FINANCIAL MARKETS AUTHORITY

ANNUAL REPORT

2014

FMA

FINANCIAL MARKETS AUTHORITY

TE MANA TATAI HOKOHOKO - NEW ZEALAND

Hon Paul Goldsmith
Minister of Commerce and Consumer Affairs

This report is provided as required under section 151 (3) of the *Crown Entities Act 2004*.
It is the Annual Report, of the Financial Markets Authority, for the year ended 30 June 2014.

SCAllen

Simon Allen
Chairman
29 October 2014

Murray Jack
Chairman — Audit and Risk Committee
29 October 2014

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OUR VISION

To promote fair, efficient and transparent financial markets that provide investor confidence.

OUR ROLE AND STRATEGIC PRIORITIES

The Financial Markets Authority (FMA) is an independent Crown entity. We are responsible for ensuring public confidence in our financial markets and supporting the growth of New Zealand's capital base through effective regulation.

This year we began working under a much wider mandate with the introduction of phase one of the *Financial Markets Conduct Act 2013* (FMC Act). With phase one now in place, we have an extended range of regulatory tools available to achieve better outcomes for investors, financial markets professionals and businesses.

In delivering our current regulatory objectives, we have three strategic priorities.

1. Increased levels of compliance of market participants and frontline regulators
2. Investors have access to resources to help them make better-informed decisions
3. The FMA's regulatory and enforcement actions support market activity

Our annual report is structured around these priorities and provides information on what we have done to advance these areas of focus.

MAJOR ACHIEVEMENTS

In three years of operation the FMA has established itself as an agency with a critical role in regulating capital markets and financial services in New Zealand. This year our biggest task has been the launch and ongoing implementation of the FMC Act.

The FMC Act is designed to provide regulation that brings better outcomes for investors, professionals and businesses in New Zealand. We recognise that implementing the FMC Act is simply the first step in the process. We are also preparing for bigger change as businesses embrace the standards and new opportunities the Act provides.

In support of the new FMC Act and our strategic priorities, here are six of our major achievements this year.

MAJOR ACHIEVEMENT

#1

Implemented phase one of the FMC Act to support long-term improvements in our capital markets

FMA actions

- Implemented phase one of the FMC Act, effective from 1 April 2014, including:
  - new fair dealing provisions that substantially widen our mandate
  - a proportionate liability regime that includes new powers for regulating markets and conduct
  - extensive engagement with newly-regulated businesses and professionals so they understand their obligations
  - building our capability and deepening our systems, processes and expertise so we can administer the FMC Act over the long-term.

Results

The groundwork is established for improved regulation of our capital markets and financial services. In the long-term, this work provides a better-regulated environment for investors, professionals and businesses raising capital. It also plays a key part in the Government's Business Growth Agenda.

The FMA is implementing the largest statutory change in our markets in at least 30 years, ensuring regulation keeps pace with investor and business expectations.

MAJOR
ACHIEVEMENT

#2

Began transition to phase two of the FMC Act, which takes effect from 1 December 2014

FMA actions

- Commenced the transition to the FMC Act for several hundred professionals and businesses that will be newly-licensed and regulated by the FMA beginning 1 December 2014.
- Provided extensive guidance and advice on what will be required by newly-regulated professionals and businesses, to ensure they can meet their regulatory obligations.

Results

Momentum built for phase two of the FMC Act.
The phase two transition will complete the most extensive statutory change in New Zealand's financial markets in at least 30 years.

MAJOR ACHIEVEMENT

#3

Enforcement action taken against serious misconduct

FMA actions

- Completed the remaining investigations into the collapsed finance companies.
- Initiated criminal proceedings with respect to three failed companies.
- Achieved final settlement in the civil cases over Strategic Finance Limited (In Receivership and In Liquidation), Bridgecorp Limited (In Receivership and In Liquidation), and Lombard Finance and Investments Limited (In Receivership and In Liquidation).
- Convictions in two separate criminal cases brought jointly with the Serious Fraud Office (SFO).

Results

Enforcement activities raise standards of behaviour, deter misconduct and hold to account those whose behaviour harms the fair, efficient and transparent operation of our financial markets.

