

ANNUAL REPORT 2017

Hon Jacqui Dean

Minister of Commerce and Consumer Affairs

This report is provided as required under sections 150 and 151 (3) of the Crown Entities Act 2004. It is the annual report of the Financial Markets Authority for the year ended 30 June, 2017.



Murray Jack

Chair
Financial Markets Authority
15 September, 2017



Mark Todd

Chair
Audit and Risk Committee
15 September, 2017



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FMA Annual Report 2016-2017

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2017 Milestones

E-road decision
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KiwiSaver fees
methodology
released.

IMF's Financial
Systems Stability
Assessment for
New Zealand
published.

Jun
2017

May
2017

KiwiSaver
sales and advice
guidance
released.

Consultation
on robo-advice
exemption.

Warming
decision
(market
manipulation).

Mar
2017

Additional
Government
funding
announced.

Nov
2016

A guide to
FMA's view of
conduct released.

Feb
2017



Licensing of short-term derivatives announced.

Apr 2017

Strategic risk outlook released.

Investor entitlements animation.



From the Chair



Last year, the FMA completed its evolution into a fully fledged conduct regulator. In our Annual Report 2016, I said we had built a solid appreciation of the capabilities and resources needed to

ensure we are the conduct regulator we want to be, and are required to be.

In late 2016, the Government set our funding for the next four years. This was our first ever funding review. The additional funding we've secured brings with it added financial stability. It allows us to plan more strategically, and to focus on the activities in the next three to five years that will deliver our mandate effectively.

This year has been characterised by two themes. First, we have deliberately focused on activities we believe demonstrate the ongoing experience for market participants and investors, under the 'new normal' of conduct regulation. Our chief executive expands on this in his remarks.

Second, we have reviewed our medium-term strategic planning to make sure we direct the additional funding to our key areas of focus. In addition to feedback from those we regulate, two key external pieces of work helped inform this review: The International Monetary Fund's Financial Sector Assessment Programme report (FSAP); and the independent evaluation of our effectiveness and efficiency, carried out by Deloitte. Both reviews impact how we work, and how we evaluate our success. They also support our view that we can, and should be, exploring and testing the boundaries of our regulatory remit over the four years covered by our Statement of Intent, and beyond.

What remains steadfast is our purpose – to facilitate and promote fair, efficient and transparent New Zealand financial markets. We are conscious of the need to balance the cost, burden, benefit and market impact

of our work. In doing more, we are aware of the flow-on effects for the financial services sector in terms of time, resource and cost. These must be weighed against the direct benefits of our work, and the broader positive results of a well-regulated financial services sector. We set out on page 20 some of the ways we are trying to reduce regulatory burden and unnecessary cost, as an initial step to reporting on this in more detail.

“The additional funding we've secured brings with it added financial stability”

Shelley Cave, a foundation board member, stepped down in April 2017.

Shelley brought significant experience to the FMA and our predecessor – the Securities Commission, from the financial markets. I thank Shelley for her contribution. During the year, we welcomed Ainsley McLaren and Elizabeth Longworth as new Board members.

On behalf of the FMA Board, I would like to thank Rob Everett, the executive committee, and all of the FMA team, for their hard work during the past year.

Murray Jack
Chair

From the Chief Executive

Early this year, we published a guide to our view of conduct. In it we said that conduct regulation was a journey for ourselves and for the businesses and individuals we regulate. From our perspective, that journey has had the same features as any other – we've had to plan our route, look into and learn from what we see in the rear-vision mirror, and operate the vehicle at the same time.

This rear-view self-evaluation was prompted and informed by the Government's review of our funding, and by the International Monetary Fund's (IMF) review of what we do. We've also been working on the financial advisers' regime reforms.

We mapped out our route in our foundation documents – the Strategic risk outlook, the Statement of intent and Statement of performance expectations, our Annual corporate plan and this report. Together, they set a clear path for the work we want to do. We have also refreshed our performance measures to ensure they show the impact of this work. We have been transparent about the risks we see to our objectives, our planned responses, and the resources we will apply. Lastly, we outlined the performance measures that will assess our impact in the markets we regulate.

As well as looking backwards, and to the journey ahead, we must live in the present and operate within our regime – even as it evolves around us.

This year, we completed licensing of managed investment scheme managers, moved further into monitoring currently licensed sectors, and spent considerable time assessing conduct and operations in our traded markets.

The conduct guide mentioned above outlined to providers and consumers alike our expectations for industry conduct. We expect debate, and some resistance, to the influence we want to exert on how providers engage with their customers. But we are committed to contributing to high standards of behaviour. We encourage, guide, and occasionally compel, providers and intermediaries to think about how they are serving their customers.

At the same time, we encourage and help investors to make well-informed decisions. We must work on both sides of the fence to create a safe and more transparent environment investors can participate in with confidence, and to allow financial market growth. Our increasing investor-focused work serves that purpose.



Our oversight of frontline regulators – the NZX, the accredited audit bodies and supervisors – is critical to ensure market regulation is effective. The IMF review ensured we took time to consider, along with the Government and our other stakeholders, some of the gaps and idiosyncrasies in New Zealand's regulatory regime.

“We must work on both sides of the fence to create a safe and more transparent environment...”

It is a fascinating time to be in the driver's seat. Our FMA team is energised by the support we receive from industry, investors and the many parts of the state sector we engage with. We relish our responsibilities. We know how much there is to do, and we are continuing to build the people and systems capability we need to do it.

I am lucky to be working with such a smart, committed team, and we all appreciate the support and guidance of our equally dedicated Board. We look forward to continuing the journey.

Rob Everett
Chief Executive

Who we regulate

This diagram outlines who we regulate and oversee within New Zealand’s financial markets.

FMA licensed



Product providers

Licensed derivatives issuers
 Licensed managed investment scheme managers (including KiwiSaver providers)

Licensed discretionary investment management service providers
 Authorised financial advisers (AFAs)
 Qualifying financial entities (QFEs)



Advisers & discretionary managers



Infrastructure providers

Licensed financial product markets
 Licensed crowdfunding providers
 Licensed peer-to-peer lending providers
 Designated settlement systems

Licensed supervisors
 Licensed independent trustees
 NZX (Regulation)
 Accredited audit bodies



Frontline regulators


Not FMA licensed

*These market participants are:
 -licensed or registered elsewhere, or
 -not required to be licensed.
 We oversee them, but do not licence them.*

Debt issuers
 Equity issuers
 Registered audit firms
 Licensed auditors
 Registered financial advisers (RFAs)

Brokers and custodians
 Managed investment scheme custodians
 Registered banks
 Licensed insurers
 Wholesale service providers
 Foreign exchange providers

How we regulate





Intelligence led

- Use behavioural insights
- Develop capability and systems to analyse data
- Use information to improve understanding of risk

Risk based

- Focus on sector-wide issues
- Focus our work on risk with greatest potential for harm
- Direct our work to reduce harm to investors and market participants




Deciding when to intervene


- What is the impact?
 - For investors
 - Monetary value involved
- What is the likelihood of harm?
 - What is the level of financial capability?

Applying a conduct lens

We developed a guide to good conduct, describing how we use conduct as a lens for how we look at and interact with financial services providers. The lens has the following five focus points:



-  Communication
-  Capability
-  Control
-  Culture
-  Conflict



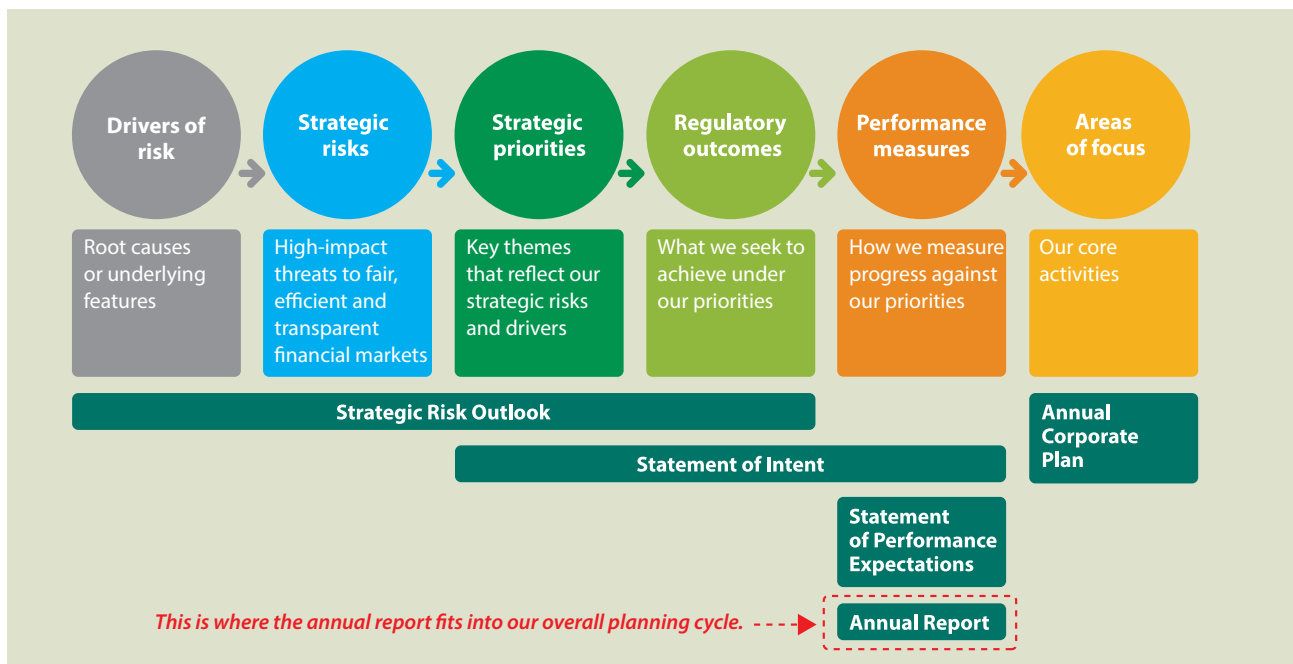
Work collaboratively

Effective engagement with organisations in the financial sector
See page 33 for more detail on the work we do with others

Our strategic priorities

Our Strategic risk outlook sets out the seven priorities that inform the work we do. Our work during the past financial year that reflects these priority areas is outlined on pages 9 to 32.

 <p>Governance and culture</p> <p>We want to see: Boards and senior management leading organisational culture and placing customer interests at the centre of their business strategies.</p>	 <p>Conflicted conduct</p> <p>We want to see: Conflict-management procedures designed to put customer interests first.</p>
 <p>Capital market growth and integrity</p> <p>We want to see: Resilient and dynamic capital markets with broad investor participation and sound infrastructure.</p>	 <p>Sales and advice</p> <p>We want to see: Sales and advice practices designed to meet the needs of customers.</p>
 <p>Investor decision-making</p> <p>We want to see: Capable, confident and well-informed investors.</p>	 <p>Frontline regulators</p> <p>We want to see: Frontline regulators who contribute to well-regulated financial markets.</p>
 <p>FMA effectiveness and efficiency</p> <p>We want to see: The FMA as an efficient and effective intelligence-led regulator.</p>	



Governance and culture



Communicating our view of conduct

Our guide to the FMA’s view of conduct, released in February, describes for boards of directors and senior managers why we think conduct matters. It makes clear that conduct is shaped more by culture than formal systems and processes, and that culture in any organisation is the responsibility of the leadership, not a regulator. The guide also gives practical detail about what we will focus on when we visit or otherwise engage with financial services provider, and how we will deal with complaints, poor customer outcomes or other issues.

We received 29 submissions when we consulted on this guide. Submitters told us they would use the guide in various ways, including to:

- evaluate their own standards and view of conduct
- challenge their existing thinking
- inform their operations reviews

We want to see:

Boards and senior management leading organisational culture and placing customer interests at the centre of their business strategies.

- inform the monitoring plans and risk assessments of those they supervised.

Investor entitlements

Given the focus on customer outcomes, we also published a short guide outlining what consumers should expect from their financial services providers. The Investor Entitlements Guide can help New Zealanders be more confident in interactions with providers, to ask questions and make more informed investment decisions.

Investor entitlements

What to expect from your financial services provider

Most financial services providers must be licensed by the Financial Markets Authority. If you deal with a licensed provider, New Zealand laws entitle you to minimum standards of service. We monitor and enforce these standards. We believe you should also expect these minimum standards from the broader financial services industry.

