

Managed investment scheme (MIS) manager

PART B3:

Your guide to applying for a market service licence under the Financial Markets Conduct Act

All the questions you'll be asked, the minimum standards you'll need to show you meet, and information about the details and supporting documents you'll need to provide.

Please make sure you read this guide in conjunction with our 'Part A' licensing guide.

NOTE: It is important to complete the application form using Adobe Reader only. This is due to other reader providers not being compatible with Adobe and the answers may not save permanently in the form.

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PART B3: How do I apply for a **MIS manager** licence?

To apply for a market service licence you need to read both PART A and PART B of our licensing application guide.

Email licensing@fma.govt.nz for a copy of the application form.

PART A: Gives general guidance about the licensing process. Click the link to [PART A](#).

PART B (this document): Gives specific information for the type of licence you're applying for.

It outlines the minimum standards for the licence, sets out all the questions you'll be asked in the application form, in the same order, and gives guidance on what you might need to tell us and the types of supporting documents you'll need to provide. Your application can only be submitted via email using the Adobe editable pdf and you'll need to attach your supporting documents.

Please note these guides may be updated from time to time, so please check our website for the latest version before you apply.

Important notes: All answers and documents must be supplied before your application can be accepted.

This guidance is of a general nature and does NOT replace your own careful reading of the requirements in the Financial Markets Conduct Act 2013 (the 'FMC Act'), applicable regulations, legal or other expert advice on your application. Applicable regulations include the Financial Markets Conduct Regulations 2014 (the 'Regulations') and any other regulations that are made pursuant to Part 9 of the FMC Act (together the 'Applicable Regulations').

Any questions?

To begin the application process click [here](#). If you have any questions please call us on 0800 434 566. We're open for calls from 8.30am to 5pm, Monday to Friday. Overseas callers can reach us on +64 3 962 2695.

It's all done by email

You apply for your licence using the Adobe editable pdf form and attach any supporting documents as attachments to licensing@fma.govt.nz. We don't accept hard copy applications unless we specifically request them.

If you have any questions please call us on 0800 434 566.

Who is this licence for?

MIS Managers

A MIS is a managed investment scheme. You'll need a licence if you're the appointed or designated manager of a non-restricted and registered MIS.

Specifically you'll need a licence to:

- Make a regulated offer of managed investment products to retail investors
- Register a non-restricted MIS you have been appointed the manager of.

When we grant a MIS licence, it will specify the class of MIS product(s) you offer, and may also specify the product(s) if you only offer a very limited range of products.

There'll be a transition period for any MIS schemes you currently manage.

Things you need to know before you apply

Eligibility criteria

- To issue you with an MIS manager licence, we must be satisfied you meet the criteria set out in section [396](#) of the FMC Act.
- If you want any related body corporates authorised under your licence (authorised bodies), both you and these bodies must (collectively) meet the criteria set out in section [400](#) of the FMC Act and regulation 188 of the Regulations.
- Some criteria set specific **requirements** you must meet, such as being registered on the Financial Service Providers Register. Others are more general and apply to all aspects of your business. For example you must be "capable of effectively performing the service" (section [396\(c\)](#) of the FMC Act).
- To help you understand these criteria, we have described the **minimum standards** we expect you to meet. However, these standards do not change or limit the criteria set out in the FMC Act or Applicable Regulations – the whole of your licensed business must meet these criteria at the time of licensing and during the course of your licence.
- Your board, or governing body, is asked to confirm this in the certificate we ask you to provide with your application.

Minimum standards

- We expect all licensees to meet the minimum standards, but there is flexibility in how you meet them depending on the size and nature of your business. For example, if you need a process and controls for a function, we expect your approach will take into account how many people are involved, their expertise and the level of senior management oversight.
 - For **smaller businesses**, this may mean some processes can be relatively simple and not fully documented (you'll still need to explain them in your application).
 - For **larger businesses**, we expect processes will usually be more detailed and documented.
- The FMC Act recognises many different types of managed investment schemes. The way in which a manager meets the minimum standards may vary depending on the nature of the underlying managed investment products of the schemes they manage. However, the legal requirements in the FMC Act and Applicable Regulations must be met in all cases.
- When you're explaining how you'll meet a minimum standard, you can also tell us why your approach is appropriate for the size and nature of your business. If you believe a certain minimum standard isn't relevant to the particular type/s of MIS you'll manage, please explain why and describe how you'll still ensure you meet the legal requirements in the FMC Act and Applicable Regulations.

The questions are in this guide

The questions we ask help us assess how you meet the minimum standards. Under Part B – What do we ask, we list all the questions, in the same order as they appear on the application form.

Please note

After you submit your application, we may ask you to provide more information to help us make a final decision on your licence.

- d. In limited cases we can exempt a person (or a class of persons) from the need to comply with the FMC Act – but we must be satisfied that an exemption is necessary or desirable to promote the purposes of the FMC Act (see sections [3](#) and [4](#)). Exemptions are considered on a case by case basis. If you don't have an exemption at the time you apply for your MIS manager's licence you must show us in your application how you'll meet all the legal requirements in the FMC Act and Applicable Regulations, no matter what type of MIS you propose to manage.
- e. There are some minimum standards where you must demonstrate that you have a plan or process to meet them once you're licensed. For example you may not need (or be able) to meet some legal requirements until after you're licensed. Or you might be a start-up business, and can't operate until you're licensed, so can't demonstrate the effectiveness of your systems, policies, procedures and controls when you apply.

In these situations you don't have to prove you comply – instead you need to show us how you'll meet the requirements once you're licensed.
- f. When you've finished completing your application we suggest you look back over all the minimum standards. Check you've provided a level of information that would allow someone who doesn't know anything about your business to be comfortable you will meet each of the minimum standards.

Ongoing obligations

As a licensee you'll have ongoing obligations, including:

- Meeting all the relevant requirements of the FMC Act and Applicable Regulations
- Meeting the criteria in the Act
- Maintaining the minimum standards for the duration of your licence
- Meeting any standard or specific conditions imposed on your licence.

The consequences for a breach of licence are set out in sections [406](#) and [414](#) of the FMC Act.

Licence conditions

If we issue a licence it will contain conditions that support your licensee obligations. The [standard conditions](#) for the different types of licence are available on our website. We may also set extra licence conditions for individual entities on a case by case basis. In your application you'll need to demonstrate that you can meet these conditions – or ask us for a limit on, or variation in, your licence.

Other legal requirements

You may have other legal requirements that are not set out in the minimum standards. Non-compliance with any financial market legislation will be taken into account during our assessment of your application (and during ongoing supervision). We may undertake monitoring or enforcement action, or refer the matter to other agencies as appropriate.

Please remember

You can contact us for information at any time before you apply – and after you're licensed – just call **0800 434 566**.

Information for applicants

A. Getting started

This guide is divided into sections, following the order of the tabs in the application. This 'getting started' section covers the first two sections in the form, which ask for details about you, your business, and your application.

What will we ask?

In each section you'll find the list of all of the questions in the application, including the documents we ask you to provide.

The guide has been designed so that you can read the minimum standards (A), see what you'll be asked when you complete the form (B) and read our comments (C), then assemble what you need before you start your application.

Many questions only need a YES/NO or similar short answer. If you're asked to explain something you can key your answer straight into the form, and/or supply a supporting document.

Supporting documents

If you will be attaching a supporting document we ask for a document name and the section you're referring us to. This means you can add one document (such as a policy manual) to support several answers.

B. What do we ask?

- » What is your FSP number? *(See comment 1)*
- » Is this a separate or related body application? If a related body, enter the parent FSP number and select the licence type.
- » Licence coverage: *(See comment 2)*
If you select 'For this FSP number and related body/s' please tell us the related body's name, FSP number, key contact person and their position, phone number/s and email.
- » What type of licence are you applying for? *(See comment 3)*

Applicant details

- » Entity name

Contact person details

- » Please tell us the name of the contact person, their position, address, phone number/s and email.
- » Please provide a certificate confirming you have authority to apply and the types of licence/s sought. *(See comment 4)*

Prosecution details

- » Does the entity applying for the licence have any past, current or pending criminal prosecutions, civil litigations or administrative actions against or involving it? If YES, please provide details.

Relevant parties

- » Do you have any relevant parties (as defined in the Regulations)? *(See comment 5)*
If YES, please list your relevant parties. You will also need to attach a declaration.

Application details

Licence types

- » If this licence is granted will you also apply for a section 126 certificate?
- » Do you request any special limits on your licence? If YES, please provide brief details. *(See comment 6)*

For an MIS Manager licence *(See comment 7)*

- » For the most recent financial year, what are your total MIS funds under management in retail schemes?
- » For the previous financial year, what were your total MIS funds under management in retail schemes?

Here's a tip...

If the answers don't fit in the application form, provide a summary and refer to the separate supporting document for the full answer.

- » What types of MIS products do you offer? Please select all that apply from the list provided: Property Syndicates, Forestry Syndicates, Limited Partnerships, Option Fund, Commodity Fund, Hedge Fund, Fund of Fund, Venture Capital, Private Equity, Foreign Unit Trusts, Insurance Bonds, Listed Property Trusts, Unlisted Property Trusts, Real Estate Investment Trusts, Exchange Traded Funds, Group Investment Funds, Collective Investment Schemes, Listed Investment Trusts, KiwiSaver, Other – please specify.
- » Group size: For your last financial year, what were the total funds under management of your parent company and its group of companies?
- » How many retail MIS funds do you manage?
- » How many MIS clients do you have in retail schemes?
- » How many years of experience do your investment managers have, on average? Select one from the list provided: 0-2 years, 2-5 years, 5-10 years, 10-20 years, or over 20 years.
- » Are you listed, or a member of a listed group? If YES please provide your or your group's ISIN (International Securities Identification Number).
- » How are the people who sell the MIS products remunerated? Select all the option/s that apply from the list provided: Flat fee for service, Percentage of FUM (funds under management), Competition and incentives, Other – please specify.
- » What distribution channels does your business use for your retail MIS products? Select all the option/s that apply from the list provided: Client money or property services providers, Agents, Financial Advice Providers, Direct Sales, Others – please specify.

