



**MINISTRY OF BUSINESS,  
INNOVATION & EMPLOYMENT**  
HIKINA WHAKATUTUKI



# Discussion paper

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Financial advice provider licensing fees and changes to  
the FMA levy

December 2018

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The Ministry of Business, Innovation and Employment (MBIE) seeks written submissions on the issues raised in this document by 5pm on Friday 22 February 2019. Your submission may respond to any or all of these issues. Where possible, please include evidence to support your views, for example references to independent research, facts and figures, or relevant examples.

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Financial Markets team  
Ministry of Business, Innovation & Employment  
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# Minister's Foreword

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Many New Zealanders rely on financial advice to help them make important decisions about saving for a first home, planning for retirement, or preparing for unexpected events.

Consumers need to be able to access financial advice that they can have confidence in. The Financial Services Legislation Amendment Bill will help ensure this by requiring all those giving advice to meet standards of conduct and competency. It also requires all those giving financial advice to retail clients to be covered by a licence issued by the Financial Markets Authority (FMA).

Effective regulation of financial advice is necessary to ensure consumers are adequately protected and can receive financial advice with confidence. Regulation inevitably imposes some compliance costs. However, it is crucial that compliance costs are fair and reasonable so that financial advice providers can operate efficiently and consumers can continue to access financial advice.

Compliance costs for those operating under the new regime will include the licence fee payable to the FMA and the annual levy to contribute to the FMA's funding more generally.

I am releasing this discussion document to seek feedback on those proposed licensing fees and levies.

I have heard concerns about how the costs of the regime will affect smaller advice practices. Those practices are a hugely important part of the ecosystem and I want to ensure that compliance costs are appropriate for those practices.

I encourage you all to provide feedback.

I know you have already provided a lot of feedback on the design of the new regime, and thank you for your help getting us this far. We now need your input to ensure that the details of the regime are workable and appropriate.



Hon Kris Faafoi

Minister of Commerce and Consumer Affairs

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# Glossary

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|                           |   |
|---------------------------|---|
| AFA                       | Authorised Financial Adviser  |
| Authorised body           | An entity named on a financial service provider's licence that can provide the licensed service without needing their own licence.  |
| FA Act                    | Financial Advisers Act 2008   |
| Financial advice provider | A business or individual that can give financial advice to clients on its own account or can engage individuals to give advice on its behalf.<br>Must be licensed by the Financial Markets Authority in order to give advice to retail clients. |
| Financial adviser         | An individual who is registered on the FSPR and can be engaged by a financial advice provider to give advice on the provider's behalf.  |
| FMA                       | Financial Markets Authority   |
| FMC Act                   | Financial Markets Conduct Act 2013  |
| FSP Act                   | Financial Service Providers (Registration and Dispute Resolution) Act 2008  |
| FSPR                      | Financial Service Providers Register  |
| MBIE                      | Ministry of Business, Innovation and Employment   |
| Nominated representative  | An individual who is not registered on the FSPR and can be engaged by a licensed financial advice provider to give advice on its behalf. They will have less discretion than financial advisers.  |
| QFE                       | Qualifying Financial Entity   |
| RFA                       | Registered Financial Adviser  |

# 1 Introduction

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## Purpose of this discussion paper and context

1. In August 2017, the Financial Services Legislation Amendment Bill (the Bill) was introduced to Parliament. This Bill creates a new regulatory regime for financial advice, repealing the Financial Advisers Act 2008 (FA Act) and amending parts of the Financial Service Providers (Registration and Dispute Resolution) Act 2008 (FSP Act). These changes will improve access to high quality financial advice for New Zealanders and will establish a level playing field of regulation for all who provide financial advice. The Bill is expected to be passed by early 2019 and come into force in the second quarter of 2020.<sup>1</sup>
2. The Bill requires anyone giving financial advice to a retail client to operate under a financial advice provider licence granted by the Financial Markets Authority (FMA). Financial advice providers will be able to give financial advice on their own account, or engage individual financial advisers or nominated representative to give advice on their behalf.
3. With the introduction of a new licensing regime and the resulting change to the make-up of the structure, it is necessary to set licensing fees for financial advice providers, and amend how the FMA levy is collected from the financial advice sector.
4. This discussion paper seeks feedback on proposed:
  - a. fees that will be charged to applicants for a financial advice provider licence
  - b. changes to the FMA levy that will be payable by financial advice providers and financial advisers
  - c. changes to how authorised bodies are levied for all Market Services Licensees under the Financial Markets Conduct Act (FMC Act).
5. We are not reviewing the fees relating to the Financial Service Providers Register (FSPR) as these fees are charged on a cost recovery basis and are not changing as a result of the Bill.<sup>2</sup>

