

What's next for FSLAA: An update on progress & the path ahead

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What's next for FSLAA: An update on progress and the path ahead

Today's briefing

- #1** Re-visit some of the main licensing structures
- #2** Consider the evolving shape of the market - based on transitional licenses approved so far
- #3** Outline key considerations on our consultation on proposed standard conditions for FAP full licenses & classes of financial advice
- #4** Reflect on the last few months & the future of financial advice

Licence structures – Potential options

SINGLE ADVISER BUSINESS

There are two options



Individual as a licensed FAP

You are registered on the FSPR as a Licensed FAP not as a FA.



Adviser's entity as a licensed FAP

Your entity is registered on the FSPR as a Licensed FAP.



Licensed FAP engages individual as a FA

You are registered on the FSPR as a FA. You are linked as being engaged by your entity (a Licensed FAP).

Licence structures – Potential options

MULTIPLE ADVISER BUSINESS

You are engaging other advisers to operate under your FAP Licence



As an individual registered as a Licensed FAP you can engage other FAs to work for you.



Each of you is registered on the FSPR as a FA and linked to the FAP that engages you.

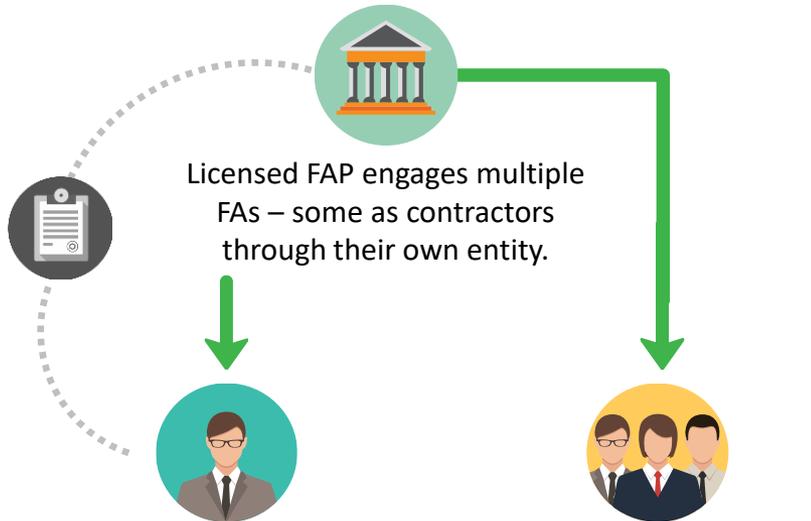


As a Licensed FAP you can engage FAs to work for your licensed entity.



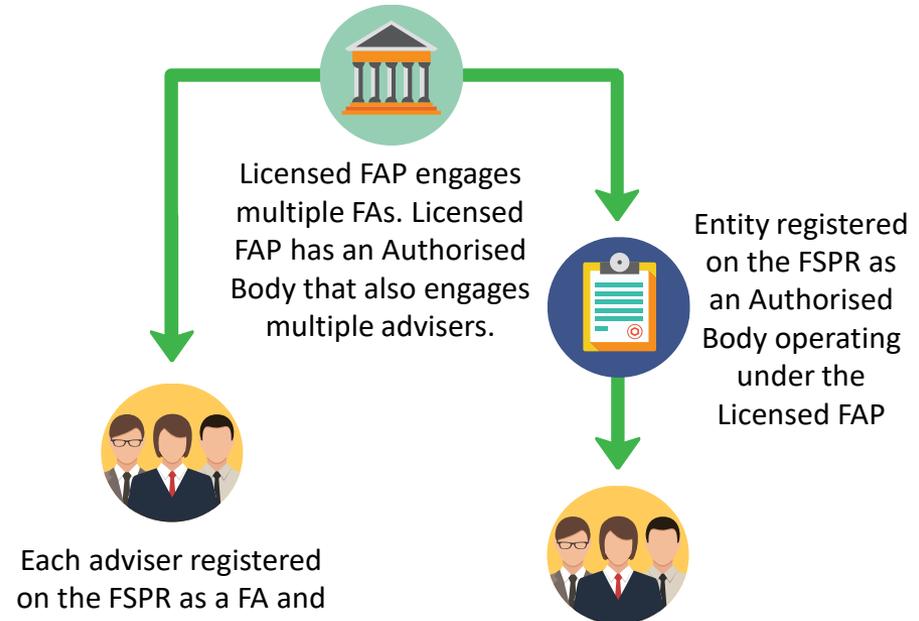
Each of you is registered on the FSPR as a FA and linked to the FAP that engages you.

Licence structures – More complex



- You are individually registered on the FSPR as a FA and linked to the Licensed FAP that engages you.
 - The FAP engaging you may require you to enter into a contractual arrangement with your entity.
- You should get advice to check if your entity has any obligations for the advice you give.

Each adviser registered on the FSPR as a FA and linked to the FAP that engages you.



Each adviser registered on the FSPR as a FA and linked to the FAP that engages you.