Licensed financial service provider

- » Is your entity a licensed provider under the Financial Service Providers (Registration and Dispute Resolution) Act 2008?
- » Are any of your directors or senior managers licensed providers under the Financial Service Providers (Registration and Dispute Resolution) Act 2008? If YES, what are their names and FSP numbers?
- » Does your entity or any of your directors or senior managers hold a licence or registration, relevant to financial services, in any overseas jurisdiction? If YES, please give registration/licence details for each person or entity.

Market services

- » Is this licence application for a service that is incidental to another market service that is, or will be, covered by a licence? If YES, please provide details about your other services and licences.

Constitution

- » Please confirm that your entity (or any related body) does NOT have a provision in its constitution/s which allows directors to act against the best interests of the licensed entity or related body when they perform their duties or exercise their powers. (See comment 8)

Your business

- » Please describe your business. (See comment 9)

Have you got an FSP?

You'll need a Financial Services Provider number to finalise your application – and any related bodies you want to include will need their own FSP.

It can take up to five working days to get one, so we suggest you and the related bodies apply in advance.

Are you the licensee?

If you're the one granted the licence, you're the licensee.

You'll be responsible for the provision of the licensed service, including any part delivered by someone else.

C. Our comments

1. FSP registration number

This is your financial service provider number. Refer to Part A Guide, Page 6, "You'll need an FSP number to select the financial service." You must have completed this before the licence can be issued.

2. Related bodies

- a. You may apply for a licence that covers related body corporates (related bodies) who will provide part or all of the licensed service with you. If we issue a licence, you'll be the licensee and they'll be an authorised body.
 - Under the FMC Act a related body corporate generally means a company in the same corporate group as the main applicant.
 - An authorised body is named on your licence and can perform the licensed service, or any part of it. If you're applying for several licences, you can specify different related bodies to be authorised under each licence.
 - If you have related bodies authorised under your licence, they must comply with all licence obligations and you need to provide oversight to ensure your group as a whole meets the minimum standards.
- b. At the start of your application we ask if you're making a separate or related body application. It's important to select the right option:
 - **Separate** means you are applying for a licence for yourself or your entity, in your own right, and will be the licensee (called 'applicant' in the application form)
 - **Related body** means another company in your corporate group has already applied for the licence and, if approved, you'll become an authorised body under their licence.
- c. **Do you want related bodies authorised under your licence?**
If you're the intended licensee, under the 'licence coverage' drop down box you can select if you want related bodies authorised under your licence/s. If you do we ask you for their contact details.
The related body will complete their own application.
- d. **The steps involved for each party**
If you're the **licensee**:
 - In your application you list the related body/s you want to include and provide some details about them (including their FSP number)

Numbered comments

Our comments are numbered sequentially throughout the document, so if you call us about something we've said you can just quote the comment number.

If you're the **related body** you:

- Select "related body" in the application form.
- Enter the Licensee's FSP number in 'Parent FSP Number'.
- Select the market service licence type which the Licensee has applied for.
- Answer all the questions relevant to the licensed activities you will perform (if a question is not relevant just answer 'not applicable')
- Then email your related body application to licensing@fma.govt.nz.

Licensee applicants and related bodies fill in separate application forms. As a related body, you should liaise with the applicant to ensure your answers reflect what the applicant has submitted in its licence application. You should also obtain the applicant's FSP number to be entered in your application as the 'Parent FSP Number'. You can log in and work on your application as often as you want until you submit. When you submit you can print a PDF copy of your answers, but can't access the form again.

3. Type of licence

You can apply for more than one type of licence at the same time – this means generally you won't need to supply duplicated information - refer to the answers provided in the other relevant licence application.

4. Approval to apply

You'll need to have your board or governing body complete and sign [this certificate \(SD1.0\)](#), which:

- Confirms the person or entity seeking the licence, and any related bodies to be authorised under the licence, meet all the criteria in the FMC Act (sections [396](#) and [400](#)), and regulation [188](#)
- Specifies the licence/s sought, and any related bodies to be authorised under any of those licences
- Names the person authorised to make the application. This may be the same person as the 'contact person' named on the application form but doesn't have to be. However note, the invoice for the application will be to the attention of the 'contact person'.

You must attach the signed certificate to your application and retain the original, as we may ask for it later.

The certificate must be signed by two directors of your governing body; or by a sole director if you only have one; or for individual applicants by the individual. If none of these options apply it must be signed by person/s authorised to bind the Applicant in relation to the matters covered in the certificate.

5. Relevant parties

You are asked to name any 'relevant parties' and provide a declaration (*refer to comment 12*). Relevant parties are defined in regulation [189](#) of the Regulations and include anyone who is able to exert a substantial degree of influence over your activities. It is also anyone whose wishes you act, or are accustomed to act in accordance with.

6. Limits on your licence

Please use this question to tell us the type of MIS licence you think you need. MIS licences are granted for a class of products (for example managed funds, or other managed investment schemes), and may also specify the product(s) if you only offer a very limited range of products. Tell us what you think best matches the business you are doing. In addition you may ask for a special limit

on your licence if you only want to provide certain aspects of the market service, or want other limits noted, for example on the types or amounts of investments you'll make for a client.

We will assess your licence application against your requested MIS licence type. For example, if you only offer forestry schemes, we will only be looking for evidence you can manage these types of schemes. This may make it easier for some smaller providers to meet certain minimum standards.

Please note, even if you don't ask for a limit, we may place one on your licence if you can only demonstrate the capability and resources to provide a limited market service. But we will consult with you before issuing a licence that is more restrictive than you applied for.

7. Specific questions about your MIS business

a. You're asked to complete a section with some specific details about your MIS business, so we can better understand the size and nature of your operation. Please note the FMC Act defines a retail scheme as any MIS with one or more retail investors (See Schedule 1, clause [35](#))

b. Group size

In this question about total funds under management of your parent group, we want you to:

- Include both wholesale and retail funds under management (please don't double count these)
- Provide your answer in NZ dollars, rounded to the nearest million (you enter \$101,100,000 as 101,000,000)
- If you have a parent company, enter the total funds under management worldwide by your entire group
- If you don't have a parent, enter the total funds under management for your entity.

c. How many retail MIS funds do you manage?

For this question, please use the definition of 'fund' in the Regulations, being a defined pool of assets held for the benefit for a group of investors and managed together under a single mandate.

If you provide the same investment option in more than one scheme, count these as separate funds. For example, if you have a fixed interest fund in a KiwiSaver scheme, a unit trust and a superannuation scheme that all invest into the same wholesale strategy, these are three different retail funds.

d. How many MIS clients do you have in retail schemes?

Please don't double count – if the same client is invested in several retail MISs, they should only be counted as one client.

e. What experience do your investment managers have?

An investment manager means someone contracted by the scheme manager to manage the investment of all or some of the scheme property, as defined in the FMC Act section [6\(1\)](#). Relevant work experience is work as an investment analyst, investment manager or other comparable roles. It doesn't include roles in marketing or other non-technical positions.

The option you select should be a simple average of the years of experience that the relevant personnel in your investment managers have.

f. Are you listed or part of a listed group?

If you answer yes to this question, please provide your or your group's ISIN. Any share listed on the NZX or any other stock exchange has a 12 character ISIN (alpha-numeric International Securities Identification Number). If you don't have one, but are wholly owned by a listed parent entity, please enter their ISIN.



g. How are your MIS sales people remunerated?

You'll be shown a list and can select one or more options to tell us how your sales people are remunerated. These are the options you'll see and our comments:

- **Flat fee for service** – sales people get a fixed fee for each sale of the product
- **Percentage of FUM** (funds under management) – sales people get a portion of the MIS funds under management allocated for commission
- **Competition and incentives** – sales people are offered other incentives (monetary or non-monetary) for their sales, such as a chance to win a prize or an incentive for reaching certain targets
- **Other** – please briefly outline the other method/s you use.

h. What distribution channels do you use?

You'll be shown a list and can select one or more options to tell us how you sell your MIS products. These are the options you'll see and our comments:

- **Client money or property services provider**
- **Agents**
- **Financial Advice Providers** - This doesn't have to be an exclusive arrangement. If you are a FAP, this includes the financial advisers and nominated representatives in your FAP
- **Direct Sales** – distribution through your employees
- **Others** – please briefly outline the other distribution channel/s you use.

i. Your constitution

If there is any provision in your constitution that allows directors to act against your best interests when they perform their duties or use their powers, you'll need to change your constitution before we can grant you a licence. This also applies to the constitution of any related body you want authorised under your licence. Refer to section [396\(f\)](#).

j. Describe your business

Your comments should cover the general nature and scale of the business, including ownership and corporate structure and any other information you think relevant. For example:

- What is the legal form of your business (such as a company or partnership)?
- Give a high-level description of your business structure. If you're part of a corporate group, please provide a group structure diagram which shows your shareholders, relevant parties and related bodies. If the group is listed or widely held, please provide information on significant shareholders.
- What is the nature of the business you're seeking the licence/s for? Include an overview of the types of products or services you provide (or will provide under the licence) and the types of clients you cater for. This will help us determine the type of MIS licence we grant you.
- How will any related bodies authorised under your licence be involved in providing the licensed service?
- What other businesses or services do you or your corporate group provide (other than the proposed licensed business)?

