relate to matters where arrangements with the representatives involved were terminated. In the time available, it has not been possible to review all of our records over the last 10 years to identify which ones might respond to the technical definition of "misconduct" in the Terms of Reference or which raise questions as to whether or not community standards and expectations have not been met.

Credit License

(Note: Due to contractual confidentiality obligations, we are not able to provide in this voluntary response details of individuals or incident dates that may identify them.)

Incident 1

Loan writer and franchise principal had accreditation revoked by a lender due to falsification of a customer signature. The loan writer's appointment was ceased and they were removed as a shareholder and director of the franchise business.

There was no financial loss incurred by the customer.

Incident 2

Franchise was voluntarily surrendered as the result of arranging loans for customers in order to fund businesses owned by the franchisee. The Franchise was re-purchased by the Franchisor and the customer loans repaid.

Incident 3

Credit Representative informed a customer that a loan application had been submitted to a lender when no application had been submitted. A false loan approval document was also provided to the customer. The Credit Representative and the associated Franchise were terminated.

There was no financial loss incurred by the customer.

Incident 4

Private funding was arranged with customers through the establishment of a separate company under a credit licence without the permission of Mortgage Choice and operating under Mortgage Choice branded offices. The Credit Representative failed to rectify the matter when requested and the Credit Representative status and franchise business were terminated.

No customer losses have been recorded.

Incident 5

Credit Representative was terminated on the basis of falsifying loan approval letters and customer signatures.

There was no financial loss incurred by the customers.

Incident

Credit Representative status and franchise business were terminated as a result of falsification of income verification documents and misstatement of customers' financial positions.

There was no financial loss incurred by the customers.

Incident 7

Credit Representative and director of business had accreditation revoked by lender due to non-disclosure of full liabilities in customer applications. The Credit Representative status was ceased and the Credit Representative removed as a director and manager of the franchise business. Mortgage Choice arranged the employment of a dedicated

Compliance Officer (which reported to Mortgage Choice group office) in the franchise business to provide additional oversight of adherence to compliance procedures at a local level.

There was no financial loss incurred by the customers.

Financial Services License

Incident 8

Authorised Representative failed to provide a Statement of Advice to three customers. The Representative was subsequently subject to remedial training and supervision. The matter was reported to ASIC on 11 September 2013.

There was no financial loss incurred by the customers.

Incident 9

Authorised Representative failed to provide a Statement of Advice to three customers. The appointment of the Representative was subsequently revoked and their employment terminated. The matter was reported to ASIC on 24 October 2014.

There was no financial loss incurred by the customers.

Incident 10

Authorised Representative failed to provide a Statement of Advice to ten customers. The failure was identified through internal monitoring and compliance. The appointment of the Representative was subsequently revoked and their employment terminated. The matter was reported to ASIC on 22 April 2016.

There was no financial loss incurred by the customers. In some instances, advice fees were refunded to customers.

- 2. *Has the entity identified any conduct, practice, behaviour or business activity it has engaged in (including by its directors, officers or employees, or by anyone otherwise acting on its behalf) since 1 January 2008, which it considers has fallen below community standards and expectations? If so, what is the nature, extent of that conduct, practice, behaviour or activity?***

Expected Behaviour

At Mortgage Choice we define the expected level of behaviour of both our directors and staff as well as the expected level of behaviour across our franchise networks. This is set out in a number of documents, which we describe in summary below:

Corporate Code of Conduct

The Company has adopted a corporate code of conduct that applies to all employees setting out their legal and ethical obligations to key stakeholders including shareholders, franchisees, employees, customers and the community.

The Company has also adopted a specific code of conduct for Directors and senior executives setting out required standards of ethical behaviour expected of each person. The purpose of this code of conduct is to:

- articulate the high standards of honesty, integrity, ethical and law-abiding behaviour expected of Directors and senior executives;
- encourage the observance of those standards to protect and promote the interests of key stakeholders (including shareholders, franchisees, employees, customers, suppliers and creditors);
- guide Directors and senior executives as to the practices thought necessary to maintain confidence in the Company's integrity; and
- set out the responsibility and accountability of Directors and senior executives to report and investigate any reported violations of this code as well as any unethical or unlawful behaviour.

