



# ▶ FAP Governance

**IT ISN'T ABOUT REGULATION;  
IT IS ABOUT RUNNING A BUSINESS!**

Presented by Compliance Refinery  
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# Agenda

1. Industry observations
2. FMA's expectations
3. Are you maximising your business's potential?
4. Is DIMS an option for your FAP?
5. How to engage with external providers



# Industry Observations

- ▶ Technology implementation is happening quickly.
- ▶ It is also advancing (AI is here).
- ▶ ‘Social marketing’ is getting more effective, and those that are successful are spending a lot more. **And getting results.**
- ▶ Regulatory changes **(in that order).**
- ▶ Relationships with product providers and technology platforms are changing.
- ▶ Business models are changing.
- ▶ Data is becoming more valuable.
- ▶ Buying books is more complicated.



# FMA Expectations

- ▶ It is more than just advice.
- ▶ The FMA request governance documents (Board papers).
- ▶ Record keeping is paramount (not only in advice).
- ▶ The ability to compile aggregate data and prescribe client lists. (EG – clients replacing product or clients investing in a certain strategy)





## What happens during an FMA Audit?

- ▶ Letter from the FMA requesting documents. Generally in 4 weeks, but they are usually flexible.
- ▶ They ask for a significant number of records.
- ▶ They ask for various lists of clients and data.
- ▶ They generally ask for other business-specific data (i.e., commissions, remuneration structure etc.)
- ▶ Conduct interviews (this can be over 2 or 3 days).
- ▶ Request additional client files and documentation (this can be repeated a few times).
- ▶ Hopefully, a conclusion with no referrals.

# Impact of FMA Audit preparation on the business (assuming all goes well)

- ▶ It is very demanding on the resource of a business.
- ▶ It is stressful.
- ▶ Probably the biggest impact is reducing the productivity of the business.
  
- ▶ **It is a great process to go through!**



# Governance and Profit

- ▶ It is important that Advisers are productive.
- ▶ Do you have a budget for governance? Is it realistic? Does it keep your revenue producing members pointing in the correct direction?
- ▶ Does your governance board ask the tough questions? Do they challenge the Directors?
- ▶ Advisory Boards are helpful if you are expanding, putting in place a succession plan, implementing new technology etc
- ▶ Do you have a 5-year plan?



# Is DIMS right for your business?

What is a DIMS Service?

- ▶ A DIMS is a discretionary investment management service – an investment arrangement where you make buy–sell decisions about your client's portfolio rather than your client making those decisions. It includes arrangements where the client has the right to be consulted or can change a decision you have previously made. DIMS cover a wide range of services and can vary considerably.
- ▶ Licensing is not overly onerous. A couple of extra policies will suffice.
- ▶ Extra governance is required:
  - ▶ Net Tangible Assets (Possibly GAAP Accounting)
  - ▶ Board accountability
  - ▶ Regulatory Returns
  - ▶ Compliance Assurance



# DIMS Licensing Process

- ▶ Create policies to meet the requirements identified in the licensing guide and the standard conditions.
- ▶ This, including the licensing process, usually takes between 3 and 4 months to operate at a standard pace. Including having the licensing approved.
- ▶ The costs are roughly \$2139 for the license application (this can go over if it takes longer than 15 hours to assess).





# DIMS Licensing Considerations

- ▶ What is the total value of the funds you expect to manage for all DIMS clients (wholesale and retail)?
- ▶ What is the total value of the funds you expect to manage for just your retail DIMS clients?
- ▶ How many retail DIMS clients do you expect to have?
- ▶ Will you handle client money and/or property as part of your DIMS business?
- ▶ Do you provide a wrap platform or have an agreement with a third party to provide a wrap platform service to your DIMS clients? If YES, what is the name of the platform, and who provides it?
- ▶ Please indicate the product type(s) offered as part of your DIMS service. Select all those that apply from the list.

# DIMS Standard Conditions

1. Skills and Expertise
2. Incidental Financial Advice
3. Outsourcing
4. Records
5. Regulatory Returns
6. Compliance
7. Governance Arrangements
8. Financial Resources



# DIMS Licensing Guide

## Fit and Proper Capabilities

### Capability

1. This is to assess if your Directors and Management Team have the right skills and experience to manage the business.

### Operational Infrastructure

1. New Clients
2. Client Objectives and Investment Authority
3. Selecting Investments
4. Investment monitoring and client reporting
5. Custody
6. Termination of service
7. Material Issues and Complaints



# DIMS Licensing Guide (part 2)

## Financial Resources

1. Introduction of NTA
  1. Tell us how you'll undertake your NTA calculations and cash flow management.
  2. Provide an overview of how you manage your financial resources more generally.
  3. Provide a copy of your cash flow forecast for the next 12 months (with assumptions).
  4. Provide a copy of the balance sheet used as the basis for your NTA calculation.
2. PI Insurance

## Governance

1. Please name your oversight body.
2. Explain or demonstrate how your oversight body will oversee your (and your included related bodies) compliance with your market services licensee obligations.
3. Explain or demonstrate how your oversight body will ensure they receive sufficient and timely, high-quality information.