Minimum standards

A. Fit and proper

Your directors and senior managers must be fit and proper persons to hold their respective positions.

Minimum standards

- Your directors and senior managers (current or proposed), and any other relevant parties, must be fit and proper persons to hold their position. This requirement broadly covers the tests of:
 - Good character** – covering integrity, probity, trustworthiness and reputation
 - Capability** – competence, skills and experience for the position they hold (the next section on capability asks for more information about this).
- You must have appointment, recruitment and human resource processes to ensure directors and senior managers undergo a character assessment – and their competence, skills and experience are assessed before they assume their roles.
- If you have related bodies under your licence, each entity's executive directors and senior managers who are responsible for the licensed service must meet these minimum standards.

Information for applicants

B. What do we ask?

- » Please explain how you ensure your directors and senior managers (current or proposed) meet and maintain the minimum standards of 'fit and proper'.
- » How many directors and senior managers are you supplying details for in relation to this application?
- » For each of these directors and senior managers please provide full name, date of birth, gender, position, role.
- » You must attach a declaration completed by each person listed. The declaration form also asks for their consent for third party checks. (*See comment 12*)

Consultation

- » Are you a registered bank, non-bank deposit taker or licensed insurer?

Conduct

- » 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?

C. Our comments

10. Who should you include in your application?

This section relates to those who lead the licensed business. You need to include your:

- **Directors** – current or proposed
- **Senior managers** – current or proposed
- **For related bodies** – executive directors and senior managers (the related body is asked to list these people in their part of the application)
- **Relevant parties** – such as business owners, or people who indirectly control the applicant, or directors and senior managers of those people – will be asked to provide some details (see regulation [189](#) for a definition of 'relevant party').

11. Who is a senior manager?

The title senior manager means different things in different organisations. There is a definition of 'senior manager' in section [6](#) of the FMC Act to guide you. It means you only need to list people who have a significant influence over the management or administration of the relevant entity.

Minimum standards

The minimum standards in this guide apply at the time you seek your licence – and on an ongoing basis.

They apply to your business – and to any related body you want authorised under your licence.

- In **smaller organisations** this means you'll probably need to list all or most of your senior people.
- In **larger organisations** it means you may not need to list everyone who has a senior manager title. You only need to list people with significant influence on the management or administration of the entity such as the CEO or CFO.

12. What do you need to supply?

- a. Each person you list has to complete and sign a declaration, which you need to scan and attach to your application. You must retain the original signed hard copy as we may ask for this later.

The declaration asks your directors and senior managers to tell us about their background and past conduct, provide details of their employment and qualifications, and give us consent to make checks with third parties such as the Ministry of Justice.

Related bodies to be authorised under your licence are required to do the same for executive directors, and any senior managers responsible for the licensed service.

Relevant parties will need to complete a more limited declaration with details of their relationship with the applicant and give us consent to make checks with third parties such as the Ministry of Justice.

- b. You'll find the templates for these [declarations](#) on our website. The form numbers are:

- **Applicants:** declaration SD1.1 for current/proposed directors, or SD1.2 for current/proposed senior managers
- **Related bodies:** declaration SD2.1 for executive directors of related bodies, or SD2.2 for senior managers of related bodies
- **Relevant parties:** declaration SD3.1 for directors of relevant parties, SD3.2 for senior managers of relevant parties, or SD3.3 for other individual relevant parties.

c. **How will we assess good character?**

Good character means the integrity, probity, trustworthiness and reputation of the people leading your licensed business. Our assessment is based on factors including (but not limited to):

- Information in the declarations provided with your application
- Feedback from checks made with third parties
- Conduct indicating past non-compliance
- Convictions or involvement in dishonesty, deceit, theft or fraud
- Failure to manage business or personal financial affairs
- Dismissal from a position of trust
- Adverse information from other government agencies and regulators.

We must also consider whether the applicant's owners or other relevant parties have had any convictions or successful disciplinary actions taken against them (in New Zealand or overseas). Regulation [20](#) provides further details.

14. How will we assess capability?

We assess the information supplied by directors and senior managers in their CVs and position descriptions in relation to the requirements of their roles (we ask for more information about roles and responsibilities in the next section on 'capability').

A circular callout box with a light blue border and a white background. It contains text about supporting information.

Supporting information

If the narrative fields on the form do not allow sufficient space you can attach a supporting document as well.

When answering a question refer to the supporting document by name and the specific part you want us to read in relation to that question.

15. How will you meet and maintain the fit and proper standard?

We need to know you have appropriate arrangements to ensure your directors and senior managers are fit and proper people to be involved with the licensed service – when they take up their roles, and on an ongoing basis. Please describe how you determine someone is fit and proper.

You'll also need to describe the controls and procedures you use to ensure standards are maintained on an ongoing basis. Your arrangements may differ depending on the size and nature of your business.

16. Please tell us how you monitor the conduct of your directors and senior managers in their interactions with clients to ensure they don't cause detriment to your clients, gain improper advantage, or make improper use of their position (see section [145](#) of the FMC Act).

Minimum standards

A. Capability

Your organisation must have the right mix of people, with the right skills and experience, in the right roles, to manage your licensed business properly and effectively.

Minimum standards

1. Your management team (collectively) must have an appropriate breadth and depth of relevant financial services know-how, whether gained here or overseas, to effectively manage the licensed business.
2. Management roles include clear responsibility and accountability for:
 - Effective operation of the key activities of the licensed business
 - Strategic development and direction of your business
 - Risk management
 - Financial management
 - Compliance with product-specific laws and regulatory requirements
 - Compliance assurance/internal audit to ensure controls and procedures are effective
 - Customer/investor complaints.
3. Your arrangements ensure that your directors and management team have the skills and experience to perform their roles effectively.
4. Your business has access to any necessary expert professional advice (for example legal or tax advice) either through internal appointments or external consultants.

Information for applicants

B. What do we ask?

Skills and experience of your management team

- » Explain or demonstrate how your management team collectively has the right skills and experience.
- » Please provide details for each management team member who is not already listed in the 'Fit and Proper' section (name, date of birth, title, position).

Roles and responsibilities

- » Explain or demonstrate how you document the roles, responsibilities and accountabilities of your management team.

Capability

- » Explain or demonstrate the recruitment and human resource processes you use to ensure your management team have the right skills and experience for their roles.
- » Explain or demonstrate how you access external advice when your management team's capabilities don't cover an area of expertise needed by your business.

C. Our comments

17. Your management team

- a. We need to assess whether your directors and management team, **as a whole**, have the right skills and experience to manage the licensed business.
So here, your management team means all those key people who are responsible for the main activities required to deliver the licensed service. This includes:
 - Your directors and senior managers already covered in the previous section
 - Other senior key people and managers you haven't told us about yet, for example someone heading a key business unit who doesn't meet the definition of 'senior manager' in the FMC Act (because they don't have a significant influence on the management or administration of the entity as a whole).
- b. For your **directors and senior managers**, if you've already provided this information under 'fit and proper' you don't need to do so again.
- c. For your **other key people and managers**, you need to list each one and ask them to complete the [curriculum vitae template](#) provided (form SD1.3), and then attach these to your application. These people do **NOT** need to complete a declaration.



Here's a really important tip!

Remember to save your document as you work through the form.

Ensure you are using Adobe Reader - other formats may not save correctly.

- d. We're not implying you need a separate manager for each key position, or area of responsibility in minimum standard 2. It depends on the size and nature of your business. For example you might have one or two managers covering most of these areas – or a dedicated manager for each one.
- e. If you're providing a new type of service you may not be able to demonstrate depth and breadth of experience in that particular business. However, you'll need to explain how the directors' and managers' experience, as a whole, provides sufficient capability to deliver and manage that service.

18. Roles and responsibilities

- a. You must provide an organisation chart showing how your licensed business will be structured.

This chart should show:

- Your management structure, the key positions and how these roles relate to each other (please include your directors)
 - The names of the people filling the key positions
 - The number of FTE (full-time equivalent) staff in each area of responsibility.
- b. For large organisations with several management layers you don't need to include:
 - All your subordinate managers or departments (if any)
 - Details of lower level managers and staffing, apart from an indication of numbers
 - Parts of your business not connected to the licensed activity.

19. Your processes

We need to see that you have appropriate processes to ensure all members of your management team are capable of performing their role, on commencement and on an ongoing basis. This requirement also applies to your directors, who are ultimately responsible for the business.

We require this information for your business and for any related bodies to be authorised under your licence.

20. Professional advice

Please comment on whether and how you ensure you have ready access to key **expert advice** when you need it (such as legal, accounting, tax, financial, business or IT advice). We're not implying that you need to keep advisors on a retainer, just that you can access advice as and when required.

If you outsource part of your work and have a formal agreement, you don't need to include that arrangement here – we cover outsource providers later in the application form.

Minimum standards

A. Scheme formation

You must have a plan to set up and administer the managed investment scheme (MIS) appropriately.

