

November 2020

Regulatory Impact Statement:

Standard conditions

Financial advice provider licences

This paper is for financial advice providers, their advisers and other interested parties. It discusses standard conditions for financial advice provider licences

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Contents

Executive summary and background	4
Standard conditions imposed	4
Background	4
Objectives and relevant stakeholders	6
Objectives	6
Relevant stakeholders	6
Problem definition, options and impact analysis	7
Record keeping	7
Internal complaints resolution process	8
Regulatory returns	10
Outsourcing	12
Professional indemnity insurance	14
Business continuity and technology systems	16
Ongoing requirements	19
Notification of material changes	20
Summary assessment of options against objectives	22
Consultation	31
Conclusion and reasons	32
Schedule	33
Final standard conditions	33

Executive summary and background

This Regulatory Impact Statement (RIS) discusses standard conditions for financial advice provider (FAP) licences, to be imposed by the FMA. We considered imposing eight standard conditions on FAP licences, and after consultation have decided to impose seven, relating to the following:

1. Record keeping
2. Internal complaints process
3. Regulatory returns
4. Outsourcing
5. Business continuity and technology systems
6. Ongoing requirements
7. Notification of material changes

This RIS summarises the problems we are seeking to address, our objectives, the options and their associated impacts, and the consultation process we undertook before deciding to impose the conditions. In this RIS our analysis considers whether imposing the conditions would be consistent with, and promote, the objectives outlined on page 6.

Standard conditions imposed

After carefully considering both regulatory and non-regulatory impacts, we decided to impose the seven standard conditions as set out in the Schedule (including the two conditions already imposed on transitional licences), and to specify three classes of financial advice service for the purposes of licensing. The final conditions are set out in the Schedule and our considerations in relation to each condition follow below.

Transitional licence conditions

After consulting on transitional licence conditions (see consultation paper [Proposed standard conditions for financial advice provider transitional licences](#)), and carefully considering the regulatory and non-regulatory impacts, and submissions received in consultation, we decided to impose two standard conditions on FAP transitional licences.¹ These conditions require FAPs to maintain adequate records in relation to their financial advice service, and to have a fair, timely and transparent internal process for resolving client complaints. We also consulted on these two standard conditions as part of the consultation on proposed standard conditions for FAP full licences, and they make up two of the seven standard conditions we have decided to impose.

Background

The Financial Services Legislation Amendment Act 2019 amends the Financial Markets Conduct Act 2013 (FMC Act) to introduce a new regulatory regime for financial advice.² When the new regime comes into force on 15 March 2021, providing a financial advice service to retail clients will require a FAP licence under the FMC Act. There will be two phases to FAP licensing: transitional and full. FAPs will be able to operate under a transitional licence from 15 March 2021 and will have up to two years to obtain a full licence. Anyone not operating under a transitional licence issued by 15 March 2021 may not provide regulated financial advice to retail clients until either their transitional licence has been granted (if it was applied for prior to that date) or they have been issued a full licence that was applied for on or after the new regime commencing, or they are providing advice under another FAP's licence.

The FMA can impose conditions on licences under the FMC Act by written notice to the applicant or licensee (see section 403 of the FMC Act) and licensees have an obligation to comply with those conditions under section 402(3). Conditions that may be imposed include conditions relating to licensing assessment requirements. Conditions are

¹ See our [Regulatory Impact Statement: Standard conditions Financial advice provider transitional licences](#).

² In this RIS references to the FMC Act mean the FMC Act as amended by the Financial Services Legislation Amendment Act 2019.

necessary to ensure licence-holders continue to meet requirements, and to help us effectively monitor the licensed population. We have commented more specifically below on why we think the final standard conditions imposed are needed.

We note that in specifying the manner in which a licence may be applied for, the FMA may also specify different classes of financial advice service.³ We have decided to specify three classes of financial advice service for the purpose of licensing, in order to streamline the licence application and assessment process.

On 16 June 2020, we released a consultation paper [Proposed standard conditions for financial advice provider full licences and classes of financial adviser service](#), seeking feedback on our proposals to impose eight standard conditions on full licences and to specify different classes of financial advice service for the purposes of licensing. See that paper for the wording of the proposed standard licence conditions we consulted on.

³ See section 395(2) of the FMC Act.

Objectives and relevant stakeholders

Objectives

The following statutory purposes of the FMC Act were chosen as appropriate objectives against which to measure the possible options, as they were the most relevant in developing the standard conditions for FAPs.

- Ensuring the availability and quality of financial advice and services
- Avoiding unnecessary compliance costs
- Promoting and facilitating the development of fair, efficient and transparent financial markets
- Promoting the confident and informed participation of businesses, investors, and consumers in the financial markets

Relevant stakeholders

The conditions will require businesses and individuals who get a FAP licence to comply with obligations in respect of their licensing requirements. This will impact a range of businesses including sole adviser businesses, broking firms, banks, insurers, investment planners and other FAPs. In considering the options, we considered the interests of stakeholders, including FAPs and retail customers.

Problem definition, options and impact analysis

We considered two options in relation to each problem identified:

- [Option 1: Condition](#)
- [Option 2: No condition \(status quo\)](#)

Option 1 (condition) was the selected option for seven of the proposed standard conditions. Option 2 (no condition) was selected in relation to imposing a condition requiring professional indemnity insurance.

Record keeping

Problem definition

There is no specific record-keeping requirement for FAPs (or most other market services licensees) under the FMC Act or its Regulations. The current Code of Professional Conduct for Authorised Financial Advisers (current code) imposes a record-keeping requirement on Authorised Financial Advisers (AFAs). However, this has not been included in the new Code of Professional Conduct for Professional Advice Services (new code).

If FAPs are not required to keep records then information about the financial advice services provided to retail clients will be incomplete or may not be available at all. Lack of records may negatively impact customers (e.g. if they rely on their adviser having information or if they change advisers). In a dispute, FAPs or customers may be adversely affected by a lack of records or inadequate records if this means it is difficult to establish how the service was provided or what advice was given. Lack of records will make it difficult for the FMA to effectively monitor compliance with and enforce the obligations under the new regime. Lack of effective monitoring and enforcement may lead to poor conduct and poor customer outcomes.

Option 1 – Condition

Description

Impose a licence condition on FAP licences that requires FAPs and their authorised bodies to keep adequate records (that may be electronic) in a form and manner that can be conveniently inspected and reviewed by the FMA for at least 7 years and make those records available for inspection by the FMA at all reasonable times.⁴ We note that FAP transitional licences also include this standard condition.

Impact analysis

Ensures the availability and quality of financial advice and services

Keeping adequate records is a standard minimum requirement for good business and key to ensuring good conduct and culture. Therefore, the condition is necessary to promote access to quality advice. Further, good record keeping facilitates effective monitoring and enforcement, and therefore ensures quality of financial advice and services. As was the case for consultation on this standard condition for transitional FAP licences, most submitters did not think this requirement would create a barrier to entry for new businesses. The few that did think it could create a barrier to entry did not consider it an unreasonable barrier, given that record keeping is a necessary minimum standard and an essential component of giving good advice.

Will not impose unnecessary compliance costs

Most submitters were supportive of this standard condition and did not think it would impose additional compliance costs. Submissions indicated that many FAPs already keep records of client interactions, and therefore any additional compliance costs created by a record-keeping condition would be minimal. FAPs can use the method of record-

⁴ See the Schedule for full details.

keeping they consider most efficient, provided the records are kept in a way that ensures the integrity of the information and enables it to be conveniently inspected and reviewed by the FMA, thereby minimising compliance costs. We do not consider associated compliance costs to be unnecessary when compared to the benefits derived from keeping adequate records.

We note that some submitters indicated compliance costs would be high if records are required of all financial advice given to retail clients, as this may include initial and minor interactions. We do not think the associated compliance costs are high or unnecessary. Good record-keeping systems can capture even minor interactions without being overly burdensome if integrated into a business effectively. Further, good record keeping was recognised by some submitters as benefitting the effective operation of adviser businesses.

Promotes and facilitates the development of fair, efficient and transparent financial markets

The licence condition will promote transparency about the advice services provided by FAPs, for monitoring and enforcement purposes. FAPs will have standard record-keeping requirements. This promotes fairness but will also be flexible enough to suit the size and nature of individual FAPs' businesses, maintaining efficiency.

Promotes the confident and informed participation of businesses, investors, and consumers in the financial markets

Effective record keeping is a standard minimum requirement for a good business and key to ensuring good culture and conduct. It is also critical for monitoring and enforcement. A well-regulated market for financial advice services benefits businesses and consumers, and promotes their confident and informed participation in those markets.

Option 2 – No condition (status quo)

Description

Do not impose a formal record-keeping requirement as a licence condition. This would mean that while providers would still need to comply with the new advice regime requirements (e.g. the new code and the statutory duties) they would not be legally required to keep copies of advice or communications with customers, or to demonstrate through their records how they met the advice regime requirements.

Impact analysis

This option is more likely to result in poor customer outcomes. It is likely to be more difficult and require more resources for the FMA to monitor compliance with and enforce the new financial advice regime if FAPs do not keep adequate records. This may make it difficult to hold FAPs accountable for poor conduct and could affect the quality of financial advice services. Lack of records would also reduce the transparency of advice services. Lack of records is likely to negatively impact customers (e.g. if they rely on their adviser having information or if they change advisers). In a dispute, FAPs and customers may be adversely affected by a lack of records or inadequate records if this means it is difficult to establish how the service was provided or what advice was given.

