

Standard Conditions for managed investment scheme manager licences

If we grant you a licence to act as a manager of a non-restricted and registered managed investment scheme (**MIS manager licence**), the licence will be subject to conditions. See section [402](#) of the [Financial Markets Conduct Act 2013](#) (**FMC Act**).

Conditions will include:

- A condition that the licensee or authorised body may, under the licence, only provide the market services or class of market services to which the licence relates and for which each person is authorised under the licence (see section [402\(1\)\(a\)](#) of the FMC Act);
- Conditions imposed by the FMA under section [403](#) of the FMC Act – these will generally include:
 - The standard conditions (see **part A** below), and
 - Any specific conditions (see **part B** below).
- Any conditions imposed by regulations (see **part C** below). As at 1 December 2014, the only relevant regulations are the [Financial Markets Conduct Regulations 2014](#) (the **Regulations**).

We will consult with industry prior to changing the standard conditions in Part A.

A. Standard conditions

Where a MIS manager licence refers to *standard conditions*, this means the following conditions, which will be effective on and from 1 April 2014:

1. Skills and expertise

Standard condition:

You, or any authorised body covered by your licence, must inform us whenever there is a change in your key people and managers.

Explanatory note: Your **key people and managers** means the people in your management team responsible for the main activities required for you to deliver the licensed service. Regulation [191](#) already requires you to inform the FMA as soon as practicable when there is any change to your directors or senior managers, or to the key personnel of your authorised bodies. Standard condition 1 applies to the other key people and managers you should have told us about when you first applied for a licence and requires you to keep that information up to date. You can find details of who these people are in the capability section of the Licensing Application Guide.

2. Investing

Standard condition:

You must maintain adequate and effective procedures to monitor any dealings with scheme assets to ensure the limits and asset allocations set out in the SIPO are adhered to at all times.

Explanatory note: You must exercise care, diligence and skill in the investment of scheme assets, and act in accordance with the scheme's SIPO at all times. You are already required to report material breaches of certain SIPO limits (**limit breaks**) to the scheme's supervisor under section [167](#) of the FMC Act. FMA has consulted on a proposed framework and methodology concerning when limit breaks must be considered to be material and we will publish guidance on this issue by early 2015. This standard condition requires you to ensure that your SIPO monitoring procedures and controls continue to enable you to identify limit breaks and effectively minimise, and manage, the risks of limit breaks occurring. If you outsource investment management to an investment manager, you must still meet this condition. You may do so if your outsource arrangement ensures that the investment manager maintains effective procedures and controls for SIPO monitoring so that limit breaks are identified and their risks are minimised and adequately managed.

3. Outsourcing

Standard condition:

If you outsource a process/system necessary to the effective and proper running of the market service (or any other market services licensee obligation) you must be satisfied that the provider is capable of performing the service to the standard required to enable you to meet your market services licensee obligations and you must have a legally binding agreement with the provider. You must also ensure that records pertaining to the market service are available for inspection when requested by the FMA.

Explanatory note: This condition only covers outsource arrangements related to the licensed business where you rely on the outsource provider to meet your market services licensee obligations. Important information that you may want to consider when conducting due diligence on a proposed outsource provider includes:

- The outsource provider's previous experience
- Public reports and information about their service
- Reported complaints about them, and their complaint handling procedures
- Their operating jurisdiction and any protections/controls imposed in that jurisdiction.

You should regularly review your outsourcing arrangements (at a frequency appropriate to the risk involved) and you should monitor the ongoing performance of the outsource provider. For further information in relation to outsourced services see the outsourcing section of the Licensing Application Guide. You don't need to arrange for the FMA to have direct access to the outsource provider's records, providing we can promptly obtain the records through you.

4. Records

Standard condition:

You must have systems and procedures to maintain relevant records pertaining to your market service and you must provide us with the records we need to monitor your on-going capability to effectively perform the market service in accordance with the applicable eligibility criteria in the Act.

Explanatory note: This standard condition requires you to have arrangements in place so that we can inspect your records without unnecessary delays. We would expect this to involve reliable archival systems and getting client consents in advance. This also requires you to have appropriate arrangements in place with outsource providers (see standard condition 3 above).

5. Regulatory returns

Standard condition:

You must provide us with the information we need to monitor your on-going capability to effectively perform the market service in accordance with the applicable eligibility criteria in the Act. This will include updated information on the nature, size and complexity of your market service. Information must be provided in accordance with any Regulatory Return Framework and Methodology we issue under subpart 4, part 9 of the Act.

Explanatory note: In future, all licensees will be asked to provide information to the FMA on a periodic or ongoing basis, or on request, in accordance with the requirements set out in a Regulatory Return Framework and Methodology. Under section [412](#) of the FMC Act you have obligations to report various matters to the FMA as soon as practicable, including any material change of circumstances. This standard condition is in addition to those reporting obligations and any other reporting obligations that may be imposed in regulations. The regulatory returns will help the FMA to understand the profile of your business and to focus its resources appropriately. This is likely to require reporting of factual business information, such as business volumes and services types, numbers of customers, numbers and types of breaches, and complaints information. FMA will consult with industry prior to publication of the Regulatory Return Framework and Methodology which will form part of the standard conditions.