MAJOR ACHIEVEMENT

#4

Improvements in the clarity and effectiveness of financial product offer documents

FMA actions

- Direct engagement with issuers and their advisers to encourage clear, concise and effective offer documents ahead of the standard becoming law under the FMC Act.
- The vast majority of offer documents for initial public offerings (IPOs) listed on the NZX in 2014 reflected new disclosure principles, in anticipation of phase two.

Results

Investors have access to easy-to-follow documents for financial product offers. This groundwork sets the stage for further improvements as the new product disclosure regime comes into effect from 1 December 2014.

MAJOR ACHIEVEMENT

#5

Extensive supervision and monitoring to ensure compliance and improvements

FMA actions

- Published our annual report on the statutory obligations of New Zealand's only registered exchange – the NZX Obligations Review. The report includes 11 actions NZX is undertaking to ensure it continues to meet its obligations.
- Completed monitoring visits to ensure compliance with relevant regulation. Monitoring work included: authorised financial advisers (AFAs), brokers, financial services firms (known as QFEs), auditors and accredited bodies for regulating auditors, securities trustees and statutory supervisors, and reporting entities for anti-money laundering and counter-financing of terrorism (AML/CFT).
- Reported publicly on our supervision work and provided guidance to raise standards.

Results

We publish various reports that identify areas for attention, allowing market professionals and businesses to benefit from our findings. We also publish guidance to assist with understanding expectations.

MAJOR ACHIEVEMENT

#6

Licensing assessments underway for peer-to-peer lending and crowd funding providers

FMA actions

- Assessed licence applications for peer-to-peer lending and equity crowd funding providers. The first licences were issued in July 2014.
- Prepared investor and consumer information to enable people to fully understand the risks of these new services.

Results

New licensed financial services introduced to New Zealand, providing more choice for investors and for businesses raising funds.

The FMA has established itself as an agency with a critical role in overall business and economic regulation in New Zealand.

Simon Allen Chairman

LETTER FROM THE CHAIRMAN

Building relationships

We have completed our third year of operations and established ourselves as a widely-respected regulator amongst the professionals and businesses that fall under our mandate.

More widely, we have established our critical role in regulating the New Zealand economy alongside the two other main business and economic regulators - the Reserve Bank of New Zealand (RBNZ) and the Commerce Commission.

We have also built a strong relationship with the Ministry of Business, Innovation and Employment (MBIE), which has overall responsibility for economic and business policy in New Zealand.

In enforcement, we have built a sound working relationship with the SFO to ensure we use our combined investigation and enforcement resources to the best effect. Our enforcement actions are recognised for the results we achieve in acting against misconduct and criminal conduct, and for the deterrent effect which those actions have on others who might contemplate similar actions.

Looking outward, our relationship with our Australian counterparts, including the Australian Securities and Investments Commission (ASIC), remains sound. This contributes constructively to New Zealand's most extensive bilateral business and economic treaty.

Maintaining the momentum for change

One of the most challenging aspects this year has been the scale of the regulatory agenda that we are currently implementing. This year we have implemented phase one of the FMC Act, which gives us a much bigger mandate and brings extensive new responsibilities in licensing, supervision and enforcement.

Based on one measure alone – the size of the regulated populations – several hundred firms and professionals are expected to apply to the FMA for licences over the coming months. Phase two of the FMC Act will bring an increased amount of new work for our team over the medium-term.

The Board and management have been tested in accommodating competing priorities in the last year, as we have carried on our existing work while simultaneously implementing the new FMC Act. At the same time, we have built our capability swiftly, in information and communications technology (ICT), in the application of market intelligence, and in regulatory strategy.

We have been implementing the FMC Act within our existing resources. In the coming year direct Government funding, by way of grant, will reduce by 5.7 percent to $26.184 million, year-on-year.

The full impact of the FMC Act on our resources will become clear over the next 12-18 months, as the scale of the regulatory task becomes apparent.

Deepening and widening capital markets

Our role in deepening capital markets was one of the original reasons for establishing the FMA, following the recommendations of the Capital Market Development Taskforce in 2009.

The taskforce provided an argument for deeper markets that would provide more capital-raising opportunities for New Zealand businesses, leading to more investment opportunities for investors and consumers.

