Guidance Note: Limited personalised advice

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About this Guidance Note

FMA is publishing this guidance to assist Authorised Financial Advisers (**AFAs**) who provide personalised financial advice to clients that is limited to a particular subject matter, such as; advice on a particular financial product, topic of advice or part of a client's investable assets. We call this 'limited personalised advice' in this guidance. The guidance is also intended to help QFEs and other entities that employ AFAs.

This guidance shows how advisers can give high quality limited personalised advice that is time and cost efficient without generating paperwork that is not required, nor valued by clients.
It explains how AFAs can comply with the Financial Advisers Act 2008 (**Act**) and the Code of Professional Conduct for AFAs (**Code**) when providing limited personalised advice. We have also provided examples to help explain our approach.

This guidance does not change or add to existing legal requirements for AFAs. Our overarching objective in issuing this guidance is to improve consumer access to financial advice and to remove unnecessary compliance costs. We have therefore clarified how advisers can alleviate some compliance burdens and move the focus back to customer outcomes that suit their needs.

We note that the Code is currently in a transitional phase and that amendments are likely to be made to Code standards in 2014 that may impact on this guidance note. We will continue to discuss the implementation of this guidance and any future revisions to it with industry as changes to the Code and other aspects of the compliance framework are settled. We encourage all advisers and their professional associations to talk to us about this guidance and any other initiatives that could advance our shared objective of improving access to advice.

We recommend that AFAs read this guidance in conjunction with the **Guidance Note: Client communications and record-keeping**.

Part 1: Introduction

Purpose of this guidance note

1. In FMA's 2012 survey of AFAs, advisers expressed genuine concern around access to advice for the small to middle end of the investor market. Feedback indicated that many advisers want to be able to provide a streamlined or 'simplified' advice model to lower value clients, or for simpler transactions, without the full compliance burden and fee scale of a full personalised advice or investment planning service.

2. FMA's own monitoring and surveillance activities reinforce the concern around access to advice. Advisers are often unclear about the paperwork and compliance requirements for limited advice. Frequently AFAs translate the requirements of the Act or the Code to require an excessive level of additional paperwork to 'cover all the bases'. This adds to the costs of providing advice services, and clients often have no interest in reading it.

3. FMA is concerned that a lack of ability for New Zealanders to access good quality personalised advice runs contrary to the intention of the Act, which sets out to promote the sound and efficient delivery of financial adviser services.

4. This guidance note explains how AFAs can provide limited personalised advice to their clients in a manner that will still demonstrate compliance with the Code.

What is personalised financial advice?

Definitions

5. The Act recognises three types of financial adviser services:

   (a) **Financial advice (advice)** – involves making a recommendation or giving an opinion about buying or disposing of a financial product (section 10)

   (b) **Investment planning service** – is where a financial adviser designs a plan for how a client can meet some or all of their investment goals, based on an analysis of the client's current and future overall financial situation and investment needs (section 11)

   (c) **Discretionary investment management service (DIMS)** – is an arrangement where the financial adviser makes buy/sell decisions for an investment portfolio, without necessarily referring to the client for every investment decision (section 12).[1]

[1] Refer to FMA's Guidance Note on DIMS: http://www.fma.govt.nz/help-me-comply/financial-advisers/guidance-notes/

6. The Act makes a further distinction between personalised services and class services (section 15):

   (a) **Personalised service** – is when the adviser takes into account the client's personal financial situation or goals or when the client would reasonably expect these to be taken into account

   (b) **Class service** – is not personalised. It is generic advice, for example in a brochure or seminar, or dealing with 'most people who' have certain characteristics.

7. Therefore, **personalised advice** is where a financial adviser makes a recommendation or gives an opinion about a financial product, taking a client's personal financial situation or goals into account.

Who can provide personalised advice to retail clients?

8. AFAs can provide personalised advice on both category 1 and category 2 products (section 5).

9. QFE advisers can give personalised advice on category 1 products if they are a member of the QFE group that is the product's provider or promoter. They can also give personalised advice on category 2 products.

