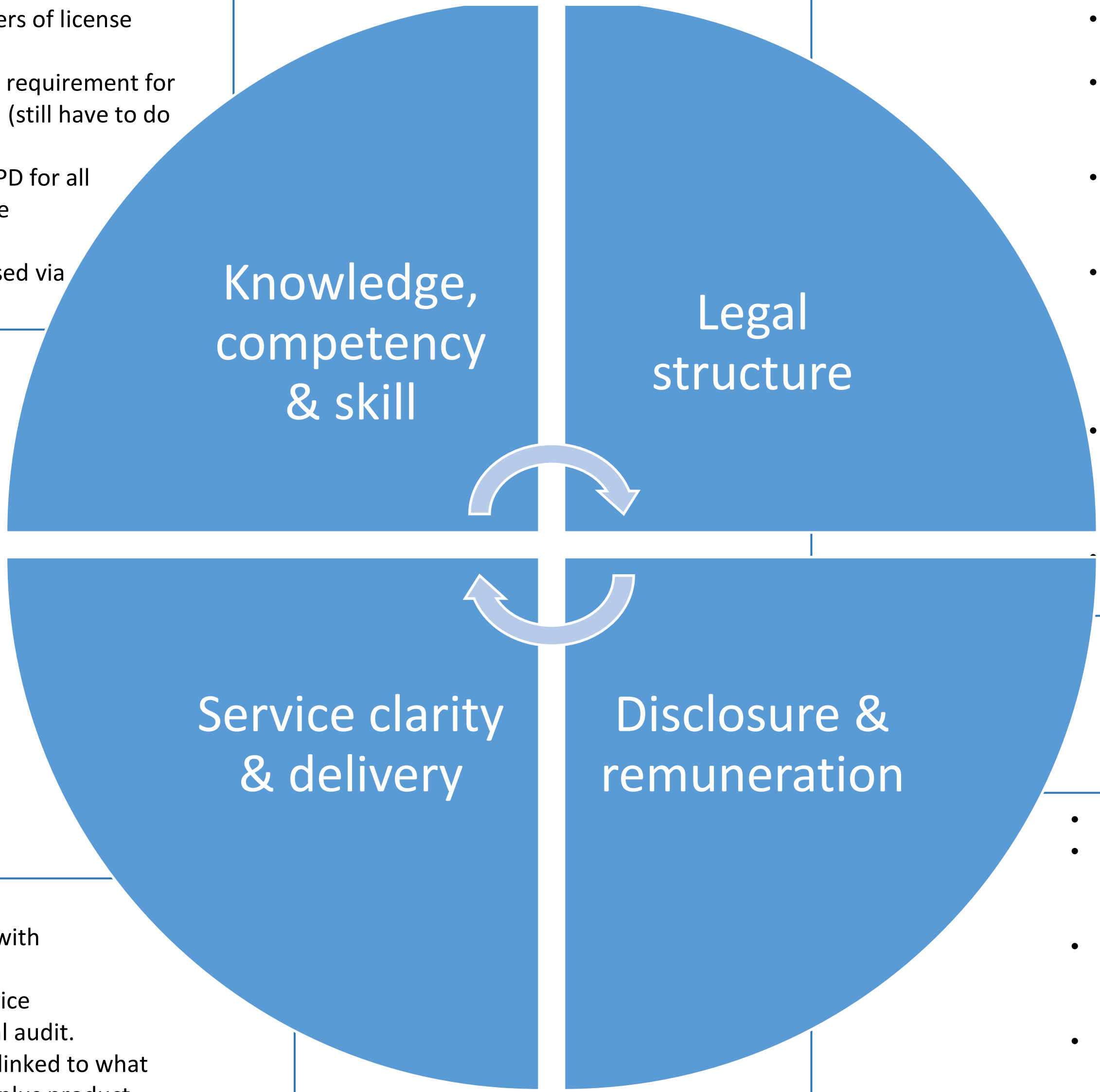
FAA Review: Strawman

- NZ Cert in Fin Svc Level 5 minimum standard for all advisers.
- License holders and principal advisers of license holders must attain level 6.
- Financial planning degree becomes requirement for principal advisers-introduced 2020. (still have to do level 5)
- Minimum of 15 hours structured CPD for all advisers every year. There would be prescribed competency areas.
- Annual competency and skill assessed via audit.

- Removal of AFA, RFA, QFE adviser designations.
- Replace with licensed financial adviser- akin to today's AFA
- All other advisers must operate under someone's license. They are called representatives.
- License holder responsible for adviser/representative behaviour and knowledge, competency and skill.
- FAA to include external certifying bodies which conduct annual audit and issue compliance certificate (same as WorkSafeNZ has with Adventure Activity Operators).
- Advisers must display their adviser qualification which will include endorsements for type of advice they can advise on.
- Removal of 'class advice'. There is information only or financial advice.



- All advisers must have a service proposition that is given to clients with primary disclosure statement.
- Cannot give advice unless have advice stream of level 5 and passed annual audit.
- What products can advise upon is linked to what level 5 competencies are achieved plus product accreditation.

  Not all advice needs to be given in writing

  Strong 'know your client' (KYC) rules plus must prove products are suitable for clients needs

- All advisers must disclose same thing.
- Disclosure to cover who holds the license, how remunerated and conflicts of interest.
- Primary disclosure includes how advisers are remunerated but not all product remuneration details.
- Secondary disclosure includes how much in % terms adviser or coy receives from fees and commission and other sources.

