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OFFICE OF THE MINISTER
OF COMMERCE

The Chair
Cabinet Business Committee

Discretionary Investment Management Services: Financial Adviser and Financial Markets Conduct Regulations

Proposal

- 1 That Cabinet agree to:
 - introduce obligations for financial advisers who provide personalised discretionary investment management services (DIMS) under the Financial Advisers Act (FA Act);
 - amend requirements under the Financial Markets Conduct Act 2013 (FMC Act) to ensure that the regime for DIMS is sufficiently flexible so that it does not become a barrier to smaller providers; and
 - introduce transitional provisions for DIMS requirements under the FMC Act and FA Act for persons currently providing DIMS.

Executive Summary

Discretionary Investment Management Services

- 2 Some investors choose to have a financial service provider make investment decisions on their behalf. This is called a discretionary investment management service (DIMS). The scope of these services can vary from a financial adviser acting on a client's behalf, to the management of a large number of clients' funds in a similar manner to a managed fund.
- 3 Progress in improving investor confidence has been tarnished by incidents of fraud by DIMS providers, in particular Ross Asset Management, which caused significant losses to investors.
- 4 Most DIMS providers will be required to be licensed under the FMC Act and will have similar obligations to fund managers. However, Authorised Financial Advisers (AFAs) will continue to be able to offer personalised DIMS without the need for a separate licence. DIMS are personalised if the investment strategy is personalised to the individual client's circumstances.

Financial Advisers Regulations

- 5 At present, there are a number of requirements that will apply to FMC DIMS licensees that will not apply to AFAs providing personalised DIMS. These include disclosure, regular reporting and requirements applying to client agreements
- 6 In March 2013, Cabinet agreed to amend the FA Act [CAB Min (13) 12/17] to introduce regulation making powers allowing for the obligations of financial advisers offering personalised DIMS to be aligned with the obligations of DIMS providers licensed under the Financial Markets Conduct Act.

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- 7 In July 2013, Cabinet agreed to release a discussion document that proposed a range of additional requirements for financial advisers offering DIMS [EGI Min 13 16/7]. The Ministry of Business, Innovation and Employment (MBIE) received 26 submissions on the discussion document, which were broadly supportive of the proposed DIMS requirements.
- 8 The proposed requirements have been refined based on submitter feedback and consultation with the Financial Markets Authority (FMA) to the following:
- That AFAs authorised to provide personalised DIMS must satisfy FMA that there is no reason to believe that they will not comply with their obligations under financial markets legislation and that they are capable of effectively providing a DIMS.
 - That AFAs providing personalised DIMS must disclose additional information relating to the DIMS
 - That these AFAs must deal adequately with certain core matters relating to the DIMS in their client agreements.
 - That these AFAs must ensure that clients are provided with a periodic report outlining the performance of their investments.
- 9 I consider that these obligations will have a beneficial impact on investor confidence and mitigate the risk of investors investing through DIMS without a full understanding of what the service entails, or of unscrupulous providers misappropriating investor funds. Ensuring that all DIMS providers are subject to similar obligations will also reduce the risk of regulatory arbitrage and of investor confusion.

Ensuring that the FMC Act is applied flexibly

- 10 I am aware that compliance costs on AFAs have increased over the past few years. In advance of the 2016 statutory review of the FA Act, I am looking to ensure that these costs are minimised where possible.
- 11 Consultation suggests that fewer AFAs will offer personalised DIMS than originally expected, and may therefore require a licence under the FMC Act. I consider that it is essential that the FMC Act regime for DIMS is sufficiently flexible so that it does not become a barrier to smaller providers, such as many AFA led businesses.
- 12 I am therefore proposing to introduce the following measures to limit any undue impact of the FMC DIMS regime on smaller providers, while retaining the core protections for investors:
- a. An exemption from the FMC Act for AFAs who provide DIMS as a limited adjunct to their normal financial adviser services in contingency situations (for example, where their client is on holiday). This exemption would be subject to conditions to prevent its exploitation.
 - b. A reduction in the base fee level for DIMS licences under the FMC Act, to reflect the wider range of services that will need to be licensed. FMA will retain the ability to charge extra on an hourly basis for more complex applications.
 - c. A transitional regime for existing DIMS providers. Current providers would have until 1 June 2015 to apply for an FMC DIMS licence, and until 1 December 2015 to update their client documentation. AFAs providing only personalised DIMS will be able to continue to do so under the FA Act without an FMC licence.