When dealing with a licensed provider you're entitled to:

- competence**
They have the skills and experience to offer you the right service or product for your needs. They provide their products and services with care, diligence, and skill. They tell you if there are limits to what they can provide, and why.
- be treated honestly and fairly**
They balance their business needs with yours, and tell you about any conflicts of interest. They tell you if they get paid by someone other than you – for example through commission. They act in your interests, treat you honestly and fairly, and fulfil their duties and obligations.
- be informed**
They listen to what you want and help you understand your options. They encourage you to weigh up the pros and cons of your decision before you make it. They keep in touch with you, and help if something goes wrong.
- know how much you are paying**
They clearly explain what you will be paying, now and in the future, for their products and services. And why those fees are reasonable for those products and services.
- have your problems and complaints dealt with properly**
They enable their staff to do the right thing for their customers. They identify and manage problems, and respond constructively if you make a complaint. If you can't resolve an issue by dealing directly with your provider, they direct you to their disputes resolution scheme.

wise up invest well

FMA
FINANCIAL MARKETS AUTHORITY
TE MANA TAHA HOKIOHIOKI - NEW ZEALAND

Assessing conduct – supervision and monitoring work

The FMA's guide to our view of conduct signalled to those we regulate how we would conduct our supervision and monitoring field work. The information and insight gained during field work gives us a gauge of the 'conduct maturity' of the New Zealand financial service sector. It also allows us to increase our knowledge and conduct regulation maturity.

This work helps us report meaningfully against our SOI and SPE performance measures, which evaluate what financial services providers do, and how they do it. This conduct also underpins good customer outcomes.

Frontline work is relevant to several of our priorities. Our findings are described under 'Supervision and monitoring – what we found' headings. We also identify which of our performance measures are impacted by this work (and where to find it in the performance section).

It's important to note the following about how we assess conduct and report on our findings:

- Standards of conduct and conduct regulation are still quite new in New Zealand. With this in mind, we did not expect providers to have immediately reached a high common standard of conduct. This is a key part of why results for supervision performance measures remained low (and in some cases declined). We also think it shows that we picked the right areas to focus on. We now have a baseline and will focus on improvement from here.
- Our reporting is based on field work, which often involves visiting different groups of financial services providers each year or examining a theme across a wide range of providers. We use a risk-based approach to determine whether we re-assess financial services providers for issues we have previously asked them to address.

- As our own experience increases, our approach to evaluating financial service providers evolves. We already are 'marking harder' in this respect.
- This year, we have reviewed and improved our performance metrics. Regardless of approach, reporting on the results of our 'frontline' work, and evaluating conduct maturity, will continue to be a significant part of our reporting.

Improvement still required

In 2016, our results reflected that most financial services providers had come through FMC Act licensing for the first time. Most had to take remedial action before they could be licensed, or had conditions attached to their licence that required our follow-up.

This year, there were still some providers going through licensing. But in other instances, our follow-up work revealed that some providers had not fulfilled the conditions put on their licence. While we accept that overall conduct and conduct regulation is at an early stage of maturity in New Zealand, a provider not fulfilling a condition of licensing is not satisfactory, and we expect that to improve.

In each case where this has happened we have imposed a time limit (typically, three to six months) for meeting the conditions imposed. Where there is a supervisor (for example for a fund manager), we require them to monitor compliance. If progress has not been made within the timeframe, we expect the entity – and its supervisor if there is one – to report that as a breach. At that point, we will review our options, including using FMC Act measures such as imposing tighter licence conditions, formal direction orders or even removing licences.

Boards of licensed market participants receive information on customer outcomes (SOI measure 2 – see page 47).^{}**

This year we reviewed 45 financial services providers – a combination of licence applications and post-licensing monitoring visits. Here is what we found:

- Only two had measures described in their licence applications (for example, complaints-handling procedures) that we deemed sufficient to allow information on customer outcomes to be meaningfully reviewed by their boards.
- 15 did the necessary work to meet that standard by the time of our first post-licensing monitoring visits.
- 28 either had to review their governance frameworks before getting a licence, or had not fulfilled licensing conditions (as described) and needed to take urgent action.

Most deficiencies concerned poor or non-existent reporting of customer outcomes – to their board(s), or internally. Where information did go before boards, in some cases reporting was unclear about what was discussed and decided, what actions were required, by whom, and in what timeframe. Or there was no continuity

between one report and the next, showing no follow-through or resolution of previous issues discussed.

Licensed market participants have risk and compliance frameworks are relevant to business activities (SOI measure 3 – see page 47).

During the year, we reviewed 50 financial services providers. Again, this was both licence applications and post-licensing monitoring. Only one licence application of 50 met the standard required, and had appropriate frameworks in place.

Another 10 had done the work in time for our first post-licensing monitoring visit.

But 38 had to make improvements before getting a licence, or were required to take urgent action after our first monitoring visit, because they had not made the required changes.

Examples of deficiencies included:

- no clear roles and responsibilities for testing and monitoring compliance
- no explanation of how outsourced service providers are performance managed (for example, investment managers and custodians).



45

Providers reviewed

2

Passed at licensing

15

Met the standards after licensing

28

Had to review their governance framework

Boards receiving information about customer outcomes

^{**}The licensed populations making up these measures are derivatives issuers, discretionary investment management schemes (DIMS), personalised DIMS and managed investment schemes.

Reporting on conduct outcomes

Our first Conduct outcomes report, previously the Investigations and enforcement report, shows how we utilised the broad range of conduct regulation powers available to us under the Financial Markets Conduct Act 2013 (FMC Act).

The report noted the key actions and outcomes during the period:



We will continue to develop this report to communicate our view of conduct. Future reports will include a review of the consumer experience of conduct as well.

Corporate governance

In August 2016, we published a review of corporate governance disclosures with 45 companies, listed and unlisted. Good corporate governance is one of our strategic priorities because it is an important contributor to transparency and efficiency in capital markets.

We measured whether companies had disclosed information as recommended in our corporate governance handbook, which covers the core elements of good corporate governance.

In general, companies listed on the NZX publish substantially more corporate governance information than unlisted companies. We encouraged unlisted companies to consider improving their corporate governance disclosures, where this would be useful to their shareholders or customers.

In particular, we encouraged newly licensed financial services companies to consider what corporate governance disclosures would be useful for their customers.

Of the nine principles in our handbook, stakeholder interests had the lowest reporting (19%), followed by reporting on remuneration (37%). We encourage companies to improve their corporate governance reporting in these areas, and we have provided examples of good reporting.

The NZX has now reviewed its corporate governance reporting requirements for listed companies and largely adopted the recommendations in our handbook. We welcome consistency between different corporate governance reporting regimes. To avoid duplication we will now refocus our handbook on unlisted companies.

We are committed to encouraging corporate governance best practice. We will continue to promote good corporate governance and may, from time to time, review the corporate governance disclosures of companies as part of our monitoring programme.

We will continue to engage with other parties involved with corporate governance in New Zealand, including the New Zealand Shareholders' Association, the Institute of Directors, and the New Zealand Corporate Governance Forum, to encourage consistency and high standards.



Sky City
Tower
↓

SKY CITY
CONVENTION CENTRE
↻ X P ↻





Conflicted conduct

Conflicted conduct



Supervision and monitoring work – what we found in 2017

Conflict management procedures address conflicts relevant to a licensed market participant's business (SOI measure 5 – see page 48).**

In 2017, some financial services providers were still coming through licensing. But we found in our follow-up work that others had not fulfilled the conditions imposed on their licence.

Combining licence applications and post-licensing monitoring visits, we reviewed 33 financial services providers. Only one provider had measures set out in their licence application that managed the risk of conflicted conduct adequately.

Another five did the necessary work to manage the risk of conflicted conduct, by the time of our first post-licensing monitoring visits. But 27 either had to review their governance frameworks before getting a licence or had not fulfilled licensing conditions and needed to take urgent action, after our first monitoring visit.

Insurance replacement business update

As signalled in last year's annual report, we completed a report on insurance replacement business, published in June 2016: [Replacing life insurance – who benefits?](#)

The report identified 200 advisers with a high volume of active policies on their books, and who were showing high levels of replacement business. We've taken a closer look at the conduct of a smaller group of those advisers. We wanted to find out where there were genuine reasons for replacement, and where there were no apparent benefits to clients. We then selected 24 advisers for deeper investigation, where we had most concern.

We want to see:

Conflict-management procedures designed to put customer interests first.

We had already discovered a strong link between high levels of replacement and the types of commissions or incentives advisers received. This was the common factor in the 24 advisers selected. We gathered further information about these advisers' activities and the processes used to replace clients' policies, then interviewed them.

We wanted to discover whether the advisers had been observing their obligations under the Financial Advisers Act, and whether their behaviour met the standards set out in the professional code of conduct. We will release our findings by the end of 2017.

Related sections:

- [Governance and culture](#)

**The licensed populations making up these measures are derivatives issuers, discretionary investment management schemes (DIMS), personalised (DIMS) and managed investment schemes.

Capital market growth and integrity



Capital market growth and integrity

Promoting and encouraging the growth and integrity of New Zealand’s financial market is central to our purpose as a regulator. We want to raise standards of conduct of participants and promote the development of fairness, efficiency and transparency in our core capital markets.

We also focus on our perimeter, which is outside our core regulated area. Activities in the perimeter have common features, including businesses and individuals that are not licensed, offshore locations, and a higher risk of scams. Because the activities are offshore, or otherwise outside our mandate, we have less ability to address harm and risks to investors and to the integrity of our capital markets.

Core capital markets

Licensing outcomes report

In May 2017, we published a review of the first two-and-a-half years of licensing process for financial service providers.

We want to see:

Resilient and dynamic capital markets with broad investor participation and sound infrastructure.

Before 1 December 2016, we received 253 licence applications and granted 201. The report shared our experiences and lessons learned from licensing. Issues uncovered included a lack of understanding among applicants of the new regulatory requirements, and and a lack of formal process. There were also offshore companies seeking a licence that did not have genuine business activities in New Zealand.

Alongside the report, we provided future first-time licence applicants with online resources such as ‘four key steps to help get your licence’ (see below).

Licensing outcomes report



Getting a licence under the Financial Markets Conduct Act

You are much more likely to be successful, if you follow these steps:

- STEP 1: Know your legal requirements**
When we assess your application we need to see how you will meet minimum standards now and in future. The minimum standards will align with you to how you need to meet the legal eligibility criteria contained in the FMC Act for your licence. You need to set out clearly in your application how you will meet these criteria. Get familiar with the minimum standards for your type of licence. [Our website](#) has licensing guides and resources to help you understand what you need to do. You should also seek legal or other expert advice if needed.
- STEP 2: Look at your business critically**
Once you know what’s required of you, weigh up the pros and cons of being licensed and any new business opportunities it offers. Think about:
 - [Do you need to be licensed?](#)
 - What will be the long term cost of licensing your business?
 - Do you have the right experience, capital and resources to maintain a licence?
 - What are the key benefits of being licensed for your business?
- STEP 3: Identify any gaps in your current processes**
Work out how you will address these gaps to be able to meet the legal eligibility criteria. You may have to:
 - Update existing policies, processes or procedures – streamline where possible, and/or
 - Develop internal procedures and controls to meet the new FMC Act requirements.
- STEP 4: Complete the online licence applications**
Before you prepare your licence application:
 - Read all parts of the relevant guide for your licence type on [our website](#).
 - Prepare answers to the questions in Part B.
 - Check the comments in Part C for any additional supporting evidence you need to provide or for further explanations.
 - You will need to set up a [Business Invoicing](#) before you start your application.
 In your application it is helpful to include:
 - A clear description of your business
 - The structure of its ownership
 - The operating model
 - The structure
 - An outline of the products and services you offer and who your target customers are. Using pictures and diagrams to show organisational structures and reporting lines is helpful here.
- STEP 5: Meet with us**
Meet with us early
 - This helps us understand your business. Before you submit your application let us know what supporting evidence you will include. Meeting together gives you a better overview of the licensing process and the timeliness of your application. It also gives you the chance to alter your application before you submit it, if necessary.
 - Nominate a key person to liaise with us. One of our lead assessors will contact the person once your application is lodged and keep them updated about your application.
 - Someone from your business has a much better understanding of its key processes and how it runs than a consultant, so we would prefer to speak with one of your team.

Summary of applications (as at 30 November 2016)

We summarise the types of licence applications received and whether they were successful, withdrawn or declined.

