



Impact Summary: Financial advice disclosure regulations

Section 1: General information

Purpose

The Ministry of Business, Innovation and Employment (**MBIE**) is solely responsible for the analysis and advice set out in this Regulatory Impact Summary, except as otherwise explicitly indicated. This analysis and advice has been produced for the purpose of informing final decisions to proceed with a policy change to be taken by Cabinet.

Key Limitations or Constraints on Analysis

The Financial Services Legislation Amendment Bill (**the Bill**) is currently being considered by Parliament and is awaiting the Committee of the Whole House stage. Once it comes into force it will introduce a new regulatory regime for the provision of financial advice in New Zealand.

This RIS does not include analysis for every aspect of the proposed disclosure requirements, but focuses on the analysis of options for the overall design of the requirements. This is the key policy consideration and will have the most significant impact on both the financial advice sector and consumers.

The analysis in this RIS is based on extensive consultation with consumers and the financial advice sector, as well as desk-based research. The analysis does not include monetised impacts, as many of the impacts identified through consultation were based on anecdotal evidence and quantitative evidence was not provided. Given the extent of the changes to the regulation of financial advice, the wide scope of the new regulatory regime, and the varying levels and types of financial advice that consumers can receive, we focused on qualitative analysis.

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Section 2: Problem definition and objectives

2.1 What is the policy problem or opportunity?

New regulatory regime for financial advice

In 2016 the government agreed to introduce a new regulatory regime for financial advice¹ which is to be given effect by the Bill. This follows a statutory review of the Financial Advisers Act 2008 (**FA Act**) completed by MBIE in 2016. The FA Act, and the new regulatory regime, uses a relatively broad definition of ‘financial advice’ which covers a range of activities. In short, it covers a recommendation or opinion to acquire (or not) financial products, such as insurance, mortgages and investment products. This includes a simple recommendation by a bank teller about which credit card to acquire, to a comprehensive investment plan from an investment adviser. It is likely that many adult New Zealanders would have had some experience with financial advice at some point in their lives. For example, based on information provided to the FMA, we estimate that the approximately 1,800 current Authorised Financial Advisers (**AFAs**) have in excess of 250,000 clients.²

During the review of the FA Act MBIE identified a range of issues with the existing regulatory regime which were preventing consumers from accessing high quality financial advice. For example, the current regulatory regime is overly complex, and provides varying levels of consumer protections that apply for different types of financial advice, financial advisers and categories of financial product.

The Bill aims to improve access to quality financial advice by removing this complexity and introducing universal standards of conduct and client care that apply to anyone who gives financial advice to retail clients.³ This includes a duty to give priority to a client’s interests, to ensure a client understands the nature and scope of the advice that they receive, and a duty to make available prescribed information.

The Bill removes the distinctions between different types of advisers. Instead, anyone who gives

¹ Copies of previous Cabinet papers and Regulatory Impact Statements can be found at: <https://www.mbie.govt.nz/business-and-employment/business/financial-markets-regulation/regulation-of-financial-advice/development-of-the-financial-services-legislation-amendment-bill/2016-cabinet-decisions-on-new-regulatory-financial-advice-regime/>

² Authorised Financial Advisers information returns – 2017, FMA
<https://public.tableau.com/profile/fmaadmin#!/vizhome/AFAINformationReturns2017/AFAReturnsStory>

³ The FA Act and the Bill distinguish between ‘retail’ clients who would be considered everyday consumers, and ‘wholesale’ clients who are generally considered to be more sophisticated or knowledgeable and may not benefit from the same level of consumer protections.

financial advice to retail clients will need to operate under a licensed 'financial advice provider'. These providers can engage individual financial advisers or nominated representatives to give financial advice, or can give advice on their own account (e.g. through a digital advice platform).

It is necessary for regulations to be made to set the disclosure requirements that will apply in the new regulatory regime. There are two somewhat distinct problems that these proposals are seeking to address; the information asymmetries that exist between consumers and those who can give financial advice, and the ineffectiveness of the current disclosure requirements.