The Government's ambitions for developing our capital markets are captured in its Business Growth Agenda. The objective of the Business Growth Agenda is to almost double the capital available for New Zealand export firms by 2025, in order to steadily grow our national economic prospects.

As we have matured, our results have begun to reflect this economic objective, alongside the more widely-known role of the FMA as a conduct regulator.

Several specific initiatives we had underway this year underline our economic role. One is the NZX's stepping-stone market. This is a capital-raising means for smaller companies and was among the Capital Market Development Taskforce recommendations.

During the year we have been considering NZX's proposal, with a view to licence the stepping stone market. The new market would allow smaller businesses access to public capital-raising under slimmed-down regulatory requirements. Some of those businesses will bring new services and products to market, including for export.

In another initiative, at 30 June 2014 we were in the final stages of licensing New Zealand's first equity crowd funding providers. These new platforms provide a further means for small businesses to access capital.

In the medium-term, I anticipate our role in growing confidence in capital markets will become more prominent.

Recognising the contribution of Board members

This will be my last report on behalf of the FMA. I advised the Minister of Commerce, the Hon. Craig Foss, that I did not intend to seek reappointment to the Board when my current term ends on 31 October 2014.

It has been a privilege to lead the Board during the early stages of the FMA, providing me with the opportunity to define the priorities of a new regulator for which the Government has high expectations.

All of my colleagues on the Board have been outstanding advisers and contributors. Specifically, I would like to acknowledge the contributions of Bruce Sheppard, Mark Verbiest and Colin Giffney, each of whom stood down from the Board this year.

Murray Jack and Shelley Cave accepted reappointments in mid-2014, for five years and three years respectively. Dr Arthur Grimes was appointed a full member of the Board for a five-year term, having been an associate member since 2011. All three people bring considerable experience from different sectors to the Board.

Recognising the contribution of staff

Staff members have been under considerable pressure this year and the Board recognises and appreciates their professionalism and dedication during this demanding period.

In particular, the Board recognises the energy and commitment of the inaugural chief executive, Sean Hughes, who led the team in the transition from the Securities Commission. Mr Hughes completed his term as chief executive in December 2013.

Much of what has been achieved this year is a result of the groundwork, laid by Mr Hughes and the inaugural FMA team, including the momentum they gave the FMA at its beginning. Mr Hughes made an exceptional contribution to markets regulation in New Zealand while he was the chief executive.

Rob Everett, who began as chief executive in February 2014, is bringing a similar degree of commitment and leadership to the FMA team. I am pleased to have Mr Everett leading the FMA team as we enter a markedly different phase from our earlier years.

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Simon Allen
Chairman

Regulation is a vital part
of thriving markets.

The transition to the FMC Act is underway, laying the groundwork for us to provide high-quality regulation in capital markets and financial services.

Rob Everett, Chief Executive

LETTER FROM THE CHIEF EXECUTIVE

Our year at a glance

We have reached the end of this financial year with considerable completed achievements to our credit and a major statutory change programme underway with the implementation of the FMC Act.

By far the biggest part of our effort this year was in implementing the new FMC Act. Two main parts took effect on 1 April 2014: Part 2 and Part 8, which are the fair dealing provisions and the new proportionate liability regime, respectively. The remaining parts of the FMC Act take effect from 1 December 2014.

The FMC Act constitutes a major overhaul of markets and financial services regulation in New Zealand and substantially expands our mandate. Considerably more effort, resources and different skill-sets are required to administer the new regime.

As part of our licensing, compliance and supervision roles, we began the transition to the new responsibilities that come with the FMC Act. We continue to add the expertise and depth that we need among our staff to ensure we can meet these increased responsibilities.

In enforcement this year, our action focused on co-operation with receivers or liquidators to deliver further recoveries for investors in the remaining finance company cases. Our enforcement activity is now a more balanced blend of pre-FMA proceedings, alongside those that have been launched in respect of action taking place after we were established in 2011.

Implementing the FMC Act

The FMC Act is being introduced over three years, including the transition periods. It makes us a fully-fledged conduct and supervisory regulator with a key role in the overall business and economic regulatory regime.