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Background

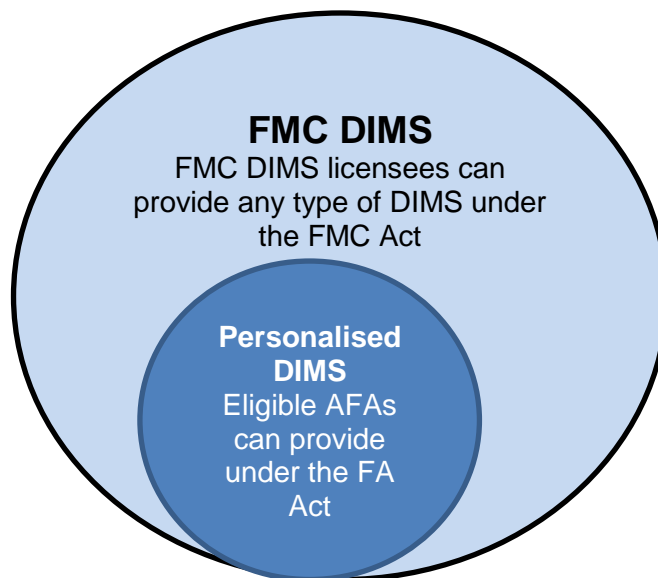
- 13 The FA Act, which came into force in mid-2011, introduced a comprehensive regulatory regime for financial advisers, including conduct, authorisation and disclosure requirements. The FA Act has improved standards of advice and professionalism and has helped to encourage public confidence in the financial adviser industry.
- 14 The FA Act was part of the broader reform of financial sector regulation, of which the FMC Act is the final stage. The FMC Act, the second phase of which comes into force on 1 December 2014, will significantly alter how financial products are created, promoted and sold, and the ongoing responsibilities of those who offer, deal and trade them. The FMC Act will promote investor confidence in New Zealand's capital markets and is a cornerstone of the Business Growth Agenda.
- 15 Services that involve an investment manager making investment decisions on behalf of their clients are defined as discretionary investment management services (DIMS). DIMS can include a very broad range of services, with differing requirements on the provider and levels of risk for clients. For example, a DIMS could consist of:
 - a. a financial adviser having a limited discretion to make investment decisions on a client's behalf in certain circumstances, and
 - b. an investment manager making decisions about the assets of a large number of clients, in a similar way to a managed investment scheme, other than the fact that clients own actual assets rather than units in a fund.
- 16 Services which involve a client being advised to make a particular investment decision and agreeing to that decision being effected on their behalf are not DIMS.
- 17 Progress in improving investor confidence has been tarnished by incidents of DIMS providers being involved in misconduct causing significant losses to investors, despite the regulatory requirements on advisers. In particular, the Ross Asset Management fraud has highlighted the need to progress the reforms in the FMC Act and to strengthen how DIMS is regulated.

Regulation of DIMS

- 18 While DIMS are currently regulated under the FA Act, as a type of financial adviser service, with the commencement of the FMC Act on 1 December 2014, we will have two distinct regimes for the regulation of DIMS.
 - Persons licensed under the FMC Act will be able to offer any sort of DIMS, subject to the requirements of the FMC Act.
 - Individuals who are Authorised Financial Advisers (AFAs) will only be able to offer truly personalised DIMS, subject to the requirements of the FA Act.