Overall Total Applications	Unsuccessful	Withdrawn	Total Approved
253	11	41	201
72	0	6	Managed investment scheme 66
12	1	2	Crowdfunding 9
61	1	7	Discretionary investment management service 53
17	0	7	Personalised discretionary investment management service 10
32	1	0	Licensed independent trustee (individual) 31
3	0	0	Licensed independent trustee (corporate) 3
10	0	3	Peer-to-peer 7
46	8	16	Derivative issuers 22

New Zealand Business Numbers

A New Zealand Business Number (NZBN) is a unique number allocated to a New Zealand business by the Ministry of Business, Innovation and Employment (MBIE), as a means of identification. Our internal and external facing systems need to be able to support the NZBN requirements by December 2018. MBIE assessed our progress as ‘relatively advanced’. We plan to do what is necessary to be able to fully support NZBN by July 2018.

Integrity of our markets

Insider trading, market manipulation and other unethical trading activity undermines investor confidence in our capital markets. This happens regardless of the size of the activity, whether there are identifiable ‘victims’ and whether those responsible made money.

This year, a market manipulation case and an insider trading case have been resolved in the New Zealand courts. We know that bringing cases to court has a deterrence effect. It also provides real-world examples for market participants to test their processes and systems against and understand ‘what not to do’. Firms have tightened processes and provided further training following these cases to prevent these issues arising.

This impact on New Zealand markets is why we will continue to invest in regulatory action.

Market manipulation – Warminger case

This was the first trial of its kind in New Zealand. The judgment was given in March 2017 and finalised in July 2017 when Mr Warminger, who was a senior trader at Milford Asset Management, decided to withdraw an appeal. The judgment provided important clarification of the law about market manipulation.

Our regulatory objectives were to:

- send a deterrence message
- clarify what conduct is unacceptable
- set standards in the industry, and hold firms or individuals to account when standards of conduct fall below our expectations.

The High Court ordered Mr Warminger to pay \$400,000 for breaches of the Securities Markets Act 1988, and applied an automatic five-year management ban.

Insider trading – EROAD

In March 2017, we filed charges in the Auckland District Court alleging breaches of the insider trading rules in the Financial Markets Conduct Act 2013 (FMC Act). The charges were about trading in shares of EROAD (NZX:ERD). Two individuals were charged, one a current employee, and one a former EROAD employee.

In June 2017 the former employee, Jeffrey Peter Honey, was sentenced to six months home detention after pleading guilty. Mr Honey admitted to being an information insider advising and encouraging another person to trade. The sentencing judge noted the seriousness of this offence and decided the starting point would have been 12 months’ imprisonment, but reduced that time for the guilty plea and other factors.

The other individual is also a defendant and faces one charge of insider trading under section 241 Financial Markets Conduct Act – namely, an information insider must not trade. At the time of publication that defendant had interim name suppression and is yet to appear before the court.

Wholesale conduct – New Zealand Bank bill benchmark (BKBM) rates

We concluded our engagement with major banks about how they govern their practices for the BKBM, given issues in Australia and elsewhere. We will release a report in September 2017 to help banks improve wholesale conduct and raise awareness of issues we have identified.

Monitoring report – Anti-money laundering and countering financing of terrorism (AML/CFT)

In December 2016, we published our AML/CFT monitoring report, outlining what we want to address:

- the continued low level of filing of suspicious transaction reports

- poor governance and management oversight (our monitoring resulted in a formal warning for Craigs Investment Partners, issued in May 2017)
- a lack of staff training in detecting and preventing AML/CFT activities
- variable approaches, and quality, in due diligence on high-risk customers.

Following the report, we published a sector risk assessment (SRA), aimed at the nine sectors of New Zealand’s financial markets we supervise for AML/CFT, to guide future monitoring activity. The SRA was published in July, after the reporting period.

Forestlands

In September 2016, the Forestlands group sold its assets. Early in 2017, we identified \$18 million that Forestlands said was to be paid to its investors.

We decided this money be placed in trust to preserve the funds and protect investors’ interests.

The Forestlands director has instructed third-party experts with a view to advise on distributions to

shareholders. When an appropriate distribution methodology has been established, we will decide whether the funds can be released.

At the date of publication, we understand Forestlands has instructed independent professional services firm Korda Mentha to decide the best distribution method.

The regulatory perimeter

Complaints, enquiries and warnings

Not all complaints and warnings are about businesses and individuals in our regulatory perimeter. But, however, which is why complaints and warnings are discussed in this section.

This financial year complaints rose by 8% to 1045, from 968 in 2016. We saw a rise in complaints about financial statements.














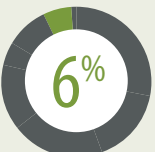


Below are the top five areas of complaints during this financial year.

Top five categories of complaints 2017/2016

	Financial statements	Withholding client money	Fraud / scams	Providing financial services without registration / authorisation	Advertising	Other
2016*	<1%	29%	11%	9%	5%	45%
2017*	21%	16%	11%	9%	7%	34%

* Totals do not add exactly due to rounding.

Main types of enquiries

Enquiry type	2017 (Number)	2016 (Number)	2017 (% of total**)	2016 (% of total**)
Miscellaneous*	1077	1002	 34%	 28%
Financial Markets Conduct Act	612	557	 19%	 16%
FMA processes	478	721	 15%	 20%
Financial Advisers Act	436	493	 14%	 14%
FMA actions	245	185	 8%	 5%
Financial Service Providers Register	168	318	 5%	 9%
Anti-money laundering	141	227	 4%	 6%
FMA Other	54	50	 2%	 1%
Total enquiries	3211	3553		

*In FY 2017, enquiries classified as miscellaneous were received from MBIE and don't map with FMA categories. FMA (282 enquiries), other registered FSP (243 enquiries), authorisation (93 enquiries), finance company (85 enquiries), qualifications (52 enquiries).

** Totals do not add exactly due to rounding.

Warnings

During the year, we issued 42 warnings; three were removed when the companies remedied the issue.

The high number of warnings about cold-calling support our message to investors that it is illegal to cold call individuals in New Zealand to offer financial products and services.



Financial Services Providers Register (FSPR)

We receive a lot of complaints from overseas-based consumers about financial providers registered on the FSPR. In our experience the FSPR is used by some providers to portray themselves as being regulated in New Zealand, and reputable, when in fact their operations are little more than scams.

FSPR registration does not mean what many consumers believe it to mean, that a provider is licensed or regulated in New Zealand, or any other country. Later this year, we will publish a report on our FSPR work, and the issues we've uncovered.

We have removed providers from the register, reinforcing our view that a business or person not offering financial services either from New Zealand or to New Zealanders has no place on it. These actions have been challenged in court on several occasions, and upheld each time (including one on appeal – Vivier and Company).

Using the FSPR to trade on New Zealand's business reputation

We directed Vivier and Company to be deregistered from the FSPR as it was not offering financial services in New Zealand, and we thought this was misleading to investors. Although this case was successfully appealed, in May 2016, the Court of Appeal upheld our decision and agreed that providing no financial services in or from New Zealand was a sufficient evidentiary threshold for deregistration.

In 2017, the High Court agreed with the de-registration of Innovative Securities, a Hungarian-owned firm with customers mainly in Russia, Bulgaria, the Ukraine and Kazakhstan. The court acknowledge the concern that FSPR registration could "misleadingly provide misplaced reassurance to offshore clients that the FSPR was regulated by New Zealand law when it was not, and that this could cause damage to New Zealand's reputation as a well-regulated financial market".

Licensing short-term derivatives

In April 2017, we confirmed the licensing of businesses selling short-duration derivatives. This change in approach to products such as binary options and contracts for difference was due to concerns about the harm these unregulated offers of products pose for investors. At the time, 40% of complaints we received were about derivative issuers.

From December 2017, any company making regulated offers of short-duration derivative products to New Zealanders settling within three days, whether based here or abroad, will require a licence. All currently unlicensed providers must have applied for a licence by 1 August 2017.

Facilitating growth and innovation

Growth

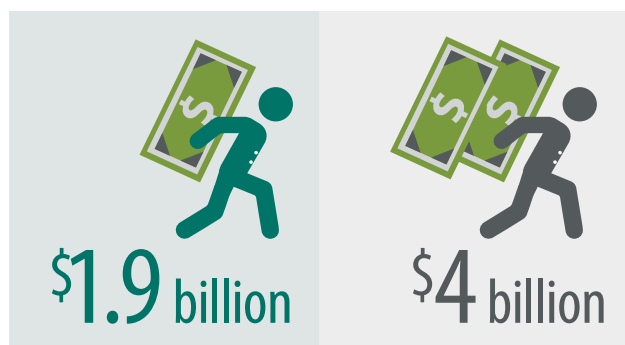
Businesses use new lower-cost opportunities to raise capital in New Zealand (SOI measure 8 – see page 48).

The FMC Act includes options for firms to use a streamlined process for offers of debt or equity that are already listed on a licensed market. This has reduced compliance costs without significantly affecting the risk for investors. The table below shows same-class offers by number and type for the 2016 and 2017 financial years.

Debt

2015-16

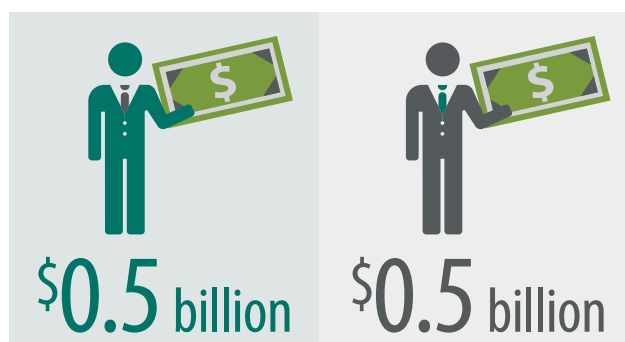
2016-17



Equity

2015-16

2016-17



Activity in any year will rely on broader market and economic conditions, including interest rates and other prudential influences on banks' desire to lend. These things contributed to the results in the table. Our role is to ensure the market participants are clear on how these mechanisms work.

Other lower-cost mechanisms include offering equity through licensed crowd-funding platforms and offering debt through licensed peer-to-peer platforms.

Innovation

In June 2017, we published a consultation paper on a proposed exemption to allow personalised financial advice provided by a computer programme or algorithm – known as robo-advice.

The consultation was prompted by several New Zealand companies asking us about introducing digital financial advice tools. If introduced, this exemption would provide those who offer robo-advice a temporary solution, before changes to financial adviser laws which will address this issue, take effect in 2019.

Robo-advice has been increasingly adopted around the world and this exemption would allow personalised robo-advice to be offered to New Zealanders, with certain limitations designed to safeguard consumers. We will make a decision on the proposed exemption by the end of 2017.

Reducing regulatory burden

The FMA uses tools to alleviate regulatory burden (SOI measure 9 – see page 48).

As a regulator we take into account any additional regulatory burden or unnecessary cost our interactions may cause.

There are two sources of burden for market participants. Complying with the law brings costs, which do not always have a clear benefit or purpose. And burden can also arise from using our discretion, and/or our actions,

or how we have chosen to do something.

For example, in law reform, setting market licence requirements, supervision work and enforcement action. Below are some examples of how we have reduced burden in the 2016/17 financial year. We will continue to report on this work.

Addressing inherent burden

- Granted 20 class exemptions that modified statutory obligations and enabled market participants relying on the exemptions to avoid unnecessary compliance costs.
- Granted 50 individual exemptions, 40 of which modified statutory obligations so market participants relying on the exemptions avoided unnecessary compliance costs.
- Issued a class designation that placed shares that were part of an offer of real estate, outside the financial markets regime. This was because the shares were offered not as a financial product, but to facilitate ownership and management of communal facilities in a real estate development.
- Issued three partial levy waivers that reduced levies to be paid by three fund managers, as it would have been unfair for them to pay a levy calculated on standard per-fund basis.

Addressing burden arising from our approach

- We must make our expectations clear. If we don't communicate well, market participants can spend time and money trying to understand our expectations (typically, by seeking input from external advisors). This is a key element of publishing the Annual corporate plan and our associated strategic documents, our guide to conduct, and observations and lessons learnt from our work in the field.
- Ensure our interactions do not create more burden. For example, when using our information-gathering powers, we ensure the information sought is not already available to us, and we also give reasonable time to respond.
- Taking a tailored approach to imposing licence conditions to avoid burden from conditions that are standard, but irrelevant.

Related sections:

- *Governance and culture*
- *Capital market growth and integrity*

Sales and advice



Supervision and monitoring work – what we found in 2017

Most of what we have found under this priority comes from reactive work (primarily, complaints from customers and competitors, and from planned monitoring visits).