10. Individuals can be registered to provide personalised advice on category 2 products.

Limited personalised advice - what is it?

11. All advice is limited to some extent. There are no two separate categories of advice for 'limited' and 'comprehensive' advice. Advice can either be less or more comprehensive in scope moving along a continuous spectrum, based on the subject matter of the advice being sought (refer to the diagram 'Advice Spectrum for AFAs' at Appendix 2, page 20). When we refer to '**limited' personalised advice** in this guidance note, we mean **advice that is limited to one or more particular subject matters.**

12. The Code refers to other limitations that exist because of:

   (a) the AFA's business model which may necessarily limit the type of products or subject matters for which advice is given (Code Standard 1 explains that an AFA is not required to consider or provide services in relation to financial products or matters that are not within the scope of the service)

   (b) limitations imposed by the client (Code Standard 8 explains that an AFA does not have to determine suitability to the full extent where a client declines to provide enough information)

   (c) limitations where a class service is provided (Code Standard 10 requires AFAs providing a class service to retail clients to ensure the client is aware of the limitations of the service provided).

Although this guidance is not directly about these limitations, some of the concepts may apply.

13. It is important to note that limited personalised advice does not equate to lesser quality advice for clients.

Part 2: Guidance on limited personalised advice

14. All Code Standards apply to AFAs that provide financial adviser services. The paramount standard that applies to providing limited personalised advice is the requirement under **Code Standard 1** for AFAs to ensure that they **place the interests of their client first and act with integrity**. All AFAs must adhere to Code Standard 1, irrespective of the application of any other Code Standard.

15. **Code Standard 8** is particularly relevant to AFAs providing limited personalised advice to retail clients. This Code Standard requires AFAs to make reasonable enquiries to ensure that the AFA has an up-to-date understanding of the client's financial situation, financial needs, financial goals and tolerance for risk, **having regard to the nature of the service being provided**. Therefore, an AFA providing limited personalised advice should not necessarily need to make the same comprehensive level of enquiry into the client's relevant circumstances as an AFA providing an investment planning service.

16. **Code Standards 6, 7 and 9** are also relevant in terms of ensuring that **limitations on advice are communicated clearly to clients**. Refer also to our separate guidance note on "Client communications and record-keeping" for more information.

17. In the preparation of this guidance, FMA has used concepts from the Australian Securities and Investments Commission's guidance on giving 'scaled advice'.[2]

Overview for providing limited personalised advice

18. You can provide limited personalised advice that is consistent with the Code by using the approach described below:

Use your training and judgment to decide whether, by limiting the scope of the advice, you can still meet your legal obligations as an AFA.

Adjust the level of your enquiries to reflect the nature of the advice being provided.

Implement systems that will help you decide whether limited personalised advice can be provided to a client in a way that meets your legal obligations.

Communicating clearly to the client the type of advice service you are offering stating what is and what is not being provided.

[2] "Giving information, general advice and scaled advice", December 2012, Regulatory Guide 244, Australian Securities & Investments Commission. See http://www.asic.gov.au/asic/pdflib.nsf/LookupByFileName/rg-244-published-13-December-2012.pdf/$file/rg-244-published-13-December-2012.pdf

Section A: Use your training and judgment

19. Either you or the client can suggest limiting the subject matter of the advice. However, it is up to you to use your judgment to decide on the scope of the advice and ensure it is appropriate to the client's circumstances and the subject matter of the advice being sought.

20. The following factors will help you decide whether you can limit the scope of your advice in a way that still meets your obligations:

    (a) **identify the client's circumstances** – *Are the client's circumstances complex?*

    (b) **identify the subject matter of the advice and the client's reasons for getting limited personalised advice** – *Is it a complex subject matter?*

    (c) **identify the scope of limited personalised advice and then consider whether providing limited personalised advice will place the client's interests first** – Does *the client understand the scope of the advice being given and the implications of a reduced scope?*

21. We recognise that all the factors may be considered at the same time, or in no particular order.

1: Identify the client's circumstances

22. Obtain basic information about your client, such as:

    (a) **general financial position** (for example, owns their own home with a mortgage, significant credit card debts and so on)

    (b) **age**

    (c) **employment**

    (d) **marital status**

23. Use this information to assist you with getting a general understanding of your client's financial needs, financial goals, financial position and risk profile. This will help you determine a high-level client profile and target the particular areas where limited personalised advice may be appropriate.