Franchise Operational Standards

All Credit Representatives and Authorised Representatives operate under Mortgage Choice licenses. There are no freestanding licenses operating in either the mortgage broking network or the financial planning network. Brokers and advisors are only allowed to hold representative status under one of our licenses (i.e., a broker cannot be an advisor and vice versa). The franchise networks of Mortgage Choice Limited and MCFP, and therefore the Credit Representatives and Authorised Representatives employed by the Franchisees, are subject to similar standards of behaviour as staff.

Standards of behaviour are set out in representative appointment letters as detailed below as well as in the Operating Manual of both franchise networks. Deviation from those standards represents a default of the respective appointment letter or the franchise agreement. Failure to rectify a default of the individual appointment letter will result in termination of an individual's ability to give either credit advice or financial advice. Failure to rectify a default of the franchise agreement may result in termination of the agreement.

Credit Representatives

A Credit Representative s appointed under an individual appointment letter is required to:

- act efficiently, honestly and fairly;
- exercise the care and skill expected of a skilled professional;
- ensure that no client is disadvantaged by any conflict of interest in relation to the Franchisee, you or the client; and
- comply with any directions given to you by Mortgage Choice or the Franchisee.

And when in engaging in any credit activities the Credit Representative must **not**:

- make any untrue, misleading or deceptive statements or engage in any misleading, deceptive, unfair or unconscionable conduct;
- withhold any material information from Mortgage Choice, the Franchisee or any client;
- do anything which could adversely affect any insurance maintained by Mortgage Choice or the Franchisee; or
- amend any documents supplied by Mortgage Choice for use in connection with credit activities.

Authorised Representatives

An Authorised Representative appointed under a MCFP Authorised Representative Deed must:

- only provide the Authorised Financial Services in accordance with the Authorised Representative Deed;
- comply with the Authorisation, operations manual, policies, guidelines and codes of conduct;
- comply with the Relevant Law;
- comply with any directions and instructions given by the MCFP or the relevant employer relating to the provision of the Authorised Financial Services monitoring, supervision and training;
- meet and maintain the competence, training, education, knowledge, skill and experience necessary to carry out the Authorised Financial Services and as required by the MCFP from time to time;
- undertake any training reasonably required by the MCFP or the employer;
- notify the Licensee or the Corporate Authorised Representative of any breach (actual or suspected) of the Deed (which includes breach of a Relevant Law) within the same working day of becoming aware of it;
- not do any act or omit to do any act which might cause the Licensee to:
 - be in breach of its Licence or a Relevant Law or which might render its Licence to be suspended, revoked or cancelled; or
 - incur a liability;
- provide the Authorised Financial Services with due care and skill and to the best of its knowledge and expertise in order to meet the requirements of the Relevant Law and the Deed;
- provide the Authorised Financial Services and engage in conduct relating to the provision of the Authorised Financial Services efficiently, honestly and fairly;
- notify the Licensee or the Corporate Authorised Representative of any complaint or dispute with Clients as soon as it is aware of such complaint or dispute; and
- maintain a complaints register as a record of all Client complaints or disputes in accordance with the Manuals.

Monitoring Behaviour

There are several sources of information we use to measure whether the conduct of our brokers and advisors falls within community standards:

- results of internal audits and reviews per our compliance procedures as described in detail in Appendix 1 and as such are not discussed further in the body of this letter ;
- customer feedback and complaints;
- compliance controls embedded in our broking IT systems; and
- lender feedback and requests for review.

Customer Feedback and Complaints

Customer Feedback

Mortgage Choice solicits feedback from its customers for those that proceeded to a settled home loan and from those that did not proceed with a loan application. We also solicit feedback on the experience of our financial planning customers. The results of customer surveys are shared with our franchise business owners to focus their attention on customer outcomes. The results of the surveys are also shared with our corporate field staff to ensure all concerns are followed up with the appropriate broker or advisor.

Customer Complaints

Mortgage Choice has internal dispute resolution processes under both its ACL and AFSL and is a member of the Credit and Investments Ombudsman (CIO).