Market participants take action to improve their sales and advice processes, where shortcomings are identified (SOI measure 12 – see page 48).*

During the year, we opened 48 cases (some resulted from complaints and not all led to monitoring visits) and conducted 143 planned monitoring activities.

We provided feedback on sales and advice processes to four entities and nine authorised financial advisers. In each case, we have verified that they have taken the necessary steps to address our feedback.

In 2015/16, we gave similar feedback to a number of businesses, within the reporting period, and were not able to verify to our satisfaction that they had taken the necessary steps. We have now verified that this has been done.

The issues dealt with in 2016/17 included:

- inappropriate KiwiSaver transfer promotions (including involving incentives)
- inappropriate or potentially misleading advertisements
- client disclosures that did not follow the format required in FAA disclosure regulations.

Our monitoring of sales and advice processes is informed by complaints (SOI measure 13 – see page 48).

Of the 48 cases opened, 13 were in response to complaints. Not all of them led to monitoring visits but a number did, leading to action being required of market participants.

*The licensed populations making up these measures are authorised financial advisers and some other entities, for example qualifying financial entities and brokers.

We want to see:

Sales and advice practices designed to meet the needs of customers.

KiwiSaver

KiwiSaver is the main, or only, investment for many New Zealanders and so will remain a major focus across each priority. Our KiwiSaver activities are coordinated by a KiwiSaver Strategy Group comprising staff from frontline supervision and monitoring teams, policy and intelligence, and investor capability. There is a close relationship between what we do under this priority, and in Investor decision-making.

Updated sales and distribution guidance

In March 2016, we published our updated sales and distribution guidance for KiwiSaver providers and advisers. It clarifies how different categories of advice can be applied to ensure customers are getting the help they need. It also recognises the importance of advisers and providers being confident that, when they try to help customers, they follow the rules.

We want providers to encourage investors to consider four factors to get them on the right track. These are:

- be in KiwiSaver – A general explanation of how KiwiSaver works and why it is suitable for many New Zealanders.
- choose a contribution rate. This should be enough to get the entire member tax credit.
- right fund – Helping New Zealanders identify the right type of KiwiSaver fund.
- tax – How to choose the correct tax rate for their KiwiSaver investment.

**Without giving personal advice. This can only be given by authorised financial advisers under the current financial advice regime.

Consultation

We consulted on the sales and advice guidance and received 20 submissions. We are aware that providers have responded to the revised guidance. This includes ASB, which cited the guidance as one reason why they launched an in-house class advice tool, KiwiSaver Explorer. This helps people decide whether to join KiwiSaver and which fund they should be in. The programme assists ASB staff to provide consistent responses to commonly asked questions about KiwiSaver from customers.

The guidance also outlines the FMA's position on provider incentives offered when they sell or transfer

KiwiSaver schemes. Incentives should not influence the customer's good decision-making about their investment. Providers should prompt customers to consider the advantages and disadvantages of transferring between KiwiSaver schemes.

Consumer info sheet about transferring KiwiSaver

The web resource shown below was released at the same time as the updated KiwiSaver sales and distribution guidance. Its purpose was to make consumers aware of the pros and cons of changing KiwiSaver providers, and of the right questions in transfer discussions – particularly if incentives were involved.

5 things to ask before moving your KiwiSaver

1 Am I feeling pressured to move?

Be wary if you've been given a time limit for making a KiwiSaver transfer decision, or feel pressured to make a decision without all the facts. If you're offered an incentive to transfer to another provider, think about the costs as well as the benefits.

If a provider doesn't give you all the information you need, or won't give you time to think about their offer, you might decide they are more interested in getting your money than helping you to make a good decision.

2 What are my options?

Invest some time into comparing your current KiwiSaver scheme provider to other providers. In particular, look at fund performance, fees and the services offered. You can use a tool like the KiwiSaver Fund Finder on Sorted.org.nz to do this.

3 What might I be giving up?

For example, does your current KiwiSaver account come with any additional benefits that you'll lose when you move? Look at your paperwork, and ask your existing provider to show you (in writing) if there are benefits you'd be giving up.

4 Will it cost me to leave?

Some providers charge fees for transferring out of their KiwiSaver scheme. You should take this into account, particularly if you think you'll be paying less with the new provider. You'll need to weigh up all the costs of transferring against the benefits. Remember, your goal should be to build your long-term balance. You don't want to end up in a situation where you've gained a good deal on insurance or a mortgage, but are paying higher fees that mean you're worse off overall.

5 Do I need advice?

You might find the decision to transfer too hard to make on your own. Perhaps you have other investments, are moving into a new stage of your life, or have a large amount invested in KiwiSaver – these things could make you nervous about making a bad decision. If you want professional advice about transferring your KiwiSaver, you can talk to an authorised financial adviser.

It takes both time and information to decide on the best KiwiSaver scheme provider for you.



Advice at the point of retirement research

In April 2017, we published research that asked New Zealanders aged 60-74 about their experiences of retirement and how information or advice helped them to manage their retirement savings. We focused particularly on those expressing strong confidence about their retirement, and learned they had three things in common:

- They started retirement planning early. Ten years or more before retirement is best, but confidence begins to sharply increase even six years out
- They got help from an adviser, family, financial provider, or through their own research (on choosing the most suitable investments, evaluating their finances and budgets, making financial decisions and understanding investment risk)
- They have a wider range of investments with an emphasis on growth investments.

One of the more important findings was that while getting professional advice from a regulated financial adviser was beneficial, it was not the only way to achieve confidence. Talking to family and friends, book or internet research or using resources from financial providers were just as good.

This has helped inform our input into the new financial advice regime and our consultation on enabling personalised robo-advice.





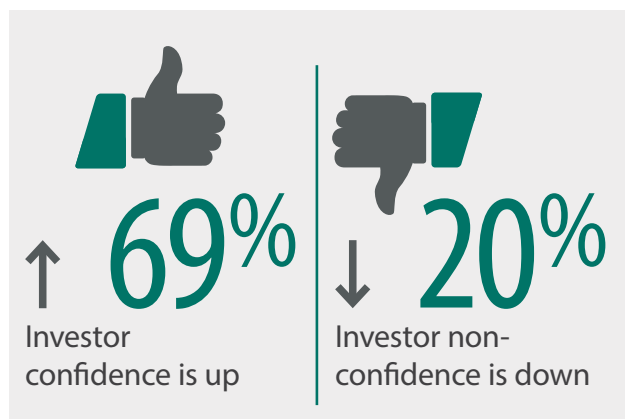


Investor decision-making

Investor confidence

Investors believe that financial product offer information given to them helped them make an informed decision (SOI measure 14 see page 48).

In May 2017, we published the results of our annual investor confidence survey. Results showed that investor confidence has reached its highest level (69%) since the FMA started the survey in 2013 (58%). The portion of investors who said they were not confident has also shrunk, from 32% in 2013 to 20% in 2017.



Confidence among investors rose most sharply for those with a superannuation scheme (81%), managed funds (80%) and shares (78%). Investors can feel good or bad about markets depending on performance. This sentiment is usually a factor in confidence scores for example, the big dip in the 2015 market upheaval.

But while market performance was broadly positive in the financial year to 30 June 2017, there were periods of uncertainty caused by Brexit and other international events.

Despite this, confidence appears to have been more buoyant.

We want to see:

Capable, confident and well-informed investors.

Helpful investor materials

In the same survey, there was a slight increase in the number of investors who said that the materials they received about their most recent investment had helped them to make an informed investment decision (53% compared to 50% in 2016 – and 52% in 2013).

Another aspect of the result was the lowest level of investors reporting their materials did not help them make an informed decision – 27% compared to 33% in 2016 (and 36% in both 2013 and 2014) – but the highest level saying they didn't know one way or the other (21% compared to 17% in 2016 and 12% in 2013). The scores were much higher for people investing in shares (67%) or managed funds (65%) than they were for investors in bonds (51%) or KiwiSaver (51%).

As managed funds and KiwiSaver have similar characteristics and, often, the same provider, we recognise that KiwiSaver disclosure materials can be improved. The member engagement that accompanies the disclosure documents could also be improved.

KiwiSaver engagement

Focusing on engaging default KiwiSaver members

In 2016, we reported on the results of default KiwiSaver providers' efforts to help their default members choose the right fund for them. Default providers have a responsibility to address the financial literacy of their members, particularly in default schemes. This recognises that default members are new to KiwiSaver and have lower levels of knowledge about it.

In addition, default funds are lower risk but also typically lower return, and may not suit default members' situations and goals.

Our KiwiSaver annual report ranked default providers on the results of their efforts; and these were disappointing. Default providers benefit financially from regular allocations of default members by Inland Revenue (IRD). We will continue to focus on this important area of engagement as a key part of our KiwiSaver work, and do so publicly.

Using behavioural insights to drive engagement

Kiwi Wealth and ANZ

In June this year, we released the results of our first behavioural insights trial. Working with KiwiWealth and MBIE, we found making content and layout changes to the welcome communications sent to default members meant that members were 47% more likely to move out of default funds, and 20% less likely to transfer to another provider.

A second trial, with ANZ, is now under way. This trial will test whether using messages such as 'most New Zealanders seek advice at this age' prompts more ANZ KiwiSaver members to get retirement advice, or use retirement planning tools when they hit 56 years old. The trial started in May 2017 and will run until the end of the year.


We encourage KiwiSaver and managed investment scheme providers to learn from and emulate these efforts. Making simple, inexpensive changes can help investors make better decisions.

IRD welcome pack

We also created a flyer for IRD welcome packs sent to new default KiwiSaver members, to give them a more positive introduction to the idea of being in KiwiSaver. We worked on this with IRD and the Commission for Financial Capability (CFFC). Early results suggest the positive messages about being in KiwiSaver are reducing opt-out rates and prompting early, proactive contact with allocated providers.

You're in!

You're in KiwiSaver, getting ahead. You just need to sort your settings. Here's how to get the best results from KiwiSaver.



What's KiwiSaver worth to you? A lot.


That's because you won't be the only one putting in money. Here's what's going in:


1. **Your money** (how much you put in, typically 3%, 4%, or 6% of your salary)
2. **Your employer's money** (typically at least 3%)
3. **Government money** (up to \$521 each year)
4. **Returns** (from all that money being invested for you)

Choose your fund.

For the moment you're being automatically placed in a conservative fund. But is it right for you? Let's say you earn \$60,000 per year on average over your career. Switching to a growth fund (if it's a good fit) could give you **\$133,000 more.***

- 1 Find your fund type using the KiwiSaver fund finder (fundfinder.sorted.org.nz).
- 2 Sort through the funds of that type by fees, services and returns.
- 3 Check the fees for a fund. Are they worth it?
- 4 Check the range of services that come with it.
- 5 Check that performance hasn't always been below average.
- 6 If you find a fund that suits you better, contact the provider to switch. They'll sort it.






Dial it up!


How to push your results even higher:

- 1 **The more you put in, the more you get out.**
Lifting your contributions from 3% to 8% could give you \$197,000 more. How? Contact your employer to raise your rate. You can also top-up your account at any time.
- 2 **Make sure your tax rate is correct.**
Correcting your prescribed investor rate (PIR) from 28% to 17.5% could give you \$26,000 more. How? Check with your KiwiSaver provider.
- 3 **Power-up.**
Even better: by picking your fund, raising your contributions and correcting your tax rate at the same time, you could get an additional \$106,000 power-up. **That could bring your overall results as high as \$877,000.***

ADJUSTING YOUR KIWISAVER SETTINGS CAN MAKE A MASSIVE DIFFERENCE TO YOUR RESULTS. DON'T MISS OUT AND DIAL YOURS UP TODAY.



AS IS
\$215,000



DIALLED UP!
\$877,000

Learn more.

On sorted.org.nz:

- KiwiSaver savings calculator
- How to pick a KiwiSaver fund
- KiwiSaver guides, must-reads
- KiwiSaver fees calculator
- Looking for ethical KiwiSaver options?

On the KiwiSaver fund finder (fundfinder.sorted.org.nz):

- Must-knows of KiwiSaver fund types, services, returns, switching

On fma.govt.nz:

- Tracking your KiwiSaver investments


Official KiwiSaver website:

- kiwisaver.govt.nz

Get advice:

- Talking to a financial adviser about KiwiSaver can help.

*About the figures shown
The projections shown here are for an employee earning an average of \$60,000 over a career of 47 years, from age 18 to 65. The salary and all figures have been adjusted for inflation of 2%, and have also been rounded to the nearest \$1,000. The return assumptions for a member with a 28% PIR in a conservative fund is 3.2% p.a. and in a growth fund is 4.3% p.a.; for a member with a 17.5% PIR in a conservative fund it is 3.6% p.a. and in a growth fund is 5.4% p.a.