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Regulatory Regimes for DIMS



- 19 The rationale for allowing AFAs to offer personalised DIMS without a separate DIMS licence was that some level of discretion about investment decisions may often be part of a financial adviser's role, and that personalised DIMS cannot be operated like a managed fund. To qualify as personalised DIMS, the investment strategy for the DIMS must be personalised to the particular client, based on their situation and goals. This definition is relatively narrow, and AFAs will need to be licensed to offer anything other than this narrow type of DIMS.
- 20 At present, there are a number of requirements that will apply to FMC DIMS licensees that will not apply to AFAs providing personalised DIMS. While AFAs are subject to a range of requirements when providing advice, there are no additional reporting or disclosure requirements relating to providing DIMS and there is no assessment as part of the authorisation process of whether an adviser is capable of offering these services.
- 21 There are two key risks of having significantly different requirements for DIMS under the two regimes:
- Investors are likely to expect requirements applying to DIMS to be similar, regardless of whether the investment strategy is personalised, and are unlikely to be aware of any differences between the regulatory regimes. When an investor chooses to enter into a DIMS agreement, they are likely to expect that they will be subject to the same protections and will receive the same information, regardless of whether the DIMS is offered under the FA Act or the FMC Act. This expectation could be taken advantage of, to the potential detriment of investors.
 - If the FA Act regime is significantly more attractive to DIMS providers, they may choose to modify their services to meet the definition of personalised DIMS, in a way that might not be in the best interest of clients. Given that personalisation for its own sake may not be in the interest of the investor (i.e. it could add costs or reduce investment returns), it is desirable to limit the incentives to undertake this behaviour.

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- 22 In addition, the benefits of any additional requirements in the FMC Act would largely also apply to personalised DIMS under the FA Act. For example, the argument that requiring disclosure of the details and risks of a DIMS service helps investors to make better decisions about how they invest their money applies to all DIMS, regardless of whether the investment strategy is personalised.
- 23 Cabinet has already taken some steps to align the two regimes as appropriate. This included changes to the FA Act to require AFAs offering DIMS to use an independent custodian and requirements to use a written investment authority. In a number of other areas, regulation making powers were introduced to allow for further consultation on the detailed requirements [CAB Min (13) 12/17].

Personalised DIMS Regulations

- 24 In July 2013 Cabinet agreed to release a discussion document on the following proposed requirements for AFAs offering personalised DIMS [EGI Min 13 16/7]. The broad intent of these proposals is to align the requirements on DIMS under the FA ACT with the FMC Act, unless there is a compelling reason for the requirements to be different, such as overlap with an existing requirement.

DIMS Eligibility requirement

- 25 AFAs are limited to providing the financial adviser services specified in their authorisation. Therefore some AFAs are only authorised to provide financial advice, while others are also authorised to provide DIMS. However, at present AFAs are not subject to additional eligibility criteria in order to be to be authorised to offer DIMS.
- 26 The discussion document consulted on an additional eligibility requirement for AFAs who wish to offer DIMS, beyond the existing requirements that an AFA has to meet to provide financial advice. This would allow the FMA to assess whether the AFA has the systems and processes required to effectively offer DIMS and to comply with the regulatory obligations and would align with the FMC Act.
- 27 Most submitters supported the introduction of an additional eligibility requirement, provided that it is flexible to the nature of the DIMS service that the AFA proposes to offer. In particular, the eligibility requirement should allow the AFA to rely to the systems and procedures of their employer, and should reflect the fact that the AFAs systems and procedures may or may not need to be as sophisticated as a DIMS licensee under the FMC Act, depending on the scope of the service that they propose to offer.
- 28 I therefore propose:
- that an additional eligibility requirement for AFAs who provide DIMS be introduced from 1 December 2014, allowing the FMA to assess whether they are capable of effectively performing the service and whether there is any reason to believe that they will not comply with their legal obligations.
- 29 This requirement will be applied in a flexible manner, reflecting the extent of the service that the AFA proposes to provide, and the extent to which the AFA is using services that reduce risks to investors, such as online platforms and reputable research providers.
- 30 FMA will have the ability to reassess the eligibility of existing AFAs who are already authorised to provide DIMS. I expect that it will align its approach to these reassessments with the transitional arrangements under the FMC Act that are described later in this paper.