6. Compliance

Standard condition:

You must have, at all times, adequate and effective systems, policies, processes and controls that are likely to ensure you will meet your market services licensee obligations in an effective manner.

Explanatory note: This condition requires you to keep your systems, policies, processes and controls up to date to ensure you are always likely to be able to meet your market services licensee obligations in an effective manner. Changes may be needed over time as the size or scope of your business changes or due to changes in the market as a whole. You should consider whether your systems, policies, processes and controls are sufficient in to meet the requirements of the FMC Act and Regulations by reference to the minimum standards set out in the relevant Licensing Application Guide.

7. Governance arrangements

Standard condition:

Your governance and compliance arrangements must be substantially the same as, or better than, those in place, or which the FMA was advised of, at the time you applied for your licence (or any subsequent change advised to the FMA). You must notify the FMA of material changes to your governance and compliance arrangements.

Explanatory note: This condition requires you to maintain your compliance and governance arrangements to at least the standard you have told us about, but it allows flexibility for these arrangements to be improved. This condition also requires you to notify us of material changes to your governance and compliance arrangements, which includes any material change to your outsource arrangements. For further information in relation to the requirements of your governance and compliance arrangements see the governance and compliance sections of the Licensing Application Guide.

8. Financial resources

Note: this condition (*Financial Resources*) will not apply to you if you are a registered bank, an NBDT (as defined in the FMC Act), or a licensed insurer.

Standard condition:

You must calculate your **net tangible assets (NTA)** at least monthly, including as at your balance date each year. If your calculation shows that you did not have positive net tangible assets at any time, you must notify the FMA and provide an explanation, unless:

- a) you have previously notified the FMA that you have negative net tangible assets and explained:
 - (i) the circumstances that cause you to have negative NTA, including the nature of any significant intangible assets or related party receivables, and
 - (ii) whether you consider having negative NTA adversely impacts on your ability to carry out the market service effectively on an ongoing basis and why, and
- b) the FMA has advised in writing that you do not need to provide further notifications in respect of having negative NTA arising from those circumstances, and
- c) there has been no material change from the position and circumstances described to the FMA in your most recent previous notification.

You must also engage a qualified auditor and enter into agreed upon procedures terms with the auditor to provide for the auditor to review the calculation of your NTA as at your balance date each year. The auditor's report must include a statement that, as at your balance date, in the auditor's opinion, you calculated your net tangible assets correctly.

Explanatory note: **Net tangible assets (NTA)** has the meaning set out in appendix 1 of this document.

B. Specific conditions

We may also set extra licence conditions for individual entities on a case by case basis, for example:

1. Limits

If you request a limit on your licensed activity, or can only demonstrate the capacity to provide an effective service within certain parameters, we may set limits on your licence.

Any specific conditions will be notified to you at the time we grant you your licence.

C. Conditions imposed under Regulations

Regulations made pursuant to the FMC Act may impose additional conditions on your licence. These regulations may change from time to time, so you will need to keep abreast of any new regulations.

The FMC Act and regulations also contain many obligations that you will need to comply with when you have a licence even though they are not called licence conditions. For example section [412](#) of the FMC Act requires you to report various matters to the FMA as soon as practicable, including any breach (or likely breach) of your market services licensee obligations and any other material changes of circumstances. Also, section [227](#) of the FMC Act sets out the requirements for you to keep copies of documentation.

As at 1 December 2014, the only regulation that imposes additional licence conditions on a MIS manager licence is regulation [191](#) of the Regulations. Appendix 2 sets out this regulation, but you should refer to the FMC Act and Regulations in full to understand your market service licensee obligations.

Appendix 1

Net tangible assets (NTA)

For the purposes of Standard Condition 8 (*Financial Resources*) **Net tangible assets (NTA)** has the following meaning:

1. If a market services licensee has notified the FMA it is licensed as a financial services licensee by the Australian Securities and Investments Commission (**ASIC**), and it is required to calculate its net tangible assets (NTA) in accordance with the methodology published by ASIC, then net tangible assets (NTA) shall have the same meaning in that methodology published by ASIC.
2. In all other circumstances, NTA shall mean the market services licensee's **adjusted assets** minus **adjusted liabilities**.
3. **Adjusted assets** means, in relation to a market services licensee, the value of total assets as they would appear on a balance sheet at the time of calculation that has been prepared on the same basis as the market services licensee's financial statements required under part 7 of the FMC Act, minus any **excluded assets**.
4. **Excluded assets** means:
 - a) the value of any intangible assets (i.e. non-monetary assets without physical substance), plus
 - b) the value of any **associated party receivables** except **permitted associated party receivables**.
5. **Associated party receivables** means any receivables, or other obligations, owed to the market services licensee by any person who:
 - a) is an associated person (as defined in the FMC Act) of the market services licensee; or
 - b) was or, if the FMC Act had been in force at the time, would have been an associated person (as defined in the FMC Act) of the market services licensee at the time the liability was incurred or the investment was made.
6. **Permitted associated party receivables** means an associated party receivable to the extent that:
 - a) it is **adequately secured**; or
 - b) is owed by a registered bank regulated by the Reserve Bank of New Zealand or an Australian Authorised Deposit-taking Institutions (ADI) authorised under the Australian Banking Act 1959; or
 - c) the following conditions all apply:
 - (i) it is receivable as a result of a transaction entered into by the market services licensee in the ordinary course of its business on its standard commercial terms applicable to persons that are not associated with the market services licensee on an arm's length basis;
 - (ii) no part of the consideration for the transaction is, in substance, directly or indirectly invested in the market services licensee;
 - (iii) the value of the receivable (before any discount is applied) is not more than 20% of the assets less liabilities as they would appear on the market services licensee's balance sheet at the time of calculation.