For financial services and capital markets, the FMC Act prompts cultural and structural change that will bring benefits for investors, businesses and capital markets over the long-term.

The FMC Act also brings new powers that allow us to act decisively in the interests of investors and consumers where we think it is justified. These include making stop orders in relation to offers, financial products or registered schemes.

We implemented phase one of change under the FMC Act beginning on 1 April 2014. This work was supported by a dedicated strategic implementation and engagement programme to ensure businesses and professionals understood what was expected of them.

We monitored our work through a survey that focused on feedback from market professionals and businesses. Those surveyed commented on the strategic implementation and engagement programme. Overall, the survey results were positive and a summary is included in this annual report.

Phase two of the FMC Act begins to take effect on 1 December 2014. During the year we began work on initiatives to ensure this phase of the FMC Act is implemented with particular attention to engagement with businesses and professionals. We are taking into account the responses we have received on our phase one implementation in order to fine-tune our engagement initiatives.

Encouraging easier-to-understand investment documents

The FMC Act brings in new requirements for prescribed product disclosure statements and requires issuers to meet clear, concise and effective disclosure standards for offers of debt, equity, managed investment schemes and derivatives.

Issuers will be required to use the new formats from 1 December 2014, however many issuers have been steadily adopting the 'clear, concise and effective' principles since publication of effective disclosure guidance in 2012. Genesis Energy set an example in March 2014 for their IPO, with a 64-page investment statement. This statement was 200 pages shorter than the combined prospectus and investment statements of similar examples.

Ensuring access to professional financial advice

We have an immediate role as the regulator for AFAs in New Zealand, with a total of almost 1,900 advisers in this category. There are also 6,580 registered financial advisers (RFAs), where our regulatory role is considerably less.

Financial advisers are a priority area of focus for our team. This is because New Zealanders need access to advisers who can provide quality advice that is appropriate to the products or services they are buying, or the investments they are making.

Following consultation this year by the Code Committee for Authorised Financial Advisers (Code Committee), we issued a revised Code of Professional Conduct (the Code) for Authorised Financial Advisers. The revised Code reflects changing client expectations and ensures AFAs put the interests of their clients first. We acknowledge the contribution of the Code Committee in consulting on and developing the revised Code.

In the coming year we anticipate making a substantial contribution to the review of the operation of the *Financial Advisers Act 2008* (FA Act), which will be led by MBIE. This will be the first review of the operation of the FA Act since it came into effect.

Regulating the New Zealand Exchange

NZX is New Zealand's only registered exchange, making it the source of listed equities and listed debt for New Zealand investors. NZX provides frontline regulation and supervision under our oversight.

Under the *Securities Markets Act 1988*, NZX is required to provide a fair, orderly and transparent market. Every year we review NZX to ensure it meets these statutory obligations. Our third report on NZX's compliance with its obligations was published in June 2014. As part of that report, together with NZX we agreed on 11 specific actions NZX will implement in the near-term for managing conflicts, monitoring conduct and enforcing compliance.

The review concluded NZX met its statutory obligations in the review period.

Deterring misconduct

Enforcement actions by regulators have two primary purposes. Firstly, they hold to account and impose penalties on professionals or businesses that breach their obligations at law. Secondly, they deter others from doing the same. As a regulator, enforcement and deterrence are critical parts of our work.

This year we are reaching the tail end of the finance company cases that we inherited when we were established in 2011. This will release time and resources progressively, so we can focus on our new priorities under the FMC Act.

There were substantial achievements this year in enforcement and deterrence, including three cases involving collapsed finance companies where we entered into settlements for civil claims. These cases were Strategic Finance Limited, Bridgecorp Limited, and Lombard Finance & Investments Limited. We determined this approach to be in the best interests of investors and the wider public.

Quality regulation ensures markets are recognised by investors, professionals and businesses as fair, efficient and transparent.

All three settlements led to payments to investors, which is a priority for us in agreeing to such settlements. In the case of Strategic Finance Limited we also obtained enforceable undertakings from the directors.

Two investigations, jointly between the FMA and the SFO, resulted in criminal proceedings that were completed this year. These were the separate cases of financial adviser David Ross, and Hugh Hamilton who was the legal adviser to the directors of Belgrave Finance Limited.

