

Quick guide to licence applications for small businesses providing DIMS

This guide supplements our main [licensing application guide](#). It outlines how a small business providing lower risk Discretionary Investment Management Services (DIMS) can approach an application for a DIMS licence under the Financial Markets Conduct Act 2013 (FMC Act).

Who will benefit from reading this guide?

We recommend you read this guide if you are a single adviser or small Authorised Financial Adviser (AFA) business that provides DIMS and plan to apply for a DIMS licence under the FMC Act.

This guide doesn't change any legal requirements and you're not required to read it before applying, but it will help you through the licensing process.

What is a DIMS?

For more information, including key terms, practical examples and scenarios explaining our approach to regulating DIMS see our [frequently asked questions](#). For information on the obligations of DIMS providers under the current law please refer to [Guidance Note: Discretionary Investment Management Services](#)

Why isn't there a separate licensing process for small DIMS providers?

The process in our [licensing application guide](#) is designed to be flexible enough to take into account the size and nature of the applicant's business. All licence applications are assessed against the same minimum standards, but if your DIMS business involves lower risks to clients this will be taken into account and should simplify the application process.

Only big businesses can apply for a licence, right?

No. Anyone can apply for a DIMS licence as long as they meet the minimum standards described in our licensing application guide.

There is flexibility in how businesses meet the minimum standards. Your approach needs to be appropriate for the size and nature of your business.

The systems and controls expected in a single-adviser business will be simpler than those expected in a larger or more complex business. This should mean FMA's assessment of the systems and controls of smaller businesses will be quicker and simpler, provided those systems and controls are appropriate and adequately explained in the licence application.

Why do I need to be licensed?

A key objective of the FMC Act and related legislation is to raise the standards of key market service providers in New Zealand. The standards expected of all DIMS providers are being raised – this is the case whether a service provider intends to provide personalised DIMS under the Financial Advisers Act 2008 or DIMS under an FMC Act licence. Licensing DIMS providers and ensuring minimum standards similar to other professionals who manage client property will help grow consumer confidence in our financial markets.

What about the cost of the licence application?

The Government has agreed to reduce the licence application fee for a DIMS licence from \$3,565 to \$2,139 (based on the assessment of a simple application taking on average 12 hours) plus \$178.25 per hour if the assessment takes longer than 15 hours of FMA time.

The fee has been reduced because we expect to be able to assess straightforward applications from small DIMS businesses within the 15 hour timeframe.

Larger and more complex DIMS businesses should not expect their licence application to cost any less than previously advised, as it will generally take us longer than 15 hours to consider their applications.

What about the costs of audited financial accounts?

Although the FMC Act requires all licensees to produce audited financial statements, FMA is able to grant exemptions. We will consult on an exemption for small DIMS providers, because where the DIMS provider's business is small, these audited statements may be of limited benefit. Further details of this consultation will be published on our website.

Won't getting a licence be more expensive than providing personalised DIMS under the Financial Advisers Act 2008 (FAA)?

Not necessarily, the licensing fee is just one part of the on-going cost of providing a service. The definition of 'personalised DIMS' in the Financial Advisers Act 2008 will only cover services where you design bespoke investment strategies for each of your DIMS clients. This is a more specialised service than a class DIMS service where you rely on investment strategies designed to meet the needs of a class of clients. If you're considering the costs of providing different services you should take this complexity into account as well as the upfront licensing costs.

For more information on the difference between personalised DIMS and class DIMS see our [frequently asked questions](#).

As an AFA, we recommend your decision about whether to provide class or personalised DIMS should be based on what type(s) of service you are capable of providing to the required professional standard and what services you consider to be in your clients' best interests.

If you do decide to provide a personalised DIMS under the FAA the Government has recently confirmed that

you will be subject to similar eligibility requirements to FMC Act DIMS licensees. For example, you will need to show you are capable of effectively providing the personalised service you're proposing to provide.

Has a new exemption just been announced?

Yes, the Government has confirmed that AFAs will have an additional limited exemption for what it describes as '*contingency DIMS*'. The exemption will be included in future regulations.

The exemption will only apply where an AFA normally provides financial advice (not DIMS) to a client but the client gives the AFA authority to manage their portfolio for a limited period of time when it's inconvenient for the client to make active investment decisions (for example when the client is on holiday).

The scope of this new exemption, and the conditions that will apply to it, are still being finalised. Further detail can be found in the [cabinet paper](#).

When will I need to apply for a licence?