Minimum standards

1. Before you offer the managed investment products in a scheme you have a plan to:
 - Register the scheme and maintain the register
 - Ensure the scheme's trust deed or other governing document meets all the requirements of the FMC Act (section [135](#))
 - Appoint a licensed supervisor, and all other necessary providers
 - Form an investment strategy – and include it in the scheme's statement of investment policy and objectives (SIPO)
 - Establish an effective investment governance framework that:
 - Identifies the body (for example an investment committee) responsible for ensuring the SIPO is implemented
 - Sets out your approach to changing the SIPO
 - Has processes to ensure compliance with the SIPO.
2. Have adequate resources to implement the investment strategy, including appropriate analyst support.

Information for applicants

B. What do we ask?

- » Please explain how you will meet the minimum standards for the establishment and administration of your scheme/s.
- » Do you operate existing schemes?
If YES, for each existing scheme please provide the scheme name, scheme identification number, scheme balance date, total scheme assets, net assets attributable to investors, number of investors, number of funds in scheme, whether performance fees apply, name/s of your supervisor, auditor, investment manager, administration manager, or registrar (if any). (*See comment 25*)

C. Our comments

21. Please describe how you'll meet the requirements for registering the MIS, including your processes for ensuring the scheme's governing document and SIPO meet the requirements of the FMC Act – and the SIPO covers all the required information and is lodged before you make a regulated offer.
22. In forming your investment strategy, you should consider the liquidity risk of the underlying investment products. If your MIS will not set trading frequencies, for example because it invests in illiquid assets, please explain how you will manage liquidity risks that might affect your investors' ability to cash in their investment.
23. Please explain your high-level policy and processes for the SIPO, including:
 - Details about the body responsible for the SIPO, for example this may be an investment committee. You may also want to mention individuals with investment experience and/or expertise who will contribute to the development of the SIPO
 - The responsible body's ongoing involvement with the SIPO throughout the investment cycle, especially making changes
 - Your arrangements to ensure the SIPO is adhered to and monitored
 - How you identify the resources needed to implement and manage the SIPO.
24. If you use an outsource provider, please tell us their name and function/s here (later in the outsourcing part of the form we'll ask for more details about the arrangement).

25. The information you are asked to supply about existing schemes helps us accurately identify the products different MIS managers are offering and target our monitoring efforts.

In this question:

- Scheme information number means the Companies Office registration number for your scheme. If your scheme does not have a Companies Office registration number please provide the FMA reference number issued on registration of the scheme
- If the total scheme assets and net assets attributable to investors are in a currency other than NZ dollars, please specify the local currency and provide both amounts in the local currency
- Whether performance fees apply means whether any of the funds within the scheme have a performance fee.

Please note, if you operate multiple schemes, you can attach a spreadsheet containing all the information asked for instead of adding each scheme's details on the application form.

Minimum standards

A. Advertising and disclosure

You must have up-to-date product disclosure documents and maintain the relevant product registries.

The information you provide can't be false or misleading, and your advertising must comply with the FMC Act.

Minimum standards

1. You maintain adequate and effective systems to ensure that the disclosure requirements of the FMC Act are met.
2. You maintain adequate and effective systems to bring investors on board.
3. The staff involved are aware of their obligations under the FMC Act, and adequately trained in the systems and processes for bringing investors on board.

Information for applicants

B. What do we ask?

- » Please explain how you will meet the minimum standards for advertising and disclosure.
- » How will you ensure that the scheme information you publish will contain all material information and is up to date?

C. Our comments

26. Please explain how your systems and processes ensure you meet those requirements as the issuer of the managed investment products.
27. You need to demonstrate how your procedures will ensure you meet your obligations under the FMC Act, including:
 - Fair dealing obligations in [Part 2](#), and the advertising provisions in [Subpart 3](#) of Part 3 of the Act
 - That your disclosure materials comply with the requirements for product disclosure statements and register entries in [Part 3](#) of the Act (and Applicable Regulations)
 - That your scheme's governing document complies with the governance requirements in [Part 4](#) of the Act (and applicable Regulations).

You may also have other legal requirements to meet, for example under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009, and the Privacy Act 1993.
28. Please also describe your policies and processes for marketing the scheme and explain:
 - Management's role (if any) in identifying the risk profile of the scheme and how the risks are conveyed to investors
 - How you ensure your marketing and client materials meet all the legal requirements.
29. There are restrictions on providing **regulated** financial advice under the FMC Act. If your staff are involved in bringing clients on board, they should be aware of the restrictions and adequately trained in your new client procedures.

Minimum standards

A. Selecting investments

You must exercise a professional standard of skill and care throughout the investment process.

Minimum standards

1. You have adequate and effective processes to select and allocate assets/instruments to comply with the statement of investment policy and objectives (SIPO), including:
 - Your criteria and processes take into account liquidity for different types of assets/instruments, and the impact of investment techniques and strategies
 - You allocate assets using the limits and parameters set out in your SIPO.
2. Key staff involved in investment decisions have sufficient relevant skills, experience and training to ensure you meet the 'professional standard of care'.
3. You 'stress test' your investment strategies as appropriate for the particular investment strategy or scheme assets.
4. You maintain efficient procedures to identify transactions involving a related party benefit and deal with them appropriately.
5. You maintain efficient procedures to identify conflicts of interest (actual or potential) and deal with them appropriately.

Information for applicants

B. What do we ask?

- » Please explain how you will meet the minimum standards for selecting and allocating scheme investments.
- » How do you fulfil your professional standard of skill and care?
- » Do you stress test your investment strategies? (*see comment 32*)
- » Do you have procedures to identify transactions involving related party benefits?
- » Do the people involved in investment selection have the skills, experience and training to meet a professional standard of care?

C. Our comments

30. Selecting and allocating assets

- a. Please explain the methodologies you use to select and allocate assets in the scheme, and how they help you comply with the parameters and/or limits set out in the SIPO. Processes for selecting and allocating scheme assets will vary in complexity depending on the nature of the assets. If the scheme invests in a single asset class, your methodology may be relatively simple.
- b. If you use an outsource provider, please tell us their name and function/s here (later in the outsourcing part of the form we'll ask for more details about the arrangement).

31. Your investment team

- a. Your investment decision making team as a whole must have the right mix of skills and there must be appropriate oversight and controls. This skill mix must include input from people with relevant qualifications, such as Chartered Financial Analysts, or equivalent qualifications and/or experience.
- b. Please describe how you ensure the people involved in the investment decisions collectively have the breadth and depth of knowledge and expertise to make decisions. For example, how do your selection processes and ongoing training ensure your team taken together has the right skill mix and their investment skills and experience remain current?
- c. When you're placing staff in investment focused roles, we expect you to consider their:
 - Relevant qualifications for the role
 - Knowledge and/or experience of the types of investments covered in the SIPO
 - Present or past roles involving relevant investment duties, and the time spent in those roles
 - Amount of assets under management in current and past roles
 - Training received and ongoing training planned.



**Do you outsource
any of your MIS business?**

You can outsource all or any part of your MIS business. The outsource provider must meet the same minimum standards as you would if you carried out the function yourself.

32. Stress testing

You'll need to show us that you've conducted appropriate stress testing based on the nature of your investment strategy or scheme assets. A minimum level of stress testing may involve looking at how your investment strategy would perform if an organisation that issues investments or holds client funds failed.

During the stress testing process you should also consider:

- Steps you can take to mitigate (if possible) risks highlighted by your stress testing
- Whether you've adequately disclosed the risks to your client.

33. Related party benefits and conflicts of interest

You're required to act in the best interests of investors – and there are restrictions on transactions which result in related party benefits. See sections [172–174](#) of the FMC Act.

Please explain your processes for:

- Identifying transactions involving related parties and conflicts of interests
- Ensuring that you adhere to restrictions on transactions which may benefit a related party (so any related party benefits can only be as a result of transactions permitted under section [174](#) of the FMC Act).

Minimum standards

A. Investment monitoring

Your systems and processes must enable you to measure and monitor investment performance – and take appropriate action when necessary.

Minimum standards

1. Your monitoring systems and processes enable you to measure and report performance against the objectives, limits and parameters in the scheme's statement of investment policy and objectives (SIPO).
2. You have adequate and effective policies, procedures and controls to manage the scheme's investments, including:

Restrictions

- Trades are allocated to the designated scheme at the time of trading
- Transactions are at 'arm's length'
- Controls on when you or your employees can trade if you are trading on behalf of the scheme
- Benchmark limits are monitored independently against the SIPO (for example by a unit not responsible for MIS performance).

Divestment

Liquidity risk management is appropriately implemented, monitored and reviewed.

Information for applicants

B. What do we ask?

- » Please explain how you will meet the minimum standards for monitoring investment performance.

C. Our comments

34. Monitoring

Please describe how you manage the investments and monitor performance against the SIPO, including:

- Who monitors benchmark/investment limits and who do they report to?
- How do you ensure that your monitoring is rigorous and effective?
- What controls do you have for ensuring transactions are at 'arm's length'?
- Please describe how you will identify potentially inappropriate transactions.

If you use an outsource provider, please tell us their name and function/s here (later in the outsourcing part of the form we'll ask for more details about the arrangement).

35. Restrictions

You must act in the best interests of scheme investors when you're trading for the scheme. Please explain how you manage the conflicts associated with staff trading underlying products or instruments the scheme has an interest in, or where they trade for different schemes at the same time.

For example your controls may include restrictions on when employees who hold material information about scheme assets can trade, or pre-trade approval policies.

36. Divestment

Please explain how you assess the liquidity risks of your scheme's investment products and describe your plan (if any) to manage the risks.