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<sup>1</sup> More information about the new regime and expected timeframes can be found at [www.mbie.govt.nz/faareview](http://www.mbie.govt.nz/faareview). At the time of writing, the Bill is awaiting the Committee of the Whole House stage.

<sup>2</sup> More information about the registration fees charged by the Companies Office can be found at <https://fsp-register.companiesoffice.govt.nz/help-centre/paying-fees-and-levies/schedule-of-fees-and-levies>.

## 2 FMA licensing fees

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### What are the licensing fees?

6. In the new financial advice regime, anyone who gives regulated financial advice to retail clients must operate under a financial advice provider licence. These licences will be granted by the FMA. Licensing will allow the FMA to assess whether a business is fit to provide financial advice and able to meet its statutory obligations. It will also improve the FMA's ability to monitor those who provide financial advice in New Zealand.
7. Licensing fees enable the FMA to recover the cost of considering a licence application from the applicant. We think it is appropriate that these fees are charged to the financial advice provider who receives the benefit of holding a licence by being able to operate in the regulatory environment established under the Bill. Without recovering these costs from licence applicants, the FMA would be required to subsidise the cost of licensing from other revenue streams.

### What costs will the FMA incur?

8. The FMA will incur costs related to the amount of staff time required to consider an application. The time required to consider an application varies depending on the type and complexity of the application and the number of factors that the FMA must consider before issuing a licence.<sup>3</sup>
9. In addition to the time required to process an application, one of the main costs to the FMA will be the development of the ICT system that will be used to process applications. This system will improve the FMA's ability to process applications and reduce the staff time required to process applications. It is intended that these costs will also be recovered via licensing fees.<sup>4</sup>
10. The proposals are based on FMA estimates as to the relevant costs, including estimates of the average number of hours involved in processing financial advice provider licence applications. The FMA will continue to refine these estimates as the licensing process is

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<sup>3</sup> More information about the FMA's approach to licensing can be found at <https://fma.govt.nz/news-and-resources/new-financial-advice-regime/>.

<sup>4</sup> More information about the calculation of the fees and the costs that the FMA will incur in processing licence applications can be found in Annex 1.



finalised to ensure the charges are set at as close as possible to actual cost recovery level. It is possible that final proposed fees will vary slightly from those set out below.

## Objectives

11. We have identified the following objectives for setting licensing fees for financial advice providers:<sup>5</sup>
  - a. ensuring that fees are set at a level that fully recovers, but does not over-recover, the costs to the FMA of assessing applications
  - b. minimising the extent to which the fees create a cross-subsidy between different groups (particularly between those with simple and complex applications)
  - c. limiting uncertainty to prospective applicants as to the likely total amount of the fees they will be required to pay
  - d. creating incentives for the FMA to deliver services to fee payers in an efficient and effective manner
  - e. ensuring the charging of fees is able to be undertaken in an administratively efficient manner.
12. The options have been considered in light of these objectives.

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Do you agree with the identified objectives for fee setting? Are there other objectives which should be considered?

## Proposed fees for transitional licensing

13. There will be two distinct phases of licensing in the new financial advice regime: transitional licensing and full licensing. Transitional licensing allows businesses to continue giving financial advice while introducing the benefits of the new regime sooner than would otherwise be practicable. During the transitional licensing phase, the Bill requires the FMA to only consider a limited number of factors. For that reason, the transitional licensing process will be relatively straight forward and unlikely to vary much among different applicants. The FMA will therefore incur similar costs in considering all transitional licence applications.
14. We propose that the cost of transitional licensing, including the relevant estimated ICT system costs, be spread evenly across all applicants through a flat transitional licence application fee.

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<sup>5</sup> In developing these objectives we have considered the Office of the Auditor-General's Good practice guide: Charging fees for public sector good and services (<https://oag.govt.nz/2008/charging-fees/docs/charging-fees.pdf>) and the Treasury's Guidelines for Setting Charges in the Public Sector (<https://treasury.govt.nz/sites/default/files/2017-04/settingcharges-apr17.pdf>).