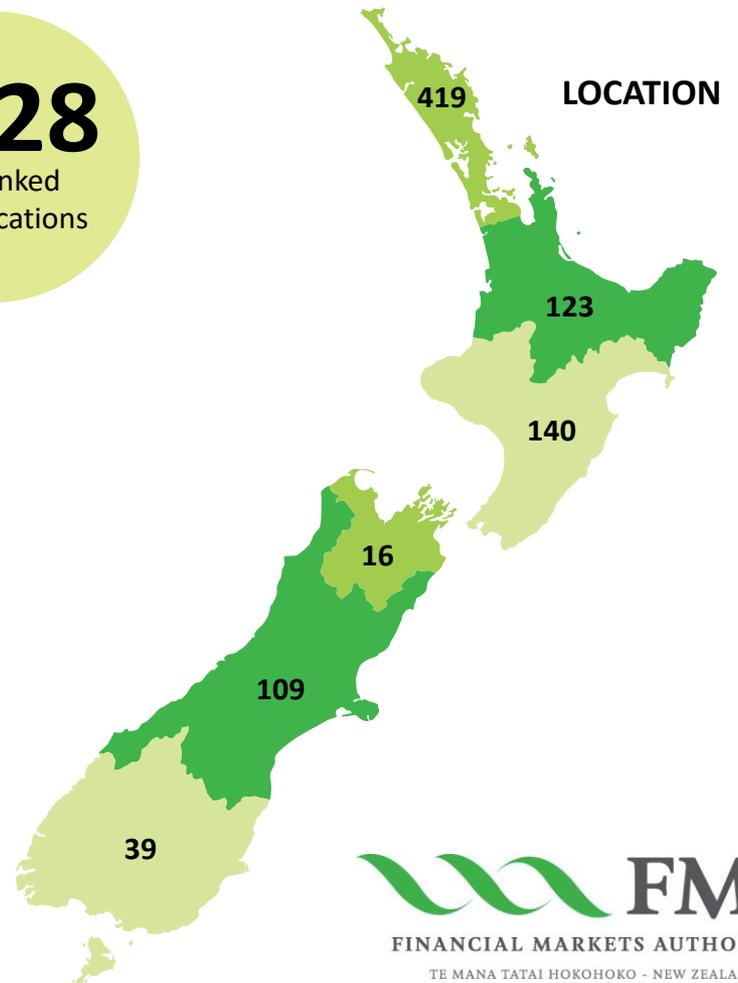
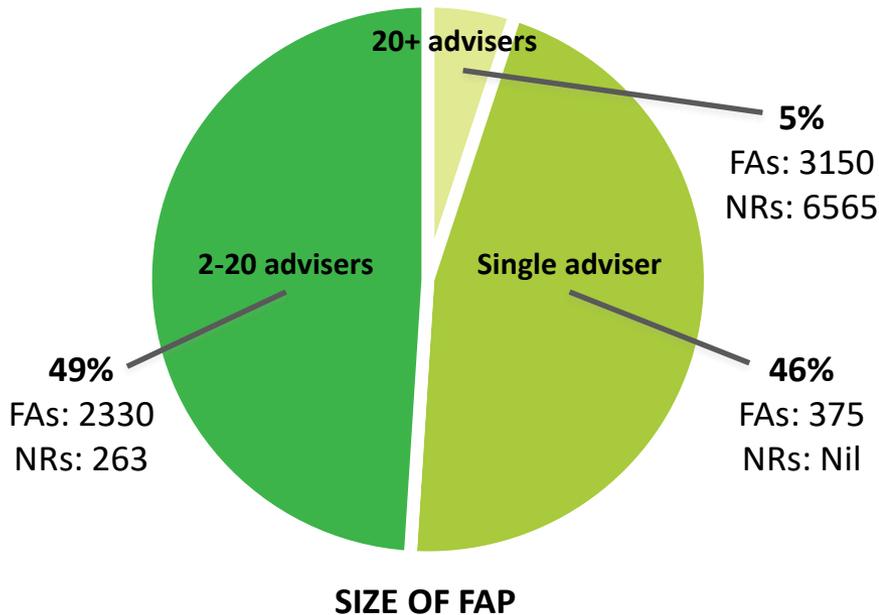
Each adviser registered on the FSPR as a FA and linked to the AB FAP that engages you.

Snapshot of transitional licensing progress at June 2020

846
transitional licences approved or under assessment

5855
FAs linked to applications

6828
NRs linked to applications



Full licensing & classes of financial adviser services

#1 To allow for more streamlined licence applications and assessment criteria, we are going to specify different classes of financial advice service for the purposes of licensing.

This means that applicants can apply for (and be assessed for) the class of licence that best suits their particular circumstances and the nature of the service they and their authorised bodies intend to provide.

#2 We are proposing to specify **three** licence classes for financial advice providers: Class A, Class B and Class C.

