



# Practice Standards



Financial Advice NZ is the professional body for the financial advice sector, supporting New Zealanders to achieve choice in their financial matters, and financial security.

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## INTRODUCTION

Financial Advice New Zealand benefits the public and the financial advisory profession alike by establishing and enforcing minimum standards for competence, education, examination, experience, ethics and practice for its members.<sup>1</sup>

These standards of practice and ethical behaviour set the benchmark for the financial advisory profession in New Zealand.

Financial Advice New Zealand recognises that its members practice in many different disciplines and are compensated by a variety of means. Regardless of their area(s) of specialisation, employment relationships, or remuneration arrangements:

- All advising members subscribe to the same Code of Ethics.
- All advising members subscribe to the methodology embodied in these Practice Standards to the extent that they apply in any particular engagement.
- Members who hold the CFP<sup>CM</sup> designation have demonstrated competence to an International standard in comprehensive financial advice.
- Members who hold the CLU<sup>CM</sup> designation have demonstrated competence to an International standard in personal risk management.
- Other members may also be competent in one or more or all of the core components.
- Having demonstrated competence in the past does not guarantee ongoing competence, or competence in every context.
- Members must not practice outside their competence.
- Members must ensure that advice or services they provide place the client's interest first.

### ***Professional Financial Advice***

Financial Advice New Zealand exists primarily to represent professional financial advisers. The fundamental requirement of a professional is to provide **competent service that places the client's interest first**. This principle underpins all that we say and do, and takes precedence over all other requirements of Financial Advice New Zealand.

Financial Advice New Zealand acknowledges and upholds the six-step process and core components promoted by the international Financial Planning Standards Board, modified as appropriate to reflect the needs of its members and the New Zealand environment.

### ***The Six-Step Process***

All members who provide financial advice to or on behalf of clients must either follow the six-step process in full or provide the client with a clear, concise and effective written explanation of which steps are included. The six-step process is reflected in the structure of this document.

### ***The Core Components***

All members who provide financial advice to or for clients whether directly or on behalf of a FAP must either consider all core components or provide the client with a clear, concise and effective written explanation of which of these are included and which are not.

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<sup>1</sup> This document must be read together with Financial Advice New Zealand's Code of Ethics and Rules of Conduct and Disclosure Requirements Member Guide.

### ***Where no advice is involved***

Where a member is engaged to arrange a transaction without advice, the member is required to ensure that the client is advised of this before acting, in writing where practicable. The member must consider what disclosures are required to be provided to the client in each circumstance.

In all cases once a member has provided financial advice to a particular client, the assumption is that any further financial services to that client are also advice unless the client has a clear understanding that this is not the case.

### ***A range of competencies***

Members can have specialised knowledge and skill in one or more specific areas and develop strategies and provide advice on a countless number of objectives. However sometimes, a member may need to refer a client to a specialist (such as a lawyer or another professional) with competency in an area in which the member is not competent.

### ***Advisers may have other roles***

Members may also have other roles. For example a member may practice both as a Financial Adviser and also as a Chartered Accountant.

Regardless of how much time they spend providing financial advice and services, members must always conduct themselves in accordance with the Code of Ethics, Practice Standards and Rules of Conduct as applicable.

### ***Disclosures***

Disclosure regulations referred to in this document are detailed in The Financial Markets Conduct (Regulated Financial Advice Disclosure) Amendment Regulations 2020 which commenced on 15th March 2021.

### ***Client definition***

For the purposes of this document, “client” refers to the person or people the member is providing, or seeking to provide, regulated financial advice to whether directly or on behalf of the member’s Financial Advice Provider (FAP).

### ***FAP Definition***

FAP includes FAP Licensees and Authorised Bodies.

**FAP Licensee** - means a Person that is registered under the Financial Service Providers (Registration and Dispute Resolution) Act 2008 (or replacement Act) in relation to a financial advice service as a financial advice provider - licensee.

**Authorised Body** – means an entity that is authorised to provide financial advice services under a FAP Licensee’s licence.