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Disclosure requirements

- 31 Under the FMC Act, DIMS licensees will have to provide clients with a Service Disclosure Statement (SDS), outlining the nature of the service, the key risks involved and the details of the various parties involved. This disclosure statement is designed to help clients to make an informed decision about the way in which they invest their money.
- 32 Under the FA Act, AFAs are already required to provide disclosure statements to clients outlining types of services they offer, how they are regulated and details of their remuneration and any conflicts of interest. While these disclosure statements include some of the matters covered in a DIMS SDS, there are a number of DIMS specific matters, such as custodial arrangements and what happens on termination of the DIMS, which are not covered.
- 33 The July 2013 discussion document proposed requiring AFAs offering DIMS to include a number of additional matters in their existing disclosure documents. All submitters supported this. Most submitters supported adapting existing disclosure documents on the basis that this would minimise any additional compliance costs for AFAs.
- 34 I therefore propose:
- subject to transitional provisions described below, that additional matters be added to the existing disclosure statements of AFAs offering DIMS to align with the disclosure requirements under the FMC Act from 1 December 2014.

Client agreement requirements

- 35 The FMC Act will require DIMS licensees to adequately provide for certain matters in their client agreements, such as how custody over assets will be provided. No such requirements are currently in place for AFAs offering DIMS. Setting these minimum requirements is a key tool for ensuring that DIMS are provided with adequate governance and contractual arrangements. It is not intended that this requirement will outline all matters that should be addressed in a client agreement, only to ensure that the central issues for all DIMS are always dealt with.
- 36 All submitters on the July 2013 discussion document supported introducing equivalent requirements for the client agreements of AFAs offering DIMS. Consultation suggests that this requirement will not introduce any significant costs on AFAs, provided that sufficient time is allowed for AFAs to update their existing client agreements.
- 37 I therefore propose:
- subject to transitional provisions described below, that the requirements for client agreements under the FA Act be aligned with the requirements under the FMC Act from 1 December 2014.

Periodic reporting

- 38 The FMC Act will require DIMS licensees to give clients a periodic report on their investments. There are no such requirements for DIMS under the FA Act. Consultation suggests that such reporting is standard practice and I consider that these requirements should be standardised for all DIMS providers in order to ensure that clients are provided with comparable amounts of information and to discourage regulatory arbitrage.

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- 39 To minimise any additional costs on DIMS providers, recent consultation on FMC regulations proposed that these reports be provided on a less frequent basis where the information is available through an electronic facility such as a website. This approach was largely supported by submitters.
- 40 I therefore propose
- subject to transitional provisions described below, that a reporting requirement under the FA Act mirroring the final form of these FMC regulations be introduced from 1 December 2014.

Ensuring that DIMS is Regulated Flexibly

- 41 MBIE has recently undertaken public consultation on how best to transition DIMS providers to the new regulatory regime. A number of AFAs and other DIMS providers submitted on this matter.
- 42 This consultation and discussions with stakeholders suggest that fewer AFAs will offer personalised DIMS than originally expected because the services they offer now may not be sufficiently personalised, and may therefore require a licence under the FMC Act. It is therefore essential to ensure that the FMC Act regime for DIMS is sufficiently flexible that it does not become a barrier to AFA led businesses.
- 43 Submissions indicated that there are a broad range of services provided under the umbrella description of DIMS. These services broadly fit into the following categories:
- Contingency DIMS:** AFAs providing DIMS in relatively limited circumstances, for example where the client is on holiday, generally do not see the costs of obtaining a licence to be worthwhile and plan to stop offering these services under the new regime.
 - Rebalancing:** AFAs currently using DIMS to undertake limited rebalancing of client portfolios generally plan to amend their service so that it will no longer be considered DIMS. This can be done by rebalancing in a more 'mechanical' way (i.e. without any discretion over which products to acquire or dispose of).
 - Personalised DIMS:** AFAs providing personalised DIMS will continue to do so under the FA Act.
 - AFAs providing simple DIMS:** A number of AFAs provide DIMS involving relatively little discretion by the AFA, for example using model portfolios published by a reputable independent research provider and using an independent trading platform. These AFAs are generally reluctant to obtain a licence under the FMC Act, due to the cost of obtaining a licence and the ongoing costs associated with compliance. A number of these AFAs indicated that they would either change their business model to avoid offering DIMS or join an AFA group that would obtain the licence.
 - Corporate providers of DIMS:** These providers are generally comfortable obtaining a licence under the FMC Act, but do not consider that it will be possible to transition to the new regime by 1 December 2014, given that the regulations will not be finalised until the middle of this year.
- 44 These are just examples of the most significant categories of DIMS that came through in submissions and demonstrate the necessity of applying the new regulatory regime for DIMS in a flexible way that reflects the broad range of services that fall under the umbrella definition of DIMS.