The Government has recently confirmed that existing DIMS businesses will be given extra time to prepare their DIMS licence applications and to ensure that their existing client documentation is compliant. Licence applications will need to be completed and submitted to FMA by **1 June 2015** at the latest, and then businesses will have until 1 December 2015 to amend their existing client documentation.

The transitional provisions will not apply to new DIMS businesses. Further detail can be found in the [cabinet paper](#).

What does the application look like?

Here we take you through the different sections of our licensing application form (as set out in our main [licensing application guide](#)).

Introduction

Before you apply for a licence you need a [RealMe login](#) and a Financial Services Provider (FSP) number on the [FSP Register](#). If you already have an FSP number you need to update your details on the register to indicate your intention to provide a 'Licenced Market Service'. You then need to select the FSPR sub-category of 'DIMS Provider', which is under the 'Licenced Market Service' category. For further information about the practical details of submitting a licence application, see [Part A](#) of our licensing application guide.

The following sections don't describe how you should answer every question in the application form. Instead we focus on how each section might apply to certain small DIMS businesses. Specific questions in the application form are set out in **green**. For more information on specific questions please start by referring to our [licensing application guide](#) or call us on 0800 434 567.

If you want, you can produce one document that describes your DIMS business and answers all the questions asked in the application form. This could be an updated version of your Adviser Business Statement (ABS). You can upload the document, and in the application form just tell us which parts of the uploaded document answer the question being asked. Alternatively you can just answer the questions in the boxes provided in the application form.



Getting started

The first two 'Getting Started' tabs of the online application form ask for details about you, your business, and your application. Most of the questions are relatively straightforward and there is no difference between the way a large business and a small business will need to answer these questions. Key questions include:

Is this a separate or related body application?

- A small business with a straightforward structure is unlikely to have any '**related bodies**'. (Related bodies are separate entities in your corporate group that you want added to the same DIMS licence). If you are a single-entity business, or an individual, you should tick the box to say this is a '**separate**' application, and in the following question, '*Do you want to include related bodies under your licence?*' you should answer 'no'.

Please describe your business?

- This question is your opportunity to describe the size and nature of your DIMS business. If the only DIMS you provide is to rebalance client portfolios then describe this here.

Overview of sections:

- Introduction
- Getting started
- Fit and proper
- Capability
- Operational infrastructure
- Financial resources
- Governance
- Final steps

- You should also tell us if you always use a research provider’s model investment strategies and/or a wrap platform. Tell us who these service providers are and what contractual arrangements you have with them. Tell us why you think these service providers are appropriate – we will take into account the service provider’s previous experience, the size of their business and any public reports or information about their service.
- If a wrap service has been customised for you, tell us how it works.
- You should also tell us what the legal form of your business is (e.g. a company, partnership or individual) and whether your business is connected to any other financial services business.

Do you request any special limits on your licence?

- This question allows you to propose limits on your licence, such as a maximum number of DIMS clients or a maximum amount of DIMS funds under management. You don’t have to propose any conditions, but any proposed conditions that reduce the overall risk of your service to clients will make your application more straightforward to process. Make sure you’re able to meet any conditions you propose as these will be conditions on your licence. You also need to consider and meet the [standard conditions](#) imposed on a DIMS licensee.



Fit and proper

In the ‘fit and proper’ section of the application form we assess whether the people that control your business are fit and proper. We collect signed declarations from all (actual and proposed) directors and senior managers of applicants. The declarations give us authority to conduct good character checks, and also provide CV information so that we can check individuals have appropriate qualifications and experience. Key points and questions include:

- A DIMS business run by a single AFA, who is the sole director of the company, will only need to upload one director declaration signed by that AFA. Other small DIMS businesses may have a few more directors and senior managers, but only people with a significant influence over the management or administration of the business need to complete a declaration. In a small DIMS business it will normally be obvious who runs the business – these people need to complete a declaration.
- The format of the declarations is provided on the [Quick Links](#) section of our website.
- An AFA can fill in the CV section of the declaration by describing their AFA experience and qualifications. This should be sufficient unless the AFA has any other relevant experience to add.
- We will take account of your AFA status, previous good character checks and compliance record so it should be reasonably straightforward for most AFAs to show they are ‘fit and proper’.

Please explain how you ensure your directors and senior managers meet and maintain the minimum standards of ‘fit and proper’

- If the only directors and senior managers of a DIMS business are AFAs, and you don’t intend to recruit any new directors or senior managers, then you can answer this question by confirming:
 - You’ll ensure all directors and senior managers are AFAs
 - You’ll ensure all these AFAs comply with the Code of Professional Conduct, including the minimum standards for continuing professional development.
- Remember, where there’s more than one AFA involved in running the business, it’s the licensed business as a whole that’s responsible for meeting the minimum standards. It’s not just down to each AFA to have responsibility for their own actions. The business will need processes and controls, such as regular management meetings, to check everyone’s still working to the required standards.