It will also be more difficult for FAPs to operate effectively and comply with their obligations if they do not have adequate records. Lack of adequate records would undermine confidence in the financial advice service being provided, as well as reduce the amount of information available for ongoing advice and any disputes, meaning confident and informed participation of market participants is reduced. While compliance costs may be reduced, costs would still be incurred to demonstrate how a FAP has complied with its obligations. We consider that any reduction in compliance costs would be outweighed by the negative impact on financial advice services overall.

Internal complaints resolution process

Problem definition

There is no requirement for FAPs to have an internal complaints resolution process under the new financial advice regime. The current code has an internal complaints resolution process requirement but this has not been included in the new code. FAPs may be required to have an internal complaints resolution process as a condition of being a member of an external dispute resolution scheme (DRS). However, if there is no regulatory requirement for FAPs to have an effective internal complaints resolution process, there will be less certainty that customers will be dealt with

by all FAPs in a fair, timely and transparent way. This will mean some customers do not have access to an effective way to raise complaints and have them resolved. It will also mean there may be no record of the issues arising in relation to financial advice services.

Option 1 – Condition

Description

Impose a licence condition on FAP licences that requires FAPs to have an internal process for resolving client complaints, which provides for complaints to be dealt with in a fair, timely and transparent manner, and for records to be kept of all complaints and any action taken in relation to them.⁵ We note that FAP transitional licences also include this standard condition.

Impact analysis

Ensures the availability and quality of financial advice and services

Effective handling of client complaints is a key aspect of good conduct. Feedback from client complaints is likely to improve the quality of financial advice and services, and many submitters agreed that it is a valuable source of information which enables improved customer outcomes. The condition ensures that client complaints are adequately dealt with, which improves the quality of financial advice and services. Submissions indicated that many FAPs already have an internal complaints process in place. The condition is not likely to require a complex or expensive overhaul of current processes. New advice businesses may find the condition imposes compliance costs. However, the process can be tailored to the nature and scale of the business, and therefore we expect compliance costs to be low. Given this, we do not expect the condition would be a barrier to entry or affect the availability of advice services.

Will not impose unnecessary compliance costs

As noted above, we do not think this condition will impose significant compliance costs. Many FAPs will already have an internal complaints process, or may be required to have one as a prerequisite for joining a DRS. We expect that any costs incurred to upgrade existing complaints processes or create a new process will be reasonable and necessary in view of the benefits to the business (from client satisfaction and feedback), benefits to the market (from improved conduct) and benefits to customers (from access to a fair, timely and transparent process for resolving complaints). An internal process for resolving client complaints does not have to be complex or expensive, and can be tailored to the nature and scale of the business. Most submitters did not consider the condition would impose unnecessary compliance costs, and thought that an internal complaints process is beneficial to the provider, in that it can be used by a FAP to identify and address potential systemic problems, or weaknesses in their systems and services. This is also the case for minor problems, which may highlight important issues within a FAP's business.

Promotes the development of fair, efficient and transparent financial markets

The licence condition will provide certainty that customers have access to a fair, timely and transparent process for resolution of complaints. This will promote fair, efficient and transparent financial markets. Issues that arise will be identified and resolved quickly between the customer and the FAP, promoting efficiency. All FAPs will be subject to the same requirements, ensuring fairness. The condition's principles-based approach will mean the process can be tailored to suit the size and nature of the business, ensuring efficiency. The condition also enables the FMA to effectively monitor whether licence-holders and authorised bodies are complying with their obligations.

Promotes the confident and informed participation of businesses, investors, and consumers in the financial markets

The licence condition will promote the confident and informed participation of businesses, investors, and consumers in the financial advice market. An internal complaints process provides confidence that issues will be dealt with in an appropriate and timely manner, and that learnings are taken and acted on when necessary. As noted above, complaints are a valuable source of information which enable improved products and services, leading to better outcomes for investors and consumers. This improves confidence on the part of investors and consumers in the financial advice market. Identifying and recording complaints received and how they are resolved promotes informed participation in the provision of financial advice, for businesses, investors and consumers. As noted above, the

⁵ See the Schedule for full details.

condition also enables the FMA to effectively monitor whether licence-holders and authorised bodies are complying with their obligations. A well-regulated market for financial advice services benefits businesses and consumers.

Option 2 – No condition (status quo)

Description

Do not impose a formal internal complaints resolution process requirement as a licence condition. Many FAPs may still have a process. They may be required to do so as a condition of membership of an external DRS. However, standard requirements will not apply consistently for all FAPs, and so there will be no certainty that customers will have access to a fair, timely and transparent internal complaints resolution process. FAPs may not keep records of complaints received and how they are resolved.

Impact analysis

This option is more likely to result in poor customer outcomes. Customers may not have access to an effective way to have their complaints resolved. Without a regulatory requirement to have an effective internal complaints resolution process, there will be less certainty that customers will be dealt with by all FAPs in a fair, timely and transparent way. The FMA may not have access to valuable information about conduct and compliance from records kept in relation to complaints received. Efficiency may be reduced if conduct issues are not identified and resolved early on between customers and the FAP. While compliance costs for setting up or modifying an internal complaints process to meet a regulatory standard under the condition may be avoided, consequential compliance costs may arise if customer complaints are not dealt with in a fair, timely and transparent manner. Without a regulatory requirement for identifying, recording and resolving complaints, less confident and informed participation in the financial advice market is likely to result.

Regulatory returns

Problem definition

There is no regulatory returns requirement for FAPs under the FMC Act or its Regulations. Under section 412 of the FMC Act, FAPs have obligations to report various matters to the FMA as soon as practicable, including any material change of circumstance. However, this requirement does not cover the breadth of information needed to help the FMA understand the profile of a FAP's business, and to implement an effective risk-based monitoring approach. We note that AFAs currently complete annual Information Reporting pursuant to Standard Condition 2 of the Standard Conditions for Authorised Financial Advisers and the Regulatory Reporting Guide for AFAs.

If FAPs are not required to provide regulatory returns information, it will be more difficult for the FMA to prioritise and focus its resources appropriately when monitoring FAPs, and therefore to effectively monitor compliance with and enforce the obligations under the new regime. Lack of effective monitoring and enforcement is likely to lead to poor conduct and poor customer outcomes. Without the legal requirement to provide regulatory returns, the FMA's ability to effectively obtain up-to-date information is compromised. It is therefore harder for the FMA to identify any changes in risk profile after licensing, and to identify broad industry themes, hindering our ability to develop the necessary intelligence capability and to implement effective risk-based monitoring of this sector.

Option 1 – Condition

Description

Impose a licence condition on FAP licences that requires FAPs to provide information to the FMA on a periodic or ongoing basis, or on request, in accordance with the requirements set out in a Regulatory Return Framework and Methodology (regulatory returns)⁶, similar to the condition imposed on other market service licences.⁷

Impact analysis

Ensures the availability and quality of financial advice and services

Regulatory returns reporting is a key tool the FMA uses to inform its monitoring and enforcement approach. Effective monitoring and enforcement leads to improved market conduct and is therefore necessary to ensure access to quality financial advice and services. In particular, regulatory reporting will provide the FMA with up-to-date, relevant information about FAP businesses, which may have changed since a licence was granted. The information provided helps the FMA to consider how market service licence obligations continue to be met, which ensures ongoing access to quality financial advice and services. More broadly, the market overview that regulatory returns gives the FMA helps to identify any issues or themes across the market that may require further exploration, and enables appropriate focus and priority of monitoring activities. Effective monitoring and enforcement is a key part of ensuring the availability and quality of financial advice and services.

Most submitters were in favour of a regulatory reporting requirement for FAPs, and consider it a necessary and positive obligation in enabling the FMA to effectively monitor the financial advice industry. A number of submitters noted they already have systems in place to allow compliance with regulatory reporting obligations, and we note that AFAs will already have experience in annual information reporting to the FMA (as mentioned above). Therefore, we expect extra compliance costs to be low. We do not consider it will be a major barrier to entry for new financial advice businesses.

Will not impose unnecessary compliance costs

As already noted, we do not expect this condition will impose significant compliance costs for most FAPs. Many FAPs will already be experienced in providing some level of regulatory returns, and we do not expect the information required will be overly burdensome or complex. Although most submitters agreed with imposing a licence condition requiring regulatory returns, some submitters stated they were unable to comment on the expected compliance costs, as the detail of what will be required for regulatory reporting has not yet been developed. Given the important information regulatory returns will provide to help the FMA understand the people and businesses we regulate, and to determine the focus and priority of our monitoring activities, we consider any associated compliance costs will be reasonable and necessary when contrasted with the overall benefits of a well-regulated market. In developing the content of regulatory returns for FAPs, we will consider the associated compliance costs and weigh these against the information we consider necessary to ensure our ability to effectively monitor the financial advice sector. The FMA will consult with industry prior to publication of the Regulatory Return Framework and Methodology that will form part of this standard condition.

Promotes the development of fair, efficient and transparent financial markets

This licence condition will promote transparency about the advice services provided by FAPs and their ongoing capability, for monitoring and enforcement purposes. All FAPs will be subject to the same regulatory return requirements, ensuring fairness. Having better information from which the FMA can effectively monitor and enforce will result in a well-regulated market, promoting efficiency within the financial adviser market.

Promotes the confident and informed participation of businesses, investors, and consumers in the financial markets

Regulatory returns is a key tool the FMA uses to assess risk in the industry, and to respond with appropriate monitoring and enforcement activities. Having up-to-date information about the nature, size and complexity of FAP

⁶ See the Schedule for full details.