Consumers have insufficient information

Many New Zealanders rely on the expertise of individuals or businesses who can give financial advice when making financial decisions as financial products are often complicated and not readily understood. However, consumers often have inadequate information to help them find the advice they need or determine how much trust to place in those giving advice. 84 per cent of respondents to a consumer survey said that people who want financial advice do not know how to find the right type of adviser for them.⁴ This lack of information can result in consumers making poor decisions, such as following financial advice that is not in their interests or does not meet their needs.

Disclosure is used to overcome these information asymmetries by providing consumers with information about the firms and individuals who give financial advice. It contributes to the primary objective of the new regulatory regime, by allowing consumers to make confident and informed financial decisions.

While it is not practical for consumers to receive all information held by financial advisers, there are some important pieces of information that can help consumers choose a financial advice provider, and decide whether to follow their financial advice. For example, consumers may benefit from receiving information about:⁵

- the type of financial advice that can be provided, and whether there are any limitations or constraints on that advice
- the commissions, incentives or other conflicts of interest which may impact the advice that can be given
- the individual or firm which may indicate whether they are qualified to give financial advice
- any disciplinary history of the adviser
- the fees that may be charged by those giving financial advice
- the complaints handling process

Current disclosure requirements are ineffective

The FA Act and the Financial Advisers (Disclosure) Regulations 2010 set out the disclosure obligations of financial advisers and Qualifying Financial Entities (**QFEs**) (e.g. banks, insurers). All financial advisers and QFEs are required to disclose certain information about the nature of services they provide prior to providing a personalised service to a retail client. AFAs (e.g. investment advisers) are also required to disclose more detailed information on the nature of services they provide, indicate how many providers' products they are able to advise on, detail any conflicts of interest and give

⁴Issues Paper: Summary of Consumer Brochure responses, MBIE, 2015 <https://www.mbie.govt.nz/dmsdocument/958-summary-of-consumer-brochure-responses-pdf>

⁵Options Paper: Consumer Questionnaire Summary, MBIE, 2016 <https://www.mbie.govt.nz/dmsdocument/955-consumer-questionnaire-summary-pdf>

relevant information regarding their competency and conduct obligations. Registered Financial Advisers (**RFAs**) (e.g. mortgage advisers) are subject to more limited disclosure requirements.⁶

During the review of the FA Act and the development of the proposed disclosure requirements we received anecdotal evidence which helped us identify several issues with the current disclosure requirements:

- The different disclosure requirements can lead to confusion, resulting in consumers making incorrect assumptions about the services an adviser can provide, or the factors that might influence their advice. For example, a consumer may believe that they are receiving ‘independent’ advice where an adviser finds the product that best meets the consumer’s needs, when the adviser is actually limited to considering products from only one or two providers.
- There is a lack of transparency of some factors that can influence financial advice, including commissions and other incentives, as well as the limitations of the advice (e.g. the number of providers whose products the individual or firm can advise on). 79 per cent of respondents to a consumer survey said that commissions and other conflicts of interest have an impact on their level of trust and confidence in financial advice, and 87 per cent said that disclosure of these commissions would be useful.⁷ Despite this, only AFAs are currently required to disclose this information.
- Disclosure statements provided by financial advisers are often difficult to interpret as they can be long and use legalistic terminology and jargon. Further, the information is often provided too early, or too late, in the advice process, and is not specific to the client’s circumstances, preventing consumers from making informed decisions.

Poor financial advice can result in considerable consumer harm. For example, replacing a life insurance policy can result in a consumer losing coverage for pre-existing conditions, while being in an unsuitable KiwiSaver fund could significantly impact on the amount saved for retirement. Ensuring that consumers receive adequate disclosure is an important aspect of the new regulatory regime as it helps them to find financial advice that meets their needs, and decide whether they should follow the advice they have received.