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- 45 In some areas this flexibility may be provided through FMA exempting certain DIMS providers from some of the requirements of the regime. Under the FMC Act, FMA has the ability to grant an exemption where it is satisfied that it is necessary or desirable in order to promote the purposes of the Act, which include avoiding unnecessary compliance costs. For example, I understand that FMA is considering whether an exemption from audited financial statements is justified for some DIMS providers, given that where a DIMS provider's business is relatively small, these statements may be of a more limited benefit.
- 46 In other areas, these adjustments can be made through regulations. I therefore propose that the following measures are introduced through regulations to limit any unnecessary compliance costs and to ensure that obligations are proportionate to the risks being addressed.
- 47 In particular, adjustments are necessary to ensure that undue costs are not imposed on limited services such as contingency DIMS and on smaller DIMS providers, and that DIMS providers are able to transition to the new regulatory regime.

Contingency DIMS

- 48 A number of AFAs currently manage their client's portfolios for limited periods of time when it is inconvenient for the client to make active investment decisions. A typical example is where the client is on holiday. These services would not necessarily fall within the definition of personalised DIMS. Consultation suggests that most AFAs could not justify the costs of obtaining an FMC DIMS licence, and would simply stop offering these services under the new regime.
- 49 The risks associated with short term DIMS that are ancillary to a financial advice service are similar to those of an AFA providing financial advice. Given that AFAs are already subject to a range of conduct obligations, I consider that a limited exemption from the FMC Act DIMS licensing regime is justified for these services, subject to conditions to ensure that the service is a temporary adjunct to their normal financial adviser service and that the client is informed of the limitations on the service.
- 50 This exemption would allow AFAs to continue to make investment decisions on their clients' behalf during a limited period of time that is confirmed by the client. This would allow them to retain an important part of the service offering, without unduly increasing the risk of funds management type services being offered without the appropriate licence. This exemption also takes into consideration the existing obligations that AFAs have under the FA Act and the Code of Professional Conduct for AFAs.
- 51 I am satisfied that the above exemption meets the requirements of section 550(1)(c) of the FMC Act that the exemption or exclusion is not broader than is reasonably necessary to address the matters that gave rise to the regulations. I have also consulted with FMA on this exemption as required by section 549 of the FMC Act. FMA supports this exemption.

FMA licensing of simple DIMS businesses

- 52 FMA is also working on guidance for AFAs and other persons that are providing relatively simple DIMS and intend to apply for a DIMS licence under the FMC Act. This guidance will reflect the fact that there are a number of arrangements that smaller DIMS providers can have in place to make FMA's assessment of their systems and controls quicker and simpler, and that FMA can take account of AFAs' existing status and previous checks. An example is an AFA business that offers clients a model investment portfolio published by

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a reputable independent research provider, using an independent trading platform to manage the client's portfolio.

- 53 This guidance will clarify the types of licence applications that will be simpler and cheaper to process and assist AFAs providing simple DIMS in preparing their licence application. I would expect, as a result, for FMC to receive more applications that are relatively straightforward to assess. To reflect this, I propose the following amendment to the fee for an FMC DIMS licence:

Current FMC DIMS licence fee	Proposed new FMC DIMS licence fee
\$3,565 (based on the assessment of a standard application taking on average 20 hours) plus \$178.25 per hour after 25 hours of FMA time.	\$2,139 (based on the assessment of a simple application taking on average 12 hours) plus \$178.25 per hour after 15 hours of FMA time.