⁷ See Standard Condition 5 of the [Standard Conditions for managed investment scheme manager licences](#) and Standard Condition 5 of the [Standard Conditions for discretionary investment management services \(DIMS\) licences](#).

businesses, compliance performance and potential risks is important in the effective regulation of the financial advice industry. Well-regulated markets are key to promoting the confident and informed participation of businesses, investors, and consumers. We will also use the information obtained to inform our policy work, and communicate trends, risks and other information that may be useful to the industry or the general public.

Option 2 – No condition (status quo)

Description

Do not impose a condition requiring FAPs to provide information to the FMA on a periodic or ongoing basis, or on request, in accordance with the requirements set out in a Regulatory Return Framework and Methodology. Under section 412 of the FMC Act, FAPs will still have obligations to report various matters to the FMA as soon as practicable, including any material change of circumstance. The FMA also has a general information-gathering power under section 25 of the Financial Markets Authority Act.

Impact analysis

This option is more likely to result in poor customer outcomes. Regulatory returns is a key tool the FMA uses to assess risk in the industry, and to respond with appropriate monitoring and enforcement activities. Without the information provided in regulatory returns, it is likely to be more difficult and require more resources for the FMA to monitor compliance with and enforce the new financial advice regime. Lack of effective monitoring and enforcement is likely to lead to poor conduct and poor customer outcomes, and could affect the quality of financial adviser services. It could also lead to less transparency around the provision of financial advice services, and to the market being less fair, because our risk-based approach will be compromised and our response may not be proportionate or focused on the highest risk areas. Further, without a well-regulated market, confident participation of businesses and consumers will suffer.

Although section 412 of the FMC Act contains some reporting obligations, these do not cover the level of information needed to inform an effective risk-based monitoring approach by the FMA. Relying on the FMA's information-gathering power in section 25 of the FMA Act would make it more difficult and require more resources for the FMA to obtain up-to-date information from across the financial adviser market, and therefore affect our ability to effectively monitor and enforce compliance with the new regime. Not requiring regulatory returns would result in less compliance costs for FAPs, but we consider that lower compliance costs are outweighed by the negative effects that would result from the FMA not having regulatory returns information available to inform an effective monitoring and enforcement approach and the overall effect that would have on the financial advice market.

Outsourcing

Problem definition

Although FAPs are responsible for meeting their licence obligations, they may enter into and change outsourcing arrangements relating to the provision of their financial advice service. There are no specific requirements around these outsourcing arrangements in the FMC Act or its Regulations. We note that other FMC Act market services licences include a condition relating to outsourcing.⁸ If FAPs are not required to be satisfied with an outsource provider's capability, and to monitor and regularly review their outsource providers and associated arrangements, oversight of these arrangements is likely to be ad hoc and inadequate. A lack of oversight of outsource providers and associated arrangements means FAPs may not have enough information to ensure their licence obligations are being met. Where FAPs rely on outsource providers to meet their market services obligations, it is important the FAP has requisite oversight of the provider (including capability) and associated arrangements, or customers may experience poor outcomes and the FAP may not meet its licence obligations.

⁸ See Standard Condition 3 of the [Standard Conditions for managed investment scheme manager licences](#) and Standard Condition 3 of the [Standard Conditions for discretionary investment management services \(DIMS\) licences](#).

Option 1 – Condition

Description

Impose a licence condition on FAP licences that requires the FAP to be satisfied that an outsource provider it engages is capable of performing the service to the standard necessary to enable the FAP to meet its market services licensee obligations, and that requires the FAP to regularly review outsource arrangements and monitor the ongoing performance of the provider. Note that this condition would only apply to outsource arrangements relating to the licensed business where the outsource provider is being relied on to meet market service licensee obligations.⁹

Impact analysis

Ensures the availability and quality of financial advice and services

Including a licence condition that requires FAPs to be satisfied that an outsource provider engaged by them is capable of performing the service to the standard required to meet their market service licensee obligations will ensure the quality of financial advice and services provided through those outsource arrangements. Requiring FAPs to regularly review outsourcing arrangements and to monitor ongoing performance of the outsource provider will further ensure the ongoing quality of financial advice and services. Effective outsourcing arrangements may also drive down FAPs' operating costs, increasing availability and access to financial advice and services.

Most submitters agreed that a condition requiring FAPs to have appropriate outsourcing arrangements in place was necessary, with some stating they already have a due diligence system for engaging outsource providers in place. However, a number of submitters commented that as drafted, the condition was too onerous (especially given there can be a lack of bargaining power for FAPs in the case of bigger outsource providers e.g. cloud services) and should include a more reasonable threshold for the FAP provider to meet. In response to feedback, we have amended this condition to align with other market service licences and to lower the burden on FAPs; they must be satisfied of an outsource provider's capability, and must regularly review and monitor the provider and arrangements (rather than requiring contractual arrangements with providers for review and monitoring).

Given that exact outsourcing arrangements will depend on the size of the FAP business and the type of service being outsourced, and because FAPs remain responsible for all market service licence obligations in any event, we do not expect this condition will create a material barrier to entry for new businesses or significant additional compliance costs for current businesses and therefore affect the availability of advice services.

Will not impose unnecessary compliance costs

As mentioned, a number of submitters commented that many FAPs already have due diligence systems in place when engaging outsource providers. We therefore do not expect this condition will impose significant extra compliance costs on current businesses. Further, compliance with this condition can be tailored to the individual FAP business and the type of outsourcing involved, and therefore we do not expect associated compliance costs to be significant. Most submitters agreed that an outsourcing condition is necessary and reasonable given that completing appropriate and satisfactory due diligence on outsourcing arrangements is good business practice. This condition is also necessary to ensure a FAP's ongoing compliance with their licensee obligations when engaging an outsource provider. We consider any associated compliance costs are necessary and reasonable when compared how important it is for a FAP to have requisite oversight of outsource arrangements.

Promotes the development of fair, efficient and transparent financial markets

This condition imposes the same outsourcing requirements on all FAPs, ensuring fairness. It promotes efficiency by enabling FAPs to outsource activities to external providers who can provide that service more efficiently, e.g. through economies of scale. Appropriate and well-functioning outsourcing arrangements improve efficiency in markets, by ensuring specialised resources can be leveraged where suitable. Therefore, effective outsourcing arrangements may also drive down FAPs' operating costs, promoting efficiency.

⁹ See the Schedule for full details.

Promotes the confident and informed participation of businesses, investors, and consumers in the financial markets

This condition promotes the confident and informed participation of investors and consumers in the financial advice markets. Customers can be assured that FAPs will have the requisite oversight of outsourcing arrangements to ensure that their licence obligations will continue to be met. FAPs will have clarity about the types of arrangements they should have in place to ensure the appropriate level of oversight of outsource arrangements in order for them to meet their market service licensee obligations, promoting their confident and informed participation.

Option 2 – No condition (status quo)

Description

Do not impose a licence condition on FAP licences in relation to outsourcing arrangements. The responsibility for meeting licence obligations would remain with the FAP, but there would be no regulatory requirements around those outsourcing arrangements.

Impact analysis

This option is more likely to result in poor customer outcomes. If FAPs are not required to be satisfied of an outsource provider's capability, and to monitor and regularly review their outsource providers and associated arrangements, oversight of these arrangements is likely to be ad hoc and inadequate. A lack of oversight of outsourcing providers and associated arrangements means FAPs will not be able to ensure their market service licensee obligations are being met, and could affect the quality of financial advice services. Further, without assurance that FAPs will have the requisite oversight of outsourcing arrangements, investor and consumer confidence is likely to be affected.

Although many FAPs would complete their own due diligence and have their own systems and processes for oversight, without specifying regulatory requirements around outsourcing, these arrangements may not all provide the level of oversight necessary to ensure a FAP's market service licensee obligations are met. Without effective outsourcing arrangements, efficiency in the market may also be affected. While compliance costs may be reduced if FAPs do not have to comply with a condition around outsourcing arrangements (noting individual due diligence costs would still apply), these lower compliance costs are outweighed by the negative effects that the risk of insufficient oversight of FAPs' outsource providers and arrangements would have on the financial advice sector.

Professional indemnity insurance

Problem definition

In providing financial advice to a retail client, a person must comply with the new code (see section 431M of the FMC Act) and the duties set out in section 431I to 431P of the FMC Act. It is important that retail clients can be compensated for financial loss as a result of a breach of professional duty by a FAP and those they engage. Professional indemnity insurance may provide compensation for such breaches in some circumstances.

There is currently no requirement for FAPs to have professional indemnity insurance under the FMC Act or its Regulations. However, many product providers already require those holding agency or distribution agreements to have access to professional indemnity insurance cover. In the case a FAP does not have professional indemnity insurance and a customer has suffered financial loss as a result of a breach of professional duties by a FAP, a customer is able to use the internal complaints process, and dispute resolution scheme in order to seek redress. Without a regulatory requirement for FAPs to have professional indemnity insurance, there may be less certainty that a FAP will have sufficient funds to ensure a customer can be compensated when necessary. This will mean that some customers may not have access to appropriate compensation for financial loss as a result of a breach of professional duty by a FAP.

Option 1 – Condition

Description

Impose a licence condition on FAP licences that requires FAPs to have professional indemnity insurance adequate and appropriate for the financial advice service they provide.¹⁰

Impact analysis

Ensures the availability and quality of financial advice and services

Having appropriate professional indemnity insurance is good business practice, facilitates ongoing business resilience if things go wrong, and contributes to good conduct and culture. Therefore, the condition helps to ensure access to quality financial advice and services. Many submitters agreed that having professional indemnity insurance is an important part of operating a financial adviser business. However, many submitters also commented that compliance costs associated with this condition would be high, and in some cases could create a barrier to entry for new businesses or significant additional compliance costs for current business. We understand there is a risk that mandating professional indemnity insurance could lead to adverse market effects such as increased premiums, which may then become unaffordable for some providers. This could drive up the cost of financial advice, and may result in some providers exiting the market, making financial advice services less available for consumers.

