

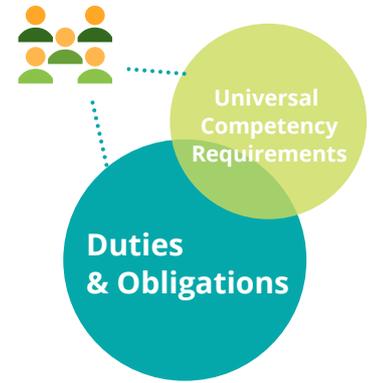
Overview of the New Financial Advice Regulatory Regime

In June 2020, the provision of retail financial advice will be regulated by the Financial Markets Conduct Act 2013 and the amendments introduced by the Financial Services Legislation Amendment Act 2019.

The new regime removes distinctions between different types of advisers, 'class' or 'personalised' advice, and the category of financial products.

It introduces universal duties, obligations and competency requirements.

The new duties are set in the legislation, a new Code of Conduct as well as regulations.



New Licensing

All retail advice will be covered by a license. All Financial Advice Providers (FAPs) will need to be licensed by the FMA and registered with the Financial Service Providers Register.

FAPs will be able to provide advice via three ways

Financial Advisers

Advisers engaged by a FAP to provide financial advice on its behalf

Nominated Representatives

Individuals engaged by a FAP to provide advice on its behalf but have limited discretion and are tightly controlled by the firm

FAP's own behalf

FAP provides advice on its own account. This includes via a website platform ('robo-advice').

Financial advice providers will vary in size and composition, as these can range from large firms to single adviser business.

Universal Standards of Conduct and Competency

The new regime introduces universal conduct and client care duties. Anyone providing retail financial advice needs to operate under a FAP license, meet client care duties and comply with the Code of Professional Conduct for Financial Advice Services.

The new Code comes into force in June 2020. It sets minimum standards of ethical behaviour, conduct and client care, competence and, knowledge and skills

Code of Professional Conduct for Financial Advice Services

Competence, Knowledge, and Skill

1. Have general competence, knowledge and skill
2. Have particular competence, knowledge, and skill for designing an investment plan
3. Have particular competence, knowledge, and skill for product advice
4. Keep competence knowledge, and skill up-to-date

Ethical Behaviour, Conduct, and Client Care

1. Treat clients fairly
2. Act with integrity
3. Give financial advice that is suitable
4. Ensure that the client understands the financial advice
5. Protect client information

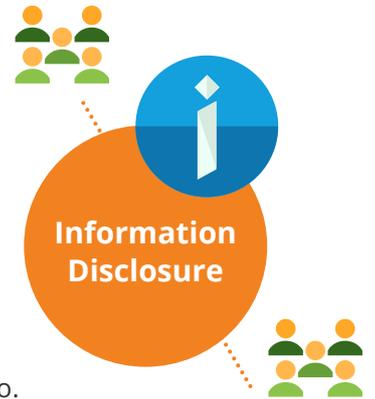
Information Disclosure

Under the new regime there are information disclosure requirements that apply. These are important as they enable consumers to make informed decisions when choosing where to receive financial advice, and when making financial decisions.

Firms or individuals who give financial advice will need to disclose information regarding:

- Licensing
- Duties that apply
- Services that can be provided
- Applicable fees
- Conflicts of interest
- Complaints handling
- Disciplinary history
- Convictions or proceedings
- Bankruptcy proceedings

FAPs will need to keep a record of the information disclosures. Information can be disclosed at different stages of the advice process and when it becomes relevant to do so.



Fi360's Investment Governance Framework and the New Regime

Fi360 Pacific provides education and training in investment governance best practices with reference to a global fiduciary standard. The new regime provides firms with the opportunity to assess and evaluate their compliance, processes and practices. Fi360 Pacific's investment governance framework can help advisers and financial advice providers meet many of their new duties and obligations.

Advisers, as professionals who are responsible for providing investment advice and or managing investment decisions, are typically in a fiduciary role

What is a fiduciary?

Investment fiduciaries are people who either give investment advice or oversee the assets of another party and who stand in a **special relationship of trust**, confidence or legal responsibility.



What is investment governance?

Investment governance focuses on the **legal duties of care and loyalty** (fiduciary obligations) owed by investment fiduciaries. It seeks to define what systems and processes advisers should have in place to meet their fiduciary obligations. It involves working to a defined fiduciary standard, and being able to demonstrate that this is consistently and effectively applied.

Examples of some elements of the Fi360 Framework

Fiduciary Duties of Loyalty and Care



The Fi360 governance framework provide pragmatic practices and processes for addressing loyalty and care to the client. This can be used to help both best-practice management for a FAP and advisers.

Conflicts of Interest



Fi360 requires an adviser identifies conflicts of interest and avoids or manages them in a manner consistent with the duty of loyalty.

Investment Strategy for each client



An investment strategy for each client. is developed that includes:
 - defining the time-horizon
 - defining the risk profile
 - designing a well-diversified investment strategy
 - Managing and monitoring service providers.

Prepare an IPS



An investment policy statement reflects each client's goals, and objectives. The IPS provides a framework for the management of the portfolio and is the key governance document.

Due Diligence Criteria & Process



A reasonable due diligence process is followed to select investments and service providers. The process needs to be documented and consistently applied.

Fiduciary File



A 'fiduciary file' is kept to secure documents pertaining to the client's investments. This both meets regulatory obligations of Advisers, and helps trustee clients manage their fiduciary obligations under the new Trust Act.

Fi360's 4-step Process

1. Organise



2. Formalise



3. Implement



4. Monitor

The Fi360 Pacific Adviser Handbook has 20 Prudent Practices that form the framework of a disciplined investment process. The Practices are supported by 77 Criteria, that represent the details of the fiduciary standard. Investment Governance can be a driver for excellence, it is guided by the duties of care, loyalty and the commitment of placing the interests of clients first.