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KiwiSaver disclosure

Product disclosure statements and quarterly fund updates

We reviewed the product disclosure statements for all KiwiSaver providers as part of the final transition to the FMC Act. We also provided guidance on the preparation of new fund updates and on the information that must now be included on the Disclose Register. We have started drawing data from the register to help with our reporting, and are currently exploring releasing KiwiSaver fees and performance information in a more publicly accessible format.

Annual statements

From 2018, all KiwiSaver annual member statements will need to show the total amount of fees charged in dollar terms. This is a direct result of our work and research during the year with MBIE. We consulted with industry to decide how to ensure investors receive the information in an accurate and consistent way. The resulting fees methodology was finalised in July 2017, after the reporting period. We are strongly encouraging providers to also show the fees in percentage terms.

In June 2017, the Minister of Commerce and Consumer Affairs announced retirement savings and income projections will also be included in KiwiSaver annual statements. We will be working with MBIE and CFFC on the details and timeframes of these changes.

Communicating directly with investors

Using social media

In December 2016, we shared messages with consumers about the risks associated with short-duration foreign exchange derivatives, using Facebook as the preferred channel. This was because such products are heavily marketed online.

This trial advertising, spanning the Christmas holiday period, ran an advertisements targeting people whose Facebook activity and profile showed an interest in trading in FX and binary options. The advertisements linked back to our website and emphasised the need

to avoid scams, monitor our warnings, use licensed providers and generally better understand the risk of FX and binary options. We ran a second advert, for comparative purposes, between February and March 2017.

The advertisements had 330,000 views by just over 50,000 people, generating more than 8,000 unique visits to our consumer section of the FMA website. We are currently reviewing how we could make more use of Facebook to address potential or actual risks to consumers in a very cost-effective way.

Money Week

We participated with the CFFC in Money Week 2016 events. Our activities included paid online articles in *The New Zealand Herald*. Topics included the risks of investing in property, how to avoid scams and how New Zealand women may need to take more risk in their investing. The articles were seen by nearly 44,000 people and shared 380 times.

Fraud Awareness Week

We also played our part in Fraud Awareness Week, and were a sponsor of New Zealand's first Fraud Film Festival, in November 2016.



Effective frontline regulators



Supervision and monitoring work – what we found in 2017

Frontline regulators take action to address issues raised by the FMA relevant to those they supervise (SOI measure 17 – see page 49).

During the year, we performed three onsite reviews with MIS supervisors: Public Trust, NZ Permanent Trustees and Trustees Executives Limited. The reviews included an overall impression and reviews of specific files. We raised issues with the following matters and in each case these issues have been addressed:

- Documentation of onsite visits of supervised businesses or individuals
- Risk assessments
- Record-keeping
- Establishing internal policy (for example, on director independence) before discussion with supervised businesses or individuals.

While standards have improved in this sector since supervisor licensing was introduced in 2012, more improvements are needed to meet the full expectations of supervisors, under the FMC Act 2013.

We want to see:

Frontline regulators who contribute to well-regulated financial markets.

The International Monetary Fund’s financial sector assessment programme visit during the year identified our work with MIS supervisors as an area of focus. We have included a number of activities about how we supervise and work collaboratively with supervisors in our Annual corporate plan for 2017/18.

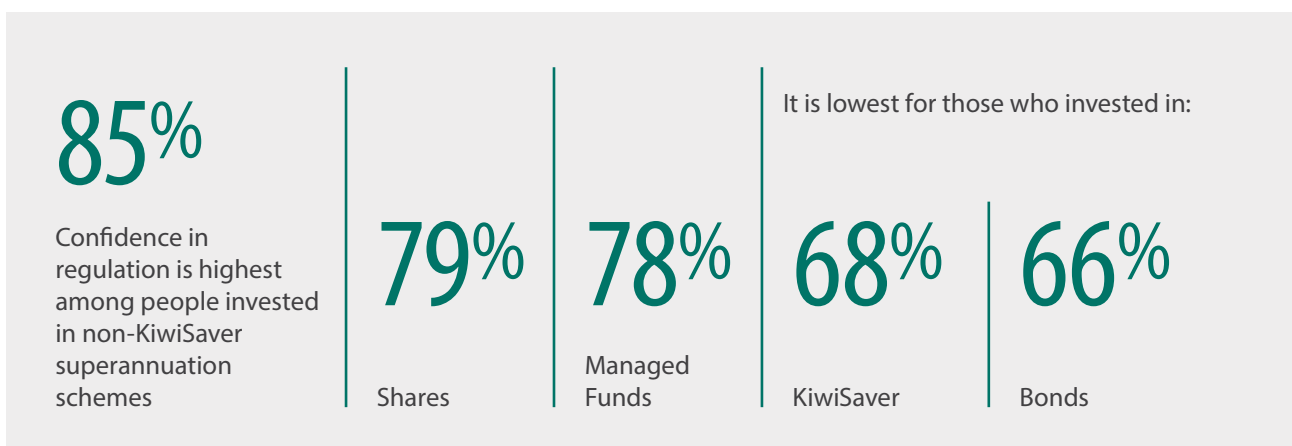
Other work

Confidence in regulators

Stakeholders believe the FMA does a good job in regulating New Zealand’s financial markets (SOI measure 20 – see page 49).

We published the results of our annual investor confidence survey in May 2017. It showed that investor confidence in the regulation of New Zealand’s financial markets rose to 69% compared to 63% in 2016. The survey question specifies that frontline regulators include us, the NZX, supervisors and trustees .

Investor confidence in the regulation of New Zealand’s financial markets survey results 2017



NZX

In June 2017, we published our annual review of whether the NZX met its statutory obligations as a licensed market operator. We concluded that NZX complied with its obligations, and did not find systemic compliance issues. However, we suggested where improvements could be made, in three key areas:

- Regulatory enforcement function
- Governance arrangements (regulatory governance committee)
- Human resources.

We will continue to engage with the NZX on improving these areas, and we support their efforts to make the work of their oversight and enforcement functions more visible.

Auditor oversight

In November 2016, we published our audit quality monitoring report, showing the sector is increasingly aligned with our expectations, international auditing standards and global best practice. However, files reviewed still show that improvement is necessary in some areas, including:

- internal reviews of audit quality control
- independence, particularly where a firm is providing non-assurance services
- greater focus on audit evidence and detailed documentation
- auditors' responsibility relating to fraud.

We conduct audit quality reviews in three-year cycles, and select files based on risk such as where audits are difficult and complex. This is where investors are most reliant on audit firms to provide assurance about financial statements.

In August 2016, the European Commission recognised the New Zealand audit oversight regime as equivalent to European Union (EU) standards. This allows New Zealand-regulated auditors to operate within the EU.

FMA effectiveness and efficiency



Financial Sector Assessment Program (FSAP) report

We completed engagement with the International Monetary Fund (IMF) for their FSAP review of New Zealand, which included two IMF missions in August and November 2016.

The IMF examined detailed documentation and engaged extensively with us, the Reserve Bank, MBIE and Treasury, as well as industry participants and trade associations.

The previous FSAP in 2003/2004 identified many material deficiencies in New Zealand's framework for securities regulation. The **IMF's 2017 report** sets out its recommendations to enhance our regulatory regime. The assessment was not designed to cover all aspects of our mandate or work. However, the recommendations touch on many areas including supervisors, custodians, the wholesale asset management sector, and issues around conduct in the insurance industry. We address these recommendations in our Annual corporate plan 2017/18.

Deloitte efficiency and effectiveness review

During 2016, we engaged Deloitte to complete a review of the FMA, looking at the following areas:

- how we demonstrate the strategic impact of our work
- increase market communication
- improve efficiency
- attract, retain and develop talent
- enhance knowledge management.

Deloitte made 13 recommendations, which we have summarised here.

We want to see:

The FMA as an efficient and effective intelligence-led regulator.

Demonstrating impact and alignment with strategy

We have reviewed and improved our performance measures and will begin reporting on them in 2018.

Increase communication with the market

We have surveyed participants in our entity-based relationship programme, with positive results. See page 32 *Enforcement approach*.

Operate more efficiently

We have published more information about how we aim to reduce regulatory burden. After securing our new funding, we reviewed our resource requirements and budgeting. This is set out in our Annual corporate plan 2017/18.

Attract, retain and develop talent

We completed a capability framework, and commenced a learning and development programme.

Related sections:

- *Governance and Culture*
- *Capital markets growth and integrity*
- *Our People*
- *How we've performed*

Enhance knowledge management

We have allocated funding to develop knowledge-management and supporting systems. The strategy is in our Annual corporate plan 2017/18.

Stakeholder views of our effectiveness and efficiency

Entity-based relationship management (EBRM)

EBRM aims to ensure we have regular and open dialogue with those we regulate, who have multiple touch points with us, and who could have the biggest impact on our objectives.

We survey participants to see if they benefit from the engagement. This year, 94% said they did (33% said they received strong benefit). We asked them how they benefited and they told us EBRM:

- strengthened their relationship with us
- is an efficient way to raise issues
- assisted in operating their businesses
- brought deeper insight to our direction
- is an efficient, effective way to provide input into our policies and activities.

Ease of doing business survey

Each year, we survey our stakeholders about our effectiveness and efficiency. This year 88% of those surveyed said they thought the FMA's actions support market integrity, up from 83% in 2016. 60% said they thought it was easy doing business with us - down from 64% last year. This was driven by more 'don't know' responses, up to 10% in 2017 from 3% in 2016. Those disagreeing with the statement dropped to 5%, from 10% in 2016.

We will expand this survey and report on it in more detail in the coming year. Stakeholder feedback helps us to evaluate whether we have struck an appropriate balance

between the benefits of our activities, and the cost and burden imposed on to those we regulate, and the markets overall.

Enforcement approach

In August 2016, we published **Regulatory response guidelines**. They describe how we outline and enforce our regulatory options, and explain how we are transparent about the available option chosen. The guidelines provide context for several policies – for enforcement, co-operation and model litigant – and align with our Strategic risk outlook.

The guidelines make clear that we focus resource on the conduct we think poses the most significant risk to achieving our objective of promoting and facilitating the development of fair, efficient and transparent financial markets. Being efficient is part of achieving this priority.

This year, we began a review of our enforcement governance process to ensure decision-making on investigations is efficient, and timely progress is made on enforcement matters. This will include any necessary changes to our process resulting from the issues raised in the Viaduct Capital and Mutual Finance trial, which was aborted in May 2017 because of late disclosure.

New Governance website section

We want to be transparent about the work we do to enhance the integrity of New Zealand's financial markets, and the way we govern – particularly our board and executive committee. To help achieve this goal, we included a new **Governance section** on our website this year. This includes discussion of self-assessments of the Board's role and performance, as required by State Sector Commission guidelines.

Our Board recognises any conflicts of interest as serious governance issues. We maintain a board conflicts policy, which manages how interests connected to the work of our Board are disclosed, registered and properly managed.

Working with others – locally and overseas

Collaborating with New Zealand organisations

As one of New Zealand’s two main financial services regulators, we contribute to the Government’s priority of well-functioning capital markets that build a competitive and productive economy. We work closely with MBIE on financial regulation policies and financial services initiatives.

This year’s key projects alongside with MBIE were:

- MBIE’s review of the Financial Advisers Act 2008 and Financial Services Providers (Registration and Dispute Resolution) Act 2008 to improve access to quality financial advice and address misuse of the Financial Service Providers Register
- Work to introduce the Asia Region Funds Passport, which allows managed funds to be offered more easily across the member countries
- Refining and adjustment of the FMC Act Regulations to address issues to ensure smooth implementation of the Regulations after the second phase of the FMC Act came into effect on 1 December 2016
- Our contribution to developing regulations requiring KiwiSaver providers to disclose fees in dollars in members’ annual statements and a methodology for calculating the fees charged. See page 28 for more details
- Consultation on changes to our appropriation and levies.

We are committed to working closely with other government agencies with similar interests, to share information, and ensure we take an informed and cohesive approach to our work.

We work closely with RBNZ, Commission for Financial Capability, the Commerce Commission, the Serious Fraud Office, Ministry of Justice, Department of Internal Affairs and Inland Revenue.

We also work with other agencies to respond to misconduct – the Serious Fraud Office, Commerce Commission, Dispute Resolution Schemes and the Police (Financial Intelligence Unit).

