

## ANNEXURE 7

Industry Fund Services Limited ABN 54 007 016 195, AFSL 232514 (IFS)					
IFS has identified the following "misconduct" for the period 1 January 2008 to 31 December 2017:					
Description of the nature, extent and effect of misconduct	What steps has the entity taken to: (i) Remedy the consequences for consumers or other businesses? (ii) Prevent recurrence of the conduct, practice, behaviour or activity?	Is the misconduct attributable to the particular culture or governance practices of the entity?	Is the misconduct attributable to the broader cultural or governance practices in the industry?	Is the misconduct a result of other practices?	Is the misconduct the subject if another inquiry or investigation, or a criminal or civil proceeding?
<p><b>Potentially conflicted remuneration by advisers</b></p> <p>In 2015, it was reported that IFS' Product business unit, responsible for providing day-to-day management of the Industry Fund Portfolio Service, had implemented a policy of providing Village Cinema gold class vouchers to reward advisers licensed by IFS that had recommended their clients invest in the Industry Fund Portfolio Service, of which IFS was also the responsible entity.</p>	<p>(i) IFS did not identify any consequences to consumers or other businesses as a result of the misconduct.</p> <p>(ii) IFS:</p> <ul style="list-style-type: none"> <li>Requested, and received, the return of all movie vouchers.</li> <li>Reminded staff of their obligations in relation to adequately managing conflicts of interest on behalf of IFS.</li> <li>Restructured its advice business to ensure that persons involved in the business development functions of IFS, were not also involved in the provision of personal advice to retail clients.</li> </ul>	<p>No. The misconduct was inconsistent with the IFS Group Conflicts of Interest Policy. The culture and governance practice of IFS is not to pay its advisers, or accept from product providers, remuneration that may be classified as "conflicted remuneration". This is disclosed in our Financial Services Guides.</p>	<p>Yes. Conflicted remuneration is an issue within the broader financial services industry. IFS has a Group Conflict of Interest Policy which addresses this issue.</p>	<p>No.</p>	<p>No.</p>
<p><b>Adviser misconduct</b></p> <p>IFS has identified the following misconduct by advisers:</p> <ul style="list-style-type: none"> <li>In 2010, it was reported that an adviser had falsified internal reports for the purposes of increasing sales targets</li> <li>In 2016, it was reported that an adviser had inflated the amount of invoices and also issued invoices for services which hadn't been provided, which is outside of the</li> </ul>	<p>(i) Except in relation to inflating the amount of invoices, IFS did not identify any other consequences for consumers or other businesses as a result of the misconduct.</p> <p>In relation to the inflated invoices amounts. IFS took refunded the over charged amount for 1 client. IFS cannot confirm the outcome in other cases.</p>	<p><b>Incorrect invoicing</b></p> <p>The misconduct is not attributable to the particular culture or governance of IFS.</p> <p><b>Impersonating client</b></p> <p>The misconduct was identified as an isolated incident and is not attributable to the particular culture or</p>	<p>No.</p>	<p>No, save for the following.</p> <p><b>Incorrect invoicing:</b></p> <p>The misconduct appears to be the result of an internal remuneration practice. The advisers engaged in the conduct in order to meet individual targets to make them eligible</p>	<p>No.</p>

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<p>regular process.</p> <ul style="list-style-type: none"> <li>In 2017, it was reported that an adviser was holding back on invoicing clients for advice that had been provided so that the invoices could be issued in the next financial year.</li> <li>In 2016, an adviser impersonated their client and contacting the Australian Tax Office.</li> <li>In 2017, an adviser altered a client transaction instruction form without the consent of the client.</li> </ul>	<p>(ii) To prevent recurrence, IFS:</p> <p><b>Incorrect invoicing:</b></p> <ul style="list-style-type: none"> <li>Terminated employment of each adviser.</li> <li>Implemented a revised invoicing process.</li> <li>Provided additional guidance to advisers on invoicing procedures.</li> <li>Introduced additional compliance measures and hurdles for advisers to be eligible for incentive bonus. It is noted that revenue based performance targets for IFS licensed advisers apply to a limited number of advisers.</li> </ul> <p><b>Impersonating client</b></p> <ul style="list-style-type: none"> <li>No adverse consumer consequence identified.</li> <li>No financial advantage or other benefit to adviser. Conduct appeared to be motivated by desire to facilitate provision of advice.</li> <li>Terminated employment of the adviser.</li> </ul> <p><b>Altering transaction form</b></p> <ul style="list-style-type: none"> <li>No adverse consumer consequence identified.</li> <li>No financial advantage or other</li> </ul>	<p>governance of IFS.</p> <p><b>Altering transaction form</b></p> <p>The misconduct was identified as an isolated incident and is not attributable to the particular culture or governance of IFS.</p>		<p>to receive an incentive bonus.</p>	