24. For example; a client who wants to pay off their credit card to afford a deposit on a home has only one investment objective (a 'simple' goal of saving for a house deposit) but several financial needs (more 'complex' needs – budgeting and getting a mortgage). Limited personalised advice can be provided on how to pay down debt. Another example may be where a client who has adequate income to meet their financial needs, but wants to establish an investment portfolio for their retirement and to invest surplus cash into an international equities portfolio in order to earn capital growth. Limited personalised advice can be provided on an appropriate investment portfolio.

2: Identify the subject matter of the advice and the client's reasons for getting advice

25. Make reasonable enquiries to identify the subject matter of the advice, beyond simply taking the client's explicit instructions and reasons for getting advice. Advisers should consider the following:

    (a) **the nature of the request for advice**

    (b) **the client's stated objectives**

    (c) **the client's willingness to pay for more comprehensive advice**

    (d) **the proportion of your client's overall wealth that you are advising on.**

26. In some cases, an apparently obvious question may reveal a wide range of reasons why the client is seeking advice. For example; a question about whether to invest in a particular share issue may reveal that the client wants to invest in that share issue to provide for their retirement goals, or they may simply want advice about whether those shares should be included as part of their existing diversified investment portfolio. In this example, if the client is investing for retirement planning purposes, you should identify whether the client holds other investments (and what other types of investments) to determine whether the client's investment position is well-diversified and is reasonably likely to help the client meet their future retirement goals. In this case, limited personalised advice may not be appropriate. If the client wants to include the share issue in an existing portfolio, you may only need to determine whether the share issue can be included within their portfolio's asset allocation for shares. In this case, limited personalised advice is likely to be appropriate.

27. In some cases, the client will have a specific question that clearly relates to a particular subject matter, for example; health insurance. In other cases, the client may be unclear as to the subject matter of the advice and will need to work with their adviser to identify the areas of advice that they could get advice on, and then identify which subject matter of advice they want limited personalised advice about.

3: Identify the scope of advice and then consider whether you can give limited personalised advice and still place the interests of the client first

28. The next step is to determine the scope of the personalised advice. Using your training and expertise, identify the range of topics of advice that are relevant to the subject matter for which the advice is being sought, then choose the topics that are relevant to provide advice on. If you can demonstrate that **advice covers some but not all relevant topics of advice**, you are likely to be **providing limited personalised advice**.

29. You will need to consider whether you can give limited personalised advice and place the interests of the client first. One approach you may use when deciding if you can provide a client with limited personalised advice is to perform a 'triage' or filtering process. For example; ask a series of questions to determine how advice that is limited in scope can be provided to a client in a way that complies with your obligations. You can do this by evaluating:

(a) **the reasons for getting advice**

(b) **the reasons or relevant factors for getting limited personalised advice**

(c) **the client's capacity to understand the advice they are receiving**. More enquiries about the client's objectives and requirements are likely to be necessary where:

  (i) the client has a limited capacity to understand the subject matter of the advice

  (ii) the client has expressed conflicting objectives

  (iii) the client is confused about their objectives (or has difficulty in articulating them)

  (iv) there is an apparent mismatch between the client's objectives and the advice or product being considered by the client

(d) **the potential impact on the client of inappropriate advice** – if the potential negative impact of inappropriate advice is likely to be serious, more extensive enquiries will be necessary. For example; advice that is limited to investing a lump sum in a financial product that has a long-term timeframe is inappropriate if the client requires access to funds in the short-term.

30. You must make sure that you do not reduce the scope of advice to the point that you exclude critical issues that are relevant to the subject matter of the advice e.g. because they are too difficult to resolve quickly. You must use your judgement to determine what is appropriate in the circumstances.