Mortgage Choice is committed to the prompt actioning of all customer complaints and the satisfactory resolution of all formal disputes. The process recognises the need to be fair both to the complainant as well as the franchise business including any individual against whom a specific complaint is made.

The complainant has the right to:

- be heard;
- know whether Mortgage Choice's service guidelines have been followed;
- provide and request all relevant material to support the complaint;
- be informed of the criteria and processes, including the avenue for further review, applied by Mortgage Choice in dealing with complaints;
- be informed of the response of the person complained about;
- be informed of Mortgage Choice's decision and the reason for that decision; and
- know that the complaint is being reviewed independently and, if requested, confidentially, if possible.

Mortgage Choice, its franchisee and Representatives have the right to:

- assemble sufficient detail about the complaint to enable Mortgage Choice to properly investigate and respond to the complainant;
- place all relevant material before the person investigating the matter; and
- be informed of the decision and the reason for that decision.

Our Customer Charter and Credit Guide and the MCFP Financial Services Guide outline the contact details for the respective internal dispute resolution functions and the contact details for the Credit and Investments Service should the customer be dissatisfied with the resolution of their complaint. Copies of both documents are available on our website.

Customer complaints or disputes are differentiated into two categories:

- Contact disputes when a customer feels the Mortgage Choice Representative (MC Representative) has not kept the customer adequately informed of relevant matters; and
- Substantive disputes which are essentially all other disputes, typically relating to alleged misinformation, mismanagement of the application process or lender dissatisfaction.

Where a contact dispute is received either through our Customer Service Centre, Group Office or State Office, every effort is made to re-establish contact on the part of the customer and the MC Representative. All complaints are treated seriously and with respect. If a pattern of contact issues with regard to a particular business may give rise to disciplinary action, as will serious one-off conduct.

Substantive disputes are investigated by the Group Office Lending Centre team. A copy of all relevant correspondence received from a complainant is sent to the MC Representative involved, as well as the business owner, no later than one business day after receipt. The MC Representative is required to submit a written response to the matters raised within 5 business days.

Once all responses have been received and an accurate determination of the facts can be made, an appropriate written response is prepared by the Lending Centre team and sent to the customer. Any franchise staff member or Mortgage Choice staff member involved in the matter will also be informed in writing of the decision and the reason for that decision. If financial compensation to the customer from Mortgage Choice is appropriate, Mortgage Choice will make the payment to the customer at the corporate level. If it is determined that the liability to compensate the customer is due to actions of a Representative, the relevant franchise's next commission payment will be debited for the amount of the compensation paid.

The number of complaints received by Mortgage Choice in the period under review is very small compared to the number of customers it advises each year. The number of substantive disputes in the broking division and the compensation paid to customers are set out below:

Financial year	Complaints received	Number of loan settlements	Compensation paid in \$
FY2017	51	38,569	17,372
FY2016	30	38,890	32,287
FY2015	43	38,053	27,595
FY2014	34	36,519	24,668
FY2013	40	31,451	18,639
FY2012	58	31,443	12,998
FY2011	58	30,473	29,606
FY2010	63	34,083	13,248
FY2009	90	33,752	29,135
FY2008	94	38,676	36,348

Set out below is the complaint experience for the financial planning division since inception in FY 13. Compensation paid also includes the refund of advice fees.

Financial year	Complaints received	Funds under management at FY end in \$000	Premium in force at FY end in \$000	Compensation paid in \$
FY2017	7	532,365	24,182	12,751
FY2016	17	332,080	19,196	45,857
FY2015	20	278,016	15,034	56,242
FY2014	3	104,923	7,858	1,367
FY2013	0	not available	not available	0

All customers have the right to apply to the CIO for an additional hearing if they are not satisfied with the result of our internal dispute process. The table below details the complaints referred to the CIO in both the mortgage broking and the financial planning divisions.