## THE PRACTICE STANDARDS

### ***Format of the Practice Standards***

Each Practice Standard is a statement that relates to an element of the financial advice process. The statement is followed by an explanation of the Practice Standard's intent, which guides interpretation and application of the Practice Standard (based on a standard of reasonableness).

The explanation is not intended to establish a professional standard or duty beyond what is contained in the Practice Standard itself.

The Practice Standards are not intended to prescribe the services to be provided or step-by-step procedures for providing any particular service. The financial advice process is an integrated one; functions may be combined and/ or revisited based on the ongoing relationship between the member and the client.

### ***Applicability of the Practice Standards***

A member should always consider all aspects of the client's financial situation in formulating strategies and making recommendations, and should follow these Practice Standards to the extent that they apply to any given situation.

At least some of these Practice Standards apply both to comprehensive financial advice and to the provision of services that only represent one of the components of financial advice (i.e., Financial Management, Asset Management, Risk Management, Lending recommendations, Tax Planning, Retirement Planning and Estate Planning).

Standard 1, dealing with establishing and defining the relationship with the client, applies any time a member provides financial advice or components of financial advice to a client. This serves to establish clear and appropriate expectations for the client and the member.

Standards 2 through 6 apply to the extent that they are relevant to the financial advice engagement (the nature and scope of advice document will dictate the applicability of the standards).

<b>Financial Advice Process</b>	<b>Related Practice Standard(s)</b>
1. Establish and define the relationship with the client.	1.1: Inform the Client about Financial Advice and the Member's Competencies 1.2: Determine Whether the Member can meet the Client's Needs 1.3: Define the Nature and Scope of Advice Engagement
2. Collect the client's information.	2.1: Identify the Client's Personal and Financial Objectives, Needs and Priorities 2.2: Collect Quantitative Information and Documents 2.3: Collect Qualitative Information
3. Analyse and assess the client's financial status.	3.1: Analyse the Client's Information 3.2: Assess the Client's Objectives, Needs and Priorities 3.3 Identify any issues or concerns.
4. Develop the financial advice recommendations and present them to the client.	4.1: Identify and Evaluate Financial Advice Strategies 4.2: Develop the Financial Advice Recommendations 4.3: Present the Financial Advice Recommendations to the Client
5. Implement the client's financial advice recommendations.	5.1: Agree on Implementation Responsibilities 5.2: Identify and Present Product(s) and Service(s) for Implementation
6. Review the client's situation.	6.1: Agree on Responsibilities and Terms for Review of the Client's Situation 6.2: Review and Re-evaluate the Client's Situation

## **1. ESTABLISH AND DEFINE THE RELATIONSHIP WITH THE CLIENT**

### ***1.1 Inform the Client about the Financial Advice Process and the Member's Competencies***

The member informs the client about the financial advice process, the services the member offers, and the member's competencies and experience.

The member ensures the client has access to the publicly available disclosures, as detailed in regulation 229C.

#### **Explanation**

Prior to entering a financial advice engagement with the client, the member helps the client to understand the financial advice process and the nature of financial advice engagements, and provides information on the member's qualifications.

This information may include: how financial advice can help the client to meet objectives; a description of the member's methodology when providing financial advice; and information about the member's registration, authorisation, experience and expertise.

The member provides to the client, as required, information about the services the member, and their FAP if applicable, provides as well as what charges may be incurred by the client. This information will typically be provided in the nature and scope of advice document along with the relevant required disclosures.<sup>2</sup>

### ***1.2 Determine Whether the Member Can Meet the Client's Needs***

The member and the client determine whether the services offered by the member and his or her competencies meet the needs of the client. The member considers his or her skills, knowledge and experience in providing the services requested or likely to be required by the client.

The member determines if he or she has, and discloses, any conflict(s) of interest and any limitations on the advice able to be offered as well as other disclosures required by regulations.