3. You have adequate and effective systems and procedures to:
- Identify, and report where necessary, breaches of limits in the SIPO on the nature, type and relative proportions of investments, and any other anomalous performance
 - Escalate, analyse and follow up any breaches or anomalous performance
 - Identify breach trends and put in place protections to avoid future breaches.

37. Breach of limits set out in the SIPO

Please explain how you ensure limits in the SIPO are adhered to – and your processes and procedures for identifying and (if necessary) reporting breaches of the SIPO. Your process and procedures should cover:

- How you ensure compliance with the SIPO
- What steps you take if a limit is breached
- Who in your management team is informed of any breach, and when
- Who is responsible for informing your scheme's supervisor if there is a breach
- How you minimise the risk of further breaches.

If the scheme's SIPO doesn't set limits on the nature or type of investments that may be made, or limits on the proportion of each type of asset invested by the scheme, please state this. In such a situation, your breach monitoring processes are likely to be relatively simple.

Minimum standards

A. Custody

You must ensure your scheme's money and property are held at arm's length.

Minimum standards

1. You ensure scheme property is properly identified, and held separately from your property and the property of any other scheme.
2. You don't hold any scheme property yourself, and any custodian you use is independent.
3. You regularly reconcile your records of holdings with the custodian's records.

Information for applicants

B. What do we ask?

- » Is scheme property held by your supervisor or by a custodian?
- » Please explain how you ensure any custodian you use is an appropriate entity to hold and safeguard money and property?
- » Do you use more than one custodian? If YES, please provide a summary of your arrangements.

C. Our comments

- 38.** Please describe how you treat scheme money and property, focusing on how you ensure they are properly identified and held separate from any other assets or money your business holds.
- 39.** For registered MIS, the supervisor must hold the scheme money and property unless the scheme's governing document allows an external custodian (see section [156](#) of the FMC Act).

If you use a custodian

- a. If you use a custodian other than a supervisor, please confirm the scheme's governing document allows you to do so, and tell us the name of the scheme and custodian (for each scheme this applies to).
- b. The custodian must meet the requirements of section [156\(4\)](#) of the FMC Act. Please explain how you ensure their suitability and independence. You may want to consider:
 - The custodian's previous experience
 - The amount of assets under control
 - Public reports and information about their service
 - Reported complaints about them, and their complaint handling procedures
 - Operating jurisdiction, and any protections/controls imposed in that jurisdiction (if not NZ)
 - Appropriate registration on the Financial Service Providers Register (or equivalent overseas registration)
 - If they have a programme that complies with the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 (or equivalent overseas legislation)
 - The good character of directors and controllers (particularly in the case of small or new custodians).

- c. If you use more than one custodian please provide a summary of your arrangements. For each scheme we need:
- To know the name of the scheme and the custodian
 - Your confirmation that the governing document allows for a custodian who is not the supervisor
 - Your confirmation that the custodian meets the requirements of section [156\(4\)](#) of the FMC Act.
- d. The custodian has set obligations, including the need to confirm to you information about the scheme property they hold (section [159](#) of the Act). Please tell us how you reconcile the information the custodian provides with your scheme records.
- 40.** If scheme money or property is not currently held by the scheme's supervisor or a custodian, please explain how you'll transfer it to the supervisor or custodian.

Minimum standards

A. Asset valuations

You need to ensure your scheme assets are accurately valued.

Minimum standards

1. You have documented methodologies to value each type or class of scheme asset in a way that is appropriate for the asset type and complexity.
2. You apply methodologies consistently across similar asset types or class, and review them periodically.
3. Assets are valued regularly and independently by staff with the right skills, experience and training (for example by a unit not responsible for the investment management function).
4. Conflicts of interest in asset values are addressed – and values authorised before being used in pricing.

Information for applicants

B. What do we ask?

- » Please explain how you will meet the minimum standards for asset valuations.
- » Do you use a third party to value scheme assets?
If YES, does your due diligence confirm they meet the minimum standards for asset valuations, and their people have the skills, experience and training to do the valuation?

C. Our comments

41. Please explain your methodologies for valuing scheme assets and how you keep these methodologies up-to-date. You will need to do this for each asset type and class you hold (how you define them is up to you). Methodologies should be applied consistently across similar asset types or classes. For example, if you specify global property as an asset class, we expect you to value all global property across all funds in the scheme using the same methodology.
Your comment on methodologies must include how you identify any interests you may have in the assets, and how you address any conflicts of interest in the valuation of the assets.
42. Who in your organisation values scheme assets and who do they report to? Asset valuations must be carried out independently of the investment management function.
43. If you use an outsource provider for asset valuations, please tell us their name and function/s here (later in the outsourcing part of the form we'll ask for more details about the arrangement).

Minimum standards

A. Pricing

You adhere to pricing methodology and ensure pricing errors are minimised. If errors are found they are corrected.

Minimum standards

1. Your pricing methodology is transparent, consistently applied and regularly reviewed.
2. You have an explicit policy to determine when a pricing error or non-compliance with pricing methodology is material – this includes non-compliance with both the scheme's governing document or any FMA notice.
3. There is clear ownership of each input/output to the pricing system.
4. Pricing errors (and processes that could lead to errors) are promptly identified and amended.
5. The design of the pricing process across legacy, current and proposed schemes does not provide opportunities for arbitrage.
6. Your processes ensure that all applications and redemptions are dealt with in accordance with the governing document or the product disclosure statement.
7. You have a process to ensure accuracy of data used for pricing including cross checking if necessary.

Information for applicants

B. What do we ask?

- » Please explain how you will meet the minimum standards for pricing.
- » How do you effectively manage pricing risks of the managed investment products in the scheme?
- » Do you use a third party for pricing?
If YES, does your due diligence confirm they meet the minimum standards for pricing, and their people have the skills, experience and training to do the pricing?

C. Our comments

44. Pricing methodology

Please describe and explain your pricing methodology, including the pricing flow, noting who is involved and their lines of responsibility and accountability. The methodology should include the controls in place to check the accuracy of data inputs.

If you don't have a pricing methodology for some fund assets, please tell us which funds or asset you don't have a methodology for and explain why you don't have one for them.

45. Material errors and material non-compliance

Material pricing errors or material non-compliance with pricing methodology can have significant impacts on investors' returns. Please explain your processes and controls to minimise the risks of material pricing errors and material non-compliance with pricing methodology, including how you:

- Identify when pricing errors and non-compliance with pricing methodology is material
- Identify points where material pricing errors and non-compliance with pricing methodology may occur
- Ensure you address any errors and non-compliance promptly (please explain your plan – we expect timeframes for resolution to be provided once an error is identified)
- Identify, escalate and report errors and non-compliance to the supervisor – and prevent them recurring
- Discharge your obligation to compensate investors.

If you use an outsource provider for pricing, please tell us their name and function/s here (later in the outsourcing part of the form we'll ask for more details about the arrangement)

Minimum standards

A. Scheme administration

You must administer the scheme in a proper and efficient manner.

Minimum standards

1. Your systems, procedures and controls ensure that all scheme money is properly accounted for at all times.
2. **Applications, contributions and redemptions** – your systems, procedures and controls ensure:
 - Processing of applications and redemptions is in accordance with timing set out in the governing document, and investor's money is held in trust
 - Money is invested correctly – the right price and scheme, recorded against the right investor
 - Interests in the scheme are issued correctly, as set out in the product disclosure statement (PDS) and governing document.
3. **Income and distributions** – your systems, procedures and controls ensure:
 - Income, distributions and re-investments are calculated and processed as set out in the PDS, governing document and investor instructions
 - Reconciliations with the custodian's valuations are carried out at appropriate frequencies
 - Discrepancies are dealt with in a timely and efficient manner.
4. **Fees and expenses** – your systems, procedures and controls ensure:
 - Fees and scheme related expenses are reasonable, accurate and consistent with the governing document and information given to investors.

Information for applicants

B. What do we ask?

- » Please explain how you will meet the minimum standards for scheme administration.
- » How do you ensure the scheme is accountable to the participants, and administrative risks are effectively managed?
- » Do you use a third party for your scheme administration?
If YES, does your due diligence confirm they meet the minimum standards for scheme administration, and their people have the skills, experience and training to do the administration?

C. Our comments

46. Please explain how you ensure the scheme's administrative functions meet the minimum standards. You should outline your processes for handling money and assets, focusing on how you minimise the risk of loss for investors.
47. If you use an outsource provider, please tell us their name and function/s here (later in the outsourcing part of the form we'll ask for more details about the arrangement).
48. If you receive and hold, pay or transfer client money you are providing a **client money or property service under the FMC Act**.
For information on the obligations a **provider of client money or property service**, as defined under **section 431W FMC Act**, please see the information on our [website](#).

Minimum standards

A. Material issues and complaints

You have effective processes and procedures to identify and deal with material issues in your business.

Minimum standards

1. You maintain effective methods for identifying and reporting to the FMA any material change of circumstance or breach of your market services licensee obligations.
2. You monitor complaints to ensure they are dealt with fairly and in the best interests of the investor.
3. You have systems and procedures to identify trends in complaints – and you investigate and address any issues identified.

Information for applicants

B. What do we ask?

- » Explain or demonstrate how you ensure material issues in your business are identified and appropriately dealt with.
- » Explain or demonstrate how you ensure you identify breaches of your market services licensee obligations, or material change of circumstances, and report them to FMA.
- » Explain or demonstrate how you ensure client complaints are dealt with fairly and promptly
- » Explain or demonstrate the systems and processes you have for identifying any trends in complaints
- » What is the name of your Dispute Resolution Scheme, your membership ID number, and the expiry date?
- » Who (what position) is responsible for monitoring:
 - » Compliance with your market services licensee obligations?
 - » Material changes of circumstance?
 - » Reporting material changes of circumstances, or breaches of your market services licensee obligations, to FMA?

