SUBMISSION ON FINANCIAL ADVICE PROVIDERS LICENSING FEES AND CHANGES TO THE FMA LEVY

NOTE: Financial Advice New Zealand is the new professional body for professional New Zealand advisers. Combining the memberships of The Institute of Financial Advisers, The Professional Advisers Association and NZ Financial Advisers Association, Financial Advice New Zealand represents the interests of over 1,680 AFA and RFA members.

Contact

Katrina Shanks

Chief Executive, Financial Advice New Zealand Inc

katrinas@financialadvice.nz

P: 0800 432 101 **|** M: [redacted]

Financial Advice NZ – Response to the Discussion Paper

We thank the Ministry of Business, Innovation and Employment for the opportunity to submit on the consultation for proposed licensing fees in the new financial advice regime.

We would like to highlight the need for regulators to be aware of all the regulatory costs of providing financial advice to ensure collectively they are not a barrier for new market participants and single adviser businesses.

Overall, we are supportive of the new fee structure however, have some recommendations and concerns related to the new structure.

Commentary

Question 1 – Do you agree with the identified objectives for fee setting? Are there other objectives which should be considered?

In addition to the set of objectives stated we believe there should be a monitoring function on the effectiveness and efficiency for setting licensing fees, and for transparency purposes this should be reported to stakeholders.

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

We assume the licensing fees do not cross-subsidise other activities or will be used to build reserves within the FMA. We also believe it is not the responsibility for financial advisers to pay for the IT infrastructure of the FMA therefore this cost recovery component of the licensing fees should be removed.

Based on the above comments we consider the transitional fee to be reasonable.

Question 3 – Do you have any comments on our assessment of the proposed full licensing fees as set out above?

There are two areas which are difficult to reconcile:

1. The hourly rate stated in the fees is greater than the additional work required rates (if processing time is above the hourly rates stipulated). Why would the fees be set at a greater hourly rate than the additional hours required rate?
2. Why regarding the flat fee is the single adviser paying more per hour than a larger financial adviser provider?

	As per table	Based on a flat rate of $155/hour
Category 1	$575/2 hours Rate Charged $287.50/hour	$575/$155 3.7 hours
Category 2	$730/3 hours Rate Charged $243.33/hour	$730/155 4.7 hours
Category 3	$855/4 hours Rate Charged $213.75/hour	$885/$155 5.7 hours

We have concern's the fee stated will not be representative of the time it will take to process a license application – especially in categories 2 and 3. This is based on the explanations in 19a, 19b and 19c where each category is more complex and takes more time. Therefore, the fee stated may misrepresent the time involved in each category.

For example

Category 1 – a simple licensing process is estimated to take 2 hours

Category 2 – a more complex licensing process is estimated to take 3 hours

Category 3 - Most complex licensing process is estimated to take 4 hours

It is hard to believe a financial advice provider which engages nominated representatives will only take 2 more hours to process than a single business adviser.

We would strongly encourage a review of the time requirements for the licensing process for the more complex financial advice providers to ensure these costs are accurately reflected in the fee table provided.

We are concerned there may be additional, and currently unknown, requirements for the financial advice provider to obtain a license which could add significant costs to the process. e.g. Third-party verification of processes and controls.

We would like to highlight the comparison table for fees doesn't reflect the significant increase in fees in the last 3 years. This table, with a comparison between two years, is not representative of the recent fee increases.

We have concerns in regard to the crossover of the licensing fee between current licensing and transitional licensing. E.g. A financial adviser renews their license fee in March (for the next renewal period) and the transitional license fee starts in April. The financial adviser would in effect be paying two license fees for the same period. This situation needs to be addressed to avoid the double dipping of the regulator.

The logic provided for granting relief to very large financial advice providers by way of a annual levy cap of $80,000 (equivalent to an entity with approximately 450 nominated representatives) seems ludicrous. We reject the notion that the marginal levy fee of $170 per nominated representative, per annum will discourage

*"some businesses from providing financial advice or reduce the number of individuals that are able to give advice" (Page 15)*In fact, to be consistent in meeting the MBIE model 'objectives' stated in the point 35 that businesses that benefit the most will pay the greater portion of the levy (page 15) this cap ought to be removed entirely.

Question 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?

No comment.

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

The proposal outlines both a licensing and levy system. To be consistent to meet MBIE's objectives we think the FMA ought to administer a licensing regime only. We believe there should be no levy as these costs are included in the licensing costs. Having a both a license and a levy regime is effectively double-dipping.

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

As above.

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

Setting tiers for levies will not discourage new financial advice providers. We strongly support relief being provided to a single adviser business in relation to the levies payable at initial registration.

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

Many single adviser business (especially those new to the market) are relatively small and are very cost sensitive. Providing relief to single adviser businesses will help to reduce the barriers for new businesses entering the sector and will ensure reduced compliance costs for existing small adviser businesses.

It may be worthy to consider a model where there is a package for a single adviser business.

Question 9 – Do you have any comments on the proposed changes to the levies that relate to authorized bodies?

No comment.