Counterfactual

The Bill will repeal the FA Act and Regulations, and incorporate the regulation of financial advice into the Financial Markets Conduct Act 2013 (**FMC Act**). If disclosure regulations are not made, businesses may choose not to disclose certain information to consumers, and there is a risk that consumers will not have the information that they need to make informed decisions.

However, rather than assessing our options against this counterfactual, we have assessed them against the status quo (i.e. the disclosure requirements under the FA Act). This allowed us to assess the marginal impact of the options.

⁶ The Bill removes the designations used in the current regime, as discussed further in section 2.3.

⁷ Issues Paper: Summary of Consumer Brochure responses, MBIE, 2015 <https://www.mbie.govt.nz/dmsdocument/958-summary-of-consumer-brochure-responses-pdf>

2.2 Who is affected and how?

The proposed regulations will require businesses and individuals who give regulated financial advice to retail clients to disclose information about themselves and the services they provide.

This will impact a range of businesses including small advice firms, broking firms, banks, insurers, investment planners and other financial service providers. Under the new regime, businesses will be able to structure themselves in a range of different ways, and consumers will be able to access financial advice in a variety of ways (e.g. via a digital-advice platform).

It is estimated that the majority of current advisers will continue to provide regulated financial advice in the new regime. The table below provides approximate numbers of the current financial advice sector, and estimates of the number of licensees and individuals in the new regime.

Current regime (approximately)	
Authorised financial advisers	1,800 individuals
Registered financial advisers	6,400 individuals
Qualifying financial entities	57 firms employing 21,500 individuals
New regime (estimates)	
Licensed financial advice providers	2,240 firms
Financial advisers	8,000 individuals
Nominated representatives	21,500 individuals

2.3 Are there any constraints on the scope for decision making?

Constraints

The regulation making power in the Bill is broad and provides for regulations to set the information that must be provided, the manner and timing in which it must be provided, and allows for information to be made available to certain people, or to the public.

Interdependencies

The Bill includes a number of duties that apply to anyone who gives regulated financial advice to retail clients, including a duty to comply with a Code of Conduct. The Code of Conduct is currently being developed by a Code Working Group appointed by the Minister of Commerce and Consumer Affairs in August 2017. The Code may include standards that relate to the management of a conflict of interest or how the industry should communicate with clients. We have consulted the Code Working Group throughout the development of the preferred option to ensure the disclosure requirements are complementary to the relevant standard in the Code of Conduct.

Section 3: Options identification

3.1 What options have been considered?

Policy objectives

The primary objective of the new regulatory regime is to promote the confident and informed participation of businesses, investors and consumers in financial markets. Consistent with this, there

are four policy objectives that the proposed disclosure requirements are seeking to achieve.

Consumers receive the right information at the right time

Consumers should receive information when it is relevant and meaningful to their current situation as this will assist them in making an informed financial decision.

Consumers receive accessible information

Disclosure that is succinct, simple and avoids jargon or legalistic terminology is more likely to be understood by consumers. To ensure that consumers are able to interpret the information provided, it should be clear, concise and presented in such a way that it is readily understood.

Consumers receive effective disclosure, regardless of the channel used

To ensure that consumers receive effective disclosure, regardless of how they choose to access advice (e.g. in person or online), the regulations should work in different situations and not prevent innovative ways of providing the information.

Consumers receive the information they need, without imposing undue compliance costs

Consumers should be able to access and interpret the information they need to make informed decisions about whether to seek or follow advice from a particular individual or business. However, the requirements must not impose undue compliance costs on the industry.

Criteria used to assess the options

We have assessed the options against three main criteria

Effectiveness

The regulations should enable disclosure that is timely, accessible and effective in different advice situations.

Proportionality

The regulations should avoid imposing costs on the industry that are disproportionate to the benefits to consumers.

Certainty

The regulations should aim to provide the industry with as much certainty as possible.

