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ANZ Financial Planning

Project Gold -

Prime Access

Client Fee Reimbursement Calculation Methodology (CFRCM)

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1.0 Introduction

The purpose of this paper is to provide clarity in respect to the calculation of fee reimbursements for those clients who were not provided with a Documented Annual Review under Project Gold.

The calculation of the client fee reimbursement has a number of complexities involving numerous inputs and multiple comparative calculations. Due to such complexities each aspect of these inputs will be firstly explained followed by the step by step approach of the calculation and its comparative approach.

2.0 Inputs to the Calculation

2.1 Calendar Year of Non-Delivery

To be eligible as having a 'service due' a client must first have been in the Prime Access service for a full calendar year, from 1 January – 31 December. Once a client is deemed to have had a 'service due', the client's Annual Review Component is assessed, being both the documented Annual Review Meeting and Advice Document delivery. A client must have both elements delivered as evidenced within the calendar year (or within a 3 month window either side) in order to be assessed as having received their Annual Review during that calendar year. Clients that did not receive their Documented Annual Review during a Calendar Year will be provided with fee reimbursements.

Within the current known non-delivery periods as attested by ANZ planners and assessed by PwC, approximately a third of total non-delivery periods are based on evidence deficiencies such as Advice Documents being attested as 'Delivered but no Evidence – No Change Advice' and 'Client Extenuating Circumstances'. ANZ has treated such categories as 'automatic non-delivery of service' which will not be subject to further testing, therefore placing the client straight into the client reimbursement pool. In reality it is likely that many of these services were actually delivered or there may have been an adequate client reason for this not occurring, however ANZ is taking a client centric approach and is treating these as non-delivery, thus erring on the side of benefiting the client.

2.2 Adviser Service Fee

When a client is assessed to have not been provided with the Annual Review during the 'service due' period, the totality of ASF that the client/s paid during that Calendar Year of

non-service is identified. These fees have been matched to both accounts and externally paid sources (such credit card, cheque) by the Project Gold Data team.

Project Gold Case Managers in their case checks, then manually confirm these fees by firstly checking the Prime Access contract (SoA) to see what the contracted fee was, and then reviewing the matched fees provided by the Project Gold Data team. Case Managers have numerous systems to ensure that this manual check of fees is performed accurately including: COIN, Gatekeeper (registry system), IWS imaging system, CSS (name search function). Case Managers are instructed to 'park' the case for further investigation if they cannot match the fee paid by the client to the contracted fee. Such further investigation may involve requesting the physical file. All cases are checked in a peer review.

The total fees that the client has paid during the year of non-delivery are also recorded including the account source of the fees, the importance of which will be explained shortly.

2.3 Annual Review Component (Base Amount)

The Adviser Service Fees that the client/s have paid during the year of non-delivery are then input into the CFR calculator to firstly determine the Annual Review Component of those fees. The CFR calculator applies the following approach:

ASF Paid	**Reimbursement Amount**
Less than $1,000.00	Total ASF Paid
$1,000.01 - $1,650.00	$1,000
$1,650.01 - $1,980.00	$1,150
$1,980.01 - $2,750.00	$1,430
$2,750.01 - $3,300.00	$1,490
Over $3,300 rounded up to the nearest $5	$1,490 + [45% x (ASF Paid - $3,300)] – this is then

The Annual Review Component, as well as the ASF Paid fee tiers, have been based upon historical iterations of standard Prime Access service packages. Where a client pays an Adviser Service Fee which is between such tiers, the client is then rounded up to the next highest Annual Review Component tier. This rounded up approach provides some client generosity.

2.4 Client Risk Profile – used to calculate the Interest Rate Component

When seeking advice from an ANZ Financial Planner, Prime Access clients have an assessment made on their tolerance to financial risk, through an investor risk profile questionnaire. The outcome of the questionnaire provides the client with an investor risk profile, which is then used by the financial planner as a basis to recommend a suitable range of investments.

It is important to clarify that each client is ascribed a single risk profile even though they may be invested across a range of different investment types, the adviser having considered the range of such investments as being suitable, thus being representative of the risk profile assessed.