31. **Appendix One** has some examples to illustrate how an adviser can determine whether limited personalised advice is appropriate, and if so, provide limited personalised advice to the client while ensuring that the client is aware of the limitations and scope of the limited personalised advice being provided.

Section B: Adjust the level of your enquiries

32. To meet the requirements of Code Standard 8, adjust the fact-finding process, (e.g. the enquiries you make into the client's relevant circumstances) to be either limited or expanded based on the scope of the advice.

33. By this stage, you will already have identified your client's basic financial situation, financial needs, financial goals and risk profile. Depending on the scope of the advice, you can expand the level of enquiry to get more information that is relevant to your advice. Your client enquiries should be **relevant** and **proportionate** to the scope of your advice. This will help to ensure that it is clear to your client (and to us when we undertake our monitoring activities of your business) that you are providing limited personalised advice.

34. If at any stage you no longer consider you can give limited personalised advice, you will need to use your professional judgement to decide how best to deal with the situation. This may include; expanding the scope of your advice, offering your client a more comprehensive service or explaining the options illustrated on the Spectrum of Advice diagram (see Appendix 2, page 20). If none of these are appropriate and you take the view that you cannot place the client's interests first, decline to provide the advice.

Use of waivers for opting-out of suitability

35. AFAs providing limited personalised advice are still required to ensure that the advice is suitable under Code Standard 8. However, retail clients can 'opt out' of this requirement by:

    (a) declining to provide some or all of the information required under Code Standard 8 (regarding the client's financial needs, situation, goals and risk profile); or

    (b) giving a written instruction to the AFA not to determine the suitability of the advice.

36. AFAs should not require clients who received limited personalised advice to use the opt-out provisions simply because the AFA does not have all the information that an AFA providing more comprehensive advice would have obtained from the client. Code Standard 8 requires AFAs to make enquiries about a client, having regard to the nature of the service, including any limits to the scope of the service.

Section C: Systems and Client Communication

Triage or 'filtering' systems

37. You are more likely to be able to demonstrate you are providing limited personalised advice if you already have the correct processes in place, to help you decide in which situations you can provide good quality limited personalised advice. You could include these systems in your existing processes:

    (a) identify less complex advice topics about which you can give good quality limited personalised advice
    (b) identify more complex advice topics for which you may offer more comprehensive advice (or refer clients to another AFA who can provide this advice). For example; high-risk products, illiquid products, risk management products and topics that require exploration of other topics/factors in order to provide good advice
    (c) use your judgement to decide whether a particular client is suited to receiving limited personalised advice
    (d) use your judgement to ensure that all the necessary information is gathered during the fact-finding stage.

Clear, concise and effective communication

38. Take reasonable steps to explain the limited scope of your advice in a way that will be clear to your client. For example; this could involve setting out the scope of the advice, and then explaining you will not be considering any other issues and the reasons why. This will help the client understand what advice they are getting and ensure there is no misunderstanding about what they are, and are not, being advised on. Try to avoid giving overly detailed explanations or disclaimers about what the scope of advice does not cover.

39. **For more information, refer to our separate guidance note called "Client communications and record-keeping".**

Appendix One: Examples

These examples are for illustration purpose only and are confined to their particular facts. Examples 1-3 illustrate scenarios where limited advice may be provided. Example 4 is a scenario where it may be inappropriate.

Example 1: KiwiSaver fund advice

Situation: Ben is an AFA who works for a bank QFE called X Bank. John (age 35) is a client of X Bank, where he has his current and savings accounts and insurance. Four years ago, John was enrolled in X Bank's KiwiSaver scheme. He defaulted into the Conservative Fund in the scheme because he did not make an active fund selection at that time.

John has been reading recently that many people in default funds may not be in appropriate funds for their stage in life. He goes into a X Bank branch outlining his concerns to the teller and is directed to Ben.