Will not impose unnecessary compliance costs

As mentioned above, many submitters commented that compliance costs associated with this condition would be high. In the context that many product providers already require those holding agency or distribution agreements to have access to professional indemnity insurance cover, and that in some cases licensees may already be well placed financially to meet any claims for compensation by clients without recourse to professional indemnity insurance, this condition may impose unnecessary compliance costs on FAPs.

Many submitters were concerned about the associated compliance costs, and that mandating professional indemnity insurance would drive premiums up to an unaffordable level. Further, a number of submitters were concerned that mandating professional indemnity insurance would not necessarily achieve the level of customer protection desired, and in some cases provides little protection for customers. They noted that the primary purpose of professional indemnity insurance is to protect those providing professional advice, rather than acting as a surety for compensation to their clients or customers. We understand that professional indemnity insurance is becoming more expensive and providing less protection to customers.

Promotes the development of fair, efficient and transparent financial markets

Ensuring that retail clients can be compensated for financial loss as a result of a breach of professional duty by FAPs and those that they engage promotes the development of fair financial markets. However, there is no clear picture of exactly what protection professional indemnity insurance provides customers, due to the broad variance in terms and conditions of coverage. We understand these contracts increasingly include a number of carve-outs for certain breaches and types of liability which mean that compensatory payments for customers are excluded in many cases. Further, the increasing costs associated with professional indemnity insurance mean that mandating cover may make the market less efficient.

Promotes the confident and informed participation of businesses, investors, and consumers in the financial markets

Ensuring that retail clients can be appropriately compensated when necessary promotes the confident and informed participation of investors and consumers in the financial advice market, and professional indemnity insurance is one way of achieving this. Professional indemnity insurance provides protection for FAPs, promoting the confident participation of businesses in the financial advice market. However, the cost of professional indemnity insurance may act as a barrier to entry for some FAPs, and could result in some providers exiting the market. Mandating cover could

¹⁰ See the consultation paper: [Proposed standard conditions for financial advice provider full licences and classes of financial adviser service](#) page 14 for full details.

drive up the cost of financial advice meaning that those services become less affordable and available to consumers, reducing their participation in the market.

Option 2 – No condition (status quo)

Description

Do not impose a professional indemnity insurance requirement as a licence condition.

Impact analysis

Professional indemnity insurance is an important protection for FAPs, and many product providers already require those holding agency or distribution agreements to have access to cover. In other cases, licensees may already be well placed financially to meet any claims for compensation by clients without recourse to professional indemnity insurance. We note there is a risk that smaller FAPs may not have the ability to meet large liability claims without professional indemnity insurance, which would leave consumers without recourse.

Overall, balancing the negative effects that may result from mandating professional indemnity insurance (such as increased costs of financial advice restricting its availability) with the fact that retail clients may in some cases be appropriately compensated when necessary (in the case a FAP has professional indemnity insurance or sufficient funds to compensate), we consider retaining the status quo (no condition) to be the appropriate outcome.

Further, some submitters noted that professional indemnity insurance may not necessarily extend to providing compensation for customers in certain circumstances; it will depend on the specific policy and the various caveats applied. Some submitters also commented that the primary purpose of professional indemnity insurance is to protect those providing professional advice, rather than acting as a surety for compensation to their clients or customers. Leaving the choice of cover up to the individual FAP promotes efficiency, and fairness in allowing FAPs to choose what type of protection best suits their business needs.

Given the level of compliance costs associated with this condition, the potential for adverse effects on the availability of financial advice services as a result of mandating cover, and that it may not provide customers with the expected protection, we think retaining the status quo (no condition) is appropriate at this time. We note that some FAPs will already have professional indemnity insurance or the ability to otherwise appropriately compensate customers when necessary. We continue to recommend that FAPs have professional indemnity insurance as an important part of operating a financial adviser business. FAPs may find that some consumers prefer to deal with a FAP that holds professional indemnity insurance.

Business continuity and technology systems

Problem definition

There is no requirement for FAPs to have and maintain a business continuity plan, or to ensure the information security of critical technology systems is maintained, in the FMC Act and its Regulations. Standard 5 of the new code requires that client information is protected, however this is only one part of ensuring the security of critical information systems. FAPs may already provide for business continuity and technology systems as part of running a good financial advice business, however without the regulatory requirement to do so, there is no guarantee this will be the case. The recent disruptions to business due to the COVID-19 crisis is a timely reminder of the importance of having an effective business continuity plan in place.

Appropriate and regularly tested business continuity plans enable FAP businesses to respond to and recover from an event that disrupts their licensed service, including (but not limited to) disruptions to technology systems. Other types of risks to FAP businesses might include the loss of availability of key resources, including staff, records, systems, suppliers and premises. Lack of provision for business continuity is likely to result in poor customer outcomes, e.g. the inability to effectively manage disruptions to business, and to respond, recover, resume and restore to the requisite level of operation following disruption. This may mean customers are not provided with timely information around the provision of advice, the appropriate level of support, or ongoing financial adviser services for a period of time. Further,

the risk to customers if the integrity and information security of critical technology systems is not maintained is high, e.g. compromised security of information held about the customer, or about the financial adviser services received.

Option 1 – Condition

Description

Impose a licence condition on FAP licences that requires FAPs to have and maintain a business continuity plan appropriate for the scale and scope of the financial advice service, which includes maintaining the information security of critical technology systems, and a requirement to notify the FMA of events that materially impact the security of critical technology systems.¹¹

Impact analysis

Ensures the availability and quality of financial advice and services

This standard condition requires FAPs to have suitable arrangements in place to ensure they are able to manage disruptions to their business. Having an appropriate business continuity plan that is maintained, reviewed and regularly tested is good business practice. As part of this, it is important that businesses have a framework in place to ensure the information security of critical technology systems. Most submitters agreed that it is good practice for a FAP to have a business continuity plan, and that it is important for FAPs to be able to serve their clients through unforeseen events. An appropriate and regularly tested business continuity plan enables FAPs to respond to and recover from an event that disrupts their licensed service, which ensures the ongoing availability and quality of financial advice and services during any period of disruption.

Submissions indicated that many FAPs will already have a business continuity plan in place, given it is generally regarded as good business practice. The condition is not likely to require a complex or expensive overhaul of current processes. New advice businesses may find the condition imposes some compliance costs. However, the process can be tailored to the nature and scale of the business, and therefore we expect compliance costs to be low. Given this, we do not expect the condition would be a barrier to entry or affect the availability of advice services.

Will not impose unnecessary compliance costs

As mentioned above, most submitters were in favour of a condition requiring an appropriate business continuity plan, with many commenting they already have one in place. The condition allows for flexibility and does not prescribe the scope of the plan, minimising compliance costs. The extent of a business continuity plan should reflect the size and complexity of the financial advice service, operational arrangements and exposure to disruptive events, and therefore we expect compliance costs to be appropriate for the size and complexity of the business. Similarly, the information security of critical technology systems (the disruption of which would materially affect the continued provision of the financial advice service or meeting licensee obligations) should be managed within the risk tolerance set through a FAP's governance processes, and therefore is flexible and able to be right-sized for the relevant business.

We do note, however, that some submitters thought the condition is overly burdensome. We disagree and consider that any compliance costs associated with having and maintaining an appropriate business continuity plan and ensuring the information security of technology systems will be reasonable and necessary, taking into account the flexibility in complying with the condition, and the risks associated with not having such provisions in place for both FAP businesses and their customers.

Promotes the development of fair, efficient and transparent financial markets

All FAPs will be subject to the same requirement to have an appropriate business continuity plan and to ensure the information security of critical technology systems, promoting fairness. An appropriate and regularly reviewed business continuity plan enables a FAP to effectively respond to and recover from an event that disrupts their licensed service, and therefore promotes efficiency within the financial adviser market. A business continuity plan enables issues to be dealt with more quickly, by having an established plan ready to follow. The condition allows for flexibility, as business continuity plans can be tailored to suit the size and nature of the business, further ensuring efficiency. Notifying the FMA in the case of a material information security breach enables an overall view of emerging market

¹¹ See the Schedule for full details.

threats to be monitored and acted on when necessary, promoting transparency and efficiency in the financial advice market.

Promotes the confident and informed participation of businesses, investors, and consumers in the financial markets

This standard condition requires FAPs to have suitable arrangements in place to ensure they are able to manage disruptions to their business. By doing so, retail clients will have the security of continuity of the financial advice service they receive from providers. This gives customers confidence that they are going to be looked after in the case of unforeseen events, and that the security of their information will be maintained. Business continuity plans, including ensuring the information security of critical technology systems, enable FAPs to be more resilient to disruptions to business, which promotes the confident and informed participation of businesses, investors, and consumers in the financial markets.

Critical technology systems must be secure, reliable, and addressed as part of a business continuity plan. This promotes confident and informed participation in the financial advice markets, especially in light of increasing risks to technology systems. Similar to above, the requirement to notify the FMA enables the identification of cross-market threats and the ability to monitor events that may affect a number of licensees, promoting the confident participation of businesses and consumers in the financial adviser market.

Option 2 – No condition (status quo)

Description

Do not impose a business continuity and technology systems requirement as a licence condition. Many FAPs may have their own business continuity plans, including ensuring the security of information systems is maintained, as part of good business practice. However, without the regulatory requirement to do so, not all FAPs will have a business continuity plan, and some may be ad hoc and inadequate. We note that Standard 5 of the new code requires that client information is protected, however this is only one part of ensuring the information security of critical technology systems and an overall business continuity plan.