#### **Explanation**

The member considers if he or she, or his or her staff, has the appropriate abilities, skills and knowledge to meet the client's expectations. The member considers if there are any personal conflicts that would affect his or her ability to work successfully with the client. The member determines if there are any other circumstances, relationships or facts that would place the interest(s) of the member in conflict with the client's interest(s), or the interest(s) of one client in conflict with another client. The member discusses the confidentiality of the client's information.

### ***1.3 Define the Nature and Scope of Advice***

The member and the client agree on the advice services to be provided. The member describes, in writing, the nature and scope of advice before any financial advice is provided, including details about: the responsibilities of each party (including third parties); the terms of the engagement; and remuneration and conflict(s) of interest of the member.

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<sup>2</sup> See separate document "New Disclosure Requirements Member Guide".

The nature and scope of advice is set out in writing in a formal document signed by both parties or formally accepted by the client and includes a process for terminating the engagement.

The member ensures the disclosures required at this stage by regulation 229D are made.

### **Explanation**

Mutually defining the nature and scope of advice establishes realistic expectations for both the client and the member. The member and the client may agree that the nature and scope of advice covers one, several or all of the financial advice components (i.e., Financial Management, Asset Management, Risk Management, Tax Planning, Retirement Planning and Estate Planning).

A written document ensures mutual understanding and agreement between the member and the client about the terms of the financial advice engagement. In setting out the terms in an engagement letter and disclosures, the member includes the following:

- Specific services to be included or excluded, such as implementation and review;
  - The member's commissions and other incentives arrangements with respect to the engagement, including fees to be paid by the client;
  - Existing conflicts of interest, including those involving remuneration arrangements with third parties, and agreement to disclose subsequent conflicts of interest if or when they occur;
  - Specific parties to the engagement, including details of any legal and agency relationships which may exist;
  - Assurance of protection of client confidentiality;
  - Duration of the engagement;
  - The client's responsibilities, including the full and timely disclosure of information;
  - The member's responsibilities;
  - Provisions for terminating the client engagement; and
  - Procedures for resolving the client's claims and complaints against the member.
- All other disclosures required by regulation 229D; When Nature & Scope of advice is known. These include: nature & scope of advice, fees and expenses, commissions and other incentives, conflicts of interest, reliability history and identifying details of the adviser and FAP.

Additional information that may form part of the formal written document includes:

- The potential need to use other professionals during the engagement;
- An explanation of qualifications, registration, authorisation and experience of individuals who will work with the client;
- Specific limitations on the use of client information; and
- Any other information necessary to adequately inform the client.

Circumstances may change the member's ability to provide services to the client, or the client may decide to terminate services or transfer to another adviser. The member disengages the client or facilitates the client's transfer to another adviser in a professional manner.



## **2. COLLECT THE CLIENT'S INFORMATION**

### ***2.1 Identify the Client's Personal and Financial Objectives, Needs and Priorities***

The member and the client identify the client's personal and financial objectives, needs and priorities that are relevant to the nature and scope of advice before making and/or implementing any recommendations.

#### **Explanation**

The member strives to clearly understand the client's current situation and financial objectives, needs and priorities. The client's financial objectives state intent, provide guidance and bring structure to the financial advice engagement.

The member assists the client in clarifying and prioritising his/her short and long-term objectives, and discusses with the client the merit and feasibility of any objectives that appear to be unrealistic.

### ***2.2 Collect Quantitative Information and Documents***

The member collects sufficient quantitative information and documents about the client relevant to the nature and scope of advice before making and/or implementing any recommendations.

#### **Explanation**

The member strives to collect complete and accurate client information and documents relevant to the nature and scope of advice.

The member relies on information provided by the client and other sources to make appropriate recommendations and clearly communicates to the client the importance of collecting complete, current and accurate information.

In return, the member respects the confidentiality of, and safeguards, client documents.

If the member is unable to collect information necessary to develop and support recommendations, the member discusses this with the client, explaining how these limitations impact the engagement and the statement of advice. These limitations could result in a revised engagement document or in termination of the engagement.

### ***2.3 Collect Qualitative Information***

The member collects sufficient qualitative information about the client relevant to the nature and scope of advice before making and/or implementing any recommendations.