Each Prime Access client entity, there may be a single party, two parties such as a husband and wife, or a non-natural person party such as a company. Each party will have their own risk profile assessed and recorded. For example, the Prime Access client entity may be a husband and wife, James and Mary Smith. James Smith is assessed as having a Balanced risk profile, while Mary Smith is assessed as having a Growth risk profile. James will therefore be recommended investments appropriate for a Balanced investor, while Mary will be recommended investments appropriate for a Growth investor.

Where a client is deemed to have not been delivered a Documented Annual Review, the client's Risk Profile is obtained from the finalised Advice Document in the year prior to the initial year of non-service. This is used to calculate the returns that the client would have likely received had fees not been paid for the non-delivered service. For the example of James and Mary Smith, if fees were paid from each of the clients' super accounts in this non-delivery year then interest rate calculations would be run for James based on a Balanced risk profile while Mary's will be run on a Growth risk profile. **The same process always applies to base the interest rate component on the risk profile of the client from which the fee was drawn.** Another scenario may be where a jointly held account had an ASF drawn in the year of non-delivery, we would base the interest rate component on what the 'joint risk profile' recorded for the client was.

ANZ's investor risk profiles have changed throughout the Prime Access offering. Originally risk profiles were developed by Plan for Life, then van Eyk, Lonsec and presently Mercer. When assessing individual client risk profiles, we are assessing and recording the iteration of risk profile which was represented at the time of non-delivery. Eg. A van Eyk risk profile recorded from a 2008 Statement of Advice to be used to calculate the interest rate for a 2009 non-delivery.

2.5 Benchmark returns

All iterations of ANZ client risk profiles from the commencement of the service were mapped to (and in some cases blended to) Morningstar median benchmarks by the ANZ CIO team. This mapping was then provided to PwC who then calculated the respective Morningstar super benchmark return for each client ANZ investor risk profile from 2003 through to May 2015.

Benchmark returns are available for superannuation funds only, therefore PwC recommended that returns for Pension and Investment products be grossed up by a factor of 15% to reflect the different tax positions.

Investment returns are calculated using the following formula:

[((1+ return_2011) ^ (1/2)) (1+return_2012)*(1+return_2013)*(1+return_2014)*(1+return_2015 * day count from 01/01/2015 to calculation date / day count from 01/01/2015 to 30/06/2015)] - 1*

Half the annualised rate of return during the year of non-service is applied owing to the large majority of client's paying their Adviser Service Fees on a monthly basis, thus on average half of the fees would have been paid by the mid-way point of the year of non-delivery.

For 2015 rates of return, Project Gold will be provided with Morningstar returns on a monthly basis which will then be 'grossed up' by an additional period of time to reflect the date on which the client will be reimbursed.

For example if interest calculations are run at 15th July for a reimbursement date of 14th August, the calculation will use June Morningstar returns grossed up to the 14th August.

2.6 RBA Cash rate + 2%

This rate of return tracks the RBA cash rate and applies an additional 2% interest which is compounded daily. This interest calculation commences on the first day of the year of non-delivery which is a favourable assumption for the client in that in reality the Adviser Service Fee is not paid in this manner but rather incrementally throughout the year as stated earlier.

The RBA cash rate + 2% is calculated on a daily basis, therefore there is more flexibility in the end point of the calculation. The end point of the calculation for the RBA cash rate plus 2% is '+ 31 days' from the day on which the reimbursement is approved. When running the fee reimbursement calculations for approval, it is important to factor in

interest up until the time that the fee reimbursement will be made into the client's account.

The process of executing the fee reimbursement post approval for current clients involves an adviser appeal process, an adviser/client contact period, and the reimbursement procedure, which typically takes between 2-3 weeks. The '+31 days' approach allows sufficient time for this to occur.

For cancelled clients, there is further generosity, in that the fee reimbursement process for cancelled clients do not involve the adviser/client interaction, therefore reimbursements will typically be done in the first week but '+31 days' will still be applied.

Please note – that within the pilot group a '+31 day' future interest calculation is fluid owing to the moving nature of the 'go live' pilot date.