Impact analysis

This option is more likely to result in poor consumer outcomes. If a FAP is not able to effectively manage disruptions to their business and to respond, recover, resume and restore their operations, this may mean customers are not provided with timely information around the provision of financial advice, the appropriate level of support, or ongoing financial adviser services for a period of time, compromising access to quality financial advice and services. Further, the risk to customers if the integrity and security of critical technology systems is not maintained is high, e.g. compromised security of the information held about them, or about the financial adviser services received, and vulnerability to cyberattacks.

Lack of provision for disruptions to financial adviser services leads to less resilient businesses, and to reduced confident and informed participation in the financial markets, in respect of both businesses and customers. This is especially the case in the instance of ensuring the information security of critical technology systems, without which confident participation is compromised. Without a regulatory requirement to have a business continuity plan, efficiency in the financial adviser market will be reduced in respect to responding to disruptions to business (e.g. responses are more likely to be reactive and disorganised). Further, without the requirement to notify the FMA of material breaches to critical information systems, transparency is reduced.

While compliance costs may be reduced if a business continuity plan is not required, the costs associated with disruptions to business or the compromised security of critical technology systems, are likely to be much higher in the case no business continuity plan is implemented. Further, when considering the overall effect on the wider financial advice market of businesses being less able to effectively respond to and recover from an event that disrupts their licensed service, costs associated with implementing a business continuity plan are reasonable and necessary.

Ongoing requirements

Problem definition

Under section 414 of the FMC Act, the FMA is able to take action in certain circumstances, including if a FAP no longer meets the requirements set out in section 396 (and if applicable, section 400) of the FMC Act. This includes eligibility and other requirements that must be satisfied at the time of licensing. However, without a positive obligation requiring FAPs to continue meeting these requirements, there is a risk that the importance of continuing to satisfy these requirements after licensing, is overlooked.

Option 1 – Condition

Description

Impose a licence condition on FAP licences that requires FAPs to continue to satisfy the requirements set out in section 396, and, if applicable, section 400 of the FMC Act.¹²

Impact analysis

Ensures the availability and quality of financial advice and services

This standard condition confirms that licensing requirements must continue to be satisfied at all times while a FAP holds a licence, not just at the time the licence is issued. It reiterates the importance of maintaining these standards, including any eligibility criteria prescribed, and remaining capable of effectively performing the market service covered by the licence. A FAP's business may change, grow and evolve over time, and this condition confirms that the licensing requirements must continue to be met at all times, not just when the licence is issued. Explicitly requiring this as a standard condition helps to ensure the ongoing provision of quality financial advice and services. This condition supplements the FMA's existing ability to take action in the case a FAP no longer meets the requirements set out in section 396 of the FMC Act by also enabling us to take action for breach of a standard condition, contributing to a well-regulated financial advice market and the quality of financial services.

Will not impose unnecessary compliance costs

This standard condition reiterates a FAP's ongoing eligibility and capability requirements under the FMC Act and its Regulations. Although there are costs associated with complying with these ongoing requirements, there are no additional compliance costs associated with this condition, given that the obligations already apply to FAPs under the FMC Act and its Regulations. Therefore, this option avoids imposing unnecessary compliance costs.

Promotes the development of fair, efficient and transparent financial markets

Imposing a standard condition which reiterates and explicitly refers to a FAP's ongoing requirements under the FMC Act and its Regulations increases transparency in relation to the provision of financial adviser services. The condition will apply to all FAPs, ensuring fairness.

Promotes the confident and informed participation of businesses, investors, and consumers in the financial markets

This standard condition confirms a FAP's ongoing eligibility and capability requirements under the FMC Act and its Regulations, which promotes the confident and informed participation of businesses and consumers in the financial advice market.

Option 2 – No condition (status quo)

Description

Do not impose an ongoing eligibility and capability requirement as a licence condition.

¹² See the Schedule for full details.

Impact analysis

On balance, this option is more likely to result in poor customer outcomes. The FMA assesses eligibility at the time of licensing and is able to take action in the case a FAP no longer satisfies those licensing requirements.¹³ However, without an explicit obligation for FAPs to continue complying with licensing requirements, these obligations may not remain front of mind and therefore risk being overlooked. Without continued compliance with licensing requirements (including capability, fit and proper requirements etc) availability of quality financial advice and services may be compromised.

We consider it important to confirm that licensing requirements must continue to be satisfied at all times while a FAP holds a licence, not just at the time the licence is issued, and note this option does not impose any additional compliance costs (over and above a FAP already having to comply with section 396 and 400 of the FMC Act), but reiterates their obligations.

Notification of material changes

Problem definition

After licensing, a FAP may wish to make changes to their financial adviser service, as permitted within their licence class. This could include material changes to the nature of the financial advice service or the manner in which the financial advice service is provided. In these cases the FAP will need to ensure that suitable new controls and oversight are in place – and these may not have been assessed by the FMA at the time of licensing.

The FMA will not be notified of these material changes unless they are adverse as described in section 410 of the FMC Act, because notification requirements applying to FAPs are limited to those set out in section 412 of the FMC Act and regulation 191 of the FMC Regulations. There is no requirement for FAPs to notify a material change in circumstance unless that change adversely affects their ability to provide the financial adviser service or means they no longer meet the requirements in section 396 or 400 of the FMC Act (see section 410 of the FMC Act).

Without a broader notification requirement, it is more difficult for the FMA to effectively monitor a FAP's ongoing capability and to ensure compliance with the financial advice regime. Lack of effective monitoring and enforcement may lead to poor conduct and poor customer outcomes.

Option 1 – Condition

Description

Impose a licence condition on FAP licences that requires them to notify us in writing within 10 working days of implementing any material change to the nature of, or manner in which they provide, their financial advice service.¹⁴

Impact analysis

Ensures the availability and quality of financial advice and services

Notifications of material changes to a FAP's business is an important tool to enable the FMA to accurately maintain FAP risk profiles and appropriately target monitoring efforts to ensure that FAPs continue to be capable of effectively providing the financial advice service covered by their licence class. Notifications under this condition will provide the FMA with up-to-date, relevant information about FAP businesses in the event a material change is made, and will help the FMA ensure that the FAP has suitable new controls and oversight in place in response to those changes. The information provided helps the FMA consider how market service licence obligations continue to be met. Effective monitoring and enforcement is a key part of ensuring the availability of quality financial advice and services.

¹³ See section 414(1)(b) and 414(3) of the FMC Act.

¹⁴ See the Schedule for full details.

Most submitters agreed with the inclusion of this notification requirement, with many noting that it is important information for the FMA to receive. We do not consider the notification requirement to be overly burdensome, as it applies only to material changes to financial adviser services, and so do not expect it will create a barrier to entry.

Will not impose unnecessary compliance costs

We expect the compliance costs associated with this condition to be low. Further guidance has been given in the Standard Condition Explanatory Note¹⁵ around what types of changes we consider are material and expect to be notified of. If a FAP materially changes the nature of, or manner in which they provide, their financial advice service, notifying the FMA of this should not be a costly or burdensome exercise in the context of implementing the change. Given the importance of this information to the FMA in effectively monitoring the financial advice industry, we consider that any costs associated with the notification requirement are reasonable and necessary when contrasted with the overall benefits of a well-regulated market.

Promotes the development of fair, efficient and transparent financial markets

This licence condition will promote transparency about the advice services provided by FAPs and their ongoing capability, for monitoring and enforcement purposes. All FAPs will be subject to the same notification requirements, ensuring fairness. Notifications of material changes to businesses will be a key tool the FMA uses to effectively monitor the financial advice sector and to ensure FAPs continue to be capable of providing the service covered by their licence class. A well-regulated market resulting from better information from which the FMA can effectively monitor and enforce, promotes efficiency within the financial adviser market.

Promotes the confident and informed participation of businesses, investors, and consumers in the financial markets

Timely notifications of material changes to businesses are critical to the FMA's effective monitoring and enforcement of FAPs. This information is important for enabling the FMA to accurately maintain FAP risk profiles and appropriately target monitoring efforts to ensure that FAPs continue to be capable of effectively providing the financial advice service covered by their licence class. A well-regulated market for financial advice services benefits businesses and consumers and promotes their confident and informed participation in the market.

Option 2 – No condition (status quo)

Description

Do not impose a notification of material changes requirement as a licence condition. After licensing, a FAP may make material changes to the nature of, or the manner in which they provide, their financial adviser service, as permitted within their licence class. Unless the change adversely affects the FAP's ability to provide the financial adviser service or means they no longer meet the requirements in section 396 or 400 of the FMC Act (as set out in section 410 of the FMC Act), the FMA will not be notified.

Impact analysis

This option is more likely to result in poor customer outcomes. Without requiring notifications of material changes to a FAP's business, it is likely to be more difficult and require more resources for the FMA to monitor compliance with and to enforce the new financial advice regime. Following a material change, a FAP will need to ensure that suitable controls and oversight are in place, and these may not have been assessed by the FMA at the time of licensing. Lack of effective monitoring and enforcement is likely to lead to poor conduct and poor customer outcomes, and could affect the quality of financial adviser services. It could also lead to less transparency around the provision of financial advice services. Further, without effective regulation of the financial advice market, it is likely the confident participation by businesses and consumers in that market will suffer.