- 54 This change would reflect the fact there will be a wider range of activities that will need to be licenced under the FMC Act than was initially anticipated, and will ensure that the licence fee is appropriate for those providers who are providing DIMS that are relatively simple. It will also reduce the barriers to entry for new DIMS providers and encourage providers to use systems that will make their applications more straightforward to assess.
- 55 I do not expect that this change will reduce the licence fee that providers with more complex applications will need to pay. For example, FMA would expect that a larger company's application would be more complex to assess, given that its governance arrangements will necessarily be more complex. FMA would expect the fee for these providers to be more in line with that for a similar sized fund manager, and these providers should expect to pay extra based on FMA's hourly rate. This is one of the benefits of the fee model used in this area – it allows a lower fee to be charged for less complex applications, while allowing FMA to charge extra for complex applications that require more resources to assess.
- 56 I support FMA's efforts to ensure that the FMC DIMS licensing regime is implemented in a flexible way that is not an undue barrier for AFAs and other smaller DIMS providers. While some details of this guidance is yet to be finalised, minor regulatory changes may be required to complement this initiative. I therefore propose that Cabinet delegate responsibility to the Minister of Commerce to make decisions that are necessary to support a flexible approach to licensing simple DIMS businesses.

Transitional Arrangements

- 57 Unlike other aspects of the FMC Act, a clear transitional regime for existing DIMS providers has yet to be established. Given that some of the regulatory requirements are yet to be finalised, consultation suggests that there is a need to allow existing DIMS providers additional time to prepare their licence applications, obtain a licence and ensure that their existing client documentation is compliant.
- 58 Similar transitional requirements are also required for the proposed regulatory requirements on personalised DIMS.
- 59 I propose that the following transitional measures are introduced in for existing providers:

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Milestone	Transition progress
1 December 2014	<ul style="list-style-type: none"> • New FMC DIMS providers are required to be licensed and comply with the requirements of the FMC Act. • New AFAs providing personalised DIMS are required to comply with the new regulatory requirements under the FA Act and associated regulations. • Persons currently permitted to provide DIMS (and the entities that they represent) are permitted to continue to provide DIMS in accordance with the current law as a transitional measure.
1 June 2015	<ul style="list-style-type: none"> • FMC DIMS providers are required to have applied for a licence under the FMC Act. • FMA will expect AFAs to have updated their adviser business statement ABS to describe whether they intend to carry on providing personalised DIMS or take advantage of any exemption. • All DIMS providers are required to be using an independent custodian, unless they have applied for FMA permission to use a related party custodian and their application is still under consideration. • FMA's assessment of FMC DIMS licence applications and reassessment of eligibility of existing AFAs to provide personalised DIMS underway.
1 December 2015	<ul style="list-style-type: none"> • All FMC DIMS providers are required to be licensed. • FMC licensees' and AFAs' DIMS documentation, such as client agreements, is required to be compliant with the new requirements, including for existing clients.

60 Consultation suggests that this is a sufficient length of time to allow existing providers to transition to the new regime, without undermining the intent of the reforms. The vast majority of DIMS offered in this transitional period will be offered through AFAs, who are subject to the Code of Conduct for AFAs. These measures will help to ensure a tidy implementation of the FMC Act and will provide current DIMS providers with sufficient time to either change their business models or apply for the relevant licence.

Consultation

61 MBIE received 26 submissions on its July 2013 discussion document on additional requirements for AFAs providing personalised DIMS. Submitters were largely supportive of the proposed requirements.

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- 62 MBIE received 30 submissions on its December 2013 discussion document on transitional arrangements for DIMS providers. Submitters indicated that more time for implementation was required and that the regime needed to better accommodate AFAs. These comments have informed the proposals discussed in this paper.
- 63 I expect that MBIE undertake consultation on an exposure draft of the regulations proposed in this paper. This will help to ensure that the draft regulations are effective and that they minimise any unnecessary compliance costs.
- 64 The Treasury and FMA were consulted on the contents of this paper. The Department of Prime Minister and Cabinet has been informed.

