

# BRAMWELL BROWN LTD

## INVESTMENT ADVISERS – BROKERS

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### **Bramwell Brown Limited – Newsletter – July 2020**

#### **Markets**

The Covid 19 pandemic continues to dominate the news around financial markets, with volatility a key feature. With what appears to be a second wave of cases occurring globally, it's difficult to see any stability returning to markets in the short-term. However, my theory that we are yet to see the worst for the NZX may be proved wrong for a number of reasons:

- The sheer volume of stimulus being pumped into the economy by the Government.
- The continuing decline in interest rates. As interest rates fall, other asset classes tend to increase in value. Most commentators agree that interest rates will remain low for a long period.
- The large amount of cash looking for a home. According to analysts I've spoken to there is an incredible amount of money sitting on the side-lines waiting to be invested. Current volatility means we are occasionally seeing share markets decline by 2% to 3% in a day, but falls greater than that tend to be averted by investors with cash prepared to enter the market.

#### **Official Cash Rate**

The Reserve Bank's Monetary Policy Committee met again on June 24<sup>th</sup>. Here is part of their commentary. Don't expect to see an increase in interest rates any time soon.

“The Reserve Bank's Monetary Policy Committee agreed to continue with the Large Scale Asset Purchase (LSAP) programme aimed at keeping interest rates low for the foreseeable future. The assets included are New Zealand Government Bonds, Local Government Funding Agency Bonds, and NZ Government Inflation-Indexed Bonds. The Official Cash Rate (OCR) is being held at 0.25 percent in accordance with the guidance issued on 16 March. The severe global economic disruption caused by the Covid 19 pandemic is persisting, leading to lower economic activity, employment, and inflation abroad and in New Zealand. The appreciation of New Zealand's exchange rate has placed further pressure on export earnings. The main support for the economy in this environment is appropriately being provided through increased fiscal spending. However, monetary policy will continue to provide significant support.”

## **Financial Adviser Regulation**

Financial advisers are again the subject of new government regulations. Since I bought Bramwell Brown twelve years ago we have consistently had to contend with ongoing changes to rules around financial advice. The majority of changes have been warranted, and are designed to protect consumers. Leading up to the Global Financial Crisis, some financial advisers and insurance agents were selling finance company debentures to clients whose financial situation they knew absolutely nothing about. Clients could walk into an adviser's office with a lump-sum, and despite the adviser not knowing the client had credit card debt and low tolerance for risk, the funds could be invested in the share market the same day. Those days are thankfully gone, with advisers now expected to have a full understanding of their clients' situation before giving advice.

Disclosure obligations were introduced so that clients could better assess the adviser they were considering dealing with. Minimum standards of competency were established, together with a requirement to undertake continuing professional development. Adviser designations including Qualifying Financial Entities, Authorised Financial Advisers and Registered Financial Advisers were brought in. Advisers had to be registered on the Financial Service Providers Register, and had to enrol in a dispute resolution scheme. The Anti Money Laundering and Countering Financing of Terrorism Act was introduced in 2009, which added another layer of compliance to financial advice firms. This legislation has been extended more recently to lawyers, accountants, and real estate agents, and has become a source of frustration for many. Various annual returns are now required, and our Anti Money Laundering and Countering Financing of Terrorism risk assessment and programme must be audited every two years. All of these regulatory changes are time-consuming and expensive, particularly for the many sole-adviser practices in New Zealand. And now the landscape is about to change again.

The Financial Services Legislation Amendment Act (FSLAA) is a major legislation change that will affect anyone that gives financial advice in New Zealand. There are four key elements to the FSLAA changes being introduced by the New Zealand Government: Code of Conduct, Disclosure, Licensing, and Fees & Levies. The changes are designed to improve financial advice for consumers across New Zealand.