Not having to notify the FMA of material changes to the FAP's business may compliance costs (although some reporting of changes will still need to be done under the FMC Act), but we consider that the lower compliance costs are outweighed by the negative effects on the financial advice market that would result from the FMA not having up-to-date information available to help inform an effective monitoring and enforcement approach.

¹⁵ See the Schedule for full details.

Summary assessment of options against objectives

We have assessed the options against the criteria below:

KEY:



Meets the policy objectives



Partially meets the policy objectives



Does not meet the policy objectives

Criteria	Ensures the availability and quality of financial advice and services	Avoids unnecessary compliance costs	Promotes and facilitates the development of fair, efficient and transparent financial markets	Promotes the confident and informed participation of businesses, investors, and consumers in the financial markets
Record keeping				
Option 1: Condition (preferred)	Keeping records is key to ensuring good conduct and customer outcomes. Ensures quality of financial advice and services by facilitating effective monitoring and enforcement. Unlikely to affect availability of advice given no significant impact on compliance costs expected. ✓✓	Many businesses already keep records so compliance costs are expected to be low. Technologically neutral and principles-based flexible approach will minimise compliance costs. Benefits for customers, FAPs and the market generally outweigh any additional compliance costs and are considered necessary. ✓✓	Records will provide information for effective monitoring and enforcement, promoting fair and transparent markets. Technology-neutral language and principles-based approach will allow requirements to be tailored to the size and nature of a business, promoting efficiency. ✓✓	Record keeping is key to ensuring good conduct and culture, and critical for effective monitoring and enforcement. A well-regulated market for financial advice services promotes the confident and informed participation of businesses and consumers in those markets. ✓✓
Option 2: No condition (status quo)	Good advice businesses may still keep records, but no legal requirement. The quality of financial advice and services may be impacted if this results in less-effective monitoring and	No additional compliance costs to establish or change record-keeping process, but may be other costs demonstrating compliance with new financial	Without adequate records there will be insufficient information for monitoring and enforcement. This will impair development of fair and	Lack of adequate records would undermine confidence in the financial advice service being provided, as well as reduce the amount of information available for ongoing advice and any disputes, meaning confident and

Criteria	Ensures the availability and quality of financial advice and services	Avoids unnecessary compliance costs	Promotes and facilitates the development of fair, efficient and transparent financial markets	Promotes the confident and informed participation of businesses, investors, and consumers in the financial markets
	enforcement. No adverse impact on the availability of advice. ✓	advice regime requirements. ✓✓	transparent financial markets in terms of advice services. ✗	informed participation of market participants is reduced. ✗

Internal complaints resolution process

Option 1: Condition (preferred)	Effective client complaint handling is a key aspect of good conduct and likely to improve quality of financial advice and services. Unlikely to affect availability of advice as no significant impact on compliance costs expected. ✓✓	Costs not expected to be significant. The benefits for customers, FAPs and the market generally if complaints are dealt with effectively will outweigh any additional compliance costs and therefore are necessary. ✓✓	All FAPs will be subject to the same requirements and all customers will have access to a fair, timely and transparent complaints process. This will promote certainty and fairness. There will be more transparency about issues arising in respect of FAPs. Early identification and resolution of issues should promote efficiency. ✓✓	An effective internal complaints resolution process increases confident participation in the financial advice market, as there will be confidence that issues will be dealt with in an appropriate and timely manner. The information gained from identifying and recording complaints received and how they are resolved promotes informed participation in the provision of financial advice market. ✓✓
Option 2: No condition (status quo)	Complaints processes may not exist or not be standard across FAPs. The quality of financial advice and services may be affected where advice businesses do not effectively deal with client complaints. Not	No additional compliance costs to implement internal complaints process but may be consequential compliance costs if customer complaints not dealt with effectively. ✓✓	Many businesses will have a dispute resolution process. However, customers may not all have access to a complaints process that is fair, timely and transparent. This will mean less-fair markets and less certainty. There will also be less	Without a regulatory requirement for identifying, recording and resolving complaints, customers may not have access to an effective complaints process, which is likely to negatively affect confident and informed

Criteria	Ensures the availability and quality of financial advice and services	Avoids unnecessary compliance costs	Promotes and facilitates the development of fair, efficient and transparent financial markets	Promotes the confident and informed participation of businesses, investors, and consumers in the financial markets
	likely to affect availability of advice. ✓		transparency about issues affecting FAPs and issues may be addressed later or less efficiently. ✗	participation in the financial advice market. ✗
Regulatory returns				
Option 1: Condition (preferred)	Regulatory returns will provide the FMA with up-to-date, relevant information about FAPs. Regulatory reporting is a key tool the FMA uses to inform its monitoring and enforcement approach. Effective monitoring and enforcement is a key part of ensuring the quality of financial advice and services. ✓✓	Costs are not expected to be significant. We consider the associated costs reasonable and necessary when compared to the overall benefits of a well-regulated market, and the important contribution regulatory returns information makes towards that. ✓✓	Information collected through regulatory returns will promote transparency about the advice services provided by FAPs and their ongoing capability. Regulatory returns information helps the FMA to effectively monitor the financial advice market; and a well-regulated market promotes efficiency. ✓✓	Regulatory returns is a key tool the FMA uses to inform its monitoring and enforcement activities. Effective regulation of the financial advice industry is key to promoting the confident and informed participation of businesses, investors, and consumers in those markets. ✓✓
Option 2: No condition (status quo)	Without the information provided in regulatory returns, it is likely to be more difficult and require more resources for the FMA to monitor compliance with and enforce the new regime. This is likely to lead to poor conduct and customer outcomes, and could affect the quality of financial adviser services. ✗	No additional compliance costs by not requiring regulatory returns information, but may be consequential costs associated with a less-informed monitoring and enforcement approach by the FMA. ✓✓	Without regulatory returns information, there may be less transparency around the provision of financial advice services, and the market may be less fair because the FMA's risk-based approach will be compromised and our response may not be proportionate or focused on the highest risk areas. ✗	Regulatory returns information is an important part of enabling the FMA to effectively monitor and enforce the financial advice market. Without a well-regulated market, confident participation of businesses and consumers will suffer. ✗

Criteria	Ensures the availability and quality of financial advice and services	Avoids unnecessary compliance costs	Promotes and facilitates the development of fair, efficient and transparent financial markets	Promotes the confident and informed participation of businesses, investors, and consumers in the financial markets
Outsourcing				
Option 1: Condition (preferred)	Requiring FAPs to be satisfied that an outsource provider engaged by them is capable of performing the service to the standard required so they can meet their market service licensee obligation ensures availability of quality financial advice and services. ✓✓	Compliance costs will not be significant, and many FAPs will already have due diligence processes in place. Associated costs are necessary and reasonable to provide adequate oversight of outsource arrangements, and FAPs can tailor their compliance with this condition. ✓✓	Appropriate and well-functioning outsourcing arrangements can improve efficiency in markets, by ensuring specialised resources can be leveraged where suitable. The same requirements will be imposed on all FAPs. ✓✓	Customers can be assured that FAPs will have the requisite oversight over outsourcing arrangements to ensure that their licence obligations will continue to be met, and FAPs will have clarity about the types of arrangements they should have in place in respect of this oversight. This promotes confident and informed participation in the financial advice market. ✓✓
Option 2: No condition (status quo)	This could lead to less oversight of outsource providers and associated arrangements, meaning FAPs will not be able to ensure their market service licensee obligations are being met, and could affect the quality of financial advice services. ✗	Compliance costs may be reduced, although liability for market service obligations still rests with the FAP. May be consequential costs associated with ineffective oversight of outsourcing arrangements. ✓✓	Different FAPs will have different levels of oversight of outsourcing arrangements, and ineffective outsourcing arrangements decreases efficiency in the market. ✓	Without a regulatory requirement around the types of arrangements FAPs need to have in place in respect of outsourcing arrangements to ensure their market service licensee obligations continue to be met, confidence in the financial market will be affected. ✗

Criteria	Ensures the availability and quality of financial advice and services	Avoids unnecessary compliance costs	Promotes and facilitates the development of fair, efficient and transparent financial markets	Promotes the confident and informed participation of businesses, investors, and consumers in the financial markets
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Professional indemnity insurance

<p>Option 1: Condition</p>	<p>Having appropriate professional indemnity insurance is good business practice, contributes to good conduct and culture, and may improve the quality of financial advice and services. However, if mandated, this may result in increased costs of financial advice, which could result in some providers exiting the market and may increase the costs of advice for customers, therefore restricting its availability. ✓</p>	<p>Compliance costs associated with mandating professional indemnity insurance cover are significant. Given that customers may already have access to appropriate compensation, and because professional indemnity insurance may not provide the protection for customers expected, mandating cover could impose unnecessary compliance costs. ✗</p>	<p>Mandating professional indemnity insurance may result in less efficiency in the financial advice market, given the costs of cover are high. Further, we understand there is a risk that making cover compulsory may increase premiums. Professional indemnity insurance will not necessarily achieve the level of customer protection desired, rather it is designed to protect those providing the advice. However, we note that this option would promote fairness as it would impose the same requirement on all FAPs. ✗</p>	<p>Ensuring that retail clients can be appropriately compensated when necessary promotes the confident and informed participation of investors and consumers in the financial advice market. However, professional indemnity insurance will not necessarily achieve the level of customer protection desired; rather, it is designed to protect those providing the advice. Further, the costs of professional indemnity insurance may act as a barrier to entry for some FAPs, and may drive up the cost of financial advice, which could stop some consumers seeking advice. ✓</p>
<p>Option 2: No condition (preferred)</p>	<p>Not requiring professional indemnity insurance reduces the risk that associated compliance costs will drive up the cost of financial advice, thereby restricting the availability of</p>	<p>Allowing FAPs to choose how they insure their business (whether through professional indemnity cover or self-insurance) avoids unnecessary compliance costs. ✓✓</p>	<p>Professional indemnity insurance is an important protection for FAPs, and many product providers already require those holding agency or distribution agreements to have</p>	<p>Allowing FAPs to choose how they insure their business (whether through professional indemnity cover or self-insurance) means compliance costs are less likely to shut FAPs</p>