Reporting our financial results

We are managing our finances prudently as we anticipate ongoing pressure on our staff numbers and on our capital expenditure on systems to support staff. This pressure includes increased monitoring of markets and our interactions with participants as the FMC Act takes full effect over the next 2–3 years. In turn, we will be subject to a steady demand on our funding, including our accumulated funds.

In 2014 our total income was $31.2 million, comprised of our Government grant, interest and third-party revenue for directly-provided services. This total was $0.4 million ahead of our budget ($30.8 million), predominantly due to new, unbudgeted fees for reviews of audit firms. Interest income was $0.7 million, which is $0.2 million higher than the budget of $0.5 million.

Total expenses were $29.4 million, coming in slightly lower than our expected budget of $29.7 million. While total expenses came in under budget, our personnel costs, which are our single biggest area of expenditure, were 8 percent over budget at a total of $19.3 million. This was due to the additional staff we hired, many of them with highly sought-after financial markets and ICT skills. These skill sets are required to implement the FMC Act.

Our expenditure in personnel was balanced, in part, by lower than budgeted professional services costs and expert fees, as we prefer to use in-house expertise rather than buying external expertise. This ensures knowledge gained during implementation is retained.

Our capital spending reflects the demand to improve the quality of our ICT in order to support our expanded regulatory role. At 30 June 2014 we had $1.4 million of capital work in progress, most of it in ICT. At the same time in 2013, we had just $6,000 of capital work in progress.

Recognising the dedication of our staff

I was appointed as chief executive of the FMA, beginning in February 2014.

I took over with the implementation of the FMC Act underway. I have found the FMA's staff to be dedicated and diligent in their desire to bring constructive change to the markets and financial services. The members of the FMA team have stretched themselves in their professional and personal capacities this past year, and I would like to acknowledge those efforts.

Despite the pressure, we have built goodwill among the firms and professionals we regulate. Further, we are increasingly recognised among investors for our role in providing confidence in New Zealand's markets.

I am confident we are entering 2015 with a sound platform of regulatory skills and the momentum for change in our favour.