Please outline how you ensure your directors and senior managers do NOT cause detriment to your clients, gain improper advantage, or make improper use of their position?

- If all directors and senior managers of your DIMS business are AFAs, then you can answer this question by confirming that you'll ensure they all comply with the Code of Professional Conduct, including placing client interests first and acting with integrity.



Capability

In this section we ask questions to ensure you or your organisation has the right mix of people, with the right skills and experience, in the right roles, to manage your licensed business properly and effectively. Key questions include:

Explain or demonstrate how your management team collectively has the right skills and experience?

- Many small DIMS businesses won't have a management team that's different from the directors and senior managers you've already described in the previous 'fit and proper' section. If this is the case for your business, then answer this question by confirming that you don't have anyone else involved in the management of the business.
- If you do have other management staff, such as an administrations manager, tell us what they do and what their experience is.

How do you define the roles, responsibilities and accountabilities of your management team?

- If it's a small business you may not need fully documented job descriptions, but you still need to tell us who is responsible for what within your business.

Please explain the recruitment and human resource processes you use to ensure your management team have the right skills and experience for their roles.

- If your DIMS business is managed by AFAs, and you don't intend to recruit any new management, then you can answer this question by confirming:
 - You'll ensure the business continues to be managed only by AFAs
 - You'll ensure all these AFAs comply with the Code of Professional Conduct, including the minimum standards for continuing professional development.

How do you access external advice when your management team's capabilities don't cover an area of expertise needed by your business?

- Different businesses will need different amounts of external help. If there's a particular person in your business that decides when external help is needed, tell us who this is. For example, if you used people outside your business to help you write client agreements or your licence application, tell us about it. We don't expect more than a couple of sentences of information – just enough to show us that you know when you need outside help and that you'll get it when needed.

Operational infrastructure

In this section we ask questions about your structure, controls and procedures for delivering the service. Key questions include:

New Clients – Please explain or demonstrate how you will meet the minimum standards for bringing clients on board?

- If you're an AFA already running a small DIMS business, then this will give us considerable comfort that you know how to deal with new clients. You'll only need to give us a brief description of your administrative procedures for taking on new clients. For example, what documentation you collect from new clients and what documentation you give them.
- If all new clients are reviewed by an AFA, you don't need to go into detail about how you ensure all staff involved in bringing clients on board are aware of their obligations under the FAA.
- Remember there will be new obligations under the FMC Act that will probably mean you need to update your client agreement(s) and disclosure document(s). We highlight some of these new obligations in the New Clients section of our [licensing application guide](#).

Client objectives and investment authority – Please explain how you will meet the minimum standards relating to client objectives and investment authority?

- If you are an AFA then you won't need to go into detail about how you ensure financial advice is only given by people permitted to do so under the FAA. Instead tell us how you record your client's investment objectives. For example, do you have a standard form you can show us? You'll also need to show us a sample of the types of investment authority you'll ask your clients to sign.

Selecting investments – Please explain how you will meet the minimum standards for selecting investments.

- The answers in this section can be very simple if you always rely on models produced by research providers that you've selected after appropriate consideration of their experience and capability. In this case tell us who you use to provide your models. If you don't always follow the models exactly, or you combine more than one model, tell us what the maximum scope of any changes might be and who takes these decisions. If these decisions are taken by an AFA who you can show has the relevant capability and experience then this should be sufficient to give us comfort that this part of your business will be properly run.

Please describe your procedures for collecting all relevant investment information, including about proposed investments that are exempt from the disclosure obligations in Part 3 of the FMC Act.

- If you don't invest client money in financial products unless you've reviewed the standard disclosure documents required by the Securities Act or the FMC Act, then just tell us this question doesn't apply to you. If you do invest client money in financial products that don't have the usual disclosure documents (such as shares issued under the 'small offers' exemption) tell us how you assess the risks involved. Your answer may be very simple if you always obtain information about the financial products from a research provider that you've selected after appropriate consideration of their experience and capability.

What stress testing do you conduct on your investment strategies?

- You only need to conduct stress testing on your investment strategies to the extent it's relevant to the type of service you're providing. The purpose of stress testing your investment strategies is to understand what would happen in specific uncommon, but possible, circumstances, and to learn from those results.
- For smaller DIMS businesses we wouldn't expect to see fully documented stress testing, but we would expect to see that you've thought about the issues that might arise in adverse market conditions, and whether any further action is appropriate.
- For example, if your investment authority only allows a maximum percentage of your clients' portfolios to be invested in a particular asset class, a sudden market movement might unexpectedly cause you to breach this condition in your investment authority. To minimise this risk you might:
 - Regularly check your investment authorities match the scope of your investment strategy (so there's less likely to be a breach of the investment authorities), and
 - Make sure the risks of market movements have been adequately explained to your clients.