Financial year	Broking complaints referred	Resolution against Mortgage Choice	Unresolved	Financial Planning complaints referred	Resolution against Mortgage Choice	Unresolved
FY2017	7	0	4	1	0	1
FY2016	3	0	0	1	0	1
FY2015	4	0	0	0	0	0
FY2014	2	0	0	0	0	0
FY2013	3	0	0	0	0	0
FY2012	0	0	0	na	na	na
FY2011	4	0	0	na	na	na
FY2010	2	0	0	na	na	na
FY2009	2	1	0	na	na	na
FY2008	3	0	0	na	na	na

Compliance Controls Embedded in our Broking IT Systems

The National Consumer Credit Protection Act 2009 (NCCP) requires that a Credit Representative acting as a credit intermediary make enquiries into a customer's financial position (including verification) and that a loan is ultimately recommended that is not unsuitable for the customer. Current ASIC regulations and community standards and expectations require that the broker recommends an interest only loan to an owner occupied applicant only in limited circumstances; that the broker fully considers the living expenses and additional liabilities of the applicant; and that the broker fully considers any known or expected changes to a customer's financial position. To ensure our brokers consistently address these issues with all our customers and document the support for the position taken on the application, our broker IT platform forces the broker to document certain items: rationale for an interest only loan to an owner occupier, rational for submitting an application with living expenses below a certain level and the response to the question of any foreseen or expected changes to an applicant's financial position.

Lender Feedback

A lender may remove the accreditation of a Credit Representative from time to time. In most circumstances the lender will give reasons for the removal and Mortgage Choice will conduct a review of the application(s) at issue. If we are of the view that the removal of the accreditation is not as a result of systemic compliance failings of either the individual Credit Representative or the associated Franchise, then we may allow that individual to continue as a Credit Representative. If we have concerns with our findings, we will deepen the review of the Credit Representative's applications which may result in disciplinary or corrective action.

A lender may also contact Mortgage Choice to ask questions about a trend in a particular broker's applications such as low living expenses or a high percentage of interest only owner occupied loans. Mortgage Choice will review the broker's portfolio of lender applications to determine whether this trend is actually across the broader lender panel or specific to that lender. In addition we will consider whether the circumstances surrounding that broker's client base make sense for these trends to surface. Reviews of this nature may result in corrective action.

3. If yes to either or both of the questions one and two:

a) Is the identified conduct, practice, behaviour or activity the subject of another inquiry or investigation, or a criminal or civil proceeding?

As noted earlier, Incidents 8, 9 and 10 were advised to ASIC. Beyond this, so far as we are presently aware, none of the incidents identified in Question 1 have been the subject of inquiry or investigation by regulators or courts..

b) Does the entity attribute any of the identified conduct, practice, behaviour or activity to the particular culture or governance practices of the entity? If so, describe that culture or governance practice.

We do not attribute the identified incidents to any particular cultural aspect or governance practice. We believe that the matters noted in Question 1 are isolated incidents and do not reflect the overall culture of the Mortgage Choice Group. The matters have been discovered as a result of the governance and compliance practices of either the Mortgage Choice Group or its lender partners.

c) Does the entity attribute any of the identified conduct, practice, behaviour or activity to some broader cultural or governance practices in the industry or sector of the industry in which the entity operates? If so, describe those cultural or governance practices.

We do not believe that the incidents described above reflect broader cultural or governance practices at Mortgage Choice or within the Industry. We believe that the vast majority of industry participants seek to act in the best interests of consumers.

d) Does the entity consider that the identified conduct, practice, behaviour or activity results from other practices (including risk management, recruitment or remuneration practices)? If so, describe those practices.

We do not believe that the identified conduct results from other practices. The Mortgage Choice Group has structured its risk management, recruitment and remuneration practices to minimise the possibility of such incidents.

e) What steps has the entity taken to:

(i) remedy the consequences for consumers or other businesses of the identified conduct, practice, behaviour or activity;

The incidents identified in Question 1 under our ACL did not ultimately result in financial loss for the customers affected. With regard to our AFSL, refunds of fees were offered to affected customers as appropriate. We have paid compensation to our customers when a loss has been incurred at the fault of Mortgage Choice or an MC Representative. In addition, as part of our internal review and audit process, should we find a loan application or statement of advice that we believe has resulted in a loss for that customer, we will remediate that situation.

(ii) prevent recurrence of conduct, practice, behaviour or activity of the kind identified?

