



Strategi
Compliance

ANALYSIS AND IMPLICATIONS

**PROPOSED STANDARD
CONDITIONS FOR FINANCIAL
ADVICE PROVIDER FULL
LICENCES AND CLASSES OF
FINANCIAL ADVICE SERVICE**

ADVICE YOU CAN
PROFIT FROM

Introduction

ON 17 JUNE 2020, THE FMA RELEASED ITS CONSULTATION PAPER RELATING TO PROPOSED STANDARD CONDITIONS FOR FAP FULL LICENCES AND CLASSES OF FINANCIAL ADVICE SERVICE. THIS CONSULTATION PAPER PROVIDES A GOOD INSIGHT INTO HOW FINANCIAL ADVICE PROVIDER (FAP) FULL LICENSING WILL WORK.

The FMA has already undertaken significant work on the FAP full licensing process and developed a preliminary plan. That plan

is outlined in the consultation paper and feedback is being sought from the industry on how well the plan is likely to work and if there are any ideas on how to improve it. The concepts outlined in this consultation paper are not locked in stone. However, it is reasonable to assume that the broad outline of what is proposed will come to fruition as the concepts make sense and it is a logical and proportionate approach to undertaking full licensing for potentially over 1000 FAPs.

The good news is FMA is proposing a proportionate licensing regime which will not prevent single adviser business from obtaining a FAP licence.

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Overview

The criteria for obtaining a FAP full licence is more comprehensive than what it is for a transitional FAP licence. The approach is similar to what other FMCA licensed entities have had to go through since 2013. The FMA will assess a FAP applicant business against set criteria and the level of assessment will depend upon the scope of financial advice service of each FAP as

well as the licence class applied for. This means a small 1-2 adviser business just advising on one type of financial product (e.g. mortgages) will not be assessed to the same degree and not have to provide the same sophistication of documents and processes as a large business with 20 + advisers providing advice on investment, insurance, mortgages etc.

It is proposed there will be three licence classes for FAPs:

CLASS	DESCRIPTION
CLASS A	Most likely will be a sole adviser practice where the financial adviser is also the sole director or one of two directors. The business cannot engage nominated representatives, authorised bodies, or interposed persons. The advice must be given directly by the sole adviser.*
CLASS B	Most likely will be a business which can engage financial advisers plus have authorised bodies working for it. It cannot engage nominated representatives. A sole practitioner may decide to apply for a Class B licence if he/she believes they are likely to employ another adviser.*
CLASS C	This is a larger business which can employ financial advisers, authorised bodies and nominated representatives. Only Class C licence holders can engage nominated representatives.*

* See the [consultation paper](#) pages 6-7 for more details on each class of licence.

IT IS PROPOSED THERE WILL BE EIGHT STANDARD CONDITIONS:

1. Record keeping
2. Internal complaints process
3. Regulatory returns
4. Outsourcing
5. Professional indemnity insurance
6. Business continuity and technology systems
7. Ongoing eligibility
8. Notification of material changes

For full details, see pages 10-19 of the [consultation paper](#).

Analysis and implications

THE THREE CLASSES OF LICENCE ENABLE BUSINESSES OF ALL SIZES TO REALISTICALLY CONTEMPLATE HOLDING A FAP FULL LICENCE. THE SYSTEM WILL NOT PRECLUDE SINGLE ADVISER BUSINESSES BECOMING A FAP. HOWEVER, THE COST OF BEING A FAP WILL BE MORE THAN WHAT IT IS TODAY IF YOU ARE AN RFA BUSINESS AND HAVE NOT ALREADY INVESTED INTO TECHNOLOGY AND COMPLIANCE.

Think of a Class A licensed FAP as being similar to a single AFA business, but with slightly more documentation and obligations. The costs to operate a Class A licensed business will not be exponentially more expensive than that for a single AFA business.

Compliance and well documented processes is part of operating any good business and one should not shy away from becoming a FAP just because of increased costs. Consider the big picture and where you wish to be in the industry in coming years. Having your own FAP full licence enables you to be the master

of your own destiny and potentially increases your sale value. However, for a small operator, being a FAP will take more time and does come with more regulatory risk.

However, very little is free in this world and deciding to join a FAP as an independent contractor or authorised body comes at a cost. You will have to pay the FAP for the compliance and for taking on the regulatory risk. The cost difference between being your own FAP vs joining a FAP may not be dramatically different.

It is important to read the consultation paper to understand the details of what is proposed. This report will not restate what is in the consultation paper. Instead, it provides some analysis and implications to help future FAPs and financial advisers clarify their thinking on whether they wish to obtain their own FAP licence or work under someone else's FAP.

STANDARD CONDITIONS	ANALYSIS AND IMPLICATIONS
RECORD KEEPING	<ul style="list-style-type: none"> You have huge flexibility in how you document your financial advice. A good CRM and directory structure or a high- quality advice delivery software solution will be essential. These need to be in place on day 1 of the new regime. Software takes months to implement so start the process now. Redefine your advice process based upon the service you wish to deliver and keep your clients at the forefront of your development process. Look at processes and also templates. Be innovative but make sure you can meet the obligations. Strategi can assist with innovative concepts and how to ensure they are compliant. Include record keeping training in your Professional Development Plan.