What are your procedures for identifying and dealing with conflicts, or potential conflicts, of interest?

- Describe how you identify, and communicate to your clients, all interests that your management or business has where those interests might influence the provision of the DIMS. For example, do you regularly update a list of material interests and check proposed trades against it?
- Where you follow model portfolios produced by your selected research provider it's less likely a personal interest in one of the products would give rise to an impression of a conflict of interest, but you should consider what situations could give rise to an impression of a conflict based on the nature of your particular business. Tell us how you propose to deal with these situations.
- The standards required of small DIMS businesses in relation to conflicts of interest are similar to the standards required by Code Standard 5.

Investment monitoring and client reports – Please explain how you will meet the minimum standards for investment monitoring and reporting to clients.

- Where you use a wrap platform or third party service provider that provides regular reporting to your clients, this will make it easier for you to meet the minimum standards in this section. You should tell us which service providers you use and what contractual arrangements you have with them. When answering *How often do you report to clients?* you should tell us what type of reporting your clients will receive (from you and/or third parties).
- If your business involves regular service reviews between AFAs and clients, tell us how often you conduct these reviews. This will assure us that you are meeting the minimum standard around ensuring clients keep their investment objectives updated.
- Where financial advice is provided by AFAs, your application doesn't need to include detail about distinguishing between 'incidental financial advice' and other financial advice.

Please describe your systems, procedures and controls for monitoring investment performance against client objectives.

- The level of monitoring performance against client objectives needs to be appropriate for the nature of your business. For example, if you select model portfolios based on their objectives matching your clients' objectives, as long as those objectives don't change it might be sufficient to only review performance against the client's objectives every six or 12 months. Tell us how often you conduct portfolio performance reviews and what factors would lead you to update your investment strategy.

Custody

- In future you will need (one or more) independent custodian(s) to hold client money and property if your clients don't hold it themselves. Your answers to the questions in this section should tell us who you use as your independent custodian(s). If these are well-established companies you'll need to provide less detail to justify why you've chosen them and why you think they are an appropriate entity to hold and safeguard money and property.

Material issues and complaints

- All licensed businesses, including small DIMS businesses, need to be able to monitor for material breaches of licence conditions. In small businesses it will be easier for the directors and senior managers to have direct knowledge of everything that is going on, so in answering these questions you should focus on who has responsibility for this monitoring and how they will keep their knowledge of the requirements up to date. You should also indicate who will be responsible for reporting matters to FMA when necessary.
- If you're an existing DIMS business you should already be a member of a dispute resolution scheme. In addition to responding in a timely fashion to any complaint, we expect DIMS businesses to monitor trends in client complaints, but for a small DIMS business this might just involve setting aside time at appropriate intervals to consider any complaints received and whether any lessons can be learnt.

Staffing and Supervision –How do you meet the minimum standards for staffing and supervision?

- If your DIMS business doesn't have any staff other than the AFAs managing it, and you don't intend to recruit any other staff, then you can answer this question by confirming you'll ensure the business only employs AFAs.
- If your only non-AFA staff are administrative assistants, you don't need to provide any details about how you ensure they have the right skills and experience.

Outsourcing

- Where you use third parties to provide core parts of the DIMS, for example if you use a third party to execute transactions for you, then we want to know who these third parties are, how you have confidence that they can perform the service they're proposing to perform, and what you'll do if they fail to perform to the required standards.
- The level of detail we need on outsource providers will depend upon whether they are already providing the service and how well-established they are. We need enough information to get comfort that the service will be properly performed.
- In all cases you'll need to maintain some level of oversight over the outsource provider so that you'll be aware if they fail to perform their part of the service properly. The level of oversight needed depends on whatever is reasonable for the nature of the service outsourced. For example, you might monitor the performance of someone that executes your trades for you by reconciling the portfolios your clients should be holding with those they actually hold.

Records

- A DIMS business may keep paper files of client records. Alternatively you might use a simple computerised filing system. You don't need to go into extensive detail on your filing procedures – just enough so that we can be confident you'll be able to promptly give us your business and client records if we ask for them.