2.7 Reimbursement Matrix

This tool details where reimbursements will be paid, dependent on the specific client circumstances of where the fee was paid from originally and the account holdings of the client at time of reimbursement. The matrix was prepared by numerous ANZ specialists including: Project Gold, Tax, Finance, Actuarial, Product, Legal to ANZ Trustees.

The purpose of the reimbursement matrix is to put the reimbursement back into the account or environment from which the fee was taken, or a similar alternative, including where applicable, a gross up for tax. This aligns with the fundamental aim of the reimbursement project of putting the client back into the position that they would have been in had the non-delivery not occurred. **Consistent with this approach is to apply the rate of return respective to where the fee was drawn from.**

Some examples are given:

Eg 1. If the client had the fee paid from a superannuation account , then apply interest based upon superannuation benchmark rates of return to compare with the 'RBA cash rate + 2%'.

Eg 2. If the client had the fee paid from a pension account, then apply interest based upon pension benchmark rates of return to compare with the 'RBA cash rate + 2%'.

Eg 3. If the client had the fee paid from an investment account, then apply interest based upon investment benchmark rates of return to compare with the 'RBA cash rate + 2%'.

Where a client has changed tax positions, the client will be provided with the returns based upon the tax status of the client in the year of non-review. This will be done for each year of non-delivery.

Eg 4. If the client had the fee paid from a superannuation account, and has since converted to the pension environment, then apply interest based upon superannuation benchmark of return to compare with the 'RBA cash rate + 2%'.

Eg 5. If the client had the fee paid from a pension account , and has since converted back to the superannuation environment, then apply interest based upon pension benchmark rates of return to compare with the 'RBA cash rate + 2%'.

Eg 6. If the client had the fee paid from an investment account, and has since cashed out the account, then apply interest based upon investment benchmark rates of return to compare with the 'RBA cash rate + 2%'.

Eg 7. If the client had the fee paid from a superannuation account in year 1 of non-delivery, and has since converted to the pension environment, then interest is based upon superannuation benchmark rates of return to compare with the 'RBA cash rate + 2%'. If the same client also had a year 2 non-delivery, where the fee was paid from a pension account in in the year of non-delivery, then interest is based upon pension benchmark rates of return to compare with the 'RBA cash rate + 2%'.

There are a number of compelling reasons to base returns on the tax status of the client in the year of the non-review, including:

- It is a simple approach to explain to clients
- It improves expediency of client payments in its simplicity, as there are complexities in assessing when a client may have changed tax positions
- So that a further set of calculated returns for each year and each risk profile need not to be prepared, which would in any rate be based upon loose assumptions of when the changed tax position occurred
- It aligns with the assessment of the client's risk profile for the calculation which was taken before the non-delivery year and not when we would be paying the reimbursements
- To adopt an approach based upon the returns of the destination product's tax environment would provide inconsistent client outcomes such as; super to pension – client would receive higher returns, pension to super – client would receive lower returns, cancelled investment to ordinary monies – client would receive lower returns.

- This preferred approach also continues market linked returns consistently for both current and cancelled clients, when in reality some cancelled clients may have taken super monies as cash lump sum payments. Basing returns on the destination point of say cash opposed to market returns, would again provide the client with lower returns.
- There is also generosity built into the rates of return for pension and investment products using a simple 15% gross up on super returns, owing to capital gains concessions applying for holding periods greater than 12 months attracting a 10% rate instead. PwC recommended using this 15% gross up rate owing to simplicity and client generosity.

As stated previously the fundamental aim of the reimbursement project of putting the client back into the position that they would have been in had the non-delivery not occurred. To this end, when distributing reimbursements back to the client, the Project Gold database looks to put back the reimbursements in the same accounts from which they were drawn from.

In some situations, a client may have subsequently closed their account post paying for the non-delivered service. If this occurs, the case manager will look to reimburse that amount into a 'like for like' account using the client fee reimbursement matrix.

Eg. A client pays for the non-delivered service from superannuation account (account number 1), which has subsequently closed. The client however, has another superannuation account (account number 2), and so therefore would reimburse into account number 2.

If the client did not have an active superannuation account to reimburse into but did have a pension account open, then we would reimburse into that account per the principles outlined in the client fee reimbursement matrix.