Ben wants to determine what kind of advice John is after. He explains that X Bank can give class or general advice about what fund is broadly appropriate for people according to their age. Ben can also give more detailed advice that takes into account John's situation. He gives John FMA's brochure on 'KiwiSaver- are you getting the right advice'. John says that he would like a bit more help choosing a fund that's right for him and in particular he wants to understand more about the risks of investing and about getting a fund that matches how much risk he's prepared to take. He doesn't want to talk about any of his other investments, credit cards or insurance as he is quite happy with those. He is only concerned about his KiwiSaver fund.

Consider whether it is appropriate to limit the scope of advice

1. At this stage of the conversation it appears that Ben can give limited personalised advice to John. The subject matter and scope of the advice is limited to whether John's investment in the Conservative Fund of the X Bank KiwiSaver Scheme should be changed. John has indicated that his reason for requesting limited personalised advice is because he now wishes to make an active choice around selecting his KiwiSaver investment fund. Ben then gives his primary disclosure statement to John.

Ben: "Before I can go ahead, I need to let you know that I am only going to be giving you advice about your choice of investment funds in the X Bank KiwiSaver Scheme and which fund would be best for you. I won't be looking into any other aspect of your financial situation at this stage, such as retirement planning. This means that your KiwiSaver may not meet your investment objectives. If you do want further advice about other products or your wider financial affairs I can help you with that too."

John asks what that means and Ben explains that there are other factors that will impact on John's retirement, not just KiwiSaver. He briefly outlines these to John so he understands. John says that at this stage he is focusing on his KiwiSaver fund but he may think about some more advice later down the track. Ben then provides his secondary disclosure statement to John.

Adjust the scale of the client enquiry

2. Ben should identify the relevant circumstances that relate to the subject matter of the advice being sought and ask questions where more relevant information is required.

Ben: "I now have your information in front of me. You are:

- 35
- have a current KiwiSaver balance in the X Bank KiwiSaver Scheme of $15,000
- Currently invested in the Conservative Fund.

I have a few additional questions to ask you. This will help me calculate the impact of different options for you:

- What is your current salary before tax?
- Is your employer contributing at or above the current minimum contributions rate of three percent of your salary before tax?
- What percentage of your before-tax pay do you contribute to your KiwiSaver scheme?
- Do you plan to use KiwiSaver for a first home withdrawal?"

3. Ben has asked John a number of relevant questions that will enable him to calculate John's potential KiwiSaver balance when he retires. John tells Ben that he earns a pre-tax salary of $60,000, makes personal salary contributions of three percent, his employer contributes three percent and that John already owns his first home.

4. Ben then interviews John using a series of questions to identify his tolerance for risk. The results of the risk assessment questionnaire indicate that John has a moderate tolerance for risk.

5. Ben then calculates that leaving his KiwiSaver in the Conservative Fund until age 65 would result in his balance on retirement potentially being $280,000 in today's dollars, whereas switching to the Balanced Fund would result in his balance on retirement potentially being $350,000. After explaining these calculations, and the underlying assumptions, Ben makes a recommendation for John to switch to the Balanced Fund.

Ben: "Based on everything you've told me and from the results of our risk assessment questionnaire, your main investment objective is to grow your retirement savings. The Balanced Fund has been designed for those investors who are willing to accept a medium level of fluctuations in investment returns, with the potential for a medium level of capital growth over the long term. Actual returns will vary and may be negative. The Balanced Fund invests principally in shares and fixed interest assets, with a lesser exposure to listed property and cash assets.
Based on your identification as a balanced investor, I recommend that you invest in the X Bank Scheme's Balanced Fund."

Clear, concise and effective communication

6. Ben needs to ensure that the advice and the limitations are clearly communicated to John.

Ben: "You need to understand that moving from the Conservative Fund into the Balanced Fund involves taking on more growth assets like shares, compared to defensive assets like fixed interest. This means the investment risk in your portfolio will increase and there is a real chance your decision will mean you can achieve higher annual returns in some years, but also lose money in other years. You need to be personally comfortable with this. It is also important to keep in mind that generally, it is not appropriate to maintain the same investment option throughout your working life. We recommend that members review their investment options every five years or if circumstances change to ensure it is still an appropriate option for them." "My advice is based on the information you have provided me. If you have provided me with incomplete or inaccurate information, you risk making a decision that may not be appropriate for your circumstances and my advice could be wrong for you. For example, if your contribution rates are different then, of course, the calculations will change. You are contributing the minimum amount currently and if you increase contributions your potential balance would be higher. However, I'm not giving you advice about that now because as we've discussed, this advice is limited to which KiwiSaver Fund you should be invested in. I haven't considered any other products or looked into any other aspects of your situation. You may find that you could benefit financially from getting more comprehensive advice."