C. Our comments**49. Material issues**

- a. Under the FMC Act (section [412](#)) you must have effective methods to:
 - Monitor compliance with your market services licensee obligations and identify material changes in circumstance (by you or any authorised body)
 - Report to the FMA any breach or material change of circumstance that has happened, may have happened, or is likely to happen in relation to your licensed business (by you or any of your authorised body/s).
- b. You'll also need to provide certain specific notifications and reports to the FMA (or to your supervisor), as set out in the FMC Act and conditions of your licence. Please tell us how you will achieve this.
- c. A **market services licensee obligation** is defined in section [6](#) of the FMC Act and generally covers any obligation imposed by the:
 - Conditions of your licence
 - The FMC Act and Regulations

- d. Terms of any financial product you offer, or financial service you provide (or any court order related to your products and services). A material change of circumstance is defined in section [410](#) of the FMC Act and includes:
- One that adversely affects your (or any authorised body's) capacity to perform the licensed business effectively, or
 - Any change that means you/your authorised body no longer satisfy all the requirements of sections [396\(a\)–\(f\)](#) or [400\(1\)\(a\)–\(e\)](#) of the FMC Act.

50. Complaints

- a. We expect you to have a complaints process which covers how you handle complaints and identify and monitor any trends. Please tell us about:
- Your complaints process
 - How many unresolved complaints you have when you apply for your licence
 - How many unresolved complaints you had 12 months before that.
- b. Dealing with complaints in the 'best interest of the investor' does not mean that all complaints must be resolved in the investor's favour – but it does mean the solution must be fair and reasonable for them.
- c. Please note you must belong to a dispute resolution scheme, as required under the [Financial Service Providers \(Registration and Dispute Resolution\) Act 2008](#). This is one of the requirements of registering to become a financial service provider to retail clients (and getting your FSP registration number).

Minimum standards

A. Staffing and supervision

You must have adequate and effective arrangements to manage and supervise staff. Your staff need to be suitable for their roles and act professionally.

Minimum standards

Your arrangements ensure:

1. Staff have the right skills and experience for their roles, and a clear job description that sets out their responsibilities (including authorisation/delegation levels).
2. Roles are designed to support key controls (for example by segregating duties between roles).
3. Enough time is allowed for key processes including compliance activities.
4. Staff are appropriately trained, managed and supervised – you address poor performance and recognise professional conduct.
5. You have appropriate supervisory arrangements, including:
 - Sufficient resources are allocated to supervision
 - Supervisory staff have the right knowledge and experience (including understanding the functions of the roles they supervise)
 - Supervisory staff have the support and authority they need to do the role effectively
 - Any issues identified by supervisory staff are acted on appropriately.

Information for applicants

B. What do we ask?

- » Explain or demonstrate how you meet the minimum standards for staffing and supervision.

C. Our comments

51. What do we need to know?

- a. You need to demonstrate that you have appropriate staffing and an adequate staff supervision structure to ensure you can maintain minimum standards for the course of your licence.

The question in this section asks for the information we need to assess your policies and processes for deciding what staff you need, how you recruit them, and how you manage their performance.

Please note we ask about outsourcing arrangements in the next section.
- b. How you structure your business and decide what skills and people you need to meet the minimum standards is up to you.

We don't need to know about the character or capability of individual staff or particular teams. Nor do we need to know the details of your financial bonus schemes, if any.

You only need to describe any business processes or staffing structures that are relevant to the licensed activity. You don't need to describe how you ensure staff have the right skills and experience for roles that are not relevant to the licensed activity.

Minimum standards

A. Outsourcing (excluding custody)

You must ensure outsourced functions are adequate, effective and comply with your licence obligations.

Minimum standards

1. You have appropriate processes to ensure, before you outsource a function, that the provider is an appropriate entity and capable of effectively performing the outsourced function to an acceptable service level.
2. You have a proper legal arrangement with the provider, including provisions that enable you to effectively monitor their performance and take appropriate action for non-performance.
3. Records and information the provider holds will be available for inspection by the FMA on request.
4. You regularly review the outsource arrangement (at a frequency appropriate to the risk involved).
5. Your performance monitoring programme includes:
 - Checks that the provider's performance meets required standards
 - Triggers for identifying non-performance
 - A plan for steps you will take in the event of non-performance.

Information for applicants

B. What do we ask?

- » Do you or will you outsource any functions required for you to effectively perform the licensed service applied for? If YES, you will be asked:
 - » Describe the functions you will outsource and your arrangements (such as who will perform the functions, how and where).
 - » Explain or demonstrate how you have the appropriate processes to ensure the provider/s are appropriate and can effectively perform the outsourced function.
 - » Explain or demonstrate how you will monitor performance and ensure the outsource providers perform to an acceptable level.
 - » Do you have formal legal agreements with outsource providers? If YES, do these agreements provide for information to be available to FMA as required?

C. Our comments

52. Who are the standards for?

These standards apply to any functions outsourced by you or any of your authorised bodies.

You only need to explain your **core outsource arrangements** – these relate to the licensed business and where you rely on the outsource provider to meet the minimum standards or your licence obligations.

If you're a registered bank subject to RBNZ's Outsourcing Policy BS 11, you may already meet some of these requirements, but you still need to explain how you'll meet our minimum standards for the licence/s you're seeking.

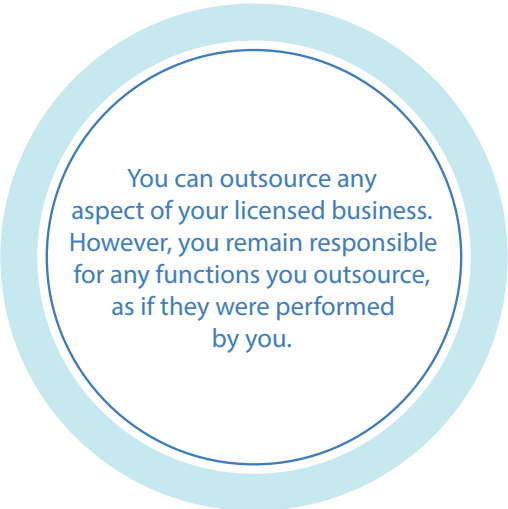
53. How will you select providers?

Please explain how you determine the outsource provider can perform the outsourced functions to the required standard.

54. What functions will you outsource?

Please list your core outsource arrangements, name the outsource providers and confirm that you have an outsourcing agreement with them.

For each outsourced function please describe the assurance processes you have in place to ensure the provider can effectively perform the outsourced function and how you monitor their performance. If you have the same approach for all outsourced functions you only need to describe this once.



You can outsource any aspect of your licensed business. However, you remain responsible for any functions you outsource, as if they were performed by you.

55. What records are required?

The level and nature of records the outsource provider must keep should be at least equivalent to what you would keep if you performed the function yourself (see the Records section of this guide).

We also expect to be able to view them within a few days of our request, depending on the nature and volume of the records.

Explain what records the outsource provider will keep, and your arrangements for us to have access to them. You don't need to arrange for direct access, providing we can obtain the records through you.

56. Authorised body or outsource provider?

If a related body corporate will perform part of the licensed service, you can choose to either set up a formal outsourcing agreement with them – or include them as an authorised body under your licence.

If you decide to include them as an authorised body, the minimum standards in this outsourcing section don't apply. However, you must have oversight over the authorised body to ensure your group as a whole meets the minimum standards.

Minimum standards

A. Records

You must maintain adequate records and provide information to the FMA in a timely manner.

Minimum standards

1. You have systems and procedures to maintain proper records.
2. You retain these records for at least seven years – and they are available for inspection by the FMA on request.

Information for applicants

B. What do we ask?

- » Describe how your processes ensure you will meet the minimum standards.
- » How do you ensure your business records will be readily accessible for at least seven years, and available for inspection by FMA on request?

C. Our comments

57. What records must you keep?

You must retain all documents required to be kept by law under the FMC Act and Regulations.

You'll also need to be able to produce appropriate records about your licensed business, including:

- Records of key decisions and activities, so we can confirm your compliance
- Files for each client (and past clients) with all relevant documents, such as client agreements and disclosure documents.

You must ensure your client agreements or other arrangements will include client consent for us to view their records.

58. What are your arrangements?

Please describe your approach to record keeping, including the types of records you keep and how you ensure they will be available for at least seven years.

Please also describe the arrangements you've made so we can inspect your records without unnecessary delays, such as having reliable archival systems and getting client consents in advance.

Minimum standards

A. IT systems and business continuity

Your IT systems used to deliver the licensed market service must be secure and reliable. Your arrangements ensure they perform efficiently and the associated risks are managed.

Minimum standards

1. Your IT systems include all necessary functionality to provide your service, and perform the intended processes effectively.
2. You have effective safeguards and controls over the IT systems (and the underlying processes) whether they are built into, or external to, the system. These include processes:
 - To ensure data and system security – and prevent errors or system failure
 - That take into account risk from human error, technical failure and malicious conduct.
3. You maintain an appropriate (and tested) business continuity plan – including procedures for data backup and disaster recovery.
4. You have proper legal arrangements with any third party software providers, including licences for software and contracts for any required maintenance and support.
5. You regularly review your IT systems and anticipate increase in demand, so that your resource remains appropriate for the scale and complexity of your licensed business (reviews should include outsourced functions).