Options

Under the options discussed below, anyone who gives financial advice would be required to disclose information which falls under three broad categories:

- **Information that gives consumers confidence:** details of the licence, the conduct and client care duties, and information about the complaints process and dispute resolution membership.
- **Information about the financial advice service:** details of the nature and scope of advice and whether there are any limitations on the advice, details of the fees and other costs to the client, details of commissions and incentives, and any other conflicts of interests or affiliations.

- **Information about the individual giving advice:** details of relevant recent disciplinary or criminal history, and details of any recent bankruptcy or insolvency proceedings.

Option 1 - Prescribed templates to be provided before giving financial advice

Under this option, the regulations would include templates which could be completed by individuals and firms giving financial advice. This is a similar approach used in the current regulatory regime, and similar to the disclosure requirements for financial products in the FMC Act.

This option would provide certainty to the industry and regulators but can lead to ineffective disclosure as it can result in long and overly complex disclosure statements. For example, the Financial Conduct Authority in the United Kingdom has taken steps to improve their disclosure regime after finding that the prescriptive approach used led to a ‘tick-box’ approach where the emphasis was placed on providing the necessary disclosures, rather than informing consumers.⁸

Option 2 – Prescribed information at prescribed times

Under this option, the regulations would prescribe the information that needs to be disclosed at prescribed points in the financial advice process, but provide flexibility in terms of precisely how this information is given to consumers. The regulations would require more general information to be provided during a client’s early interactions with an adviser, followed by more detailed information that is relevant to the client as they progress through the advice process.

This option would improve the effectiveness of disclosure by giving consumers the information at the right time to make an informed decision. Unlike option 1, this would create some uncertainty for the industry which would be required to develop disclosures that comply with the requirements.

However, this can be mitigated by consulting on the draft regulations to ensure they provide as much certainty as possible while retaining some flexibility.

Option 3 – Publicly available information

Option 3 is not mutually exclusive to options 1 and 2, and would require information to be made publicly available (i.e. on a website), or made available on the request of a consumer. This would impose some compliance costs on the industry as businesses would need to update existing websites. However, this would allow consumers to access important information about those who can give financial advice reducing search costs for consumers seeking financial advice.

3.2 Which of these options is the proposed approach?

Preferred option

Our preferred option is a combination of options 2 and 3 whereby the regulations would require prescribed information to be disclosed to retail clients as follows:

- General information about the financial advice service and the financial advice provider to be made publicly available or made available on the request of a client
- More detailed information, relevant to the client, by the point at which the nature and scope of the financial advice is known
- Changes to previously disclosed information and any information not yet disclosed before

⁸ Smarter Consumer Communications: Removing ineffective disclosure requirements in our Handbook, FCA, 2016
<https://www.fca.org.uk/publication/policy/ps16-23.pdf>

giving financial advice (i.e. before making a recommendation or opinion to acquire or dispose of (or not) a financial advice product)

- Details of the complaints handling process when a complaint is received.

How will our preferred option address the problems?

Our preferred option will help to overcome the information asymmetries by providing important information to retail clients. It will improve the effectiveness of disclosure as consumers will be able to access information that is relevant to their particular situation, at critical decision points during the advice process. Further, requiring more detailed information to be disclosed during the advice process should reduce the risk of consumers receiving excessive amounts of information that is difficult to interpret.

Our preferred option will give the industry flexibility for how it provides information to consumers, recognising that those giving advice will understand when information would be relevant and helpful to consumers. This will enable the effective disclosure of information regardless of how the client chooses to receive advice, without imposing undue compliance costs on the industry.

Effectiveness

Our preferred option will improve the transparency of the important factors that consumers need to know before they access financial advice. It will ensure that consumers receive information that is relevant to them and not overload them with information at the beginning of the advice process when it is too early, or immediately before receiving financial advice when it is too late. Making certain information publicly available will also ensure that consumers are able to access and compare information before choosing a financial advice provider.

Our preferred option will allow consumers to access effective disclosure when getting advice through different channels (e.g. via a digital-advice platform) by enabling businesses to develop disclosures that meet their needs and those of their clients.

