



Where to from here?

With weeks to go for full Financial Advice Provider (FAP) licence submissions by 30 June 2022 - your projects should be running full steam ahead. Is yours? If not let us know as we are here to help

In October 2021, the Financial Markets Authority (FMA) set a target date of 30 June 2022 for Class 3 FAP licence applications. This means a number of organisations currently with transitional licences that engage Nominated Representatives (NRs) need to complete, approve internally and submit their full FAP licence application by 30 June 2022.

The safe harbour/ transitional period expires in March 2023 and applicants need to ensure their processes, people, systems, controls and policies are compliant with the full FAP licence requirements.

Are you ready for your Full FAP Licence?



FULL FAP APPLICATION PROCESS

To ensure smooth transition to full licensing the applicants need to submit the application form by target dates set by the FMA: 30 June 2022 (for class 3 licence applicants) and 30 September 2022 (for class 1 and 2 licence applicants)

What the FMA said

- With increased regulatory focus on board governance and conduct of parties acting on behalf of the FAP, the application process should not be looked at in a silo but treated as an opportunity by Boards to take a proactive role and review current frameworks and processes to ensure they are not only fit for purpose for the current and ongoing FAP obligations, but also future proofed for the upcoming conduct legislation

KPMG's view

- Mitigate risks around Board knowledge and licence approval and governance
- Education sessions and refreshers for Boards
- Board governance reviews
- Co-design internal governance approval processes and policies including appropriate Board approval
- Support the completion of the full FAP licence application

How can KPMG help?



FULL FAP LICENSING REQUIREMENTS

The Full FAP licence requires the applicant to have approved policies and processes in place to meet the Financial Markets Conduct (FMC) Act and Regulations and licensing criteria. These cover how advice is to be provided, oversight, outsourcing, complaints handling and conduct review and more

- By being a FAP, you understand the need to put the customer at the front and centre of all interactions and endorse the intent of the legislation to enable more Kiwis better access to good financial advice leading to improved financial literacy and outcomes.
- It can however, be difficult to put this into practice given the complexity of omnichannel customer interactions as the legislation has no distinction between digital and human advice. Therefore, having systemised controls and robust QA oversight over NRs and distribution partners will help mitigate poor customer experiences and outcomes

- Mitigate risks around detrimentally impacting customer experience by
- Introducing compliance by design, systemised controls that enable great customer interactions
- Co-designing customer centric journeys and culture
- Embed the required uplift for your people, systems, processes and policies to enable great customer outcomes (supported by KPMG's change management methodology)



STANDARD CONDITIONS AND REGULATIONS

As part of the licence application, there are 7 standard conditions that FAPs have to abide by, these range from BCP, cyber security, outsourcing, record keeping to reporting.

- For large class 3 applicants, there will be process and policies for the standard conditions, but these may have been managed by different governance committees across divisions. Given that these requirements may raise slightly different obligations for different licence types held by the entity (e.g. DIMS, MIS, FAP). There is an opportunity to standardise processes across the organisation for some of these requirements
- Other class 3 applicants, may not have approved governance and documented policies and processes for all the standard conditions which could lead to breaches or ultimately having the FAP licence revoked

- Complete a gap analysis of 'As-Is' state with full licence requirements
- Develop a roadmap and milestone plan to implement solutions to resolve identified gaps
- Support the development and/ or standardising of processes and policies
- Embed processes and policies into BAU, with a focus on effective change management



CODE OF PROFESSIONAL CONDUCT

FAPs are required to meet all 9 Code standards to comply with the requirements of ethical behaviour, conduct, client care and competence, knowledge, and skill for giving advice

- As required under Part 2 of the Code of Conduct, many applicants will be planning on how to upskill their NRs to provide advice equivalent to that of a New Zealand Certificate of Financial Services Level 5 (NZCFSL5).
- We encourage entities to concentrate on their advice propositions and in particular ensuring that they have the systems, processes and controls to consistently provide advice at that level.
- While the current focus has been on getting the NRs to the required competence, we think further effort is required to implement continuing professional development programmes
- A Compliance by Design approach ensuring the right NRs with the right competence, knowledge and skill can provide the right advice will be game changing

- Co-design the advice proposition that focuses on the development of your people and necessary controls that makes it easy for them to succeed and hard to fail
- Review of advice governance, channels, processes and controls
- Gap analysis of current state and future advice proposition
- Support the development of a compliant by design advice model and process/policies and systemised controls to ensure customers receive good advice irrespective of channel or product
- Review or co-design of vulnerable customer framework.



ONGOING GOVERNANCE

FAPs will be held responsible for their own conduct as well as the conduct of their financial advisers (FAs) and nominated representatives (NRs), and any authorised bodies under their licence.

- FAPs (especially larger Class 3 licence holders) – that have complex relationships (including Authorised Bodies, FAs and NRs) may find it challenging to maintain robust governance and oversight over all advice providing channels under their licence
- There can be conflict in trying to meet all regulatory obligations on an ongoing basis, as the regulatory requirements for those engaged by the FAP may differ.
- Being future proof (e.g. for upcoming legislation like the conduct bill, CoFI) will be the key to reduce rework on governance, systemised controls and QA frameworks

- Implement a compliance by design mindset, introducing up front systemised controls to support your people to get it right first time
- Support with product governance and policy tools such as product development lifecycle, monitoring framework, policy, tools/ templates, and processes.
- Co-create or review and uplift Governance and QA frameworks including how results feed into continuous improvement and CPD plans
- Co-create conduct framework



KPMG Conduct team

KPMG have a substantial team of specialists with conduct experience

KPMG Conduct team



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