Criteria	Ensures the availability and quality of financial advice and services	Avoids unnecessary compliance costs	Promotes and facilitates the development of fair, efficient and transparent financial markets	Promotes the confident and informed participation of businesses, investors, and consumers in the financial markets
	<p>advice to customers. However, without mandating cover, there is a risk this will negatively affect the quality of financial advice and services. ✓</p>		<p>access to cover. In other cases, licensees may already be well placed financially to meet any claims for compensation by clients without recourse to professional indemnity insurance. Leaving the choice of cover up to the individual FAP promotes efficiency, and fairness by allowing FAPs to choose what type of protection best suits their business needs. ✓</p>	<p>out of the market and increase the cost of financial advice for consumers, meaning participation of businesses and consumers in the financial advice market is promoted. However, without assurance that retail clients can be appropriately compensated when necessary, confidence may be reduced. ✓</p>

Business continuity and information systems

<p>Option 1: Condition (preferred)</p>	<p>An appropriate and regularly tested business continuity plan enables FAPs to respond to and recover from an event that disrupts their licensed service, which ensures ongoing availability and quality of financial advice and services. ✓✓</p>	<p>Compliance costs should not be significant, especially given that the extent of a business continuity plan should reflect the size and complexity of the business. The plan can be flexible and right-sized to be appropriate for the business, and therefore any costs associated will be reasonable and necessary. ✓✓</p>	<p>A business continuity plan promotes efficiency in the market by enabling a FAP to effectively respond to and recover from an event that disrupts their business. All FAPs will be subject to the same requirement to have a business continuity plan, promoting fairness. ✓✓</p>	<p>Business continuity plans give consumers confidence they will be looked after in the case of unforeseen events. They enable FAPs to be more resilient to disruptions to their business, which promotes the confident and informed participation of business, investors and consumers in the financial adviser market. ✓✓</p>
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Criteria	Ensures the availability and quality of financial advice and services	Avoids unnecessary compliance costs	Promotes and facilitates the development of fair, efficient and transparent financial markets	Promotes the confident and informed participation of businesses, investors, and consumers in the financial markets
Option 2: No condition (status quo)	Customers may not be provided with timely information around the provision of financial advice, the appropriate level of support, or ongoing financial adviser services for a period of time if a FAP does not have an effective business continuity plan in place. x	No additional or unnecessary compliance costs, but may be consequential costs in the event of a disruption to a FAP's business. ✓✓	Many FAPs may already have some kind of business continuity plan. However, without a regulatory requirement, not all FAPs will have a plan, or their plan may not be fit for purpose, which means efficiency in the financial adviser market may be reduced in respect of responding to business disruptions. ✓	Lack of provision for disruptions to financial adviser services leads to less-resilient businesses, and to reduced confident and informed participation in the financial markets, in respect of both businesses and customers. x
Ongoing eligibility				
Option 1: Condition (preferred)	This standard condition confirms that licensing requirements must continue to be satisfied at all times while a FAP holds a licence, not just at the time the licence is issued. Explicitly reiterating this helps to ensure the ongoing provision of quality financial advice and services. ✓✓	Although there are costs associated with complying with ongoing requirements, there are no additional compliance costs associated with this condition, given that the obligations already apply to FAPs under the FMC Act and its Regulations. ✓✓	Reiterating a FAP's ongoing requirements under the FMC Act and its Regulations will increase transparency in relation to financial advice businesses. The requirement applies to all FAPs, ensuring fairness. ✓✓	This condition confirms and reiterates a FAP's ongoing obligations under the FMC Act and its Regulations, which promotes confident participation of businesses and consumers in the financial advice market. ✓✓
Option 2: No condition (status quo)	Without a positive obligation to continue satisfying the licensing requirements set out in section 396 (and section 400 if	No additional compliance costs. ✓✓	This option does not promote transparency, as a FAP's ongoing obligations are not reiterated. However, the FMA can still take	This option does not promote confident participation in the financial advice market because a FAP's ongoing obligations are

Criteria	Ensures the availability and quality of financial advice and services	Avoids unnecessary compliance costs	Promotes and facilitates the development of fair, efficient and transparent financial markets	Promotes the confident and informed participation of businesses, investors, and consumers in the financial markets
	applicable) of the FMC Act, there is a risk these obligations could be overlooked after a licensed is issued. This could lead to less quality financial advice and services. x		action if a FAP no longer satisfies the licensing requirements in section 396 (and section 400 if applicable) of the FMC Act. ✓	not reiterated. However, the FMA can still take action if a FAP no longer satisfies the licensing requirements in section 396 (and section 400 if applicable) of the FMC Act. ✓
Notification of material changes				
Option 1: Condition (preferred)	The information provided in notification of material changes will help the FMA to accurately maintain FAP risk profiles and appropriately target monitoring efforts to ensure market service licence obligations continue to be met. Effective monitoring and enforcement is a key part of ensuring the availability of quality financial advice and services. ✓✓	Compliance costs will not be significant; the requirement only applies to material changes to financial adviser services. We consider any costs associated with making a notification will be reasonable and necessary in the context of the information it provides to the FMA. ✓✓	Notifications of material changes will promote transparency about the advice services provided by FAPs and their ongoing capability, for monitoring and enforcement purposes. The same requirements will apply to all FAPs. ✓✓	Timely notifications of material changes to businesses are critical to the FMA’s effective monitoring and enforcement of FAPs. A well-regulated market for financial advice services benefits businesses and consumers, and promotes their confident and informed participation. ✓✓
Option 2: No condition (status quo)	This will make it more difficult and require more resources for the FMA to monitor compliance with and enforce the new financial advice regime. Lack of effective monitoring and enforcement is likely to lead to	No additional or unnecessary compliance costs associated with this option. ✓✓	Less transparency around the financial adviser services being provided. FAPs will still have some notification requirements under the FMC Act. x	Without the information provided by these notifications, it will be more difficult for the FMA to monitor compliance with and enforce the new regime. With a lack of effective regulation of the financial advice market, it is likely

Criteria	Ensures the availability and quality of financial advice and services	Avoids unnecessary compliance costs	Promotes and facilitates the development of fair, efficient and transparent financial markets	Promotes the confident and informed participation of businesses, investors, and consumers in the financial markets
	poor conduct and poor customer outcomes, and could affect the quality of financial adviser services. x			the confident participation by businesses and consumers in that market will suffer. x

Consultation

On 16 June 2020, we released a consultation paper [Proposed standard conditions for financial advice provider full licences and classes of financial adviser service](#) seeking feedback on our proposals to impose eight standard conditions on full licences, and to specify different classes of financial advice service for the purposes of licensing. We received 50 written submissions from a wide range of stakeholders including financial advisers, product providers, dispute resolution schemes, industry bodies and law firms.

We have carefully considered the feedback we received and the final conditions incorporate a number of changes that are a direct result of that feedback. The final conditions can be found in the Schedule to this RIS.

A submissions report setting out the key themes raised in submissions and our response, as well as copies of the individual submissions, will be published on our website.

Conclusion and reasons

Having carefully considered regulatory and non-regulatory impacts, and submissions received in consultation, we have decided that option 1 (imposing conditions) in every case except one (professional indemnity insurance) addresses the identified problems and will best achieve the stated objectives. The relevant reasoning has been set out under the consideration of each standard condition in this RIS.

For seven of the identified problems, option 2 would not achieve the stated objectives and would continue the current environment. The status quo would impose a disproportionate burden on FMA resources to supervise compliance with the new financial advice regime, and customers may not necessarily have access to fair, timely and transparent resolution of their complaints or assurance that a FAP has systems in place to provide quality financial advice and financial services.

Our preferred options will add compliance costs in some cases but these are not expected to be high or unnecessary and will be outweighed by improved ability to monitor and enforce compliance, contributing to a well-regulated financial advice market. Imposing these seven standard conditions strikes the best balance of stakeholder interests in promoting access to quality financial advice and financial advice services, and will promote the confident and informed participation of businesses, investors and consumers in the financial advice market and the development of fair, efficient and transparent financial markets.

In the case of professional indemnity insurance, we have decided option 2 (no condition) is the appropriate approach and best addresses the identified problems and achieves our objectives. The compliance costs associated with mandating cover are likely to increase, and may result in higher costs of financial advice, thereby restricting its availability to consumers. Given that professional indemnity insurance does not necessarily provide customers with the expected level of protection, and that compensation may otherwise be available when necessary, on balance we have decided no condition mandating professional indemnity insurance is appropriate at this stage.

Schedule

Final standard conditions

1. Record keeping

Condition: You must create in a timely manner and maintain adequate records in relation to your financial advice service.

Your records:

- (a) must be kept in a form (which may be electronic) and manner that ensures the integrity of the information and enables it to be conveniently inspected and reviewed by us;
- (b) may be in any language, providing that for records kept in a language other than English, if required by us, you provide in a timely manner a full translation of the record into English by a translator approved by us;
- (c) must be available for inspection by us at all reasonable times;
- (d) must be readily available to you, and in any event within 10 working days or as otherwise agreed by us when requested; and
- (e) must be kept for a period of at least 7 years from the later of:
 - i. the date the record is made; and
 - ii. the date the financial advice to which the record relates is given; and
 - iii. the date any later record is made that refers to or relies upon information in the record; and
 - iv. the date of the conclusion of the life of the financial advice product that the financial advice relates to.

