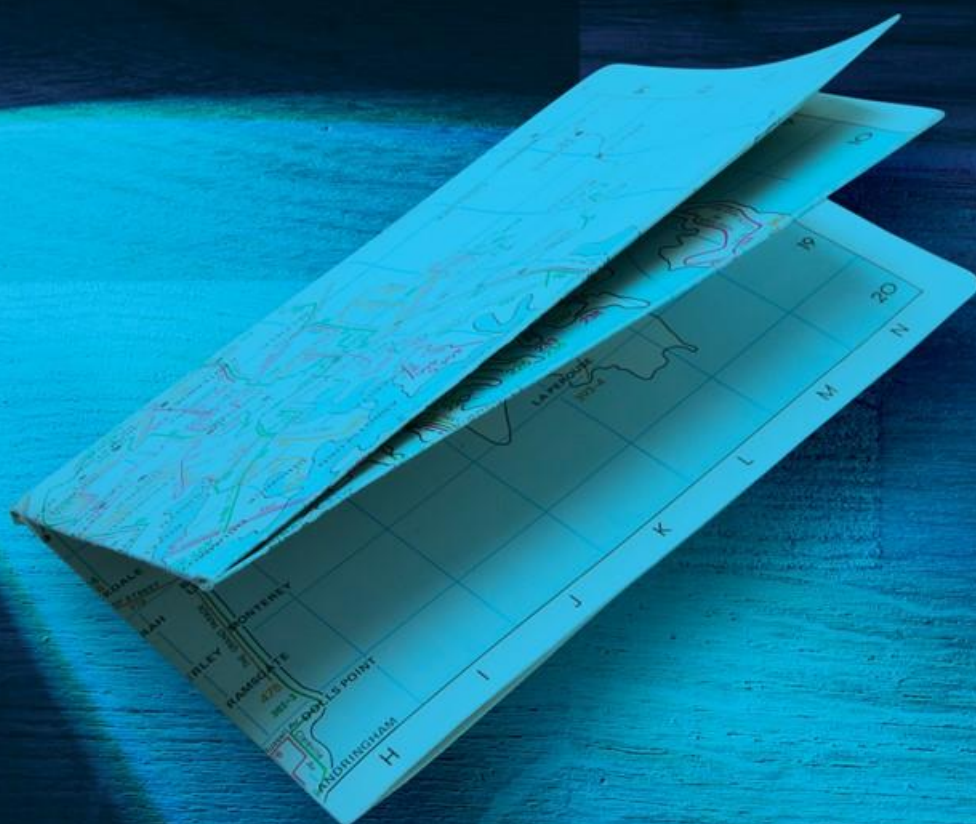




Strategi
Compliance

Developing your 2021 Professional Development Plan



BEST PRACTICE

GUIDANCE NOTE

ADVICE YOU CAN
PROFIT FROM

Introduction

2021 will be a particularly busy year for maintaining competence, knowledge, and skill for all those who provide financial advice. Up until 15 March 2021, AFAs, RFAs and QFE advisers will need to maintain their competence, knowledge, and skill applicable to their company policy and their status under the Financial Advisers Act 2008. For AFAs, that means they will still need to have a Professional Development Plan (PDP).

From 15 March 2021, the new advice regime commences. This involves significant change for everyone who provides financial advice. The competence, knowledge, and skill requirements are those contained in the Code of Professional Conduct for Financial Advice Services.

There is a two-year transitional period to obtain a full Financial Advice Provider (FAP) licence, plus to obtain the New Zealand Certificate in Financial Services (Level 5) V2 or prove that the person providing the financial advice can operate at the equivalent of the level 5 qualification.

From a good conduct perspective, it is recommended advisers upskill sooner rather than later, so they are meeting client expectations.

There is no transitional period for compliance with the legislation, regulation, and code or with conduct obligations. Advisers are expected to be able to comply from 15 March 2021. It can be hard to know if you are complying if you are not aware of what the standards are that must be met.

Who needs a PDP?

Code Standard 9 of the Code of Professional Conduct for Financial Advice Services explains what is required from a CPD perspective. Upon first reading, it might seem vague and a lowering of standards compared to those AFAs originally had to meet. However, that is far from the case. The new advice regime effectively drags all providers of financial advice up to and slightly beyond the standard expected of AFAs.

Therefore, Strategi recommends all financial advisers and nominated representatives develop and maintain a PDP.

PDP content

The PDPs will need to be developed in conjunction with the Financial Advice Provider (FAP) as the FAP is responsible for the advice provided by those operating under its licence. A FAP should set some mandated CPD to ensure everyone meets the FAP's policies and can operate compliantly in

the new regime. Additionally, the FAP would require its financial advisers and nominated representatives to undertake additional training (agreed to by the FAP) to meet the specific needs of each person. The specific needs will be determined by:

- What level 5 qualification the financial adviser or nominated representative (FA/NR) currently has.
- What types of advice does the FA/NR provide e.g.: investment, personal insurance, mortgage, life and health or general insurance.
- The outcomes from compliance assurance reviews such as the annual navigator compliance review conducted by Strategi Compliance. If this identifies deficiencies, then training around fixing those deficiencies should be built into PDPs.

Below is Standard 9 of the Code of Professional Conduct for Financial Advice Services.

STANDARD 9

KEEP COMPETENCE, KNOWLEDGE, AND SKILL UP-TO-DATE

A person who gives financial advice must undertake continuing professional development as follows:

Individuals must, at least annually, plan for and progressively complete learning activities designed to ensure that they maintain:

- › the competence, knowledge, and skill for the financial advice they give
- › to the extent relevant to the financial advice they give, an up-to-date understanding of the regulatory framework for financial advice in New Zealand.