Analysis and implications

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STANDARD CONDITIONS	ANALYSIS AND IMPLICATIONS
INTERNAL COMPLAINTS PROCESS	<ul style="list-style-type: none">• Know the definition of a complaint.• Train all staff.• Operate a complaints register.• Comply with the rules of your Dispute Resolution Service.• Describe the complaints process in your new disclosure documents and on your website.• Under the new regime, there is different criteria regarding who needs to belong to a Dispute Resolution Service. Information on this is contained in the Strategi Institute NZCFS Level 5 (V2) programme.• Include upskilling on the complaints process in your Professional Development Plan.
OUTSOURCING	<ul style="list-style-type: none">• Most FAPs will outsource part of what they do relating to their licence e.g.: external compliance provider, wrap platform provider, research provider, advice delivery software.• Select a high -quality provider who can meet the required standards. Cheap will not necessarily be best when it comes to outsourcing.• The engagement must be well documented. There are key criteria that must be included in any outsource provider agreement.• You must be satisfied that the outsource provider can constantly deliver to the required standard. Ensure the provider does not get swamped with work and cannot deliver.• Undertake a good level of due diligence on each provider.• Obtain from Strategi an outsource provider policy with supporting due diligence checklists.• Include outsource provider upskilling in your Professional Development Plan.
PROFESSIONAL INDEMNITY INSURANCE	<ul style="list-style-type: none">• You must have PI cover. If you cannot get it, then you will have a specific licence condition and you will need to disclose to clients and potential clients that you don't have cover.• Get an independent report recommending the type of cover, level of cover and limits.• Negotiate the PI well in advance of applying for your FAP licence.• Carefully select those who you want working under your FAP. Someone who has had previous PI claims may restrict the level of PI cover or increase your premiums.• Ensure your adviser recruitment policy asks about past PI claims.• Include PI upskilling into your Professional Development Plan.

Analysis and implications

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STANDARD CONDITIONS	ANALYSIS AND IMPLICATIONS
PROFESSIONAL INDEMNITY INSURANCE	<ul style="list-style-type: none">• You will need to have a business continuity plan and cyber-security processes in place that are proportional to your business size and complexity.• Decide upon your technology solution as soon as possible. Go for simplicity and undertake good due diligence.• Follow a recognised cyber-security framework.• Strategi can provide the required policies and templates.• Think beyond just IT recovery. Your business continuity plan needs to consider who runs the business and looks after clients if the owner and staff are not available.• If a small business, have an agreement in place for someone to step in if you the owner are unable to.• Include BCP and cyber security upskilling in your Professional Development Plan.
ONGOING ELIGIBILITY	<ul style="list-style-type: none">• Whatever you state in your FAP full licence application is what you must continue to do into the future. If you wish to make a material change, then you must notify FMA.• Design and build your full licence application so it is proportionate to your business size and complexity. Strategi has developed three different sized solutions.• Don't blindly use templated solutions. Templates are a good starting point, but they MUST be customised to meet the way you intend to operate.• If you have authorised bodies under your licence, then you must have arrangements in place to control or supervise what they do. This will require good agreements that are enforceable.• Having tight compliance processes and good external compliance reviews is important.• Don't engage advisers or future authorised bodies that are unwilling compliers.• Enrol in the webinar being delivered by David Greenslade on 26 June relating to agreements.• Have someone in the business attend the Strategi Institute Compliance Officer course so they know the business obligations and how to ensure the business meets them.
NOTIFICATION OF MATERIAL CHANGES	<ul style="list-style-type: none">• Become familiar with what a material change is.• Any material change must be notified to FMA – including nature of the financial advice service or the way you do business.• Build into your compliance assurance plan and external compliance review process checks to ensure you can identify material changes.



The answer to getting FAP licensing right.

Strategi Compliance can provide a range of solutions from simply providing templates for firms to customise to a full service solution where we advise, develop and customise all the documents for you.

FAP licensing solutions that fit any size firm.

Strategi is highly experienced at FMCA licence applications having been involved in licensing since 2013. Over this time we have developed the resources to react quickly and handle volume. Whether you have one or many advisers, Strategi Compliance can help you achieve your FAP licensing needs.



ADVISER AND FIRMS

Save valuable time



FAP LICENSING

Made cost effective



TEMPLATES AND SOLUTIONS

Practical and realistic

FAP licensing kit bundles

The Strategi Compliance FAP licensing kit is your bundled solution to meeting all your FAP licensing requirements. There are three different FAP licensing kit solutions that vary depending on your firm's size and requirements.

Basic

pricing from

\$3,000
plus GST

For an adviser firm, that is looking for a "do it yourself" option.

FAP Operations Manual template

Policy process controls for FAPS

FAP licence application template

Guidance notes

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Standard

pricing from

\$5,000
plus GST

Designed for adviser firms, that will customise templates and may want advice along the way and a final check before submission.

FAP Operations Manual template

Policy process controls for FAPS

FAP licence application template

Guidance notes

Consultancy

Review of final application

Advanced

\$ Bespoke

Review of your documents or a fully customised solution tailored for larger more complex firms.

Individual policy documents

Customised licence application

Consultancy

Dedicated licensing team adviser

For further information, visit www.strategi.co.nz

Contact us on +64 9 414 1300 or info@strategi.co.nz



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