We do not consider that option 1 would lead to effective disclosure requirements. Option 1 would require prescribed statements to be provided to consumers, and would exacerbate the problems with the current requirements.

Proportionality

Our preferred option aims to ensure that consumers are able to access the information that they need without imposing undue compliance costs on the industry. For example, we propose that the information made publicly available only needs to be general in nature, thus not requiring businesses to publish detailed disclosures that may not be accessed by consumers. Our preferred option will also allow for businesses to tailor disclosures for different advice situations (e.g. relatively straight-forward advice) while ensuring that consumers receive the information that they need.

As detailed above, option 1 is likely lead to an ineffective disclosure regime. This would lead to undue compliance costs for the industry which would be producing disclosure which may not benefit to consumers. In particular, requiring extensive disclosures to be provided in all advice situations may impose disproportionate costs on the industry when providing relatively straight-forward advice.

Certainty

Our preferred option will provide less certainty to the industry than the current approach under the FA Act. However, the additional compliance costs associated with this uncertainty are warranted, and our preferred option meets our other criteria. The regulations will be drafted to provide as much

certainty to the industry as possible. Further, if the industry raises concerns after operating in the new regime, or if the FMA becomes aware of particular trends, guidance may be issued to assist the industry in meeting the requirements.

While option 1 would provide more certainty to the industry by providing those who give financial advice with prescribed templates that need to be completed it fails to meet our other criteria.

Why is the preferred option better than the other options?

Overall we consider that our preferred option is the most likely to meet the overall objective of the regime to promote the confident and informed participation of businesses, investors and consumers in financial markets. It will improve the effectiveness of disclosure and will allow businesses to design disclosures that are proportionate to the services that they provide.

While option 1 would provide certainty to the industry, it may fail to meet our other criteria by reducing the effectiveness of disclosure and would impose disproportionate costs on the industry. Ultimately, this may lead to a ‘tick-box’ approach to disclosure as has been found in other jurisdictions. It may also reduce the effectiveness of disclosure by generating long and overly-complicated disclosure statements that include information that is not relevant to the client’s circumstances.

Section 4: Impact Analysis (Proposed approach)

4.1 Summary table of costs and benefits

Affected parties <i>(identify)</i>	Comment: nature of cost or benefit (eg ongoing, one-off), evidence and assumption (eg compliance rates), risks	Impact <i>\$m present value, for monetised impacts; high, medium or low for non-monetised impacts</i>
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Additional costs of proposed approach, compared to taking no action

Financial advice providers	<p>Each of the estimated 2,240 licensed financial advice providers will need to put in place a disclosure process that complies with the regulations, and familiarise individuals that give advice on their behalf with the process.</p> <p>Given the wide range of businesses that are likely to operate in the new regime, and the varying types of advice that can be provided, the costs will vary significantly across the sector. We have been unable to quantify the costs, but have undertaken qualitative analysis of the marginal costs likely to be imposed on the different types of advisers in the current regime.</p> <p>Current AFAs will incur the smallest cost of current providers as they are required to disclose information that is broadly similar to our preferred option. Current RFAs and QFEs will incur more substantive costs as they are only</p>	Medium
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	<p>required to provide limited disclosure statements.</p> <p>The majority of these costs will be one-off costs in updating current disclosures and other material.</p> <p>A lack of prescriptive statements will impose additional costs on the industry which will be required to develop compliant disclosures.</p> <p>Requiring information to be disclosed at certain points in the process may impose additional costs on the industry in order to identify those points (rather than relying entirely on up-front disclosures as is currently permitted). However, we understand that our proposed approach should be able to be incorporated into many advice processes, and is similar to the approach taken by some advisers in the current regime.</p>	
Financial Markets Authority	<p>Our preferred option will impose additional ongoing costs on the FMA, compared to the status quo. The lack of prescribed disclosure statements may make it more resource intensive to monitor and enforce the provision of disclosure.</p> <p>We have not quantified this cost on the FMA as it is not yet undertaken work to assess the impact of the new financial advice regime (including these disclosure regulations) on its resources.</p>	Medium
Consumers	<p>There is a small risk that the proposed approach will make it more difficult for consumers to compare different financial advisers (as opposed to under the current regime which requires each type of financial adviser to complete the relevant template). However, our preferred option will allow consumers to receive the same information, regardless of how they choose to access advice. Further, it is unclear how often consumers compare disclosure statements from different advisers.</p>	Low
Total monetised cost		Unknown
Non-monetised costs		Medium