#### **Explanation**

The member gathers information to understand the client's values, attitudes, expectations and financial experiences. This includes asking questions of the client and employing appropriate listening skills.

The member determines the client's level of sophistication and financial literacy. These areas are subjective and the member's interpretation may be limited by what the client reveals.

### **3. ANALYSE AND ASSESS THE CLIENT'S FINANCIAL STATUS**

#### ***3.1 Analyse the Client's Information***

The member analyses the client's information, subject to the nature and scope of advice, to gain an understanding of the client's financial situation.

##### **Explanation**

The member analyses the client's current situation and information, and works with the client to resolve obvious omissions and/or inconsistencies in the information collected.

As part of this analysis, the member uses client-specified, mutually agreed upon objectives and other reasonable assumptions, which may include the client's retirement age, life expectancy, income needs, risk profile, time horizon and special needs, as well as economic assumptions such as inflation rates, tax rates and investment returns.

#### ***3.2 Assess the Client's Objectives, Needs and Priorities***

The member assesses the strengths and weaknesses of the client's current financial situation and compares them to the client's objectives, needs and priorities.

##### **Explanation**

The member considers the opportunities and constraints presented by the client's financial situation and current course(s) of action, and determines the likelihood of the client reaching his or her objectives by continuing present activities or making anticipated changes.

The member may identify other issues that may impact the client's ability to achieve objectives, which he or she discusses with the client. It may be appropriate for the member to amend the nature and scope of advice and/or to obtain additional information.

## **4. DEVELOP THE FINANCIAL ADVICE RECOMMENDATIONS AND PRESENT THEM TO THE CLIENT**

### ***4.1 Identify and Evaluate Financial Advice Strategies***

The member considers one or more strategies relevant to the client's current situation that could reasonably meet the client's objectives, needs and priorities.

#### **Explanation**

The member identifies alternative strategies for achieving the client's confirmed objectives. The member evaluates the ability of each strategy to reasonably address the client's objectives, needs and priorities.

This evaluation may involve discussing with the client the importance, priority and timing of the client's objectives and needs; considering multiple assumptions; and/or conducting research or consulting with other professionals. This process may result in a single strategy, multiple strategies or no change to the client's current course(s) of action.

In considering alternative strategies, the member takes into account his or her legal and/or regulatory limitations or requirements and his or her competence to address each of the client's objectives, needs and priorities. More than one strategy may meet the client's objectives, needs and priorities.

Strategies and consequences identified by the member may differ from those of other members or advisers, illustrating the subjective nature of exercising professional judgment.

### ***4.2 Develop the Financial Advice Recommendations***

The member develops the financial advice recommendations based on the selected strategies to reasonably meet the client's confirmed objectives, needs and priorities.

#### **Explanation**

After identifying and evaluating various strategies and the client's current course(s) of action, the member develops financial advice recommendations that can reasonably meet the client's objectives, needs and priorities.

The recommendations may be an independent action or a combination of actions which may need to be implemented collectively. The recommendations may be to continue the current course(s) of action. If the member recommends a change, it may be general or specific in nature. It may be necessary for the member to recommend that the client modify an objective, need or priority.

The recommendations developed by the member may differ from those of other members or advisers, yet each may reasonably meet the client's objectives, needs and priorities. It is important that this part of the financial advice process be sufficiently documented.

### ***4.3 Present the Financial Advice Recommendations to the Client***

The member presents the financial advice recommendations and the supporting rationale in a way that allows the client to make an informed decision.

The member ensures the disclosures required at this stage by regulation 229E are made.

**Explanation**

The member shall prepare a written Statement of Advice. When presenting the financial advice recommendations, the member helps the client understand the client's current situation, the factors and assumptions that were critical to the recommendation(s), the risks of the recommended strategy(ies), and the likely impact of the recommendation(s) on the client's ability to meet his/her objectives.

The member avoids presenting his or her opinion as fact. The member informs the client that the financial advice recommendations will likely need to be modified as the client's personal, economic and other conditions change.