15. Additional fees will also be charged for:
- a. each authorised body included in a licence application
  - b. any later applications to vary licence conditions to add or remove an authorised body.

| Transitional licence fees                 |  | Fee (ex GST)   |
|---|--|--|
| Financial advice provider application fee |  | \$363.00   |
| +   | Per authorised body named in an application                                    | \$39.00  |
| +   | Any application to vary licence conditions to add or remove an authorised body | \$100.00<br>plus \$155.00 for every hour or, part-hour pro rata, of work carried out |

16. We consider that this proposal meets each of MBIE’s objectives for setting licensing fees, as it will allow the FMA to fully recover the staff cost and ICT system costs of licensing, and avoids cross-subsidy between different groups. The use of a flat fee is administratively simple, will also provide certainty to the industry and creates incentives for the FMA to deliver services in an efficient and effective manner.
17. We have not identified any viable alternative options for setting the transitional licensing fees. As it is expected that all applications will take a similar amount of time, the costs incurred will not vary among applicants and any alternative models would not meet MBIE’s objectives.

**2** Do you have any comments on our proposed transitional licensing fee as set out above?

## Proposed fees for full licensing

18. Unlike transitional licensing, the FMA is required to consider a wider range of factors when considering a full licence application, including whether the applicant has the systems and processes in place to ensure it, and the people it engages, are capable of effectively performing the service. As such, the process for full licensing will be more complex and the time required to consider an application will vary according to how the applicant chooses to provide advice.
19. We propose that full licensing fees should reflect the complexity of the application and be based on the following scenarios:
- a. a financial advice provider that is a single adviser business<sup>6</sup> or gives advice purely on its

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<sup>6</sup> An individual who holds a licence and does not engage any other individuals to give regulated financial advice on their behalf, or a body corporate which holds a licence and there is only one financial adviser engaged by the body corporate to give regulated financial advice on the licensee’s behalf. The financial adviser must be the only director, or one of only two directors of the body corporate, and the only senior manager (if any) of the body corporate.

own account (e.g. through a digital advice platform). Applications in this category are expected to take the shortest amount of time to process.

- b. a financial advice provider that engages multiple financial advisers but no nominated representatives. Applications in this category are expected to be more complex.
- c. a financial advice provider that engages nominated representatives (regardless of whether they also engage financial advisers). This is expected to be the most complex category of applicant due to the additional obligations imposed on providers that engage nominated representatives.

20. Our proposed fees reflect that the FMA expects that it will take longer to assess applicants in categories 2 and 3 than in 1, and will therefore incur additional costs.
21. Our preferred option is for the cost of obtaining a licence to be recovered through a combination of a flat application fee for each category plus an hourly rate for complex applications that take longer to process than estimated. The use of the hourly rate allows the FMA to recover additional costs incurred in considering these complex applications and will only be charged after the FMA has informed the applicant.
22. An additional fee will also be charged for each authorised body included in a licence application. Any later applications to vary licence conditions will be charged the existing variation fee of \$100.00 plus \$155.00 for every hour, or part-hour pro rata, of work carried out.<sup>7</sup>

| Full licence fee |   | Fee (ex GST)   |
|------------------|---|--|
|                  | Application fee for financial advice provider that is a single adviser business or only gives advice on its own account | \$575.00<br>plus \$155.00 per hour if processing time for application exceeds 2 hours    |
|                  | Application fee for financial advice provider that engages multiple financial advisers but no nominated representatives | \$730.00<br>plus \$155.00 per hour if processing time for application exceeds 3 hours    |
|                  | Application fee for financial advice provider that engages nominated representatives                                    | \$885.00<br>plus \$155.00 per hour if processing time for application exceeds 4 hours    |
| +                | Per authorised body named in application  | \$155.00   |
| +                | Any application to vary licence conditions (including to add or remove an authorised body)<br><br>(existing fee)        | \$100.00<br><br>plus \$155.00 for every hour or, part-hour pro rata, of work carried out |

<sup>7</sup> The FMA's hourly rate is set in the Financial Markets Conduct (Fees) Regulations 2014 at \$178.25 per hour inclusive of GST. Fees for applications to vary licence conditions are also set in these regulations.