Council of Financial Regulators

We are also a member of the New Zealand Council of Financial Regulators (CoFR). This is an important forum for cross-agency collaboration and information sharing. It formally meets quarterly to discuss financial markets regulatory issues, risks and priorities. Other members of the council include RBNZ, MBIE and NZ Treasury.

CoFR has a regulatory charter that promotes good regulatory stewardship to monitor the performance and quality of the financial markets regulatory system.

AFA Code Committee

The Code Committee role is to maintain the code of professional conduct for AFAs. This code sets out minimum standards of competence, knowledge, skills, ethics, and customer care for AFAs. It also sets out the requirements for their continuing education and training. We appoint members to the Code Committee under the Financial Advisers Act 2008.

Financial Advisors Disciplinary Committee (FADC)

We refer complaints about authorised financial advisers to the FADC. The committee oversees disciplinary proceedings for any complaints, and imposes appropriate penalties against AFAs where it finds misconduct. It is an independent body established under the Financial Advisers Act.

This year, we referred several cases to the FADC, including a decision regarding an adviser who claimed he had expertise in UK pension transfer practices. In our view, the provided advice fell short of the minimum standards set out in the advisers Code of Conduct.

The FADC partially upheld our view in its decision in June 2017.

Memoranda of understanding

During the year, we entered into several memoranda of understanding to promote better collaboration and ways of working with some of the other agencies and organisations that we work with.

Organisation(s)	Purpose	Date
Advertising Standards Authority	Ensure co-operation and information sharing about the advertising of financial products and services.	September 2016
European Securities and Market Authority (ESMA)	Aid co-operation and information sharing between us and ESMA, about central counterparties.	February 2017
International Forum of Independent Audit Regulators	Encourage better information sharing between the 21 independent audit regulators (IFIAR members).	April 2017
New Zealand Financial Markets Association	Sharing information about and helping to improve governance of benchmarks, pricing services and other matters.	October 2017
New Zealand Law Society (NZLS)	Sets out the framework for engagement, co-operation, and information sharing with NZLS in relation to lawyers and incorporated law firms who carry out contributory mortgage lending services.	February 2017
Takeovers Panel	Engage and co-operate, share information between our organisations, considering our joint professional and regulatory responsibilities. Share information and increase regulatory co-operation over conduct during takeovers.	August 2016

How we represent ourselves internationally

New Zealand's markets are part of a global system, and New Zealand is a net importer of capital. That means we are dependent on high-quality regulation, here and internationally, to support our financial services sector. We have a particularly close relationship with Australia, including cross-ownership of many businesses.

Therefore, our international contribution is focused on:

- maintaining a close working relationship with our Australian peers, and particularly the Australian Securities and Investments Commission (ASIC), with which we have an MOU.
- contributing to the International Organization of Securities Commissions (IOSCO), whose members regulate more than 95% of the world's securities markets.

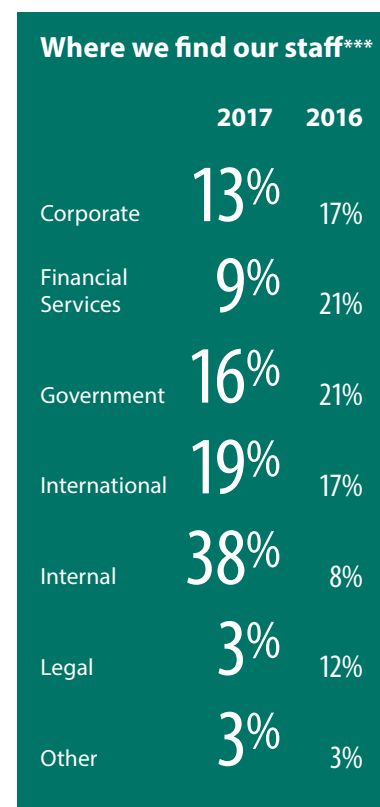
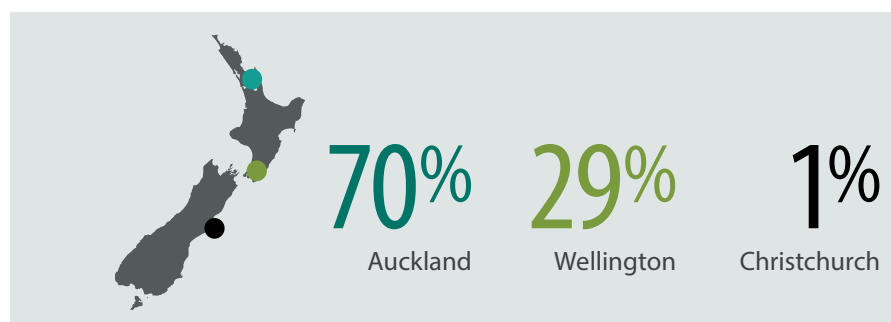
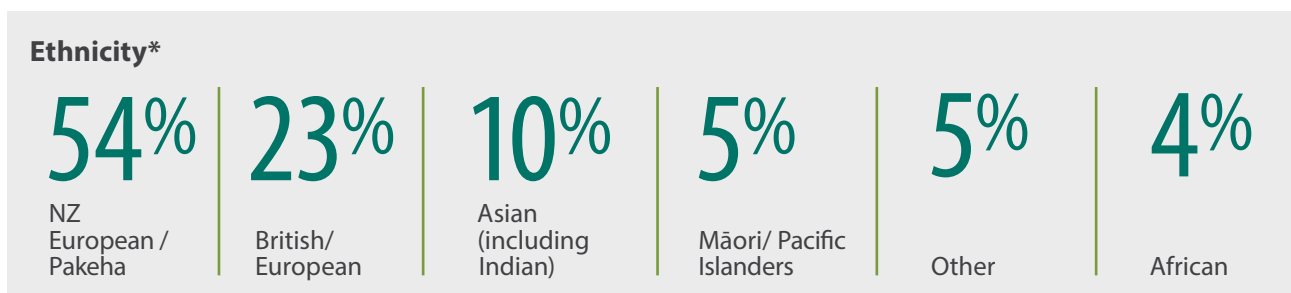
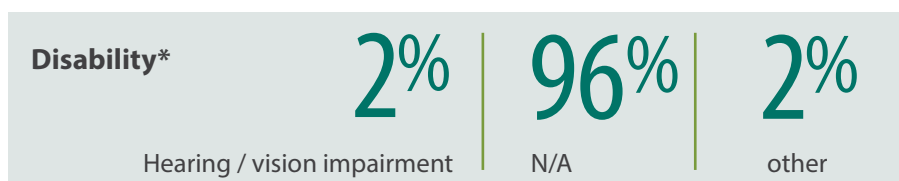
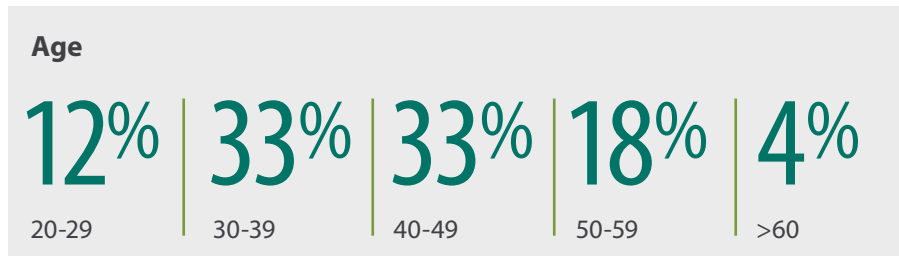
We are represented on IOSCO committees that play a central role in ensuring a consistent approach to securities regulation internationally. They also help IOSCO members, including New Zealand, to draw on the experience of other regulators to improve performance domestically and globally.

As part of our international role, we also have 26 agreements with EU securities regulators to supervise fund managers operating across borders. These agreements can be viewed on our website.

We are party to the Asia Region Fund Passport, which is an arrangement that New Zealand has entered into with Australia, Korea, Japan and Thailand. Its aim is to facilitate cross-border offerings of eligible managed funds between those jurisdictions.

The table of signed memoranda of understanding above includes some international relationships we have formalised during the year.

Our people



Employment type	2017	2016
Total	178	168
Permanent	154	143
Fixed term	7	12
Casual	0	0
Contractor/temp	17	13
Seconded	0	0
Turnover**	19.9%	18.9%
Average service length	3.1 years	2.8 years

All data covers permanent, fixed-term, and temporary staff as at 30 June 2017 unless noted below.
 * Based on voluntary responses to a survey from permanent and fixed-term employees in March 2017. Totals do not add exactly due to rounding. ** Based on permanent employees only. *** Based on recruitment of permanent and fixed-term employees only. Totals do not add exactly due to rounding.

FMA culture survey

This year, we carried out our third staff culture survey. Compared with our first survey in 2013, the results showed significant improvements in the positive aspects of our work culture. The survey also showed decreases in less favourable staff culture traits.

These areas had significant increases:

- Our mission is clearly defined and understood by our employees
- Managers recognise good performance
- People are expected to work co-operatively and collaboratively
- People are supportive and considerate to one another.

Capability development

To help develop and retain staff, we created a capability strategy during the financial year. The strategy outlined four key elements: a capability framework, a learning model, developing a learning culture, and implementing a learning management system.

The capability framework defines seven core capability sets (four technical and three non-technical), including competencies and proficiency levels. Three other specialist capability sets will be developed in FY 2017/18. The framework will be implemented during FY 2017/18 and will include an assessment of required capability for each role and current capability.

How we value our staff

We are a member of Diversity Works and are committed to being a good employer. This is reflected in our diversity and equal employment opportunity policy.

Leadership, accountability and culture

As mentioned above, we have surveyed our staff and spent time discussing our preferred culture and what we need to do to achieve that. Our code of conduct and values help shape our culture. These are supported by internal communications, a wellness programme, a reward and recognition programme, and our ‘fun squad’.

Recruitment, selection and induction

We aim to have diverse interviewing panels and hold at least two interviews for new hires. We also complete detailed probity checks. We offer a comprehensive induction programme for all new hires, which they rate very positively in our on-boarding surveys. We are committed to a diverse workforce. Our Board approved a revised diversity and equal employment opportunities policy during the year, and we are identifying initiatives to ensure we have a diverse and inclusive working environment. This year, we also surveyed staff to better understand their broad backgrounds, experiences and skills.

<p>Top three things our staff value about working at FMA</p>	 <p>Flexible working arrangements</p>
 <p>FMA team members and social interaction.</p>	 <p>Collaborative, collegial work environment.</p>

Our staff identified activities that will support us as we continue to build a more constructive culture. One area of focus is how we develop the skills and capabilities of our people.

Employee development, promotion and exit

Our performance management programme focuses on the development of our staff, through better understanding of career aspirations and by introducing a coaching focus to discussions.

Our learning and development initiatives are targeted and aligned to the capabilities we want our staff to demonstrate. A key element of our formal learning and development programme this year was the introduction of a nationally recognised regulatory qualification in government regulation (known as G-Reg). This was supported by workshops tailored to apply G-Reg concepts to our regulatory framework and activities.

In 2016 and this year, we focused on the developing of our managers and other high-performing specialists. Both groups participated in specific training and coaching programmes.

We continue to focus on talent management. We've identified our high performers and key successors and the development opportunities they require.

Finally, we hold exit interviews with all leavers, report feedback to the executive committee member leading that function, and summarise information from all exit interviews to the wider executive team.

Remuneration, recognition and conditions

Our remuneration approach is reviewed annually, with the aim of recognising and rewarding individual performance. This year, we changed our remuneration survey provider to ensure we are receiving the most relevant market data.

We continue to offer special leave for all employees who have completed three years' service, and additional leave for all employees over the Christmas period.

Harassment and bullying

Our code of conduct and FMA values benchmark the behaviour we expect from our staff. We also have a range of formal policies to deal with bullying, harassment and discrimination that reinforce our zero-tolerance approach.

Healthy working environment

Our wellness programme includes regular events for staff, including free yoga sessions, and discounted health insurance and gym memberships. We completed a comprehensive review of our health and safety policies and practices, and continued to focus on these during the year to ensure we provide a safe working environment.



Our board



Murray Jack, Chair

Murray has over 30 years' experience as a management consultant, and was previously a member of the Securities Commission. He is also Chair of Chartered Accountants Australia & New Zealand and Education Payroll Limited.

Current term ends April 2019.



Mary Holm

Mary is a financial columnist, author and seminar presenter. She was a member of the Capital Markets Development Taskforce and the Savings Working Group, and previously a director of Financial Services Complaints Ltd. Mary is also a part-time senior lecturer at the University of Auckland.

