



Classes of financial advice service for **full financial advice provider licences**

The FMA specifies **three** licence classes for financial advice providers (FAP) for the purposes of full FAP licensing: Class 1, Class 2 and Class 3. See section 395(2) of the Financial Markets Conduct Act 2013 as amended by the Financial Services legislation Amendment Act 2019 (FMC Act).

Licence classes apply to the *manner* in which regulated financial advice may be provided but do not limit the *types* of financial advice that may be provided under the licence, as the latter is addressed by the competency requirements in the Code of Professional Conduct for Financial Advice Services.

Licence classes are incremental from 1 to 3. Each incremental class of licence incorporates and permits all service classes below it, as described below.

An applicant for a full FAP licence can apply for (and be assessed for) the class of licence that best suits their particular circumstances and the nature of the service they and their authorised bodies intend to provide.

Class 1

A Class 1 licence covers the service of the **licence holder** providing regulated financial advice to retail clients:

- on the licence holder's own account; and/or
- through a sole adviser practice structure.

A **sole adviser practice structure** is a structure where:

- the licence holder is an entity; and
- the licence holder engages only one financial adviser, who must be engaged directly, and is (and must remain) either the sole director, or one of two directors, of the licence holder.

What does this mean in practice?

A Class 1 licence effectively covers the service of providing advice as a sole adviser business (whether incorporated or unincorporated). It does not permit the use of interposed persons, authorised bodies, multiple financial advisers, or nominated representatives. It allows:

- an individual licensee to provide advice on his or her own account

- a corporate licensee to provide advice on its own account (e.g. through a digital channel) and/or to provide advice through one financial adviser, who must be the director (or one of only two directors) of the corporate licence holder.

Holding a Class 1 licence means that the licence holder can only provide the type of service covered by the licence. For example, under a Class 1 licence:

- a corporate licence holder cannot have an interposed person arrangement – i.e. the licence holder must directly engage the sole financial adviser
- an individual licence holder cannot engage any financial advisers to provide advice on their behalf
- the licence holder cannot have authorised bodies on the licence
- the licence holder cannot engage nominated representatives to provide advice on its behalf
- the licence holder cannot engage any entities to provide advice on its behalf.

An individual Class 1 licence holder is permitted to appoint a financial adviser as a locum to provide regulated financial advice on the licence holder's behalf if the licence holder cannot provide regulated financial advice due to a medical or other temporary absence from the business. If a locum arrangement is in place for 3 continuous months or longer, the FMA must be notified (see business continuity requirements in standard condition 5 and notification requirements in standard condition 7).

Class 2

A Class 2 licence covers the service of a **financial advice provider** (whether the licence holder *or any authorised body*) providing regulated financial advice to retail clients:

- on the financial advice provider's own account; and/or
- through one or more financial advisers.

What does this mean in practice?

A Class 2 licence permits the licence holder and any authorised bodies to engage any number of financial advisers, but it does not allow the licence holder or any authorised bodies to engage nominated representatives. Those advisers may be directly or indirectly engaged, however no person can use an interposed person arrangement without specific, case-by-case approval from the FMA.

Under a Class 2 licence, the licence holder and any authorised body can provide any service covered by a Class 2 licence (subject to the terms of each authorisation).

A Class 2 licence also covers all of the services covered by a Class 1 licence. For example, an entity that only provides advice on its own account may wish to apply for a Class 2 licence if it intends to engage a number of financial advisers in future. In this case it would be assessed for its capability to provide a Class 2 licence service, and will also need to notify us when the financial advisers are engaged (as per standard condition 7: *Notification of material changes*).

Under a Class 2 licence:

- a financial advice provider cannot engage nominated representatives to provide advice on its behalf
- a financial advice provider cannot engage any entities to provide advice on its behalf.

Note that under the FMC Act a licence holder that is an individual cannot have authorised bodies on its licence.

Class 3

A Class 3 licence covers the service of providing regulated financial advice to retail clients in any manner, subject to the limitations in the FMC Act.

What does this mean in practice?

A Class 3 licence covers all of the services covered by Class 1 and Class 2 licences, and permits the licence holder and any authorised bodies to engage any number of nominated representatives, along with any other type of structure permitted by the FMC Act and not covered by licence Class 1 or 2.

This means that a Class 3 licence permits a financial advice provider to provide regulated financial advice to retail clients:

- on a financial advice provider's own account;
- through one or more financial advisers;
- through one or more individuals nominated as nominated representatives under section 431T of the FMC Act; and/or
- if permitted by a specific licence condition, through an engaged entity.

If a financial advice provider wishes to engage nominated representatives, it must hold, or be an authorised body under, a Class 3 licence.

Any financial advisers or nominated representatives may be directly or indirectly engaged. However, no person can use an interposed person arrangement without specific, case-by-case approval from the FMA.

Note that under the FMC Act a licence holder that is an individual cannot have authorised bodies on its licence.

Financial advice provider full licence class of service

Applicants for a financial advice provider full licence will be asked to select the licence class they wish to apply for.

A licence holder and any authorised body may only provide the class of service to which the licence relates. This means applicants need to choose the class that accommodates the type of financial advice business they, and each of their authorised bodies, plan to provide. For example, if an authorised body wishes to have nominated representatives, then the licence holder would need to apply for (and be granted) a Class 3 licence, even if the licence holder itself does not intend to have nominated representatives.

Subject to complying with the FMC Act and regulations (including the standard conditions and any specific conditions), financial advice providers may change the manner in which they provide their financial advice service at any time (for example, by commencing to provide digital advice), but must stay within the limitations of the licence class.

If a licence holder or any authorised body wishes to provide a type of service not covered by their current licence, the licence holder will need to apply for a new class of licence. To avoid unnecessary licence costs, applicants should give consideration to their future plans, and those of any authorised bodies, and select the appropriate licence class of service at the outset.

The relevant licence fee as set in [regulations](#) will be applied, based on the class of licence applied for.