Entities must, at least annually, review their procedures, systems and expertise to ensure that they maintain the capabilities for the financial advice they give.

■ COMMENTARY

There are many ways in which a person might satisfy the requirements for continuing professional development. For example, an individual might maintain an up-to-date understanding of the regulatory framework for financial advice in New Zealand by completing, after any material changes to that regulatory framework, the requirements for qualification outcome 4 of the New Zealand Certificate in Financial Services (Level 5) version 2.

Key points

- Standard 9 should be read in conjunction with the other standards within the code.
- A person is a financial adviser, nominated representative or a Financial Advice Provider. The FAP might be a holder of a licence or it might be an unlicensed FAP such as an authorised body which operates under the licence of a licensed FAP.
- The concept in Standard 9 of 'at least annually, planning for and progressively completing learning' is the development of a PDP for the business and/or the FA/NRs.

- Implementing the training requires tracking and reporting of progress, so that is logically undertaken via the maintenance of a CPD log.
- Competence, knowledge, and skill is holistic and includes topics such as compliance, ethics, understanding clients, personal development, business development, product knowledge etc.
- It will be difficult to rely upon time spent in the industry as the reason for not upskilling in 2021. A person may have spent 30 years providing financial advice, but that was under a different regulatory regime. There is now new legislation, regulation, and code that everyone must understand plus there is a heightened focus on good conduct. Additionally, FA/NRs will need to become aware of the new policies their FAP has put in place to meet licence obligations.
- Standard 9 specifically mentions ‘an up-to-date understanding of the regulatory framework for financial advice in New Zealand.’ This means almost every FA/NR will need to learn about the new legislation, regulation and code and should be doing so prior to 15 March 2021.
- Standard 9 requires entities (i.e a FAP) to ‘at least annually review their procedures, systems and expertise to ensure that they maintain the capabilities for the financial advice they give.’ A key part of undertaking the review is to assess how well the business is performing relative to client satisfaction, being compliant and meeting good conduct obligations. These are all factors assessed as part of the annual navigator compliance review undertaken by Strategi Compliance. The findings of the annual external compliance review will greatly help the FAP determine what training needs to be undertaken.
- A FA/NR will need to hold the requisite specialist strand of the New Zealand Certificate in Financial Services (Level 5) V2 for the advice provided. For example, if the FA/NR provides advice on investments plus personal insurances, then there is a requirement for the FA/NR to hold both the Investment Strand plus the Life, Disability and Health Strand. The timing for obtaining those strands will be determined by the FAP and whether it is prepared to rely upon the transitional period or not.
- There is an ability for FAs/NRs to prove competence in cases where they do not hold the New Zealand Certificate in Financial Services (Level 5) V2, but this is often expensive, time consuming and difficult to prove for those operating in small to mid-sized FAPs. Strategi Institute has programmes in place and agreements with Skills Organisation enabling this alternative pathway to be taken. To date, very few have opted for this approach due to the time and cost required.

Customising the PDP template

Strategi has produced a 2021 PDP template. It is available to current paying clients plus can be purchased by others for only \$60 plus GST.

It has been drafted for an investment adviser within a small to mid- sized FAP. Most of the modules will be common for all advisers, but the ones specifically relating to investment should be replaced with modules applicable to the advice provided.

Please note it is a template- hence it is only a starting point and a helpful tool for thinking about what is required.

The PDP template assumes the FA/NR, via the FAP, has a subscription to RADAR- the Strategi Institute online education platform. The modules listed in the template are on RADAR plus additional ones are regularly added. If the modules that are shown are not entirely suitable, then there are over 300 CPD modules that can be considered. Additionally, Strategi Institute can build (for a small fee) other additional content.

Please add or delete the modules applicable to your situation.

The template shows a number of modules that require completion before 15 March 2021. The reason for this is to ensure you have a good understanding of the new regulatory regime before the commencement date on 15 March 2021. If you are not undertaking the training prior to 15 March 2021, then you will need to be able to demonstrate to the FMA how the business is compliant in the new regime, from 15 March 2021.

How many CPD hours are required?

Previous codes specified a minimum number of CPD hours that needed to be achieved. This no longer applies with the Code of Professional Conduct for Financial Advice Services. Those who provide financial advice will be expected to undertake however many CPD hours as are required to ensure compliance. In 2021, it is highly unlikely that undertaking only 15 CPD hours will be sufficient. Some advisers will easily be facing more than 20 hours. The goal should not be to attain a minimum number of CPD hours each year. Instead, the goal should be:

- Completing your external annual compliance assurance review (Strategi navigator annual compliance review) and having no negative findings.
- Achieving high client satisfaction ratings from the client surveys the business will conduct.
- Fully abiding by the policies of your FAP.

Closing the Gaps course

Probably the single most important CPD module for all advisers who do not currently hold the New Zealand Certificate in Financial Services (Level 5) V2 to complete is the Strategi Institute Closing the Gaps course. This course is specifically designed to update all existing advisers on the legislation, regulation, code, conduct obligations and 6-step advice process that is effective from 15 March 2021.

For those who already hold the level 5 V2 qualification, then you may still need to complete the Closing the Gaps course. This will be determined by whether your instance of the V2 qualification included the Privacy Act 2020, the new disclosure regulations, new regime amendments to the FMCA etc. Those who completed Core Strand from December 2020 should be fine. Those who completed Core Strand prior to December should consider undertaking Closing the Gaps course. A brochure relating to Closing the Gaps course is attached.

Next steps

- Check the training policy of your FAP
- Identify the types of advice you intend to provide over the next 1-2 years
- Closely review the PDP template
- Amend the template so it is applicable to your situation

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