As advised previously the incidents were identified through the governance practices of the Mortgage Choice Group or the lender partners of the Group.

The Credit Representatives and Authorised Representatives were disciplined with all but one Authorised Representative having their respective authorisations revoked and, in the majority of instances, the related business was terminated.

4. Question 4 is not applicable to Mortgage Choice

For further information in relation to the above answers please contact David Hoskins, Company Secretary, at [REDACTED]

Yours faithfully,

MORTGAGE CHOICE LIMITED



**JOHN FLAVELL
CHIEF EXECUTIVE OFFICER**

APPENDIX 1

Mortgage Choice Limited Credit Licence Compliance

Mortgage Choice is committed to creating a strong culture of compliance within the entire business. Legal and regulatory compliance is a key operational issue and is essential part of sound corporate governance.

All new Franchise Owners and Credit Representatives are required to undertake training and initially submit all loan applications to Mortgage Choice Group Office for assessment before submission to lenders. Details of these submissions are retained and each submission is individually scored by an assessor. Credit Representatives must produce consistently high standards over a minimum of six full documentation submissions, using a minimum of three lenders before they are authorised to submit loan applications directly to lenders. As described below if a Credit Representative is found to be submitting sub-standard loan applications they may be subject to this vetting process at any time.

The ongoing compliance program is centred on a compliance checking process. The program forms part of the Operations Manual and compliance with the Operations Manual is a prescribed requirement of every Franchise Agreement.

Credit Standards Checks are carried out annually on all Credit Representatives. If the First Credit Standards Check is satisfactory no further Checks will be conducted for the year. If the Check is unsatisfactory remedial action is taken to ensure that the Credit Representatives are aware of their compliance obligations.

Following an initial unsatisfactory report, a further review would be undertaken of a number of files after allowing for the Credit Representative to incorporate improvements in their processes. If that Check proves unsatisfactory further remedial action would be undertaken and financial penalties imposed.

Continued failure to meet the Credit Standards will result in all loan applications submitted by the Credit Representative first being submitted for assessment by company officers prior to submission to the lender. The vetting of loan applications would continue until the Credit Representative has demonstrated capacity to prepare loan applications of a satisfactory standard on a consistent basis.

Persistent inability to meet Credit Standards may result in withdrawal of accreditation and possible termination of the Franchise business as determined by the Mortgage Choice Responsible Managers Committee.

As part of the Compliance Program all relevant documentation must be uploaded to a central document storage facility available to all Franchises and accessible from Group Office. The documentation uploaded includes all relevant documents prepared as required under the *National Consumer Credit Protection Act 2009* together with all documentary evidence relation to the applicant's verified financial position.

Mortgage Choice Australian Financial Services Licence

Mortgage Choice Financial Planning Pty Ltd (MCFP), our financial planning division, was newly established in 2012, and during the 2016 financial year we commissioned Deloitte Touche Tohmatsu to undertake a Diagnostic Report on the financial planning division's level of compliance and the strength of its compliance framework. The report highlighted the following strengths of the division:

- Robust base of tools and policies.
- Aligned to the risk management approach across all levels of management and the Board.
- Cultural integrity.
- Broad cultural willingness to improve.
- Agile and responsive to regulatory change.

Management have implemented the observations in the Report.

This external review followed an earlier external review of our compliance with our obligations as an AFSL holder in 2015 conducted by a specialist legal firm, The Fold Compliance Pty Limited, who produced a report on the division's compliance with the relevant obligations. The report also indicated an excellent result.

MCFP conducts monitoring and supervision activities to ensure that as a Licensee MCFP and the Representatives meet obligations under the financial services law and related law. This includes, but is not limited to:

- Conduct of the Licensee and the Representatives
- All disclosure obligations
- Training and competence of the Representatives
- The provision and use of appropriate documentation
- Best business practice and processes
- Compliance with the financial services laws.