Financial Implications

- 65 The reduction in the FMC DIMS licence fee reflects an updated estimate of assessing these applications. FMA will continue to be able to recover its costs in this area.

Human Rights

- 66 No human rights implications arise out of the proposals in this paper.

Legislative Implications

- 67 The proposals in this paper will be implemented through regulations under the FA Act and FMC Act.

Regulatory Impact Analysis

- 68 The Regulatory Impact Analysis Requirements apply to the proposed DIMS obligations. A Regulatory Impact Statement has been prepared and is attached.

Quality of the Impact Analysis

- 69 The General Manager, Strategic Policy Branch and the Ministry of Business, Innovation and Employment Regulatory Impact Analysis Review Panel have reviewed the attached Regulatory Impact Statement (RIS) prepared by the Ministry of Business, Innovation and Employment. They consider that the information and analysis summarised in the RIS meets the criteria necessary for ministers to fairly compare the available policy options and take informed decisions on the proposals in this paper.

Publicity

- 70 The Minister of Commerce will arrange a media statement outlining these decisions. The Ministry will also post a copy of this paper on its website.

Recommendations

It is recommended that the Committee.

- 1 **Note** that discretionary investment management services (DIMS) include any service where a provider makes decisions on how to invest their clients' assets.
- 2 **Note** that from 1 December 2014, most DIMS providers will be licensed and regulated under the Financial Markets Conducts Act 2013 (FMC Act), other than Authorised Financial Advisers (AFAs), who will be able to offer personalised DIMS under the Financial Advisers Act 2008 (FA Act).

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- 3 **Note** that there are a number of regulatory requirements for DIMS under the FMC Act that are not currently in placed under the FA Act.
- 4 **Note** that in March 2013 Cabinet agreed to introduce regulation-making powers into the FA Act to allow the regulatory requirements relating to DIMS to be aligned with the FMC Act where appropriate [CAB Min (13) 12/17].
- 5 **Note** that in July 2013 Cabinet agreed to publicly consult on further regulatory requirements for DIMS under the FA Act [EGI Min 13 16/7], and that these were broadly supported by submitters.
- 6 **Agree** to introduce the following requirements for AFAs providing personalised discretionary investment management services (DIMS) on 1 December 2014:
 - 6.1 additional eligibility criteria requiring the FMA to be satisfied that there is no reason to believe that AFAs who are authorised to provide personalised DIMS will not comply with their obligations under financial markets legislation and that they are capable of effectively providing a DIMS.
 - 6.2 the inclusion of additional information relating to the DIMS in their existing AFA disclosure statements.
 - 6.3 requirements for client agreements aligned with those under the FMC Act.
 - 6.4 requirements for ongoing reporting aligned with those under the FMC Act.
- 7 **Note** that I am aware that compliance costs on AFAs have increased over the past few years and, in advance of the 2016 statutory review of the FA Act, I am looking to ensure that these costs are minimised where possible.
- 8 **Note** that recent consultation suggests that adjustments are required to ensure that the FMC Act regulatory regime for DIMS is sufficiently flexible to accommodate smaller DIMS providers and to provide transitional arrangements for existing providers.
- 9 **Agree** that AFAs providing limited DIMS in contingency situations as a temporary adjunct to their normal financial adviser services should be exempt from licensing under the FMC Act subject to conditions to prevent its exploitation.
- 10 **Agree** to reduce the licence fee for FMC DIMS licensees to \$2,139 plus \$178.25 per hour after 15 hours of FMA time.
- 11 **Agree** to the transitional arrangements for DIMS providers detailed in paragraph 59.
- 12 **Note** that the Minister of Commerce will arrange for a media statement outlining these decisions and that a copy of this paper will be placed on the MBIE website.

Hon Craig Foss
Minister of Commerce

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