Expected benefits of proposed approach, compared to taking no action

Financial advice providers	<p>Our preferred option will provide benefits to financial advice providers. It will allow them to design disclosures that fit within their existing processes, and are tailored to the type of service that they provide.</p>	Low
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Consumers	<p>We have not quantified the benefits to consumers, but have completed qualitative analysis based on evidence provided through surveys, workshops, and consumer testing.</p> <p>Improved disclosure will improve consumer confidence in the financial advice sector. Consumers will receive significant benefits when compared to the status quo, and will be better equipped to make informed decisions.</p> <p>Our preferred option will allow them to receive the same information, regardless of how they choose to access advice or who they choose to access advice from.</p> <p>The information provided will be relevant to their situation, provided in a way that is readily understood, and at a time when it is necessary to make an informed decision. This will reduce the likelihood of consumers receiving vast amounts of information that is hard to interpret.</p> <p>Requiring information to be available online will reduce search costs for consumers.</p>	High
Total monetised benefit		Unknown
Non-monetised benefits		Medium-high

4.2 What other impacts is this approach likely to have?

Businesses may take a risk-averse approach and provide detailed disclosure that could become overly complex, thereby reducing the effectiveness of disclosure. This is a risk with many disclosure regimes and will be mitigated by:

- requiring information disclosure to use plain language, and to be clear, concise and effective
- working with the industry to ensure that the regulations are workable in practice
- including examples in the regulations to illustrate how the requirements might be met.

Section 5: Stakeholder views

5.1 What do stakeholders think about the problem and the proposed solution?

MBIE undertook extensive consultation during the review of the FA Act and the development of the new regulatory regime.⁹ In addition, MBIE has consulted with the industry and consumers in the development of the proposed disclosure requirements. This has included:

- Several workshops with individuals and firms who provide advice on a range of financial products including mortgages, insurance and investments. This included consultation with

⁹ Consultation papers and submissions can be found at: <https://www.mbie.govt.nz/business-and-employment/business/financial-markets-regulation/regulation-of-financial-advice/development-of-the-financial-services-legislation-amendment-bill/>

individuals from a range of businesses, including small advice firms, broking firms and insurers and banks.

- Consumer surveys, workshops, and two rounds of consumer testing.
- Formal consultation on a discussion document in April 2018 outlining our proposals on which 70 submissions were received.¹⁰

Industry and consumers supportive of the proposed requirements

Disclosure requirements that currently apply to the financial advice industry vary considerably and the preferred option will require many businesses to disclose information that they are not currently required to. This is broad support from the industry of the proposals, but there were a few areas where people disagreed. For example:

- Concerns were raised by some financial advisers and some representatives from banks about disclosing commissions and incentives. Recent work completed by the FMA¹¹ has found that commissions and other sales incentives can create conflicts of interest that can result in consumer harm. Disclosing information about these potential conflicts will improve transparency and allow consumers to determine whether to follow the advice they receive.
- Some favoured a more prescriptive approach in which the regulations would provide templates to be given to a consumer at the beginning of their interaction with an adviser. This option has been considered above.

The consumer testing commissioned by MBIE indicated that consumers favour our preferred option. In particular, the testing found that our preferred option will mitigate the risks of consumers receiving information too early in the process (and forgetting or disregarding it) or too late in the process (and feeling 'locked-in' with the advice provider). We also heard that it should remove the need to have every detail provided in a single document at the outset of the advice process, helping consumers to access the information they need in a way that works for them.