2.8 Interest Rate Component

This interest rate component to be used is determined by running a comparison between market returns and 'RBA cash rate plus 2%' for each year in which the client was not delivered the service. The comparison is done so on an account level, which also applies client generosity in that the client will receive the better of each rate (market returns vs 'RBA cash + 2%') for each account/account where an ASF was drawn from during the year of non-delivery.

2.9 ASF Paid from Bank Accounts, Credit Cards & Cheques

Clients that pay Adviser Service Fees from outside of product will receive interest calculations based upon the RBA cash rate + 2%.

2.10 Where no Client Risk Profile can be located

In some circumstances there may be no client risk profile available upon which to base investor risk profile returns. In such an event, the following will apply:

Where joint investments are made and no joint risk profile exists, the highest returning risk profile of the individual clients will be used.

3.0 Calculation Methodology

The steps of the methodology for calculating the interest component are as follows:

A. Determine the year/s in which the client has not received their Documented Annual Review.
B. Total up the Adviser Service Fees paid during the year in which the client did not receive their Documented Annual Review. The source from where these fees were paid is also recorded.
C. Apply the Total Adviser Service Fees paid during the year of non-delivery to calculate the base fee reimbursement – that is the Annual Review Component.
D. The base fee reimbursement is then split to represent the source account(s) from where the Annual Review Fee Component has been paid .
E. Ascertain the risk profile(s) of the client(s) who paid the ASF for the non-delivered review. Presently we are reviewing years 2011-2013, and as an example, if the client did not get the service in 2012, we would assess the client's risk profile in 2011 and use this to base returns on this. Calculations are then performed for each of these base fee reimbursements on an account level comparing the client's risk profile return compared to the 'cash + 2% rate' of return. The client receives the higher of each return (Market returns vs RBA Cash rate + 2%) for each account and for each year of non-delivery.
F. The higher amount is then paid back into the accounts/environment from which the fees were drawn from.
G. In some cases where products have been closed, the Case Manager using the reimbursement matrix principles, will distribute that reimbursement into a 'like for like' account or similar alternative. The original destination of the reimbursement prior to the redistribution is recorded for both Primary and Peer Reviewer.

H. The Case Manager performs this end to end process which is then peer reviewed by another Case Manager.

4.0 Worked Example

A. Client was not delivered the service in years 2011, 2012 and 2013

B. Total ASF paid during years of non-service is

Client Id	Account Number	ASF Paid 2011	Percentage Holding 2011	ASF Paid 2012	Percentage Holding 2012	ASF Paid 2013	Percentage Holding 2013
3267 Bob	6745914	$446.93	0.128344811	$458.94	0.153727114	$533.33	0.349140781
3267 Bob	6738847	$835.45	0.239916032	$862.73	0.288981115	$994.22	0.650859219
3267 Mary	6740721	$2,199.88	0.631739158	$1,663.75	0.557291771	$0.00	0
3267 Mary	121212	$0.00	0	$0.00	0	$0.00	0
		$3,482.26	**1**	**$2,985.42**	**1**	**$1,527.55**	**1**

C. Calculate the Base Fee Reimbursement for each non-delivery year

- 2011 = $1,575, 2012 = $1,490, 2013 = $1,000

D. The Base Fee Reimbursement is split per the percentage holdings in which ASF was paid

Client Id	Account Number	Base Reimburse 2011	Base Reimburse 2012	Base Reimburse 2013
3267 Bob	6745914	$202.14	$229.05	$349.14
3267 Bob	6738847	$377.87	$430.58	$650.86
3267 Mary	6740721	$994.99	$830.36	$0.00
3267 Mary	121212	$0.00	$0.00	$0.00
		$1,575.00	**$1,490.00**	**$1,000.00**

E. Each client is ascribed a singular risk profile

- Client 1 is Secure, client 2 is Balanced

F. Comparison rates are run at an account level comparing Risk Profile returns vs 'Cash + 2%

Client Id	Account Number	Risk Profile	Calendar Year	RBA + 2%	Risk Profile	Reimbursement
3267 Bob	6745914	Secure	2011	$256.26	$230.37	$256.26
3267 Bob	6745914	Secure	2012	$272.16	$250.09	$272.16
3267 Bob	6745914	Secure	2013	$392.49	$368.97	$392.49
3267 Bob	6738847	Secure	2011	$479.04	$422.42	$479.04