23. We consider that this proposal meets MBIE’s objectives for setting licensing fees. It will allow the FMA to fully recover the staff cost and ICT system costs of licensing, and avoids cross-subsidy between different groups. The use of a flat fee and hourly rate will also provide certainty to most applicants, while allowing the FMA to recover additional costs incurred in assessing more complex applications.

3

Do you have any comments on our assessment of the proposed full licensing fees as set out above?

## How does this compare to current fees?

24. The following tables set out the current fees charged by the FMA to become an Authorised Financial Adviser (AFA) or a Qualifying Financial Entity (QFE) under the FA Act, and examples of the licensing fees payable in three different scenarios. A Registered Financial Adviser (RFA) is not required to be authorised to provide financial advice under the FA Act. These do not include costs associated with registering on the FSPR.
25. At this stage we do not propose to include a separate renewal fee. Any applications to renew a licence would be charged the full application fee.<sup>8</sup>

| Authorised Financial Adviser (AFA) | Current Fee (ex GST) |
|------------------------------------|----------------------|
| Application fee                    | \$996.00             |
| Renewal every 5 years              | \$498.00             |
| Qualifying Financial Entity (QFE)  | Current Fee ex GST   |
| Application fee                    | \$4,249.00           |
| Renewal every 5 years              | \$4,000.00           |

| Examples of full licensing fees payable in different scenarios                      | Current fee (ex GST)            | Proposed fee (ex GST) |
|---|---------------------------------|-----------------------|
| Single adviser business   | \$0 (RFA) to \$996.00 (AFA)     | \$575.00              |
| A financial advice provider that engages five financial advisers                    | \$0 (RFAs) to \$4,980.00 (AFAs) | \$730.00              |
| A financial advice provider that engages ten nominated representatives <sup>9</sup> | \$4,249.00                      | \$885.00              |

<sup>8</sup> The FMA is yet to settle potential terms or expiry dates for financial advice provider licences, and what any process for renewing a licence would involve. Further, the FMA recently consulted on removing expiry dates from existing market service licences under the FMC Act, which are generally granted for terms of five years. We will consider whether it is necessary to have a separate renewal fee once more information regarding the FMA’s renewal process, and associated costs, are known. Any renewal fees will be consulted on.

## 3 Changes to the FMA levy

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### What is the FMA levy?

26. The majority of the FMA's funding is recovered through a levy which is charged annually to financial market participants, including the financial advice industry.<sup>10</sup>
27. Unlike licensing fees, levies are not set on a purely cost recovery basis. Rather, the levy is generally set at a rate which reflects the relative benefit that each participant receives from operating in a well-regulated environment. Therefore, the amount of levy charged to a financial market participant is typically proportionate to the size of the business.

### Why is the levy changing?

28. The current FMA levy was set in 2017 following a review of the FMA's funding.<sup>11</sup> All financial service providers are required to pay a flat levy when they first register on the FSPR, and then pay various levies at FSPR annual confirmation (which occurs in the calendar year following registration). A person that is included in two or more levy classes must pay the levy for each of those classes.
29. At this time we are not reviewing the FMA's overall funding, the design of the levy model as a whole, or trying to account for the full costs of the new regulatory regime. However, some existing levy classes need adjustments and some new levies need to be set to collect funding from financial advisers and financial advice providers. In setting these new levies we are aiming to collect the same amount as is currently collected from the financial advice industry.

### Objectives

30. We have used the following objectives from the establishment and subsequent reviews of the FMA levy:
  - a. the cost of the levy for market participants is consistent with the benefits they receive from a well-regulated financial market

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<sup>9</sup> The nearest equivalent to a nominated representative in the current regime is a QFE adviser.

<sup>10</sup> The amount of the levy and the levy classes are set out in Schedule 2 of the Financial Markets Authority (Levies) Regulations 2012.

<sup>11</sup> When the levy was reviewed in 2017, AFA levies were not changed as it was intended to review this levy once the impact of the FA Act review was known.

- b. the levy will not discourage some classes of entity from supplying financial products or services
- c. the levy is practical in respect of its implementation and collection, and also avoids large over or under-collection.

4

Do you agree with the identified objectives for setting the levy amounts that will apply in the new regime? Are there other objectives which should be considered?