#3 Licence classes are incremental from A to C. Each incremental class of licence incorporates and permits all service classes below it, as you will see

Showing some class

Class	Licence holder providing advice <i>on own account</i>	(Entity) Licence holder <i>directly</i> engaging 1 FA = Director	Licence includes authorised bodies	Any FAP providing advice <i>on own account</i>	Any FAP <i>directly</i> engaging FAs	Any FAP <i>indirectly</i> engaging FAs <i>through</i> *interposed persons	Any FAP <i>directly</i> engaging NRs	Any FAP <i>indirectly</i> engaging NRs <i>through</i> *interposed persons	Any FAP *engaging entities
A									
B			if permitted by a licence condition			if permitted by a licence condition			
C			if permitted by a licence condition			if permitted by a licence condition		if permitted by a licence condition	if permitted by a licence condition

Class A licence covers the service of the licence holder providing regulated financial advice to retail clients: on the licence holder's own account; and/or through a sole adviser practice structure. An individual licence holder cannot engage any financial advisers to provide advice on their behalf. A corporate licensee can provide advice on its own account (e.g. through a digital channel) and/or can provide advice through **one** financial adviser, who must be the director (or one of only two directors) of the corporate licence holder.

Class B licence covers the service of a financial advice provider (whether the licence holder or any authorised body) providing regulated financial advice to retail clients: on the financial advice provider's own account; and/or through one or more financial advisers.

Class C licence covers the service of providing regulated financial advice to retail clients in any manner, subject to the limitations in the FMC Act.

** No person can indirectly engage through an interposed person, or engage an entity, without specific approval from the FMA. Section 431F of the legislation requires that these arrangements must be authorised via a condition on the licence of the engaging FAP. The FAP full licence application will be the mechanism for capturing the "request" from the engaging FAP (i.e. seeking the necessary approval). If approved, a specific condition on the licence of the engaging FAP will describe the requirements to be met by the engaging FAP for the arrangement to be authorised (for example that the interposed person must be licensed).*

Licence conditions

- #1 Licence conditions can be imposed by legislation or by the FMA when we issue a licence.
- #2 Conditions are obligations that licence holders, and those authorised under a licence, must comply with.
- #3 Licence conditions can be standard (i.e. apply to all licences) or specific (i.e. apply to an individual licence holder or authorised body).
- #4 Conditions are necessary to ensure that licence holders continue to meet requirements, and to help us effectively monitor the licensed population.

It's all very standard...

Record keeping

These requirements are the same standard condition wording applicable to transitional licences

Internal complaints process

Regulatory Returns

You must provide us with the information we need to monitor your ongoing capability to effectively perform the financial advice service in accordance with the applicable eligibility criteria and other requirements in the Act. This will include updated information on the nature, size and complexity of your financial advice provider service.

Information must be provided in accordance with any Regulatory Return Framework and Methodology we issue under subpart 4, part 9 of the Act.

The purpose of this condition is to:

...enable us to obtain updated information from FAPs from time to time – to identify any changes in risk profile after licensing

Outsourcing

If you outsource a system or process that is material to the provision of your financial advice service you must ensure that your arrangements enable you to meet your market service licensee obligations at all times.

...ensure that FAPs monitor & regularly review their outsource providers & associated arrangements, as responsibility for meeting licence obligations remains with the FAP

Professional Indemnity Insurance

You must have and maintain a level and scope of professional indemnity insurance that is adequate and appropriate for the provision of your financial advice service to retail clients in New Zealand.

...ensure that retail clients can be compensated for financial loss as a result of a breach of a professional duty by a FAP & those they engage

It's all very standard...

Business continuity & technology systems

You must have and maintain a business continuity plan that is appropriate for the scale and scope of your financial advice service. If you use any technology systems, which if disrupted, would materially affect the continued provision of your financial advice service (or any other market services licensee obligation), you must at all times ensure that cybersecurity for those systems – being the preservation of confidentiality, integrity and availability of information and/or information systems – is maintained.

You must notify us within 5 working days of you discovering any event that materially impacts the cybersecurity of your critical technology systems and provide details of the event, the impact on your financial advice service and clients, as well as your remediation activity.

...ensure that FAPS have suitable arrangements in place to ensure that they are able to manage disruptions to their business

Ongoing eligibility

You must at all times meet the eligibility & other requirements set out in section 396 and if applicable, section 400 of the FMC Act

...ensure all FAPs continue to meet the eligibility & other requirements of the FMA Act

Notification of material changes

You must notify us in writing within 10 working days of commencing to implement any material change to the nature of, or manner in which you provide, your financial advice service

...ensure that we are informed of any material changes that you make to your business, whether or not they may have a material adverse effect on your ability to provide your financial advice service, so that we can engage with you as necessary.

Future of advice

Without clients there is no future

- Clients have been feeling vulnerable, exposed and anxious about the future
- You have been busy responding to client issues during the lock-down
- This is important, valuable & satisfying work. This is where you are needed & can be productive - produce favourable & effective results
- It has been an opportunity to get closer to clients & provide advice

Ultimately, the **future** is decided by the quality of **today's** client encounters & connections