Current term ends June 2019.



Shelley Cave

Shelley is a professional director who also sits on the Board of Government Superannuation Fund Authority, and Delegat Group Limited. She has held roles on the Financial Markets Establishment Board and the Securities Commission. *Shelley's board term ended in April 2017.*



William Stevens

William has over 30 years' experience as an investment adviser. He is an NZX adviser, a director of Craigs Investment Partners, and he chairs the Dingwall Trust for Children. He was previously Deputy Chair of the New Zealand Markets Disciplinary Tribunal.

Current term ends June 2020.



Arthur Grimes

Arthur is Senior Fellow with Motu Economic and Public Policy Research Trust, incoming Professor and Chair of Wellbeing and Public Policy at Victoria University, and Chair of the Hugo Group strategy sessions. He was previously CEO of Southpac and Chair of the Reserve Bank.

Arthur resigned this year (effective November 2017).



Vanessa Stoddart

Vanessa joined the FMA board this financial year. She is also a Director of NZ Refinery, The Warehouse Group, Heartland Bank and The Alliance Group, and a member of the Tertiary Education Commission. Vanessa also sat on the Audit and Risk Committee for DOC and MBIE. Previously, she was a senior executive at Air New Zealand and chief executive of Carter Holt Harvey Packaging Australia.

Current term ends June 2021.



Campbell Stuart

Campbell has 30 years of experience in stockbroking and funds management. He is also a director of Aspiring Asset Management. Previously Campbell was Managing Principal at UBS New Zealand, was on the NZX Disciplinary Committee, and was Vice Chair of NZX. *Current term ends June 2018.*



Mark Todd

Mark has over 20 years' experience in financial markets regulation, and has held governance roles with both listed and unlisted companies. He co-founded Anti-Money Laundering Solutions, is the Chair of the Mint Asset Management Board and a director of Westpac Life. *Current term ends June 2020.*

New board members during the year



Elizabeth Longworth

Elizabeth became a board member in June 2017 and brings over 20 years' commercial legal experience and international governance expertise. With specialties in information policy and disclosure, risk management, ethics and ADR, Elizabeth was Executive Director of UNESCO, Paris, with strategic and oversight responsibilities across the organisation. She was the Director of the UN Office for Disaster Risk Reduction in Geneva.

Current term ends June 2020.



Ainsley McLaren

Ainsley became a board member in September 2016. Ainsley has 25 years of broad financial services experience including investment management, fixed interest and financial markets. Her experience includes various senior roles at ASB Group Limited. Ainsley is also a board member of the Government Superannuation Fund Authority.

Current term ends September 2021.

Meet our executive committee



Rob Everett
Chief Executive

Rob has been FMA’s chief executive since 2014. Prior to this he worked in the investment banking, legal and risk-management sectors. After 17 years at Merrill Lynch in London, Hong Kong and New York in a variety of senior roles (such as general counsel and chief operating officer, Europe), Rob spent a year with regulatory consultants Promontory before moving to New Zealand in 2013.



Sarah Coleman
Director of
People and Culture

Sarah’s role includes recruitment, employment relations, organisational culture and performance management. Originally a lawyer, she has worked in a variety of human resources roles. Her previous role was HR Director at Chapman Tripp.

Sarah Coleman left this role in August 2017.

At the date of publication, Sarah Feehan is Acting Director of People and Culture. Sarah has worked with a number of professional services firms. She was a member of the senior leadership team for a national advertising agency. Before joining the FMA in 2016, Sarah was HR Manager at one of New Zealand’s top law firms.



John Botica
Director of
Market Engagement

John leads the FMA’s market engagement activities. He is an experienced senior executive, director and consultant in the financial services industry. In previous roles he was co-founder of the Assure NZ Group, Managing Director at Guardian Trust and General Manager Wealth Management at AXA.



Paul Gregory
Director of External
Communications and
Investor Capability

Paul leads the strategic management of our external communications and investor capability team. His previous roles include in the communications and investment teams at New Zealand Superannuation Fund, and communications management roles at Macquarie Group, SKYCITY and Westpac.



Brad Edley
Chief Operating Officer

Brad leads the FMA’s corporate services team, which includes the strategic and day-to-day functions of our finance, facilities, technology and project management functions. Brad brings extensive experience to the FMA, predominantly as a senior finance executive, both in New Zealand and internationally. Before joining the FMA in 2016, Brad was Chief Operating Officer at NZX-listed Finzsoft Solutions, Mondelez International and Merck Sharp & Dohme.



Nick Kynoch
General Counsel

Nick leads our enforcement and litigation, policy and governance, corporate legal and internal audit teams.

His role includes advising our executive committee and board. Nick has extensive international legal experience, including with Barclays Investment Bank and several international law firms.



Simone Robbers
Director of Strategy and Risk

Simone oversees our regulatory strategy, strategic and operational risk management, corporate governance work, and government and industry relations. She has held senior legal, risk and compliance roles in the financial services industry in New Zealand and Edinburgh.



Liam Mason
Director of Regulation

Liam leads licensing and supervision, and is also responsible for the FMA's compliance frameworks, contacts, investigations, conduct assessment and intelligence functions.



Garth Stanish
Director of Capital Markets

Garth's team oversees primary and secondary markets, disclosure by issuers, market infrastructure, intermediary platforms, clearing providers and auditors. He has extensive dispute-resolution experience, and is a former head of issuer regulation and was acting head of regulation at NZX.

Independent auditor's report

To the readers of the Financial Markets Authority's financial statements and performance information for the year ended 30 June 2017

The Auditor-General is the auditor of the Financial Markets Authority (the Authority). The Auditor-General has appointed me, Athol Graham, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the performance information, including the performance information for an appropriation, of the Authority on his behalf.

Opinion

We have audited:

- the financial statements of the Authority on pages 59 to 83, that comprise the statement of financial position as at 30 June 2017, the statement of comprehensive revenue and expenses, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements including a summary of significant accounting policies; and
- the performance information of the Authority on pages 47 to 49 and 51 to 57.

In our opinion:

- the financial statements of the Authority on pages 59 to 83:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2017; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards;
- the performance information on pages 47 to 49 and 51 to 57.
 - presents fairly, in all material respects, the Authority's performance for the year ended 30 June 2017, including:
 - for each class of reportable outputs:
 - its standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
 - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year; and
 - what has been achieved with the appropriation; and
 - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure; and
 - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 15 September 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of the Board for the financial statements and the performance information

The Board is responsible on behalf of the Authority for preparing financial statements and performance information that are fairly presented and comply with generally accepted accounting practice in New Zealand. The Board is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board is responsible on behalf of the Authority for assessing the Authority's ability to continue as a going concern. The Board is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Authority, or there is no realistic alternative but to do so.

The Board's responsibilities arise from the Crown Entities Act 2004 and the Public Finance Act 1989.

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the Authority's statement of performance expectations.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.
- We evaluate the appropriateness of the reported performance information within the Authority's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board is responsible for the other information. The other information comprises the information included on pages 2 to 41 and page 50, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the Authority in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than in our capacity as auditor, we have no relationship with, or interests, in the Authority.



Athol Graham

Audit New Zealand
On behalf of the Auditor-General
Auckland, New Zealand



Statement of performance



How we've performed

We report performance against our Statement of intent 2015-19 (SOI) below, and against our 2016/17 Statement of performance expectations (SPE) on pages 51 to 57.

This year we reviewed our performance measures, to reduce their number and make them more meaningful. The revised approach was shown in our SOI for 2017-20 and SPE for 2017/18 published this year. The revised measures will first be reported against in our 2018 Annual report.

We wanted to create and report on performance measures that underpin our purpose, show impact, and have meaning to our stakeholders. This was also the reason we decided to publish our Annual corporate plan for the first time, in August 2017.

So, this document is the last time we will report against our 2015-19 SOI, and the last time we will use the original, longer lists of performance measures.

In the table below, and in the SPE table starting on page 51, we identify those measures we have decided to stop using, or change, for the 2018 Annual report.

Measure	Target	Source and evaluation	2016-17 result (2015-16)
Investor confidence in New Zealand financial markets has increased.	65%	External survey. See <i>Investor decision-making</i> page 26. This measure is part of the over-arching measure on page 51.	69% (59%)
IMF Assessment of NZ against IOSCO objectives and principles of securities regulations.	Achieved	IMF report and internal assessment. See <i>FMA effectiveness and efficiency</i> page 31.	Achieved (Measure applies this year only)
1. Market participants adequately demonstrate how they meet the recommendations outlined in the FMA's handbook: Corporate Governance: Principles and Guidelines in New Zealand.	Improve on baseline	Not measured this year. We are revising the handbook to focus more on unlisted companies and our licensed population, see <i>Governance and culture</i> page 9. This measure will not be reported in 2018.	(Achieved for listed companies, not achieved for unlisted companies)
2. Boards of licensed market participants receive information on customer outcomes.	Improve on 40%	FMA field work. See <i>Governance and culture</i> page 9.	38% (40%)
3. Licensed market participants have risk and compliance frameworks in place that are relevant to their business activities.	Improve on 18%	FMA field work. See <i>Governance and culture</i> page 9.	22% (18%)
4. Institutional investors have confidence in the standard of corporate governance in New Zealand.	70-75%	Not measured this year. We are revising the handbook to focus more on unlisted companies and our licensed population, see <i>Governance and culture</i> page 9. This measure will not be reported in 2018.	(91%)

Measure	Target	Source and evaluation	2016-17 result (2015-16)
5. Conflict-management procedures address conflicts relevant to a licensed market participant's business.	Improve on 35%	FMA field work. See <i>Conflicted conduct</i> page 14.	18% (35%)
6. Stakeholders believe that FMA actions help raise standards of market conduct.	65-75%	External survey not due until 2018. This measure is being replaced by an annual survey that measures stakeholders' and investors' views of our impact on market conduct and integrity. The measure will not be reported in this form in 2018.	n/a
7. Stakeholders agree that FMA enforcement action targets the right issues.	60-70%	External survey not due until 2018. This measure is being replaced by an annual survey measuring stakeholders' views of the alignment of our risks, strategic priorities and activities. The measure will not be reported in this form in 2018.	n/a
8. Businesses use new lower-cost opportunities to raise capital in New Zealand.	Achieved	FMA policy, legal and capital markets work. See <i>Capital markets growth and integrity</i> pages 15 to 21.	Achieved (Achieved)
9. The FMA uses tools to alleviate regulatory burden.	Achieved	FMA policy, legal and capital markets work. See <i>Capital markets growth and integrity</i> pages 15 to 21.	Achieved (Achieved)
10. Stakeholders agree that the level of regulatory burden is proportionate, in relation to FMA's strategic priorities.	65-75%	See response for measure 7 above. But for relevant commentary also see <i>Capital markets growth and integrity</i> pages 15 to 21.	n/a
11. Stakeholders agree that FMA actions support market integrity.	70-75%	External survey. See <i>FMA effectiveness and efficiency</i> page 31. This measure is part of the over-arching measure on page 51.	88% (83%)
12. Market participants take action to improve their sales and advice processes, where shortcomings are identified.	Improve on baseline	FMA frontline work. See <i>Sales and advice</i> page 22.	Achieved (Incomplete: verification challenge)
13. FMA monitoring of sales and advice processes is informed by the intelligence derived from complaints.	Achieved	FMA field work. See <i>Sales and advice</i> page 22.	Achieved (Achieved)
14. Investors believe that financial product offer information given to them helped them to make an informed decision.	65-75%	External survey. See <i>Investor decision-making</i> page 26. This measure is part of the over-arching measure on page 51.	53% (50%)
15. The FMA works with government agencies and market participants to promote information and materials intended to improve investor capability.	Achieved	FMA investor capability work. See <i>Investor decision-making</i> discussion of work with MBIE, CFFC and Inland Revenue pages 26 to 28.	Achieved (Achieved)

Measure	Target	Source and evaluation	2016-17 result (2015-16)
16. FMA thematic reports on initial, periodic and ongoing disclosures lead to improvements in the areas identified.	Achieved	FMA work. See <i>Conflicted conduct</i> (insurance replacement) page 14, <i>Sales and advice</i> (KiwiSaver sales and advice guidance) page 22. Both are the result of thematic reports on disclosure.	Achieved (Achieved)
17. Frontline regulators take action to address issues raised by the FMA relevant to those they supervise.	Achieved	FMA field work. See <i>Effective frontline regulators</i> page 29 (for supervisors and auditors) and <i>Capital markets growth and integrity</i> pages 15 to 21 (for AML/CFT).	Achieved (Achieved)
18. Licensed market operators have adequate arrangements in place to comply with their statutory obligations.	Achieved	FMA capital markets work. See <i>Effective frontline regulators</i> page 29 (review of NZX).	Achieved (Achieved)
19. Stakeholders agree that frontline regulators are effective in their role.	60-70%	External survey. See <i>Effective frontline regulators</i> page 29. This measure is part of the over-arching measure on page 51.	69% (63%)
20. Stakeholders believe the FMA does a good job in regulating NZ's financial markets.	70-75%	External survey not due until 2018. This measure is being replaced by an annual survey that measures stakeholders' and investors' views of our impact on market conduct and integrity. The measure will not be reported in this form in 2018.	n/a
21. The FMA delivers its outputs within budget.	Achieved	FMA operations work. See Financials section.	Achieved (Achieved)
22. Stakeholders agree it is easy to do business with us.	70-75%	External survey. See <i>FMA effectiveness and efficiency</i> page 31. This measure is being replaced by an annual survey measuring stakeholders' views of the alignment of our risks, strategic priorities and activities. The measure will not be reported in this form in 2018.	60% (64%)
23. The FMA works with other government agencies to reduce regulatory overlap and increase efficiencies.	Achieved	FMA strategy, policy and investor capability work. See the sections: <i>Working collaboratively with others</i> page 33 and <i>Investor decision-making</i> page 26.	Achieved (Achieved)
24. FMA participation in all-of-government contracts and initiatives achieves efficiency gains.	Achieved	FMA operations work. Where applicable, we participate in all-of-government contracts to achieve efficiency from scale. This is not an impact measure and will not be reported on in 2018.	Achieved (Achieved)

Statement of responsibility

The Board is responsible for the preparation of the FMA’s financial statements and statement of performance, and for the judgments made in them.