Section 6: Implementation and operation

6.1 How will the new arrangements be given effect?

The proposed regulations will be made under the FMC Act shortly after the Bill receives Royal assent. The new financial advice regime comes into force by Order In Council and it is intended that businesses will have approximately nine months to transition to the new regulatory regime after the Bill has passed and the detailed requirements have been finalised (including the disclosure regulations). At this stage, it is expected the new regime will begin in Q2 2020.

MBIE, the FMA and the Code Working Group will work together to help educate industry and consumers about the new financial advice regime (including the proposed disclosure regulations). We have a joint communications plan to support a joined-up communications approach and are taking part in industry presentations across New Zealand in March 2019 aimed at helping industry to prepare for the new regime. We will be working with the FMA and industry associations to produce material for the market and also working with other agencies such as the Commission for

¹⁰ Discussion paper: Disclosure requirements in the new financial advice regime, MBIE, 2018, <https://www.mbie.govt.nz/have-your-say/consultation-on-disclosure-requirements/>

¹¹ Bank Conduct and Culture, FMA and Reserve Bank of New Zealand, 2018, <https://fma.govt.nz/assets/Reports/versions/11883/Bank-Conduct-and-Culture-Review.1.pdf> and Life Insurer Conduct and Culture, 2019, <https://fma.govt.nz/assets/Reports/Life-Insurer-Conduct-and-Culture-2019.pdf>

Financial Capability to improve consumer awareness of the new regime.

Disclosure is just one aspect that industry needs to prepare for in the new regime. Amongst other things, they will also need to familiarise themselves with a Code of Conduct, potentially undertake further training, and consider how they will structure their business in the new regime. There is a risk that some businesses will not be properly prepared for new disclosure requirements. We are seeking to mitigate this risk by emphasising that industry should prepare early, and publicising as much information about likely disclosure requirements (including an exposure draft of regulations) as early as possible to give the industry sufficient time to prepare for the new regime.

The FMA is responsible for the ongoing operation and enforcement of the new regulatory regime. They have been consulted throughout the development of the preferred option and are supportive of it. The new financial advice regime as a whole is likely to have financial implications for the FMA, but the extent of this impact is currently unclear. However, the FMA has sufficient cash reserves to oversee the initial implementation of the new regime and a review of the FMA's funding requirements will be completed once more information about the FMA's costs of operating in the new regime is known.

Section 7: Monitoring, evaluation and review

7.1 How will the impact of the new arrangements be monitored?

The impact of the proposals in this RIS will be monitored by MBIE and the FMA on an ongoing basis as part of MBIE's regulatory stewardship obligations.

We will work with MBIE's Research and Evaluation team during 2019 to identify monitoring indicators and collect baseline data before the new regime is expected to commence in Q2 2020. The monitoring programme will check that the new regime is achieving the objective of promoting access to quality financial advice as well as performance of specific objectives, such as more effective disclosure. Further consumer testing will be completed after the new regime is in place to check that the disclosure requirements are providing consumers with helpful information.

Moreover, MBIE's role as a member of the New Zealand Council of Financial Regulators (COFR) means that impacts of the proposed changes will be monitored to ensure that they result in a well-functioning financial markets regime. COFR has produced a Financial Markets Regulatory Charter which aims to promote active management of the financial markets regulatory system, including by reinforcing shared ownership for the system among those with policy and regulatory functions. Other members of COFR (the FMA, Reserve Bank of New Zealand and the Treasury) will continue to provide ongoing support to MBIE in monitoring the impact of the proposals in this RIS.

7.2 When and how will the new arrangements be reviewed?

Any reviews of the new disclosure regime will take place alongside a broader review of the implementation of the new regime if issues arise (including as part of the monitoring programme referred to in 7.1 above).

The FMA undertakes periodic thematic reviews of the financial markets sector, which may also include a review of the effectiveness of the new disclosure requirements.

If we hear issues from the sector about the new disclosure requirements we will undertake a review and consider if any changes to the regulations are required.