Rob Everett
Chief Executive

REGULATION AND PRIORITIES

THE BIG PICTURE – REGULATING THE NEW ZEALAND ECONOMY

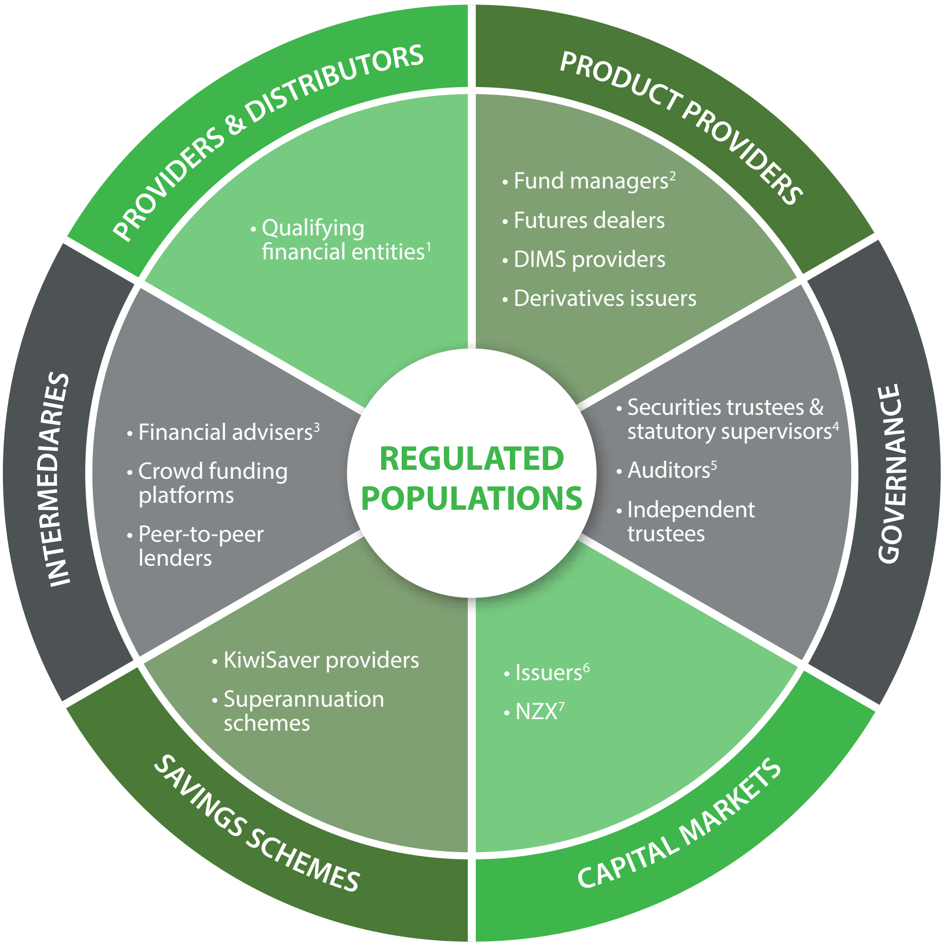
We are one of three main regulators

Here's how we work together to regulate our economy and support a financially healthy New Zealand.

WHO WE REGULATE

Businesses, professionals and markets that will be regulated by the FMA from 1 December 2014

The number of businesses, professionals and markets regulated by the FMA has grown under the FMC Act. Our total regulated populations, as they will be from 1 December 2014, are detailed below.



1. QFEs are firms or groups providing financial advice on their own account and they take responsibility for financial advice provided by their employees and contractors. See www.fma.govt.nz for the full list of QFEs.
2. Recognised in the FMC Act as managers of registered schemes.
3. Including authorised financial advisers (AFAs); registered financial advisers (RFAs); and advisers in qualifying financial entities (QFEs).
4. Including debt securities trustees; trustees of unit trusts; KiwiSaver Trustees; and supervisors of other investment schemes.
5. Including accredited bodies; licensed New Zealand auditors; registered audit firms; and licensed overseas auditors. FMA's auditor regulation applies only to audits of issuers.
6. Including equity securities; debt securities; investment life insurance; managed funds; superannuation; and contributory mortgage brokers. Includes financial reporting requirements to which issuers are subject under Part 7 of the FMC Act.
7. NZX (registered exchange), including: NZSX (main board); NZAX (alternative market); NZDX (debt market); FSM (Fonterra shareholders' market); and NZCX (derivatives market).

See page 100 for more details on who we regulate, including specific numbers for each regulated population.

HOW WE REGULATE

The FMA's functions to support regulation

Our approach to regulation is based on proactive and extensive engagement with firms and professionals. Specifically, our functions for regulation are shown below.

These functions for regulation support our three strategic priorities

1. Increased levels of compliance of market participants and frontline regulators
2. Investors have access to resources to help them make better-informed decisions
3. The FMA's regulatory and enforcement actions support market activity

OPERATIONAL PERFORMANCE

PERFORMANCE AGAINST OBJECTIVES

Measuring our achievements

We have three strategic priorities which contribute to the promotion and development of fair, efficient and transparent financial markets.

OUR PRIORITIES

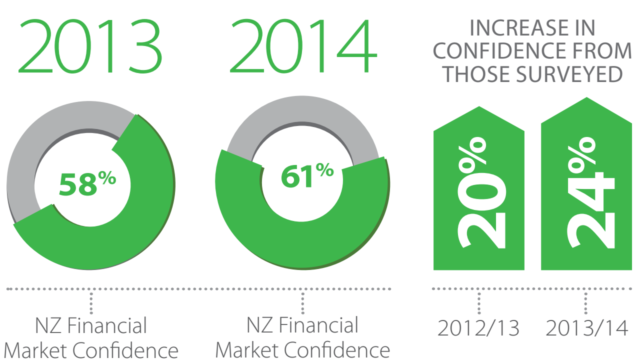
1. Increased levels of compliance by market participants and frontline regulators
2. Investors have access to resources to help them make better-informed decisions
3. The FMA's regulatory and enforcement actions support market activity

The measures that follow in this next section of the report indicate our progress this year in meeting these three priorities.