### Conduct

The Code of Professional Conduct for Financial Advice Services is a new iteration of the Code of Professional Conduct for Authorised Financial Advisers. It is not as prescriptive as the old code and covers the following areas:

- Treat clients fairly
- Act with integrity

- Give financial advice that is suitable
- Ensure that the client understands the financial advice
- Protect client information
- Have general knowledge, competence and skill
- Have particular competence, knowledge and skill for designing an investment plan
- Have particular competence, knowledge and skill for product advice
- Keep competence, knowledge and skill up to date

### Disclosure

The new disclosure regulations will require specified information to be disclosed:

- Information is to be made publicly available on a website (if the provider has one), or on request. The information to be disclosed includes the provider's license status, the types of products they advise on, the fees that may be payable, and commissions or conflicts of interest that may apply.
- Information is to be given to the client when the scope of advice to be given becomes known. This information is disclosed to help clients decide whether to seek, obtain or act on advice from a particular provider. The information to be disclosed includes material limitations on the scope of advice, disciplinary history of the person giving advice, and the fees, commissions or conflicts of interest that may apply.
- Information to be given to the client when the advice is given. This information is disclosed to help clients decide whether to act on the advice given. The information to be disclosed includes any changes from the information given in the initial disclosure, along with confirmation of fees payable and applicable commissions and conflicts of interest, and the legal duties of the provider.
- Information to be given if a complaint is received. This includes information about the provider's internal complaints handling process and how to access its external dispute resolution scheme.

### Licensing

The Authorised Financial Adviser and Registered Financial Adviser designations will be removed. Instead, businesses will apply for a Financial Advice Provider (FAP) license, and the business will engage financial advisers. Transitional licensing opened in November, and Bramwell Brown was issued a transitional license in January. Full licensing was due to open on June 29<sup>th</sup>, however has been delayed until March 2021 due to the Covid 19 pandemic. The Financial Markets Authority has recently issued a consultation document on its proposed standard conditions for full licensing. Their proposals include:

- Record Keeping – a record of all regulated financial advice given to clients must be kept, and must be made available to the regulator on request.

- Internal Complaints Process – all FAP's must have an internal process for resolving client complaints.
- Regulatory Returns – FAP's will be required to provide the regulator with information on a regular basis in order to ensure compliance with their license.
- Outsourcing – FAP's must ensure that any system or process that is outsourced continues to meet their license obligations at all times.
- Professional Indemnity Insurance – FAP's must maintain a level of PI insurance that is adequate for the provision of their financial advice service.
- Business Continuity and Technology Systems – FAP's must have and maintain a business continuity plan that is appropriate for the scale and scope of their financial advice service.
- Ongoing Eligibility – FAP's must at all times meet the eligibility requirements of their license.
- Notification of Material Changes – any material change in the nature or manner in which a financial advice service is provided must be notified to the regulator in writing within ten working days.

Not all of these conditions are particularly onerous, with most already required under the current regime. The one that causes me the most anxiety is the business continuity condition, not because I disagree with the need to comply, but because of what's involved putting the required systems in place. There's no question that sole adviser practices are susceptible to major disruption. If I were hit by a train tomorrow, the business ceases to operate, which poses a very real risk for clients. The subsequent unwinding of business and advisory relationships, client agreements, registry accounts and bank accounts would be time consuming and far from simple. It's something that I've been considering for some time now, and the new regulations will provide me with the impetus to put measures in place to ensure an orderly process if the worst were to happen. This is something I will be discussing individually with clients throughout the remainder of this year.

### Fees and Levies

Thankfully the one-off and ongoing fees have been kept at a level that won't discourage small businesses.

### **Portfolio Administration**

Are you having trouble with the share registries sending your financial information via email rather than post? Are you spending hours searching for financial information for your accountant at the end of each financial year? If so Bramwell Brown can help. We offer a portfolio administration service where we handle all the mail associated with your portfolio and liaise with your accountant at the end of each year. Call the office if you would like to discuss this service.

**DISCLOSURE STATEMENT AVAILABLE ON REQUEST AND FREE OF CHARGE**