Explanation of comments

Comment	Explanation
Legal structure	
Removal of AFA, RFA, QFE adviser designations.	These designations are confusing to the public and do not adequately demonstrate adviser competency or what adviser can advise upon
Replace with Licensed Financial Adviser	The term licensed have more meaning for the public. Australia has licensed financial advisers. Many NZ industries have licensed personnel eg: Licensed Building Practitioner (LBP); Licensed Immigration Adviser. The standard for a licensed financial adviser would be akin to that of an AFA and DIMS license holder. A licensed financial adviser can be an individual or an entity but if an entity, then there needs to be some nominated as a principal adviser who is effectively the 'manager' and that person must have the level 6 qualification
All other financial advisers must operate under a licensed Financial Adviser	Only those who have passed the level 5 qualification endorsed with financial advice can call themselves a financial adviser but they must disclose via disclosure statements plus business cards/letterhead and in all communications that they are a representative of the named license holder. Non license holders are called 'representatives'. The barriers to becoming a license holder should not be too great ie not higher than class DIMS license as we do not want to see small financial advice operators pushed out of the market.
License holder is responsible for their representatives	The license holder is to ensure that the representatives who operate under them are adequately trained, meet all the compliance requirements and their advice meets the required standard. License holders do this via their internal management plus external audit of those advisers.
FAA to include audit certifying bodies which conduct annual audits and issue practicing certificates	There could be over 10,000 financial advisers under the proposed new regime and the FMA does not have the resources to audit these. Therefore, it is proposed the FAA adopt a similar process to that adopted by WorkSafeNZ with the Health and Safety in Employment (Adventure Activities) Regulations 2011. There is a New Zealand Adventure Activities Certification Scheme where a limited number of certification bodies have been appointed. Each certification body has to meet a number of standards to be certified. These bodies are closely monitored by the regulator and are externally audited to ensure they are not over or under auditing. These certifying bodies must follow international standards on how they operate. The standards for audit are published as are all audit questions. All financial advisers (both representatives and license holders) are audited annually. An audit report is provided to the financial adviser plus to FMA. License holders are audited against a higher criteria than representatives.
Advisers must display their adviser qualification and endorsements	A financial adviser must record after their name what type of adviser they are eg endorsed for investments, KiwiSaver, personal risk, mortgages etc. This links in with simplified disclosure and helps the public identify the type of adviser they are dealing with.
Removal of class advice. There is either the provision of information or provision of advice.	This removes the current situation where advisers are 'splitting straws' and getting around the need to be qualified by not providing personalised advice. The public needs to know that if an adviser gives advice, then they should be able to reply upon it.

Disclosure and remuneration	The thinking here is that disclosure needs to be simplified and standardised for all advisers. Disclosure to include what the adviser offers, what the client receives and how much it costs. No problem with a commission being charged- but it must be disclosed. There would be no differentiation of disclosure between the different types of adviser. Obviously a licensed adviser would need to disclose their status and an authorised representative would need to disclose what license they operated under and who is responsible for the advice etc. There would be two levels of disclosure. The Primary includes information as with the existing PDS but also include the range of service propositions and how remuneration works. The Secondary Disclosure is basically restricted to talking about remuneration and conflicts of interest relating to the advice actually being provided. The SDS is tailored to each client situation
Knowledge competency and skill	All industry participants to have the new level 5 ie: New Zealand Certificate in Financial Services (level 5). They would do the Core plus applicable streams relevant to what they do. They would list those streams in their Primary Disclosure Statement. License holders and principal advisers would hold the new level 6 which will be at diploma level.The reason these senior advisers hold the level 6 is so that they can assist and mentor newer advisers who only have level 5. The industry would be encouraged to move towards getting a degree in Financial Planning. The degree would build upon the level 5 and not be a substitute for it.Therefore, there needs to be close liaison between the universities and Skills/PTEs to ensure that the level 5 is provided as a pathway and pre-requisite for the degree. Perhaps make it compulsory for all license holders or principal advisers to have commenced the Bachelor of Financial Planning qualification by 2020 and they are given 5 years from commencement to obtain it. CPD needs to have more prescription around it. Stick with the 30 hours over 2 CPD periods but encourage financial advisers to regard it as a minimum of 15 hours structured CPD per annum. There needs to be prescribed competencies (Strategi Institute can outline these) and financial advisers must complete a minimum of 2 hours in the competencies of ethics/compliance, 2 hours in Finology/understanding the client, 2 hours on product specific training then the remainder across any of the other competencies. Attainment of CPD will be checked via the annual audits as will whether the CPD is relevant to what the adviser is doing.
Service clarity and delivery	All advisers must have a service proposition that is provided to clients as part of their initial disclosure. As a minimum, this service proposition will outline the types of services provided by the organisation/adviser, what is provided in each service (both initially and on going) plus the cost of those services. Cannot give advice of any description unless have attained level 5 and have completed the financial advice stream. Cannot provide advice on classes of financial product eg: mortgages, insurances, investments etc, unless the adviser has completed the appropriate level 5 strand for that class of product eg lending, investments, insurance etc.

	An adviser cannot give advice on a specific product unless they have passed the product accreditation on that product. Product accreditation to be annual. Advice does not always have to be in writing. It can be diagrams, verbal and in writing. What needs to be clear is that the client knows it is advice. Any advice needs to be balanced and both pros and cons of what is being recommended needs to be covered. Lawyers and doctors do not have to provide their advice in writing. Financial advisers should have similar guidelines to other professions around how and when advice needs to be provided in writing. This will simplify and reduce the cost of advice. Advisers will have to prove they know their client and that what the client has is suitable for their needs.