3267 Bob	6738847	Secure	2012	$452.41	$410.35	$452.41
3267 Bob	6738847	Secure	2013	$731.68	$682.24	$731.68
3267 Mary	6740721	Balanced	2011	$1,261.38	$1,424.84	$1,424.84
3267 Mary	6740721	Balanced	2012	$986.65	$1,127.59	$1,127.59

G. The higher rate is apportioned back into the accounts from where the fees were drawn from

Client Id	Account Number	Account Type	Amt2011	Amt2012	Amt2013	Account Status
3267 Bob	6745914	Investment	$256.26	$272.16	$392.49	Open
3267 Bob	6738847	Super	$479.04	$452.41	$731.68	Open
3267 Mary	6740721	Super	$1,424.84	$1,127.59	$0.00	Closed
3267 Mary	121212	Pension	$0.00	$0.00	$0.00	Open
			$2,160.14	**$1,852.16**	**$1,124.17**	

H. If a product is closed, the Case Manager distributes the reimbursement portion using the reimbursement matrix

Client Id	Account Number	AcctType	Amt2011	Amt2012	Amt2013	Account Status
3267 Bob	6745914	Investment	$256.26	$272.16	$392.49	Open
3267 Bob	6738847	Super	$479.04	$452.41	$731.68	Open
3267 Mary	6740721	Super	$0.00	$0.00	$0.00	Closed
3267 Mary	121212	Pension	$1,424.84	$1,127.59	$0.00	Open
			$2,160.14	**$1,852.16**	**$1,124.17**	

5.0 Cancellation Year of Non-Delivery

An additional cancellation test has been developed to assess whether cancelled clients are entitled to additional reimbursements.

<u>Guiding Principles for Cancellation Test:</u>

A. This test will be applied to all cancelled clients including those already remediated
B. The commencement year is covered by the foundation advice and is not tested
C. Every subsequent calendar year must be tested under the "Calendar Year Test" for delivery of a documented annual review
D. An annual review can only be counted once in any 12 month period being tested i.e. An SoA delivered in January 2013 but counted as the December 2012 review can't be counted for 2013
E. Cancelled clients must have their final service period tested
F. The final service period for cancelled clients is the period between the client's last delivered SoA (original SoA or subsequent annual review SoA) and their subsequent cancellation date

G. Where the previous document was counted in the previous calendar year (as per D.) the date of delivery must revert to the 31st of December for the year it was counted in
H. For cancelled clients each completed 12 month period from the date of the last delivered SoA and the cancellation date must be remediated. If no reviews were provided, this is measured back to the commencement date.
I. Reimbursement under the Cancellation Test will only be applied when it identifies a further full 12 month period of service which has not been identified under the Calendar Year methodology.
J. Where a client previously remediated under the Calendar Year methodology is found to have a further 12 month period of service under the Cancellation Year Test, a further reimbursement calculation will be completed which is offset by any previous reimbursement.

Cancellation Test Methodology Calculation Steps:

1. Test every calendar year after the first year of service for delivery of an annual review within three months after the start and end of the calendar year (the "Calendar Year Test"). If an annual review was not delivered in any of these calendar year periods, a reimbursement is required for the missed calendar year/s.
2. For cancelled clients, an additional cancellation year test is then applied to measure the final service period by the number of fully completed 12 month periods.
3. Sum the total number of periods of non-delivery in the final service period under the Cancellation Year Test, and subtract from it the number of periods of non-delivery in this final service period which is captured under the Calendar Year test.

If the total number of periods under the Cancellation Year test is greater than the total number of periods under the Calendar Year test for this final year period, a reimbursement is recognised as due under the Cancellation Year test. If the total periods are equal under each test then no further reimbursement is recognised.
Example:

Assumption:
Commencement Date of Service: 12/06/2010
Annual review delivered in Calendar Year 2011: 21/02/2011
No annual reviewed delivered in calendar year 2012
Cancellation Date: 14/08/2013

Calculation Steps:

1. Calendar Year Test:

Calendar Year	Date of Annual Review	Result
2010	-	N/A- First year of service
2011	21/02/2011	Annual review delivered – no Reimbursement required
2012	Not delivered	Reimbursement required
2013	-	N/A – Not a complete calendar year

One non-delivered period is due for reimbursement under the Calendar Year test.