7. **Adequately secured** means, in relation to an associated party receivable, that receivable is:
- a) secured by an enforceable security interest over financial products (other than financial products issued by the market services licensee or its associate) if:
 - (i) the financial products are regularly traded on an **acceptable financial product market** or are interests in a registered scheme for which withdrawal prices are regularly quoted by the manager of the scheme, and the market services licensee believes on reasonable grounds that withdrawal may be effected within 5 business days; and
 - (ii) the market value of these financial products is at least 120% of the amount owing, or at least 109% of the amount owing if the financial products are debt securities; or
 - b) secured by a registered first mortgage over real estate that has a fair market valuation of at least 120% of the amount owing; or
 - c) secured by an enforceable security interest over amounts owing to another market services licensee which themselves are adequately secured.
8. **Acceptable financial product market** means any registered market registered market within the meaning of section 2(1) of the Securities Markets Act 1988 or any licensed market within the meaning of section 6 of the Financial Markets Conduct Act 2013 and each of American Stock Exchange, Australian Securities Exchange, Borsa Italiana, Bursa Malaysia Main Board and Bursa Malaysia Second Board, Euronext Amsterdam, Euronext Paris, Frankfurt Stock Exchange, Hong Kong Stock Exchange, JSE, London Stock Exchange, NASDAQ Stock Market, New York Stock Exchange, Singapore Exchange, SWX Swiss Exchange, Tokyo Stock Exchange and Toronto Stock Exchange.
9. **Adjusted liabilities** means, in relation to a market services licensee, the amount of total liabilities as they would appear on a balance sheet at the time of calculation that has been prepared on the same basis as the market services licensee's financial statements required under part 7 of the Act,
- a) minus the amount of any liability under any subordinated debt, where the obligation to repay the debt is subordinate to all other claims, demands, rights and causes of action of all unsubordinated creditors and the debt is not repayable within one year;
 - b) plus the maximum potential liability under any guarantee provided by the market services licensee other than a guarantee limited to an amount recoverable out of any scheme property of a managed investment scheme operated by the licensee.

Appendix 2

Conditions imposed by regulations as at 1 December 2014

Extract from the Financial Markets Conduct Regulations 2014:

Conditions of licences

191 General reporting condition

- (1) A market services licence is subject to a condition that, if any of the following occurs, the licensee or an authorised body must, as soon as practicable, send a report containing details of the matter to the FMA:
- (a) the licensee or an authorised body becomes aware or has reasonable grounds to believe that—
 - (i) the licensee or an authorised body is, or it is likely that the licensee or authorised body will become, subject to an insolvency event; or
 - (ii) a director or senior manager of the licensee, or any of the key personnel of an authorised body, is adjudicated bankrupt or it is likely that that person will be adjudicated bankrupt (whether in New Zealand or overseas); or
 - (b) the licensee or an authorised body becomes aware that a relevant proceeding or action has been commenced or taken against any of the following:
 - (i) the licensee;
 - (ii) an authorised body;
 - (iii) a director or senior manager of the licensee;
 - (iv) any of the key personnel of an authorised body; or
 - (c) a director or senior manager of the licensee, or any of the key personnel of an authorised body,—
 - (i) resigns, is removed, or otherwise ceases to hold the office or position;
 - (ii) is appointed, employed, or engaged; or
 - (d) an auditor of the licensee or an authorised body—
 - (i) resigns or otherwise ceases to hold the office;
 - (ii) is appointed (other than by way of reappointment); or
 - (e) the licensee or an authorised body proposes to change its name or its legal structure (for example, by virtue of an amalgamation); or
 - (f) the licensee or an authorised body proposes to enter into a major transaction (within the meaning of section 129 of the Companies Act 1993 applied to a licensee or an authorised body whether or not it is a company); or
 - (g) the licensee or an authorised body becomes aware that a transaction or an arrangement has been entered into, or it is likely that a transaction or arrangement will be entered into, that will result or has resulted in a person obtaining or losing control of the licensee or the authorised body.
- (2) In subclause (1)(b), **relevant proceeding or action**—
- (a) has the same meaning as in regulation 5(1); and
 - (b) includes a criminal proceeding for a crime involving dishonesty; but

(c) does not include any proceeding commenced, or action taken, by the FMA.

(3) In subclause (1)(g), **control** has the same meaning as in clause 48 of Schedule 1 of the Act.