IT Systems and business continuity

- You only need to provide detail about IT systems to the extent that they are essential to delivery of your service. We only need sufficient information to give us confidence that they are fit for purpose.
- All licensed businesses need to have an up to date business continuity plan. This should address risks such as loss of your building and everything in it by fire or earthquake. How would you get your business back up and running with minimum impact on your clients?

Termination of Service

- This section of the application form asks you to tell us what happens when a DIMS client wants to stop using your service. If your clients already hold all their assets directly the termination of the service shouldn't be too complicated.
- If you've invested in wholesale products, or products that can't be easily liquidated, tell us how you deal with these investments and how you communicate the risks to your clients.



Financial Resources

You must, at all times, have adequate financial resources to effectively perform the licensed service. In this section we ask questions to ensure you meet this requirement. Key questions are outlined below.

What are your net tangible assets?

- We ask for your net tangible assets (NTA) to help us assess whether your business has sufficient financial stability. See our guidance on how to calculate your NTA in the [standard conditions](#).
- If you have an existing DIMS business that has a history of financial stability, this will give us significant comfort. You will still need to provide the following information:
 - The balance date for your financial statements
 - If you have an auditor, who they are and whether there were any issues raised on your last audit opinion (as explained above, FMA will consult on a possible exemption for small DIMS businesses from the FMC Act requirement that all licensed businesses must produce audited financial statements)
 - Your NTA calculation, and if your NTA is negative please explain why this doesn't affect your financial stability
 - Your cash-flow forecast for the next 12 months, showing your forecasted monthly cash balance together with the calculations and assumptions used in the forecast and an explanation of why they are appropriate
 - a brief description of how you manage your cash-flow to ensure you'll have liquid assets to pay any outgoings as they become due.
- We also ask you to provide your most recent audited financial statements. If you have financial statements for the most recent year, but they have not been audited, please still provide them and tick 'n/a' on the audit opinion question. If your financial statements are over eight months old, please also provide your management accounts for the first six months of the current financial year.

Please show you have adequate professional indemnity cover for your business, and explain how you assessed this was adequate?

- You only need a level of professional indemnity cover that is appropriate for the nature of your business. If the nature of your small DIMS business means you have less scope for incurring professional liability to clients, then it will generally be acceptable to have lower insurance coverage than a larger business. In some cases professional indemnity insurance may not provide any benefit to clients, in which case it would be acceptable to have no cover.
- You need to consider what level of professional indemnity insurance is appropriate for your business and provide us with enough information to justify your decision.



Governance

You must have a high-level body responsible for overseeing compliance with your obligations as a licensee – and ensuring appropriate risk management. In this section we ask for details of your governance structure. Key questions include:

Who is your oversight body?

- For most small DIMS businesses, the oversight body will be the board of directors, a sole director, or the single person if the applicant is an individual.
- We need you to tell us how often this body meets (or if an individual, how often they consider oversight issues) and what matters they consider. If all the members of your oversight body are AFAs and directly involved in the day-to-day delivery of the DIMS, then you won't need to provide much detail on how they will access information concerning the business. You just need to provide enough information to give us comfort that they have proper oversight over the whole business.

How do you foster a good compliance culture – and ensure compliance with your obligations as a licensee, fair treatment of clients and effective risk management?

- Where you don't have staff other than AFAs involved in the delivery of the DIMS then you can answer this question by confirming:
 - You'll ensure the business continues to be managed only by AFAs
 - You'll ensure all these AFAs comply with the Code of Professional Conduct.
- Where you have staff other than AFAs, you need to give us enough information to assure us that you are encouraging a professional standard of care, for example you might tell us about the training you give them when they first start and the way you conduct performance reviews that encourage a good compliance culture.

What are your arrangements for testing compliance with policies, procedures and controls?

- This question is about how you test the effectiveness of your compliance controls – it isn't asking for further information about the compliance controls themselves.
 - Smaller business with relatively simple compliance controls will need less testing than a larger business with more complex controls.
 - Where practical, your compliance testing should be done independently of those responsible for undertaking, or directly managing, those functions.

- In a very small business it may not always be practical for this testing to be done by someone who is completely independent of the function. For example, in very small DIMS businesses, compliance testing may be achieved by AFAs peer-reviewing each other's work.
- In a single-person business there will still need to be some level of testing of your compliance controls – the level of testing depends on what is reasonable for the nature of the business and for your key risks. You may outsource this task if you don't have the scale or structure to employ someone independent for the role.



Final steps

See the 'Final Steps' section of our [licensing application guide](#) for details of the self-certification that needs to accompany your licence application. This section also explains how to pay your licence fee.

If you have any questions on the licensing procedure please refer to the [licensing section of our website](#) or call us on 0800 434 567.