The Board is responsible for any end-of-year performance information provided by the FMA under section 19A of the Public Finance Act 1989.

The Board is responsible for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In the Board’s opinion, these financial statements and statement of performance fairly reflect the financial position and operation of the FMA for the 12 months ended 30 June 2017.



Murray Jack

Chair
15 September, 2017



Mark Todd

Chair – Audit and Risk Committee
15 September, 2017

Statement of performance

This document is the last time we will report against the original, longer lists of performance measures. In the table below, we identify those SPE measures we have decided to stop using, or change, for the 2018 Annual report.

Key indicators

We have developed in our markets an over-arching measure that reflects the purpose of our regulatory activities. It is an index of investor confidence that includes four key impacts:

- Stakeholders agree that FMA actions support market integrity
- Investors are confident in New Zealand’s financial markets
- Investors believe the materials they received about their investments were helpful
- Investors are confident in the quality of regulation of New Zealand’s financial markets.

These four measures reflect areas over which we and other parties – market participants and fellow regulators – have influence and responsibility. The four factors are equally weighted to produce a single average measure.

Over-arching measure

Forecast standard	Actual 2016/17	Target 2016/17	Actual 2015/16	Will the measure change?
Stakeholders agree that FMA actions support market integrity.	88%	75%	83%	Yes. See page 32.
Investors are confident in New Zealand’s financial markets.	69%	65%	59%	No change
Investors believe the materials they received about their investments were helpful.	53%	60%	50%	Replaced within this over-arching measure with licensed market participants showing how they achieve good customer outcomes. We will continue to report this measure separately.
Investors are confident in the quality of regulation of New Zealand’s financial markets.	69%	65%	63%	No change
Investor confidence index	70%	66%	64%	

Performance standards and measures for the output of the FMA

for the 12 months ended 30 June 2017

Multi-Category Appropriation (MCA): Services and advice to support well-functioning financial markets

The single overarching purpose of this appropriation is to support well-functioning financial markets through the activities of the Financial Markets Authority

	Actual \$000s 12 months to 30 June 2017	Budget \$000s 12 months to 30 June 2017	Actual \$000s 12 months to 30 June 2016
Revenue	27,940	27,260	28,512
Expenditure	30,696	32,932	32,536
Surplus/(Deficit)	(2,756)	(5,672)	(4,024)

Category One: Investigation and enforcement functions

	Actual \$000s 12 months to 30 June 2017	Budget \$000s 12 months to 30 June 2017	Actual \$000s 12 months to 30 June 2016
Revenue	6,014	6,046	6,835
Expenditure	6,714	7,563	7,364
Surplus/(Deficit)	(700)	(1,517)	(529)

Major variances against budget: Expenditure is under budget due to vacancies during the year and lower than budget spend across all expense categories.

		Actual 2016/17	Target 2016/17	Actual 2015/16	Will the measure change?
1.	Risk-based proportionate and timely action against misconduct				
1.1	Inquiries and investigations are conducted within the timeframes and standards defined in the enforcement governance framework.	97%	90%	96%	Replaced by single measure of FMA's ability to meet service and timeliness standards for addressing misconduct.
1.2	The FMA works with the Serious Fraud Office on all investigations of joint interest according to Memorandum of Understanding (MOU) arrangements.	100%	100%	100%	As for 1.1
1.3	Details of all public enforcement actions are published on the FMA's website.	100%	100%	100%	Not an impact measure. Not reported in 2018.
1.4	MOU requests for assistance are completed within agreed timeframes to the satisfaction of international regulators.	100%	100%	100%	As for 1.1
1.5	A report on the key themes and issues arising from misconduct, and our regulatory responses, is published annually.	One report	One report	One report	No change
1.5.1	Misconduct reports about market participants are acknowledged within two working days of receipt by the FMA's assistance team.	98%	95%	98%	As for 1.1
1.5.2	Misconduct reports about market participants received by the FMA's assistance team are evaluated and determined for further action, referral or closing and the reporter is advised within 10 working days of receiving all relevant information.	98%	95%	98%	As for 1.1
1.5.3	Frontline regulator referrals and misconduct reports about market participants, assessed by the FMA as requiring urgent attention, are prioritised for action within one working day of receipt by the FMA's assistance team.	100%	95%	100%	As for 1.1
1.6	Stakeholders agree that the FMA's enforcement actions deter misconduct in New Zealand's financial markets*.	Not applicable	70%	Not applicable	Replaced by an annual survey which measures stakeholders and investors views of our impact on market conduct and integrity. But the measure will not be reported in this form in 2018.

*This is measured in the Stakeholder Survey which is a triennial survey. Next survey will be undertaken in 2018.

Category Two: Licensing and compliance

	Actual \$000s 12 months to 30 June 2017	Budget \$000s 12 months to 30 June 2017	Actual \$000s 12 months to 30 June 2016
Revenue	12,748	12,082	13,307
Expenditure	11,935	14,210	13,871
Surplus/(Deficit)	813	(2,128)	(564)

Major variances against budget: Revenue is above budget due to higher than anticipated licensing fees across a range of categories. Expenditure is significantly below budget due to a combination of lower than budget spend across all expense categories and also a moderate shift in focus during the second half of the year towards other output categories.

	Actual 2016/17	Target 2016/17	Actual 2015/16	Will the measure change?
2. Risk-based monitoring and surveillance				
2.1 Once received by the FMA, fully completed licence applications* are processed within 60 working days and in accordance with established processes.	100%	90%	100%	Replaced by single measure of FMA's ability to meet service and timeliness standards for monitoring and supervisory work.
2.2 Reviews of registered securities markets and accredited bodies are completed and published annually.	100%	100%	100%	Not an impact measure. Not reported in 2018.
2.3 The FMA reports on five thematic monitoring projects per year focusing on its strategic priorities.	Three	Five	Five	No change.
2.4 Regulated offers are risk-assessed within five working days after a new Product Disclosure Statement (PDS) is lodged or a new prospectus is registered.	100%	100%	100%	See 2.1
2.5 High-risk regulated offers are reviewed post registration or lodgement.	100%	100%	100%	See 2.1
2.6 Where the FMA has reviewed regulated offers and found issues of material concern, disclosures and offer information are improved or documents withdrawn.	100%	100%	100%	Replaced by single measure of implementation of substantive FMA feedback on licence applications, regulated offers and disclosure documents.
2.7 The FMA's licensing decisions are unchallenged or upheld.	100%	95%	100%	See 2.6
2.8 The FMA's strategic priorities are incorporated into its entity-based monitoring programme.	Achieved	Achieved	Achieved	Replaced by an annual survey of the effectiveness of the FMA's entity-based monitoring programme. Not reported in this form in 2018.

*Includes licence renewals, variations and FMC Act licence applications. Measure does not include FMC Act licence applications received during the transition period, which concluded on 1 December 2016. Thereafter FMC Act licence applications are included

Category Three: Market analysis and guidance, investor awareness and regulatory engagement

	Actual \$000s 12 months to 30 June 2017	Budget \$000s 12 months to 30 June 2017	Actual \$000s 12 months to 30 June 2016
Revenue	9,178	9,131	8,370
Expenditure	12,047	11,158	11,301
Surplus/(Deficit)	(2,869)	(2,027)	(2,931)

Major variances against budget: Expenditure is above budget, mostly from an increase in focus in this category during the second half of the year, post the December 1 transition to the FMC Act

	Actual 2016/17	Target 2016/17	Actual 2015/16	Will the measure change?
3. Market analysis and guidance				
3.1 Market participants' input is sought and considered before establishing all significant new guidance.	100%	100%	100%	Not an impact measure. Not reported in 2018.
3.2 The FMA briefs the Minister of Commerce on key financial markets issues and conduct priorities on a quarterly basis.	100%	100%	100%	See 3.1
3.3 Completed applications for exemptions are processed within six weeks of receiving all relevant information or as agreed with applicant.	100%	95%	100%	See 2.6
3.4 Government agencies are satisfied with the quality of advice and assistance provided by the FMA.	Satisfied	Satisfied	Satisfied	Replaced by an annual survey which measures stakeholders and investors views of our impact on market conduct and integrity. But the measure will not be reported in this form in 2018.
3.5 The FMA's Strategic Risk Outlook is reviewed annually to incorporate new market developments.	Achieved	Achieved	Achieved	Not an impact measure. Not reported in 2018.

		Actual 2016/17	Target 2016/17	Actual 2015/16	Will the measure change?
MARKET AND INVESTOR ENGAGEMENT					
3.6	Enquiries receive a substantive response from the FMA within 20 working days of the FMA receiving all relevant information.	98%	95%	99%	See 2.6
3.7	The FMA undertakes at least 20 industry or business presentations or speeches per year, with the aim of providing better information and insight for regulated populations.	26	20	21	No change.
3.8	FMA website visitors surveyed rate the content they accessed as useful in helping them to comply, or to make informed investment decisions.	92%	75%	96%	No change.
3.9	The FMA undertakes three investor awareness initiatives per year focusing on improving investor capability.	Seven	Three	Four	Duplicates SOI measure 15 (cross government Investor Capability initiatives). Not reported in 2018.
3.10	Market participants with an FMA relationship manager say they have benefited from the relationship.	94%	80%	91%	No change. For commentary on EBRM survey page 32.

Financial Markets Authority litigation fund

This appropriation is limited to meeting the cost of major litigation activity arising from the enforcement of financial markets and securities markets law, or defending litigation action taken against the FMA.

	Actual \$000s 12 months to 30 June 2017	Budget \$000s 12 months to 30 June 2017	Actual \$000s 12 months to 30 June 2016
Appropriation revenue*	1,620	2,000	1,333
Other Revenue	1	-	53
Total Revenue	1,621	2,000	1,386
Expenditure	2,313	2,000	1,386
Surplus/(Deficit)	(692)	-	-

*The appropriation revenue received by the FMA equals the Government's actual expenses incurred in relation to the appropriations, which is a required disclosure from the Public Finance Act.

Major variances against budget: Appropriation revenue is below budget due to an agreement reached with MBIE to utilise the litigation fund reserve. Litigation expenditure exceeds budget due to the timing of litigation matters.

ASSESSMENT OF PERFORMANCE

	Actual standard of performance 2016/17	Budget standard of performance 2016/17	Actual standard of performance 2016/15
The Financial Markets Authority delivers a strong and credible monitoring and enforcement regime to uphold the Government's financial and securities markets law. Litigation is one of the tools used in carrying out the FMA's enforcement functions under its enabling statutes.	The FMA undertook litigation using the litigation fund as per the conditions of use.	The FMA undertakes litigation using the litigation fund as per the conditions of use.	The FMA undertook litigation using the litigation fund as per the conditions of use.

*The appropriation revenue received by the FMA equals the Government's actual expenses incurred related to the appropriation.