## Proposed levies

31. Our preferred option is for the levy to comprise of a base amount that will apply to all financial advisers and licensed financial advice providers.<sup>12</sup> In addition, financial advice providers will be required to pay an additional amount if they give financial advice on their own account (e.g. through a digital advice platform) and for each nominated representative that they engage to give advice on their behalf.
32. As with the current model, a standard financial service provider levy of \$460.00 (ex GST) will apply on initial FSPR registration with the service-specific levy applying on the financial service provider's FSPR annual confirmation.

| Levy class   |                                    | Levy (ex GST) |
|--|------------------------------------|---------------|
| <b>At initial registration</b>                     |                                    |               |
| Any financial advice provider or financial adviser |                                    | \$460.00      |
| <b>At each annual confirmation</b>                 |                                    |               |
| Licensed financial advice provider                 |                                    | \$230.00      |
| +  | Per nominated representative       | \$179.00      |
| +  | If gives advice on its own account | \$1,106.00    |
| Financial adviser                                  |                                    | \$267.00      |

33. To avoid over recovery of the levy, it is proposed that financial advisers will be required to pay the levy (rather than through a financial advice provider) as they may be engaged by multiple financial advice providers (e.g. if they have multiple part-time jobs). However, we are conscious that this may impose administrative costs on financial advisers and financial advice providers and would like feedback on whether these levies should be paid by financial advice providers rather than financial advisers.
34. The proposal includes a cap of \$80,000 so that financial advice providers will not be required to pay more than this amount (this cap does not include levies relating to the financial advisers engaged by the financial advice provider which are levied separately). Without a cap, the levy

<sup>12</sup> Note, entities that only give advice to wholesale clients are not required to hold a licence and will continue to pay a levy of \$460.00 (ex GST) annually.

may discourage some businesses from providing financial advice or reduce the number of individuals that are able to give advice.

35. We consider that this model will meet MBIE's objectives. It will ensure that the businesses that benefit the most from participating in a well-regulated environment will pay a greater portion of the levy.
36. Importantly, as any increase to the levy will be incremental (in contrast to the alternative tiered model option discussed below), we consider that this approach will not discourage businesses from providing financial advice, or expanding.

5 Do you have any comments on the proposed levy? Are there any further advantages or disadvantages to our proposal?

6 Should the levy relating to financial advisers be payable by the financial adviser as proposed, or the financial advice provider?

## Alternative options

### Tiered levies for financial advice providers

37. Under this option, the levy would include a number of tiers that would relate to the number of individuals engaged by the firm, similar to other levy classes. As a financial advice provider engages more individuals to give advice, it would move to a higher tier and pay a higher levy (rather than the incremental increase with each additional nominated representative).
38. This would meet MBIE's objective of the levy being consistent with the benefits received by the provider, however it may fail to meet the other two objectives. In particular, we are concerned that setting tiers might discourage financial advice providers from growing, as there would likely be a relatively significant increase in the levy once the next tier is reached or there would need to be many tiers. In addition, due to the lack of data available on the relative size and business models that will be used in the new regime, there is a reasonable chance that this option would lead to significant over or under recovery.

### Relief to single adviser businesses

39. Under this option, a single adviser business would only be required to pay the financial advice provider levy of \$230.00 annually.<sup>13</sup> This option would meet MBIE's first objective, but we are concerned that this could discourage business to grow, as additional levies may deter providers from engaging additional advisers. Rather than providing direct relief in this manner,

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<sup>13</sup> The Bill requires the financial advice provider and the individual financial adviser to be registered on the FSPR. Without this relief, a single adviser business would be required to pay a levy for both register entries. Under our preferred option, this would amount to \$497.00 (ex GST) annually.

our preferred option has been designed to ensure that single adviser businesses pay a levy that is proportionate to the benefit they receive.

40. However, we are considering whether relief should be provided to a single adviser business in relation to the levies payable at initial registration. This could require a single adviser business to only pay the financial advice provider levy (and not the financial adviser levy) at initial registration, if a new registration is obtained.

7 Do you have any comments on these alternative options? Are there other options, or variations on the above options, that should be considered?