Explanatory note: Records will be adequate if they clearly demonstrate (together with your systems, process and controls) how you, and any person engaged by you, and the regulated financial advice given to retail clients by you or on your behalf, met the requirements relating to financial advice and financial advice services in the FMC Act, FMC Regulations and the Code of Professional Conduct for Financial Advice Services.

Your records should include (without limitation):

- a record of all regulated financial advice given to retail clients, by you or on your behalf
- records relating to how you, and any person engaged by you, has complied with the financial advice duties.

Records available for inspection and review may be reviewed by us at your premises or elsewhere. For example, we may request copies of records and review these at our offices. Your arrangements must ensure that your retail clients consent to us viewing or obtaining your records.

Records may be kept by another person (including any outsource provider) on your behalf providing you ensure that person complies with this condition and that you can retrieve the records if required.

2. Internal complaints process

Condition: You must have an internal process for resolving client complaints relating to your financial advice service that provides for:

- (a) complaints to be dealt with in a fair, timely and transparent manner; and
- (b) records to be kept of all complaints and any action taken in relation to them including the dates on which:
 - i. each complaint was received; and
 - ii. any action was taken in relation to that complaint.

Explanatory note: A complaint relating to your financial advice service is an expression of dissatisfaction made to you or to a person engaged by you, relating to:

- your financial advice service (including any regulated financial advice given to a retail client by you or on your behalf); or
- the complaints handling process itself

where a response or resolution is explicitly or implicitly expected.

Any disclosure requirements relating to your internal complaints process are set out in the FMC Regulations.

Where no action is taken in respect of a complaint received, the record should include the reason(s) for not taking any action. If a complaint cannot be resolved or is in deadlock, the complainant must be informed about taking the matter to your dispute resolution scheme.

3. Regulatory returns

Condition: 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 FMC 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 FMC Act.

Explanatory note: You will be asked to provide information to the FMA on a periodic or ongoing basis, or on request, in accordance with the requirements set out in a Regulatory Return Framework and Methodology.

Under section 412 of the FMC Act you have obligations to report various matters to the FMA as soon as practicable, including any material change of circumstances. This standard condition is in addition to those reporting obligations in the FMC Act and any other reporting obligations that may be imposed in regulations.

The regulatory returns will help the FMA to understand the profile of your business and to focus its resources appropriately. The regulatory returns are likely to require reporting of factual business information, such as business volumes and service types, numbers of customers, numbers and types of breaches, and complaints information. The FMA will consult with industry prior to publication of the Regulatory Return Framework and Methodology that will form part of the standard conditions.

4. Outsourcing

Condition: If you outsource a system or process necessary to the provision of your financial advice service you must be satisfied that the provider is capable of performing the service to the standard required to enable you to meet your market services obligations.

Explanatory note: This condition only covers those outsource arrangements where you rely on the outsource provider to meet your market services licensee obligations as they relate to your financial advice service (licensee obligations).

Important matters that you should consider when conducting due diligence on a proposed outsource provider include:

- the outsource provider's previous experience
- public reports and information about their service
- reported complaints about them, and their complaints handling procedures
- their operating jurisdiction and any protections/controls imposed in that jurisdiction
- the business continuity and critical technology system arrangements the outsource provider has in place to meet the standard in standard condition 5.

Other important information you should consider in respect of your outsource arrangements includes:

- being satisfied that each provider is, and remains, capable of performing the service to the standard required to enable you to meet your financial advice service licensee obligations
- having contractual arrangements with each provider that enable you to effectively monitor their performance and take appropriate action for non-performance, and having suitable termination provisions to enable you to continue to meet your financial advice service licensee obligations at all times
- ensuring that any records held by providers pertaining to your financial advice service obligations are readily available to you and to us in accordance with standard condition 1 – Record keeping
- regular reviews of your outsource arrangements, at a frequency appropriate to the risk involved
- recognising that outsource arrangements and business continuity and technology systems are often interrelated. (Refer to standard condition 5 – Business continuity and technology systems)

5. Business continuity and technology systems

Condition: 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 information security for those systems – being the preservation of confidentiality, integrity and availability of information and/or information systems – is maintained.

You must notify us within 10 working days of you discovering any event that materially impacts the information security 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.

Explanatory note: Your *business continuity plan* includes the documented procedures that guide you to respond, recover, resume and restore a pre-defined level of operation following disruption. This plan should provide for the continuity of your financial advice service generally – not just the recovery of your technology systems. It should also encompass any outsource arrangements, such as your client data provider.

Your plan should consider the loss of availability of your key resources, including staff, records, systems, suppliers and premises. The extent of your business continuity plan should reflect the size and complexity of your financial advice service, operational arrangements and exposure to disruptive events. A small business with simple processes and technology may only need a relatively brief plan covering a more limited range of likely disruptive events, but the plan is more likely to include locum arrangements.

A larger or more complex business, relying more extensively on technology systems and possibly operating from multiple locations, will need to consider a wider range of disruptive events and reflect this in a more comprehensive business continuity plan.

Irrespective of the complexity of your circumstances, it is important that your business continuity plan is maintained, reviewed and regularly tested – at least annually. Your business continuity plan must also be updated immediately if there is a material change in business location, structure or operations.

Critical technology is that which supports any activity, function, process, or service, the loss of which would materially affect the continued provision of your financial advice service or your ability to meet your licensee obligations.

This condition requires that you maintain the information security of your critical technology. This includes:

- (a) regularly identifying and reviewing your risks and cyber threats; and
- (b) implementing measures that maintain the level of information security necessary for your risk profile; and
- (c) having effective processes that monitor and detect activity that impacts your information security; and
- (d) including in your business continuity plan your predetermined procedures for responding to, and recovering from, events that impact on your information security.

The information security of your critical technology systems should be managed within the risk tolerance set through your governance processes. We recommend that you use an appropriate, recognised information security framework for this purpose.

You must have arrangements in place to notify us in the event of a material information security breach. A material event is one where the confidentiality, integrity or availability of your information and/or your technology systems has been compromised. You do not need to notify us of minor events, such as receiving a ‘phishing’ email.

6. Ongoing requirements

Condition: You must at all times continue to satisfy the requirements set out in section 396 and, if applicable, section 400 of the FMC Act.

Explanatory note: Sections 396 and 400 of the FMC Act specify the requirements in respect of which the FMA must be satisfied in order to grant a licence, or authorise an entity as an authorised body. For example, the FMA must be satisfied that:

- any prescribed criteria are met
- your directors and senior managers are fit and proper persons
- you are capable of effectively performing the service
- there is no reason to believe you are likely to contravene your obligations
- you are registered on the Financial Service Providers Register.

There are similar requirements for authorised bodies, including that arrangements are or will be in place to ensure that you, as the licence holder, will maintain appropriate control or supervision over the provision of the service by the authorised body. These requirements are elaborated in the Financial Advice Provider Full Licence Application Guide.

This condition confirms that the licensing requirements must continue to be satisfied at all times while you hold the licence, not just at the time the licence is issued. Given that there is no expiry date for your licence, it is critical that the requirements continue to be satisfied at all times. This condition does not prevent you from making changes to your business or the scope of your service (subject to your applicable licence class), provided you can continue to meet the requirements.

You will need to ensure that you keep your policies, processes, systems and controls up to date and that they reflect any changes you may make to your business or service arrangements.

You will also need to ensure that your directors and senior managers, and any other relevant parties, are and remain fit and proper persons to hold their respective positions.

If you have authorised bodies under your licence, you (as the licence holder) must also continue to have suitable arrangements in place to ensure that you have appropriate control or supervision over the services those authorised bodies provide.

For further information in relation to licensing requirements see the Financial Advice Provider Full Licence Application Guide.

7. Notification of material changes

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

Explanatory note: Sections 410 to 412 of the FMC Act and regulation 191 of the FMC Regulations require certain matters to be notified to us. This applies to all FMC Act licences.

This standard condition is in addition to those statutory notification obligations. It applies where you materially change the *nature of your financial advice service* or *manner in which you provide* your financial advice service.

The purpose of this standard condition is to ensure that we are informed of any material changes that you make to your business, whether or not they may have an adverse effect on your ability to provide your financial advice service and whether or not they may relate to the requirements for issue of a licence being satisfied.

By the *nature of your financial advice service*, we mean how you, or any of those engaged by you, meet the competency requirements of the Code of Professional Conduct for Financial Advice Services. An example of a material change in this context would be changing your compliance approach to relying on your procedures, systems and expertise (rather than individual qualifications) for demonstrating competence, as contemplated by the code. Another example of a material change in this context would be implementing a digital advice service.

You are not required to notify us if you change the types of financial advice you provide, or the types of financial advice products you advise on.

By *manner in which you provide* your financial advice service, we mean the way in which you provide regulated financial advice to retail clients. For example, a material change would include commencing to (where you did not previously, and are permitted to within your relevant licence class):

- engage any financial advisers to provide regulated financial advice on your behalf; or
- engage any nominated representatives to provide regulated financial advice on your behalf; or
- in respect of an individual Class 1 licence holder, engage a locum for a period of 3 continual months or longer, to provide regulated financial advice on your behalf; or
- provide regulated financial advice directly to your clients, for example through automated digital systems.

You are not required to notify us if you change the number of financial advisers/nominated representatives you engage, or you cease to engage financial advisers/nominated representatives, or you cease providing advice directly to your retail clients.