Record keeping

7. Ben makes a client file note of this discussion. Subsequently, he receives a request from John for a written summary of his recommendation. John sends an email confirming his advice and how to switch funds if he decides to proceed. He includes a paragraph explaining that his advice was limited as per the discussion above.

Example 2: Retirement Savings health check

Situation: Mark is an AFA who works for himself providing a range of investment products and risk products for more than five providers. He is aligned with several KiwiSaver schemes. Jane comes into his office after viewing Mark's website. She says she has seen in the news that people should start thinking about their retirement early on. She is interested in getting some advice on whether she is on track for her retirement but she doesn't want to spend a lot of money getting a complete financial plan that includes advice on investment products or advice on her insurances. She is only interested in paying for advice about her current KiwiSaver and whether her savings make it likely that she can retire comfortably.

Consider whether it is appropriate to limit the scope of advice

8. Mark introduces himself and his services briefly and hands Jane his primary disclosure statement. At this stage he needs to ask Jane more questions to ascertain whether limited advice is appropriate. He finds out that Jane is 38, single with no dependants, in full time employment, owns her home, is a member of MM KiwiSaver Scheme and has no other investments or liabilities aside from her mortgage. She has a savings account with Y Bank with a balance of $20,000.

9. Mark uses his judgement to decide that advice limited to the adequacy of Jane's savings in retirement is appropriate in this situation. He tells Jane he can help her with retirement planning. He notes there are many factors relevant to retirement planning such as; level of debt, including a mortgage, health issues, job security, insurances and dependants. He outlines other options for Jane to consider including a full financial plan. He gives a brief overview of benefits and estimated costs involved for each option.

Adjust the scale of the client enquiry

10. Jane re-iterates she is happy with advice limited to KiwiSaver and savings for retirement. At this point Mark hands her his secondary disclosure statement and goes through it briefly with her.

11. Mark then asks her more questions about her scheme and fund. He tells Jane that although he is not aligned with the MM KiwiSaver scheme he can assess it and give her advice about which fund in the scheme is best suited to her and her level of contributions. He asks Jane to complete an income and expenditure statement, a financial position statement and a short risk profile.

Clear, concise and effective communication

12. Mark compiles a cash flow forecast to illustrate the eventual repayment of her mortgage and her potential savings capacity. Mark and Jane have a discussion about Jane's likely retirement needs based on her current level of spending and other factors that may be relevant in the future. He makes calculations based on a retirement age of 65 and looks at; various life expectancies, the impact of increasing KiwiSaver contributions and the impact of delaying retirement.

13. As a result of the discussion and Jane's answers to Mark's questions, Mark gives Jane some verbal advice, which includes advice that Jane is in an appropriate fund in the MM KiwiSaver scheme for her age, risk profile and financial position. He makes it clear that he has limited his advice and not considered other potential investment products, insurance, estate planning or tax issues. He notes these factors could impact on Jane's retirement goals and the advice provided. He also mentions a more wide-ranging review may be beneficial especially if Jane's circumstances change in the future. Mark later documents this in a two-page document he calls the Statement of Advice and emails Jane attaching a copy.

Record keeping

14. Mark opens a file for Jane and documents the information received in the course of the client enquiry and the email and Statement of Advice.

Example 3: Verbal advice on an IPO

Shayne telephones his stockbroker Chantelle, an AFA. (Chantelle has been providing Shayne with financial advice and broking services for two and half years and as a result, he has a diversified share portfolio invested via Chantelle's company. Shayne has signed a client agreement with Chantelle which outlines that Chantelle can provide verbal advice from time to time on single investment opportunities and that Shayne will not require a separate written explanation of risks and benefits before proceeding with the execution of a purchase).