8 What would the costs and benefits be of providing relief to single adviser businesses?

## How does this compare to current levies?

41. The tables below sets out the current levies that apply under the FA Act and examples of the levies payable in different scenarios under our proposal.

| Levy class                                | Current levy (ex GST) |
|---|-----------------------|
| <b>At initial registration</b>            |                       |
| Levy amount                               | \$460.00              |
| <b>On annual confirmation</b>             |                       |
| Authorised financial adviser              | \$330.00              |
| Registered financial adviser              | \$460.00              |
| Qualifying financial entity <sup>14</sup> | \$460.00              |

| Examples of the annual levies payable in different scenarios                         | Current levy (ex GST)                  | Proposed levy (ex GST) |
|--|--|------------------------|
| Single adviser business  | \$330.00 (AFA) to \$460.00 (RFA)       | \$497.00               |
| A financial advice provider that engages five financial advisers                     | \$2,110.00 (AFAs) to \$2,760.00 (RFAs) | \$1,565.00             |
| A financial advice provider that engages 100 nominated representatives <sup>15</sup> | \$460.00                               | \$18,130.00            |

<sup>14</sup> Under the current levy classes, QFEs do not pay a levy in respect of their financial adviser service if they pay a levy for any other relevant class (e.g. as a bank). Those that do not pay a levy under another class would pay the standard levy of \$460.00.

<sup>15</sup> The nearest equivalent to this scenario in the current regime is a QFE engaging 100 QFE advisers.



## Changes to levies relating to authorised bodies

42. In addition to setting new levies for financial advice, we also propose to change how authorised bodies, and the FMC Act Market Services licensees that cover authorised bodies, are levied. These changes are intended to better meet the objectives for setting the levy.

### Levies for authorised bodies

43. Authorised bodies are entities that are covered by another entity's market services licence. To date, different levies have been charged depending on the financial service provided by the authorised body. In some instances, the authorised body pays in the same levy class as the licensed provider, while in others they pay the \$460.00 levy that applies to providers that are not in a specific levy class. To avoid this inconsistent treatment, we propose that all authorised bodies pay a levy of \$460.00, regardless of the financial service that they provide.

### Levies for licensees with authorised bodies

44. Several levy classes (e.g. fund managers or Discretionary Investment Management Service (DIMS) providers) are tiered so that a licensee pays a higher levy if they have more funds or assets under management. For those levy classes, the full extent of a licensed provider's business might not be taken into account in the charging of the levy. There is also a risk of providers restructuring their business to avoid paying some levies by moving funds under management to authorised bodies in order to reduce the applicable levy.
45. To overcome this risk we propose that the licensee will be required to pay a levy based on the total activity of both the licensee and its authorised bodies. The total levy payable will be calculated under the current class in Schedule 2 of the Financial Markets Authority (Levies) Regulations 2012. This would ensure that the full extent of the licensed provider's business is taken into account in the levy and prevent the risk of providers restructuring their business to avoid paying the levy. This better meets the objective of ensuring the levy is consistent with the benefits a market participant receives from a well-regulated financial market.
46. For example, under this proposal:
  - a. all authorised bodies will pay a levy of \$460.00.
  - b. financial service providers that pay a levy under the tiered classes (e.g. fund managers, DIMS providers) will pay a levy based on the total funds or assets under management of both the main licensee and any authorised bodies covered by the licence.
  - c. financial advice providers would pay the levy for the total number of nominated representatives engaged by the financial advice provider and any authorised bodies covered by the licence. Each authorised body would pay \$460.00.

# 4 Annex 1: Assumptions

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## Assumptions used in this paper