Information for applicants

B. What do we ask?

- » Describe the IT systems you use in providing the market service.
- » How do you ensure your key IT infrastructure: is fit for purpose, performs effectively and has all the necessary functionality? Is stable and secure? Is used according to legal agreements?
- » How do you manage IT risks, including from human error, technical failure, or malicious conduct?
- » Explain how you review your IT systems in order to anticipate increases in demand and maintain sufficient resources.
- » Please provide a Business Continuity Plan.

C. Our comments

59. Your IT systems

You are free to choose how you implement IT solutions in your business. Where you integrate processes into IT systems, the processes performed by that system must be effective.

For example, your IT systems must have built in parameters consistent with the governing document or product disclosure statement (PDS), and controls to ensure the integrity of external data feeds and their accurate use in calculations.

60. Key information

Please tell us about the IT systems you rely on to deliver the licensed service. You don't need to provide details on every aspect of your systems, but please tell us about:

a. Fit for purpose/functionality

- The functionality of your systems – what function/s they perform for the licensed business (an overall architecture design map might be useful)
- Key risks and the controls/safeguards in place (internal and external)
- Any third party verification you obtain for your IT systems.

b. Stability and security

How you manage the risks associated with the use of your IT systems, including:

- Data security and integrity (such as a security audit)
- Disruptions from IT system failures and outages.

c. **Legal agreements**

Your legal rights to use the software and if it is currently under support.

61. Business continuity plan

- a. Your business continuity plan should include the documented procedures that guide your organisation to respond, recover, resume and restore to a pre-defined level of operation following disruption. This plan should provide for the continuity of your business operations generally – not just the recovery of your IT systems.
- b. The size and complexity of your plan is likely to be based in part on the size and complexity of your business and organisational arrangements. It should cover all aspects of your business (not just IT systems) that are necessary to meet the minimum standards or your licence obligations.
- c. Please provide evidence you have completed a business impact analysis – and have management support, and resources, to implement and maintain your business continuity plan. We also need to know when you last did an impact analysis and last tested your business continuity plan.

Minimum standards

A. Financial resources

You must, at all times, have adequate financial resources to effectively perform the licensed service.

Minimum standards

1. You have a sufficiently strong balance sheet.
2. You are able to pay your debts as they become due in the normal course of business.
3. You maintain an appropriate level of liquid assets at all times to cover reasonably expected contingencies in your business.
4. You have adequate and effective systems, policies, procedures and controls to:
 - Monitor your financial resource levels
 - Consistently calculate an appropriate level of liquid assets to hold for your business
 - Assess the risk of your financial resources not being adequate to continue to provide the service, or a serious financial problem occurring
 - Notify the FMA if a material change of circumstance occurs, or is likely, in relation to the licence, as required in FMC Act section [410](#).

Information for applicants

B. What do we ask?

- » Are you prudentially regulated by RBNZ?
- » Are you subject to prudential regulation or capital adequacy requirements in any jurisdiction? If YES, please provide details.
- » What is your balance date?
- » Who is your auditor?
- » What are your net tangible assets? (NTA – *see comment 63*)
- » Was your latest audit opinion modified, unmodified or not applicable?
- » Please provide a copy of your latest audited full year financial statements or financial plan. If they are over 8 months old, please also provide your management accounts for the first 6 months of the current financial year.

If you are NOT prudentially regulated by RBNZ you must also provide

- Details of the systems, policies, and controls you use to meet the minimum standards for financial resources. (*See comment 66*)
- A copy of your cash flow forecast for the next 12 months (with assumptions).
- A copy of the balance sheet used as the basis for your NTA calculation

C. Our comments

62. Your audited financial statements

The questions ask you to provide your most recent audited financial statements. You'll need to tell us if your audit opinion was modified or unmodified. By 'modified' we mean an audit report containing a qualified audit opinion, an adverse opinion or a disclaimer of opinion.

If you have financial statements for the most recent year, but they have not been audited, or if you only have interim financial statements, please still provide them and tick not applicable (n/a) on the audit opinion question. If you are a new business and have not prepared any financial statements, please provide a financial plan in the form of your prospective balance sheet and P&L for each month end for the next 12 months.



What are net tangible assets (NTA)?

Your total tangible assets, less your total liabilities, as they appear on your balance sheet at the time of calculation.

63. Your balance sheet

a. Are your net tangible assets positive?

Generally, we require licensees to have positive net tangible assets (NTA). The NTA you submit with your application should be calculated as at your most recent month end. Please also provide the balance sheet used as the basis for the calculation.

If your NTA is negative we may still consider issuing a licence. You'll need to explain the reasons behind your negative NTA and why you think it shouldn't prevent you from getting a licence. For example you may have a high level of intangible assets that provide a significant income stream, or related party balances that cause an issue.

We'll assess your reasons and take into account your cash flow forecasts and steps you're taking to return to a positive NTA. We won't grant a licence if your balance sheet indicates your business is at risk of failure, or your NTA is negative because your shareholders haven't committed the investment needed for the business.

b. What are your net tangible assets?

They're your total tangible assets, less your total liabilities, as they appear on your balance sheet at the time of calculation. The calculation must not include any:

- Receivables from a related party or associate unless 'permitted'
- For the avoidance of doubt, intangible assets, any client funds you hold, or any investments you have in the portfolios you manage.

This is only a summary of the test you must apply – the full test is set out in the standard [licence conditions](#).

Your balance sheet must be prepared on the same basis as your audited annual financial statements.

c. What is a 'permitted' related party receivable?

Permitted related party receivables are those resulting from a transaction done in the ordinary course of business, on standard commercial terms, and at arm's length. Your total permitted related party receivables can't exceed 20% of your net assets (total assets less total liabilities).

d. Shareholder loans can be excluded from your total liabilities for the NTA calculation, if you have a written agreement with the relevant shareholder to subordinate the debt. This agreement must:

- Provide that repayment of the debt will be subordinate to all the claims, demands, rights and causes of action of all unsubordinated creditors
- Provide that the debt is not repayable within one year
- Be available to your auditor and the FMA on request
- You must calculate your NTA at least monthly, and report to us if your NTA becomes negative. These will be conditions of your licence.



64. Cash flow forecasting

- You must be able to pay your debts as they fall due, plus have a buffer for reasonably foreseeable contingencies. There are no set thresholds for liquid assets.
- To satisfy yourself you can meet the minimum standards, we expect you to use a suitable forecasting mechanism. Your forecasts should show that you have access to sufficient financial resources over the projected term to meet your liabilities as they fall due in the normal course of business.
- In your application you must provide cash flow forecasts for the 12 months ahead, and explain how cash flow forecasting (or other cash flow management practices) fits into your systems and controls for managing your financial resources. This cash flow should be broken down by month, showing each month's closing cash balance.

You need to document the calculations and assumptions used in your forecast, and explain why they are appropriate.

65. Liquid assets

Your liquid assets are:

- Cash (cash on hand and demand deposits)
- Cash equivalents (short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value)
- Trade receivables realisable within the next three months
- Assets you can reasonably expect to realise for their market value within three months.

Your liquid assets must not include any client funds you hold, or any investments you have in the portfolios you manage.

66. Your systems, policies and controls

If you are not prudentially regulated by RBNZ you'll need to:

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

Minimum standards

A. Professional indemnity

You must maintain an appropriate level of professional indemnity insurance cover for your business.

Minimum standards

1. You maintain an appropriate level of professional indemnity insurance to cover risks related to your market service (if cover is available).
2. Your level of professional indemnity insurance cover is adequate and appropriate for the nature, scale and complexity of the market service you are licensed for – there is no set minimum cover, it depends on your business.
3. You have sufficient resources to meet any policy excess.

Information for applicants

B. What do we ask?

- » Please show you have adequate professional indemnity cover for your business, and explain how you assessed this was adequate.
- » Please tell us about any material exclusions or conditions in your policy/s.

C. Our comments

67. Please tell us the level and scope of cover you think is necessary for your business, and explain how you assessed this and why you think that level and scope is adequate.
We expect you to have cover at or above that level and scope:
 - If you don't think you need cover please explain why
 - If you can't get suitable cover please explain the steps you took to try and get cover.
68. Your description of material exclusions or conditions in your policy/s should include any policy excess. We only require information on exclusions or conditions that could affect cover for your licensed business. For example, there could be other parts of your business, not within the scope of your licence, that are covered by the same policy. We don't need to know about exclusions that would have no impact on the cover for the licensed business.
69. Please also tell us if there are any claims currently notified under your policy that relate to your licensed business.

Final steps

A. Governance

You must have a high-level body responsible for overseeing compliance with your market services licensee obligations – and ensuring appropriate risk management.

Minimum standards

1. You have a clear reporting and governance framework covering all key aspects of your business (or proposed business) including compliance obligations and key risks of the business.
2. You have an 'oversight body' responsible for overseeing compliance – it should not be solely the responsibility of risk, compliance or internal audit functions.
3. You have appropriate arrangements to ensure your oversight body and other senior managers and directors get timely, and sufficient, high quality governance and management information to allow for proper oversight and decision making.
4. Your oversight body considers the adequacy and robustness of its governance and compliance arrangements at least annually.
5. Your constitution does not have any provision which allows your directors to act contrary to the best interests of the licensed business when they are exercising their powers or performing their duties. This also applies to directors of related bodies under your licence. (See section [396\(f\)](#) of the Act for details).
6. **Related bodies** – your oversight body is able to direct and oversee the provision of market services by any related body authorised under your licence (authorised body).