Shayne says he has seen media coverage on a certain share float (x shares) and he is interested in buying some stock. He's keen to add it to his existing portfolio and asks Chantelle what her view is.

Scenario 1

Chantelle says the firm's research is it's a good buy with high demand. She pulls up Shayne's portfolio details and notes adding shares would fit in with his portfolio, which has capacity for further exposure in that particular asset class.

Scenario 2

Chantelle says the firm's research is it's a good buy with high demand. She pulls up Shayne's portfolio details and notes that adding more equities would overweight his portfolio to that particular asset class. She tells Shayne he could sell some existing shares to purchase x shares in order to maintain the balance. Shayne says he doesn't want that, he is happy with his current portfolio and very keen on x shares. He wants to subscribe for the minimum allocation using some cash in his current account.

Consider whether it is appropriate to limit the scope of advice / Clear, concise and effective communication

15. Chantelle determines it is appropriate in each scenario to execute the trade for Shayne however her advice, communications and record keeping differ in each scenario.

16. In Scenario 1, she advises Shayne the purchase is suitable and it would fit with his portfolio. She makes it clear she is not comparing x shares to any other shares currently available in the market because Shayne has indicated he wants to buy x shares.

17. In Scenario 2, she notes Shayne wants the minimum subscription and Shayne has some extra cash to fund the purchase. She makes it clear to Shayne her advice is x shares are a suitable purchase for Shayne but the purchase will be outside his existing portfolio. She outlines the risks associated with un-balancing the pre-agreed strategy. Chantelle confirms Shayne

understands the risks and potential impact on his ability to achieve his long term investment objectives and he wants to proceed.

Record keeping

18. Chantelle makes a file note of the conversation. Later that week, on execution of the purchase, a confirmation email is sent to Shayne that contains an explanation of Chantelle's advice as per the discussions above.

Example 4: Advice on investing in a managed fund - when it may not be appropriate to offer limited advice

Situation: Jim is an AFA who works for himself providing a range of investment products and risk products for more than five providers. He is aligned with several KiwiSaver schemes.

Lee comes into his office after viewing an advertisement for X equity fund on a website of a company that Jim has a distribution arrangement with. She says she has recently come into some money which is in her savings account and wants to find out whether the fund would be a good thing to invest in as the returns seem higher than the bank. She doesn't want to spend a lot of money on a financial adviser getting a complete financial plan.