47. In the new regime, businesses will be able to arrange themselves in a range of different ways. They will be able to give financial advice on their own account, engage individuals or nominated representative to give advice on their behalf and, in some situations, engage other businesses to give advice on their behalf.
48. While we know how many AFAs, QFEs and RFAs there are, there is uncertainty about how current market participants will choose to operate in the new regime. It is unclear how many individuals may choose to apply for a licence as a single adviser business, or operate under a licensed firm. Similarly, it is unclear how many current AFAs and RFAs may choose to operate as financial advisers or nominated representatives.
49. The FMA has undertaken work to assess the current make-up of the market and estimate how the industry will arrange itself in the new regime. Based on the FMA's work, we have used the following assumptions in this paper:
  - a. that all current QFEs will apply to become financial advice providers and will engage a mixture of financial advisers and nominated representatives
  - b. that the majority of non-QFE companies that currently engage more than one AFA or RFA will apply to become a financial advice provider
  - c. that most AFAs currently in sole-practice (approximately 21% of AFAs), and a similar portion of current RFAs, will apply to become financial advice providers with one adviser.
  - d. that most current AFAs and RFAs will become financial advisers
  - e. that most current QFE advisers will become nominated representatives<sup>16</sup>
  - f. that all current QFEs, and a small portion of other businesses, will give advice on their own account (e.g. through a digital advice platform).
50. Taking into account the assumptions above, the FMA estimates that there will be between 1,250 and 3,240 applicants for a financial advice provider licence. We have used a mid-range value of 2,240 as an estimate for the total number of financial advice providers that will apply for a licence. We estimate that these firms will fall into the following categories:

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<sup>16</sup> Note that new clause 75 of schedule 4, as inserted by Schedule 1 of the Bill, limits the types of financial advice providers that can engage nominated representatives during the transitional period.

| Estimated number of licensed financial advice providers in the new regime |   |              |
|---|---|--------------|
| Financial advice providers  | Engages a mixture of financial advisers and nominated representatives | 57           |
|   | Engages multiple financial advisers                                   | 450          |
|   | Single adviser firm   | 1,733        |
|   | <b>Total</b>  | <b>2,240</b> |
| Estimated number of individuals giving financial advice in the new regime |   |              |
| Financial advisers  |   | 8,000        |
| Nominated representatives   |   | 21,500       |

### Assumptions used in apportioning the ICT system costs

51. It is intended that the ICT system costs relating to transitional licensing will be fully recovered during the transitional licensing period, and the ICT system costs relating to full licensing will be fully recovered from applicants for a full licence over the five year lifespan on the system.

| Estimated licensing system and development costs (ex GST) |                    |
|---|--------------------|
| Transitional licensing system                             | \$727,000          |
| Full licensing system                                     | \$1,028,000        |
| <b>Total costs</b>  | <b>\$1,755,000</b> |

52. We have assumed that existing industry participants will obtain a full licence during the transitional period. Once the new regime comes fully into effect, we assume that there will be an annual rate of approximately 70 new applicants. This is based on an analysis of the number of new AFAs, QFEs and RFAs that enter the market annually.

### Estimated costs and processing times for licence applications

53. The flat fees for transitional and full licensing have been calculated based on the FMA's best estimates of the average time required to process a relatively straightforward application, and the relevant estimated ICT system costs apportioned evenly across all applicants.
54. The table below sets out the estimated average processing time for each category of application.

| Licensing fees (ex GST) | Transitional licensing | Full licensing |            |            |
|-------------------------|------------------------|----------------|------------|------------|
|                         | All Categories         | Category 1     | Category 2 | Category 3 |
| Total application fee   | \$363.30               | \$574.59       | \$729.59   | \$884.59   |
| ICT system costs        | \$324.55               | \$419.59       | \$419.59   | \$419.59   |

|  |                      |                                      |                                      |                                      |
|--|----------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| Estimated average application processing time                                | \$38.75<br>(15 mins) | \$155.00<br>(1 hour)                 | \$310.00<br>(2 hours)                | \$465.00<br>(3 hours)                |
| Additional hourly rates chargeable over specified threshold following notice | N/A                  | \$155 per hour over 2 hour threshold | \$155 per hour over 3 hour threshold | \$155 per hour over 4 hour threshold |

10 Do you have any comments on the assumptions used in this paper as outlined above?

## Monitoring and evaluation

55. MBIE has ongoing regulatory stewardship obligations and will work with the FMA to monitor the implementation of the new regulatory regime. In particular, we will monitor the impact of the new regulatory regime on the FMA's resourcing and the financial advice sector and will monitor whether any significant under or over recovery is occurring. It is likely that the fees and levies discussed in this paper will be reviewed in light of our monitoring activities to ensure they are fit for purpose.
56. The implications from the review of the FA Act were not included in the 1 July 2017 increase in FMA's funding and the corresponding FMA levy changes. Once the full implications of the new financial advice regime are able to be determined and the size of the regulated populations are established, the FMA may need to seek additional funding. Any resulting changes to the FMA levy will be consulted on.