# How to Engage with external providers for Compliance Assistance?

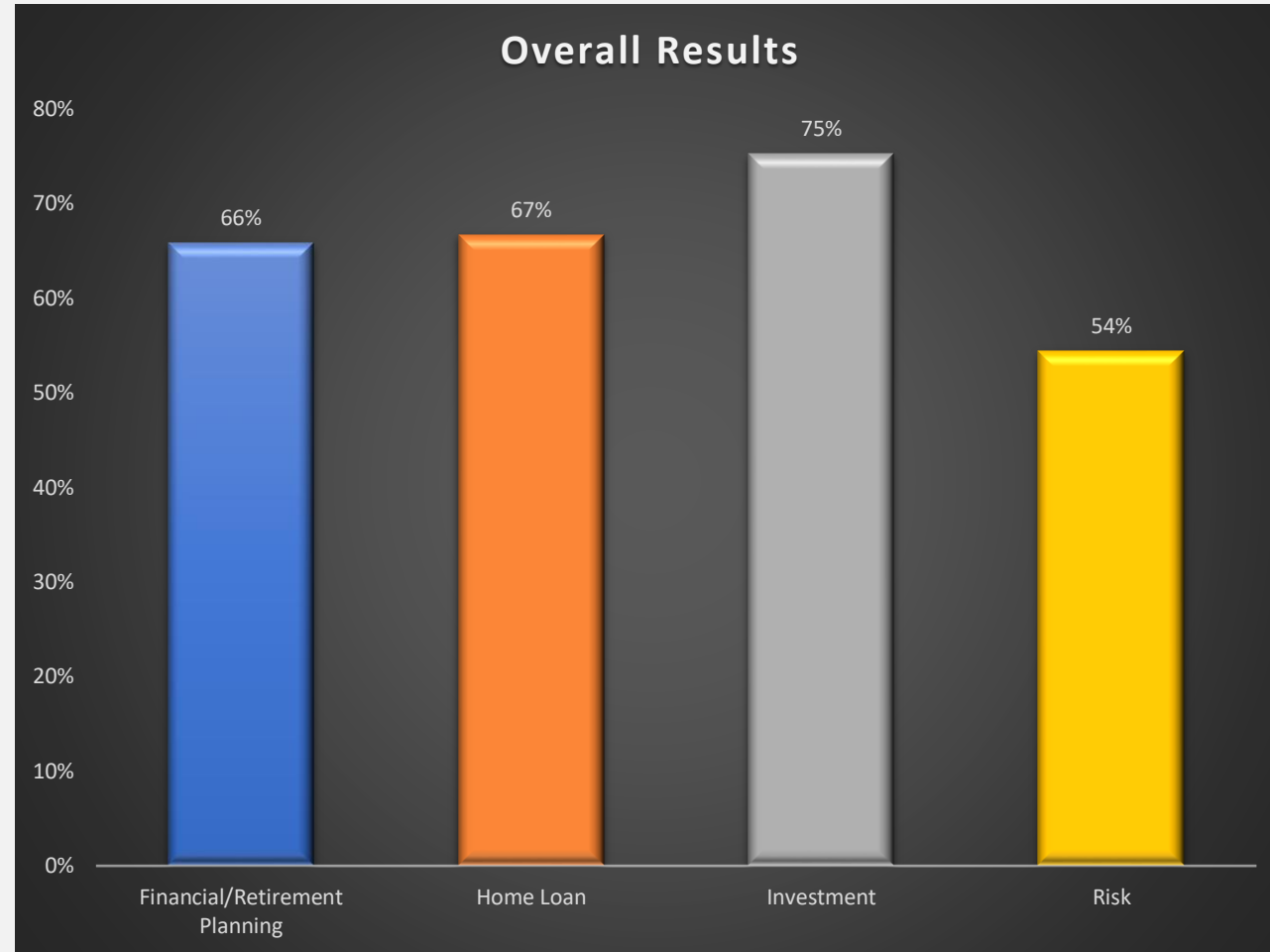
1. We teach you to do it.
2. We do it with you.
3. We do it for you!



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# File Review Results

The results for risk files are consistently lower than other areas of advice.





# Thank you for attending!

If you have any questions, please contact us  
at [admin@compliancerefinery.co.nz](mailto:admin@compliancerefinery.co.nz)