2. Calculate the number of periods due in the final service period under the Cancellation Year test

   Number of Periods due under the Cancellation Year test in the final service period
   = Cancellation date – Last Delivered Annual Review Date
   = 14/08/2013 – 21/02/2011
   = 2 years, 5 months, 24 days
   = 2 years (rounded down to whole years)

   Two non-delivered periods are due for reimbursement under the Cancellation Year test, therefore the client is entitled to a further period of reimbursement. These non-delivered periods are measured from the delivery date of last annual review:
   - Period 1 - 21/02/2011 – 20/02/2012
   - Period 2 - 21/02/2012 – 20/02/2013

The additional reimbursement amount the client is due for this example is now described.

Reimbursement Calculation: Final Cancellation Years Reimbursement

A. To determine the additional reimbursement amount due in the final service periods, sum the total ASFs paid in the final service period years. Apply these total ASFs to determine the Base Amounts as per the table in section 2.3

B. The Interest Rate Component is calculated as the greater of the interest earned applying the RBA+2% rate and Benchmark Returns as per section 2.8.

   a. The RBA + 2% return is calculated as per section 2.6 **using the start date of the final service period years.** Ie. 21/02/2011 & 21/02/2012.

   b. The Benchmark Return is calculated as per section 2.5 **using the start date of the final service period years.** Ie. 21/02/2011 & 21/02/2012. As Benchmark Returns are provided as calendar year returns, they must be scaled to approximate an accumulated return from the start of the final Anniversary to reimbursement date. This is set out below:

      i. Assume Benchmark Returns per calendar year:
         return_2011
         return_2012
         return_2013
         return_2014
         return_2015

      ii. Split the final service periods over their two respective calendar years:

Period 1

21/02/2011 – 31/12/2011 (314 days)
01/01/2012 – 20/02/2012 (51 days)

Period 2

21/02/2012 – 31/12/2012 (315 days)
01/01/2013 – 20/02/2013 (51 days)

iii. Calculate the return in final service periods:

Period 1

return_P1Y1 = [1+(314/365)*(*return_2011*)]*[1+(51/365)*(*return_2012*)]-1

Period 2

return_P2Y1 = [1+(315/365)*(*return_2012*)]*[1+(51/365)*(*return_2013*)]-1

iv. Determine the return from the end of the service period to the start of the next calendar year:

Period 1

End of Period 1 Year = 20/02/2012
End of Calendar Year = 31/12/2012
Number of days = 316

return_P1Y2 = (316/365)*(*return_2012*)

Period 2

End of Period 2 Year = 20/02/2013
End of Calendar Year = 31/12/2013
Number of days = 315

return_P2Y2 = (315/365)*(*return_2013*)

v. Calculate the total return from the start of the service period to the reimbursement date as:

Investment return period 1 = [((1+return_P1Y1)^(0.5))*(1+return_P1Y2)*(1+return_2013)*((1+return_2014)*(1+return_2015)]-1

Investment return period 2 = [((1+return_P2Y1)^(0.5))*(1+return_P2Y2)*(1+return_2014)*((1+return_2015)]-1

Note: the return in the first year is compounded for a half year to recognise that the ASF is paid monthly as per section 2.5

vi. The investment returns are then added to their respective bases amounts to determine the reimbursement amount due under the Cancellation Year test.

vii. This reimbursement calculation will then be offset against previously made reimbursements made under the Calendar Year test.

6.0 Client's Right of Appeal

Clients have a right for their fee reimbursement result to be reconsidered if they are not happy with it. Client Fee Reimbursements are not subject to the client signing a deed of release. Client letters will disclose how interest has been calculated and the client may challenge this at any stage.

ANZ management have also expressed a desire for a low tolerance level in what constitutes a client complaint. Any such client complaints/concerns will be escalated immediately to a dedicated complaints team for investigation and prompt remedy.