Information for applicants

B. What do we ask?

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

C. Our comments

70. Your oversight body

You must have an oversight body responsible for overseeing compliance with your market services licensee obligations.

Arrangements may vary depending on your business. In **smaller organisations**, the oversight body will often be the board of directors. If a company has only one director, they might perform this duty on their own.

In **larger organisations** with more diverse operations, the oversight function may be performed by a committee composed of senior managers and representatives from legal, risk and compliance areas, with the board providing a high level of oversight across the licensed business. In that case we'd like to know about the committee (we'll already have details of your board from earlier questions).

We haven't restricted the types of arrangement considered acceptable – but you need to demonstrate that your arrangements ensure your business governance is effective.

71. How does it operate?

In explaining how your oversight body operates, you need to tell us:

- Who the members of your oversight body are and how they are selected. If this is your board please tell us that – but we don't need any other details about your board here, as you'll supply these under the 'fit and proper' section of your form.
- The source of the body's authority (including any terms of reference, delegations and limits on its authority)
- How the oversight body's performance is assessed by the board
- How often it meets and the types of matters considered at the meetings
- What actions it can take to ensure the effective delivery and performance of the licensed market service/s, such as the ability to approve or require changes to key processes and controls.

72. How do you keep them informed?

You'll also need to explain your processes for ensuring your oversight body gets the information they need to perform their role effectively, including comment on:

- Which matters are referred to the oversight body for consideration
- The nature of information provided to inform the oversight body's decisions
- When, and how often, that information is provided.

In **larger businesses**, reporting to the oversight body may be a formal process, carried out in advance of periodic meetings.

In **small businesses** where the oversight role is undertaken by the board or a single person, the process may be less formal. For example, your reports may be emails sent as matters arise and, if required, clarified by a relevant person – or you might attend meetings to report matters to your governing body.

73. Any related bodies to be authorised under your licence?

If you will have any related bodies authorised under your licence (authorised bodies), please explain how your oversight body will oversee the licensed activities and ensure those bodies:

- Comply with the obligations of your licence
- Manage risks appropriately and treat clients fairly
- Provide sufficient good quality governance and management information
- Deliver and perform the market service/s effectively.

Minimum standards

A. Culture

You have governance and compliance arrangements that promote a culture of compliance with your obligations as a licensee, and ensure appropriate risk management and fair treatment of investors.

Minimum standards

1. You have a good compliance culture, supported by systems, policies, procedures and controls.
2. We expect a good compliance culture to include the following:
 - You clearly communicate your conduct expectations to staff, for example through a code of conduct or code of ethics
 - Management actively supports professionalism in their messages to staff
 - Remuneration, reviews, promotions and other incentives recognise professionalism and compliance, not just the achievement of revenue, cost or profit targets
 - You have processes to identify and manage conflicts between the interests of the licensee (or individual staff) and investors' interests – and you quickly resolve any issues in a way that is fair to investors
 - You allocate adequate time and resources for training, supervision and compliance activities
 - Management encourages staff to report breaches or inappropriate behaviour, and deals appropriately with staff who report matters (for example through an independent whistle-blowing policy)
 - Management willingly engages with relevant regulators in an open and honest manner, and are responsive to any regulatory concerns they may raise.

Any **related bodies** operating under your licence must also promote a culture of compliance, appropriate risk management and fair treatment of investors.

Information for applicants

B. What do we ask?

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

C. Our comments

74. Do you have a good compliance culture?

You need to demonstrate that you (and any related bodies authorised under your licence) have a good compliance culture. This stems from an ongoing focus by management on culture and behaviours.

We want to specifically understand the compliance policies and processes you have that meet each of the points in minimum standard 2.

You should only include documents if they are necessary to demonstrate you are meeting the minimum standards.

75. How do you demonstrate it?

In answering the questions in this section you may wish to tell us about specific steps you have taken (or will take) to promote the right attitudes and behaviour from managers and staff across your business, and the effects of these steps.

Minimum standards

A. Compliance assurance

You must have adequate and effective arrangements for challenging and testing your own compliance, the compliance framework and the outcomes.

Minimum standards

1. **Compliance assurance** – you have adequate and effective arrangements to challenge and test the design and operation of your processes and controls, and the adequacy of your governance and management information. This is your compliance assurance programme.
2. Your **compliance assurance programme** goes beyond day to day controls for key processes, by including more in-depth testing of processes and controls including:
 - The testing (and the design of it) is done independently of those involved in day to day processes and oversight – for example testing is done by a separate compliance or internal audit function, or by an external organisation
 - You allocate sufficient, appropriate resources to planning and carrying out the programme, and ensure those involved have the skill and experience to carry out the work
 - Your compliance assurance programme is approved by your oversight body
 - Your oversight body is kept updated about progress against the compliance assurance programme – you also report significant findings to them and follow up on remedial action needed.

Information for applicants

B. What do we ask?

- » What are your (and included related bodies) arrangements for testing compliance with policies, procedures and controls?

C. Our comments

76. Testing your compliance

- a. You need to have processes to test your compliance – over and above the checks built into your operational systems and oversight of staff. The extent and type of testing you do depends on things like:
 - The nature and size of your business
 - How your systems and processes are designed
 - The types and levels of risk in your business
 - How involved your directors/oversight body are in overseeing day to day functions.
- b. **Larger businesses** generally have more formal processes and a greater separation between the governing body and staff, so you'll probably need more extensive testing to ensure the processes and controls are working as intended.
- c. **Smaller businesses** – if the people in your oversight body directly manage the staff performing key functions, or perform the key functions themselves, you may be able to rely more on their direct oversight or knowledge of the business and do less testing. You may be able to focus your testing on areas where there are particular risks, or where you have less ability to manage the day to day functions, instead of comprehensively testing all areas of your business.
- d. You'll need to explain the nature and level of the testing undertaken, and why you consider this is appropriate for your business. You should also discuss how findings are reported – and followed up on, where needed.

77. Is your testing independent?

- a. Where practical, your compliance testing should be done independently of those responsible for undertaking, and directly managing, the functions to be tested.
- b. We expect **larger businesses** to have a separate compliance assurance and/or internal audit function responsible for creating a compliance assurance programme, undertaking the compliance testing, and reporting to the oversight body on progress and findings.

For **small businesses**, we appreciate it may not always be practical for the compliance assurance to be done by someone who is completely independent of the person or team performing the business function.

Compliance assurance

Your compliance assurance programme isn't a policy document, compliance plan or risk register – it's the programme of independent checks you do to test whether your policies, procedures and controls are effective in ensuring the compliance of your business.

For example, the manager responsible for the business function may also have to do the compliance testing, or may directly oversee the compliance staff – or in very small businesses, compliance testing may be achieved by staff peer reviewing each other's work.

- c. You may outsource all or part of your compliance assurance programme – including establishing or reviewing your framework, and testing your compliance. This may be an appropriate option for small businesses that don't have the scale or structure to employ someone independent for the role.

Final steps

This section covers the finalisation of the application – end of form (where you self-certify), review, then email with attached supporting documents.

At the end you're asked to **certify that you've told us everything material to the licence.**

Review everything and you're nearly done!

But before you hit that send email button...

Have you...

- Answered all the questions – and given the answers you think best portray how your business meets the minimum standards?
- Attached all the declarations, CVs and other supporting documents needed?
- Checked there's nothing you want to add, change or delete?
- Arranged how you're going to pay?

Information for applicants

Our comments

78. Attaching documents

These are the main things you need to know: (also see [PART A](#) for more details)

- You'll be asked for certain mandatory documents – they can be attached to the email you send us with your application form. If the file size is too large, please email licensing@fma.govt.nz. They will supply you details to upload to a databox.
- If you consider you have valid reasons for not having or providing a mandatory document, you can instead attach a document explaining your reasons for not supplying it
- Many questions allow you to attach supporting material – you'll be asked to give a document name and specific section we should read,
- You can refer to one document for several questions – but it is essential your documents are clearly named and the sections in them are numbered – so we can find the bits you want us to read.

79. Certifying your application

When you select the 'self-certification' box, you're certifying that to the best of your knowledge you have included everything material to the licence sought. It means you need to be sure the information you're providing is true, correct and complete – that nothing material has been left out.

80. Review before emailing

Please review all the questions and your answers before you email to us.

81. Making fee payments

We will send you an invoice once we have received your application form – you can also find the application fees on our website. For more about how to pay your fees please see [PART A](#).



If you have any questions,
talk to us on 0800 434 566
or email us at
licensing@fma.govt.nz

82. Submitting your application

These are the main things you need to know:

- You need to have answered all the questions and attached any mandatory documents.
- The limit on email size is 153600 (kB)
- We will issue you with an invoice and instructions on how to pay the licence fee
- You need to pay the invoice before we will start assessment of the application.
- We will tell you if not enough information has been provided with the application for us to accept it.
- If for some reason we may need to place limits on your licence, or decline your application, we will contact you first so you have the chance to discuss it with us
- If we issue a licence, we'll confirm it in writing and set out the conditions that apply.



Was this guide helpful?

We welcome your feedback.
If you have any comments or
suggestions that might make it more
useful, please [share them with us](#).
Thank you.

Any questions?

To begin the application process click [here](#). If you have any questions please call us on 0800 434 566. We're open for calls from 8:30am – 5:00pm, Monday to Friday.