MCFP employs various means of affecting adherence to requirements or changes to the process in which Representatives engage in their business. Supervisory activities will include:

- Clear communication of requirements from MCFP to their Representatives
- Mandating of business practices including a Representatives/Operations Manual
- Provision of standardised documentation, templates and approved product lists to all Representatives
- Remedial training

MCFP recognises that inexperienced advisors, who have less than two years' experience in providing direct client advice, require additional mentoring and supervision. As such, MCFP has a three Tier Authority Level process in place for "Associate Advisors", with a requirement that "Associate Advisors" will be appointed only into practices where they can be supervised on a day-to-day basis by an advisor who holds an 'open' authority limit (if this is not the case, then written approval must be received from MCFP).

In addition to the supervision activities **MCFP** will monitor Representatives to ensure the activities, competency and compliant behaviour of its Representatives is appropriate. The following methods will be utilized:

1. Internal Audit

MCFP will undertake audit reviews as deemed necessary to ensure Representatives are adhering to the operational and procedural processes as outlined in the MCFP Representatives/Operations Manual and Compliance Policy.

This activity allows **MCFP** to ensure quality control and assess the application of the documented guidelines. These reviews can be conducted within Group Office utilising the customer documents stored within the CRM system (COIN) or through visitation to the Representative's office.

MCFP has developed and uses the following documents and processes to assist in the quality control of advice provided to customers.

- MCFP Advice Vetting Checklist: See Appendix 1
- MCFP Client File Vetting Checklist (Desktop Audit): See Appendix 2

MCFP will vet the Statement of Advice (SoA) of new Representatives prior to presentation to a customer for each advice area. This process will continue until the Representative is deemed to be competent in generating compliant SoAs for that advice area. Partial removal from vetting is applied (e.g. a Representative may be deemed competent to generate "Insurance Only" SoAs however remain within the vetting process for "Investment and Superannuation" SoAs).

2. External Audit

MCFP will arrange for an external consultant to perform a formal structured audit of each Representative, undertaken at least annually. The audit will assess the Representative's general business practices as it relates to the advice process and their advising activities.

The aim of the external audit is:

- To provide **MCFP** with an independent review of their processes and procedures
- To assess the Representative's skills and knowledge relevant to dealing with a customer
- Ensure that customer files contain the appropriate documentation as required by law
- Ensure the Representative has provided the customer with the relevant information and made appropriate disclosures
- Ensure the Representative's general practices are in adherence to the regulations and comply with minimum criteria required by **MCFP**
- Identify and document any areas that require improvement, remedial actions or that are a breach of the regulations

MCFP may use information from the audit process as part of business improvement training sessions for professional development.

3. Knowledge Testing

MCFP provides all Representatives with individual annual training plans and maintains a centralised training register (Kaplan Education OnTrack) for all professional development that is completed by the Representatives.

The Compliance Manager will complete an annual review of the training register to ensure that Representatives are fulfilling their training obligations in accordance with ASIC Regulatory Guide 146 and in accordance with the individual training plan set by MCFP for each advisor.

The Compliance Manager will provide an annual report to the Compliance Committee and verify the successful completion of training and identify any Representatives that have non-satisfactory completion rates, detailing the remedial actions taken.

MCFP communicates with its Representatives on a quarterly basis (by email); confirming the amount of training completed during the current year and what is still to be completed within their Training Plan. **MCFP** also provides a monthly update of total CPD hours completed for the year to date through the franchise scorecard reports available to advisors and the Corporate Authorised Representative (if appropriate).

Representatives are expected to regularly complete structured and unstructured training during each financial year.

MCFP may also require Representatives to complete additional training in relation to regulatory change or new/amended internal processes. These sessions will generally contain an assessment component to evaluate Representative competency.

Further information on MCFP's requirements in relation to training can be found in the MCFP Training Policy.

4. Mystery Shopping and Customer Satisfaction Surveys

MCFP may, from time to time, conduct mystery shopping of their Representatives or customer satisfaction surveys to evaluate the Representative's knowledge, skill and adherence to policies and procedures and/or the quality of the service provided.

Mystery shopping may be conducted by telephone or by having a person attend appointments with the Representative to assess the quality of service.

5. Quality Control – Customer Communications

For the purpose of quality control **MCFP** may randomly review customer communications. **MCFP** will advise the individual Representative of any deficiencies and the remedial action required.