The member discloses to the client any conflict(s) of interest not previously disclosed, and explains how such conflicts impact the financial advice recommendations.

At this stage of the financial advice process, the member can further assess whether the financial advice recommendations meets the client's expectations, whether the client is willing to act on the recommendation(s), and whether modifications are necessary.

Recommendations regarding specific products or services may be presented at this stage, concurrently with the financial advice strategies and recommendations, or as part of the implementation stage (5.2).

The member must ensure all disclosures required by regulations 229E are provided to the client when the advice is given. These include: fees and expenses, commissions or other incentives, conflicts of interest, duties information, and details of how to make a complaint.

## **5. IMPLEMENT THE CLIENT'S FINANCIAL ADVICE RECOMMENDATIONS**

### ***5.1 Agree on Implementation Responsibilities***

The member and the client agree on implementation responsibilities that are consistent with the nature and scope of the advice engagement, the client's acceptance of the financial advice recommendations, and the member's ability to implement the financial advice recommendations.

#### **Explanation**

The member gains the client's agreement on implementation of the recommendations and provides the required documentation. The member may change the nature and scope of advice, as originally defined, based on the agreement reached with the client.

The member's responsibilities may include: identifying activities necessary for implementation; determining respective responsibilities of the member and the client; referring to, and coordinating with, other professionals; sharing client information as authorised; and selecting and securing products and/or services.

If there are conflicts of interest, sources of remuneration, material relationships with other professionals, or other relevant information that has not been previously disclosed, or which have changed since previously disclosed, the member discloses these to the client.

The member explains the rationale for referrals and the qualification(s) of the referred professional(s).

If a member is engaged by the client to provide only the implementation step of the financial advice process, this is clearly defined in writing in the nature and scope of advice. This scope may include the extent to which the member relies on information, analysis or recommendations provided by others.

### ***5.2 Identify and Present Product(s) and Service(s) for Implementation***

Based on the nature and scope of advice, the member identifies and presents appropriate product(s) and service(s) that are consistent with the financial advice recommendations accepted by the client.

#### **Explanation**

The member investigates and recommends products or services that are suitable to the client's financial situation and reasonably address the client's objectives, needs and priorities.

The member uses professional judgment in identifying the products and services that are in the client's interest. Professional judgment incorporates both qualitative and quantitative information. Solutions identified by the member may differ from those of other professionals since more than one product or service may meet the client's needs.

The member makes all disclosures, including changes to previously disclosed information, to the client as required by applicable regulations.

Recommendations regarding products or services may be presented concurrently with the financial advice strategies and recommendations as part of 4.3.

## 6. REVIEW THE CLIENT'S SITUATION

### ***6.1 Agree on Responsibilities and Terms for Review of the Client's Situation***

The member and client mutually define and agree on terms for reviewing and re-evaluating the client's situation.

#### **Explanation**

The member communicates to the client that financial advice is a dynamic process that may require updates due to changes in the client's personal, economic or other conditions.

The member and the client mutually agree on, and understand, their respective roles, if any, in ensuring that the client's situation is being adequately reviewed.

The member defines and communicates to the client the nature and scope of the reviewing activities that the member will provide. The reviewing process may require the member to modify the original scope of engagement or initiate a new engagement.

### ***6.2 Review and Re-evaluate the Client's Situation***

If conducting a review, the member and the client review the client's situation to assess progress toward achievement of the objectives of the financial advice recommendations, determine if the recommendations are still appropriate, and confirm any revisions mutually considered necessary.

#### **Explanation**

The review process may include: confirming that the financial advice recommendations agreed on by the client and the member have been implemented; assessing progress toward and achievement of the objectives of the financial advice recommendations to date; re-evaluating initial or subsequent assumptions made by the member for reasonableness; determining whether changes in the client's circumstances or objectives require adjustments to the financial plan; and mutually agreeing on any required changes.

As circumstances and needs change, a member may need to revisit earlier steps in the financial advice process.