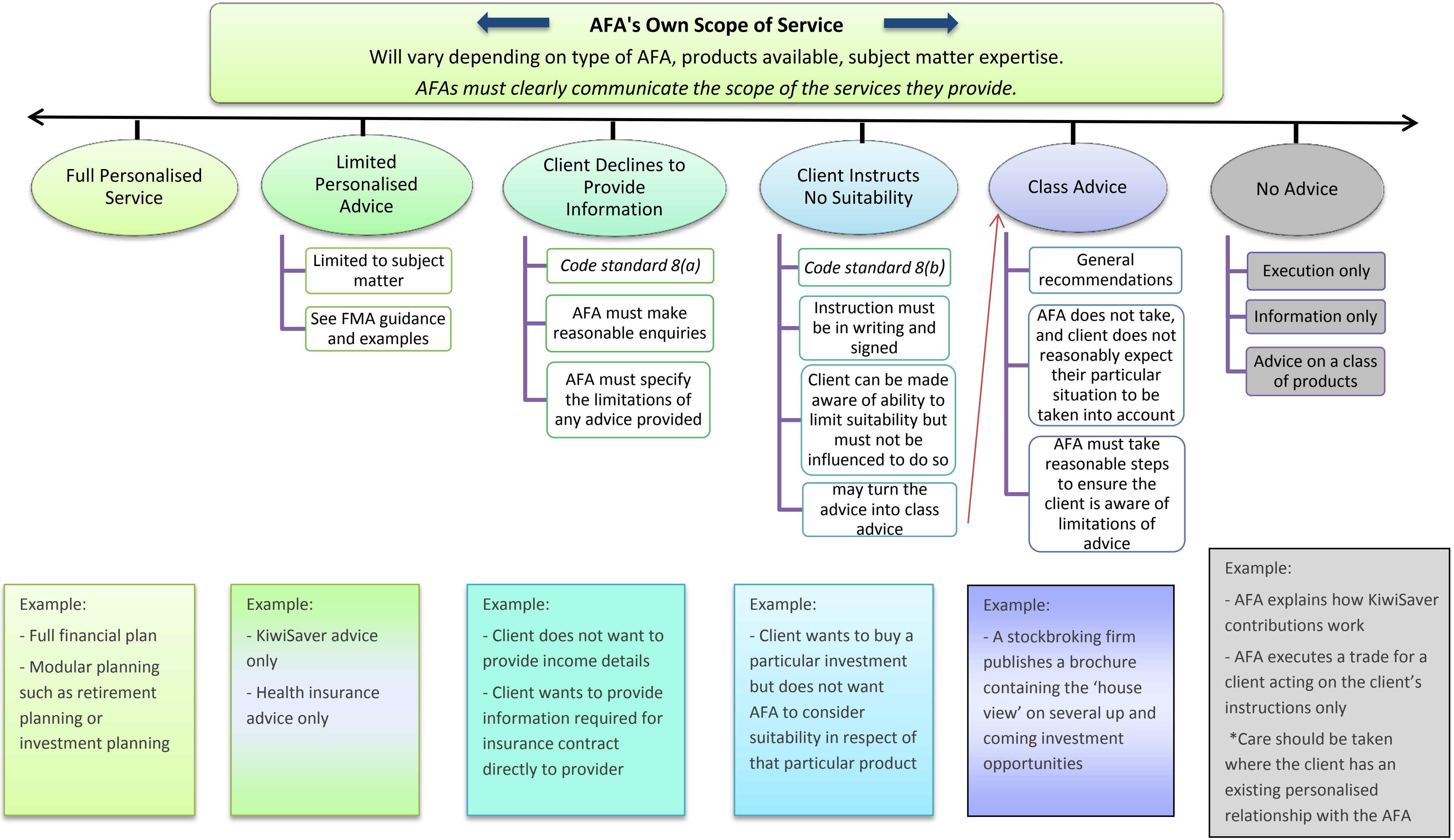
Consider whether it is appropriate to limit the scope of advice

19. Jim introduces himself and his services briefly and hands Lee his primary disclosure statement. At this stage he needs to ask Lee more questions to ascertain whether limited advice is appropriate. He finds out that Lee is 38, a solo mother, self-employed with an irregular income source. She owns her own home with a large mortgage. She has some hire purchase debts. She is not invested in KiwiSaver. She has recently inherited $50,000. Jim asks her about her insurance cover to which she gets annoyed and says she doesn't want to discuss insurance, she doesn't have any and doesn't want any.

20. Jim identifies some red flags in Lee's circumstances that mean limited advice may not be appropriate in this scenario. This is because recommending to Lee she invests in X fund without consideration of her insurance situation, paying down debt and lack of KiwiSaver membership may mean her financial position is compromised. Before proceeding, he needs to clearly explain to Lee the importance of getting more comprehensive advice and why this is preferable. He then needs to use his professional judgement to decide how best to deal with the situation. This may include explaining to Lee the options illustrated on the Spectrum of Advice diagram (see Appendix 2 page 20). If in Jim's view, none of the options are appropriate and he cannot place Lee's interests first, he should decline to act for Lee. In this example, simply providing a limited advice disclaimer saying Lee's full financial situation has not been considered in providing advice, will not be enough for Jim to comply with his obligations in placing his client's interests first.

Appendix Two: Diagram 'Advice Spectrum for AFAs'

This diagram illustrates the factors that impact and can limit an AFA's service. Examples are included below. This is a general guide only.



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