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	<p>benefit to adviser. Conduct appeared to be motivated by desire to facilitate provision of advice.</p> <ul style="list-style-type: none"> <li>Adviser was provided with additional guidance and training via the Advice Assurance Program.</li> </ul>				
<p><b>Theft of member funds.</b> In 2015, it was reported that two (2) employees of the Funds' administrator withdrew \$62,000 from member accounts. The employees, acting in together, had altered the birthdates on member accounts so as to bring forward the member's retirement age. Following this, one of the employees would apply to the administrator for release of the funds, directing the proceeds to their own bank account.</p>	<p>(i) All fraudulently obtained amounts, were re-credited to member accounts, plus any loss interest.</p> <p>(ii) The administrator terminated the employment of the advisers and implemented a number of procedural changes, including enhancing its checks and balances of the release of member funds, to prevent recurrence.</p>	No. The misconduct was an isolated incident.	No.	No.	<p>The misconduct was referred to the police for investigation and criminal prosecution.</p> <p>IFI lodged a breach notice with APRA.</p>
<p><b>Breach of regulatory requirements for providing personal advice</b> In 2015, IFS identified that four advisers may be providing personal advice outside of the personal advice requirements in Part 7.7 of the Corporations Act. IFS identified that the advisers appeared to be providing personal advice as if it were general advice. This means that clients were not receiving a Statement of Advice as required by law.</p>	<ul style="list-style-type: none"> <li>IFS undertook a comprehensive investigation in the period 2015-2018 to determine the extent of the issues and whether there was any consumer detriment or harm resulting from the conduct. This included establishing a Steering Committee to oversee the investigation, reviewing the conduct the advisers, and contacting 956 clients who may have received advice from an adviser at this practice during the</li> </ul>	Conduct was the result of an internal practice occurring within this particular advice practice. Conduct was not widespread throughout IFS.	No.	No.	IFS lodged a breach notice with ASIC under s912D. ASIC advised that it did not proposed to take any action.

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	<p>period 1 January 2011 to 31 December 2015.</p> <p>As a result of the investigation no consumer detriment was identified.</p> <p>(ii) to prevent recurrence, disciplinary action was taken against advisers and additional guidance and training was provided to all advisers on requirements attaching to the provision of personal advice.</p>				
<p><b>Statement of Advice content requirements.</b></p> <p>In 2016, IFS identified that a table used in its SOA template incorrectly disclosed the amount of the fee for term deposits available for investment through the Industry Fund Portfolio Service. Whilst the amount of overall product costs was correctly disclosed, the presentation of the information as one bundled fee, together with the reference to 'nil', may have given some advice clients the impression that no product costs were charged for investing in term deposits. This would have reduced their ability to compare the cost of similar products.</p> <ul style="list-style-type: none"> <li>13 retail clients with a total</li> </ul>	<p>(i) IFS investigated the incident. It was determined that the calculator used to prepare the information for inclusion in the Statement of Advice did not go through a due diligence process.</p> <p>(ii) Disclosure in the Statement of Advice template was corrected and additional guidance provided to staff on requirements of due diligence process.</p>	The conduct was the result of an internal practice of noncompliance with the due diligence process.	No	No	Breach notice lodged with ASIC. No formal action taken by ASIC.

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<p>investment amount of \$1,590,500 received defective SOAs.</p> <ul style="list-style-type: none"> <li>5 wholesale clients with a total investment amount of \$16,580,000 received defective disclosure of information.</li> </ul>					