Assessing sentiment among investors

We engage an independent research company on an annual basis to survey New Zealand investors and gauge their views on our financial markets. As part of this survey entitled General Public and Investor Views 2014: Attitudes Towards New Zealand's Financial Markets – we ask investors how much confidence they have in New Zealand's financial markets and whether that confidence has increased.

Of the investors surveyed in 2014, 61 percent were very or fairly confident in New Zealand's financial markets compared with 58 percent in 2013. Of those surveyed, 24 percent stated that their confidence had increased in the last year (2013/14), compared with 20 percent in 2012/13.



1. Increased levels of compliance by market participants and frontline regulators

To achieve increased compliance among market participants we:

- engage with market participants regularly, and particularly when introducing significant change to a statute or regulation
- provide guidance and supporting materials to educate and support market participants and frontline regulators
- conduct regular surveillance and monitoring, including reports to the market that summarise our monitoring activity
- take appropriate and proportionate enforcement action
- communicate with participants and the wider public.

Our agreed measures with results are:

Measure	Target	Method	2012-13 Result	2013-14 Result
Percentage of market participants who substantially meet expectations of significant new guidance.	To increase percentage of participants who meet expectations year-on-year.	FMA data	93%	86%**
Percentage of market participants who are required to take corrective action as requested by the FMA following compliance review.	To decrease the need for corrective action year-on-year.	FMA data	15%	17%
Percentage of frontline regulators and gatekeepers that take appropriate corrective action as requested by the FMA following compliance review.	To achieve 100% compliance.	FMA data	100%	100%
Percentage of stakeholders surveyed who agree the FMA has performed well over the past year in helping to lift levels of competency and compliance by market participants.	To maintain baseline as set at 73%* in 2012-13.	Stakeholder survey undertaken on behalf of the FMA	73%*	Next stakeholder survey in 2015^
Percentage of stakeholders surveyed who agree the FMA's oversight of frontline regulators and gatekeepers has been effective.	To increase baseline as set at 40%* in 2012-13.	Stakeholder survey undertaken on behalf of the FMA	40%*	Next stakeholder survey in 2015^

* Stakeholder survey 2012.

^ The FMA stakeholder survey is undertaken every three years and is used to measure stakeholder views of the FMA's performance. The next stakeholder survey is scheduled for 2015.

** Refer to the following pages of text for further information on measures that have decreased.

Compliance reviews

We undertake regular risk-based reviews of compliance among firms and professionals covered by our regulatory mandate. We focus on issues that present the greatest likelihood of harm to the good conduct of markets, including harm to investors.

Areas for improvement are identified during a review process and in some cases we require a market participant to take particular corrective action. This year 17 percent of the market participants we reviewed were required to take corrective action. This is a slight increase from 15 percent in 2012-13. This increase reflects a change in our monitoring approach.

The key themes identified from the monitoring of specific market participants are outlined in this section of the report.

Monitoring financial advisers

In the year to 30 June 2014, we conducted 113 monitoring visits of financial advisers, including on-site visits to answer questions, review compliance and follow up on earlier complaints and other work. While no major issues were identified, general themes for ongoing improvement include:

- ensuring adviser business statements (ABS) are kept updated with changing regulatory requirements
- continuing to focus on meeting obligations under the revised Code
- appropriate disclosure required for AFAs within a QFE
- ensuring appropriate processes and systems are in place for all RFAs.

Monitoring qualifying financial entities

We issued our first monitoring report for QFEs this year, following a total of five monitoring visits over the 12-month period. Our monitoring activities for QFEs included on-site inspections of some of the major banks and non-bank entities, and a review of AFAs working within a QFE.

We identified concerns about complaints we received relating to KiwiSaver sales and switching practices in the marketplace, including the importance of placing the interests of the customer first. We encourage KiwiSaver providers to think about the value they can add for customers in relation to their KiwiSaver investments.

Monitoring compliance under the *Anti-Money Laundering and Countering Financing of Terrorism Act 2009*

As part of our regulatory role we supervise reporting entities for compliance with the *Anti-Money Laundering and Countering Financing of Terrorism Act 2009* (AML/CFT Act), which came into full effect on 30 June 2013.

During this first year of supervision, we conducted 28 on-site monitoring visits and nine desk-based reviews. This work included visits to brokers, futures dealers, trustee companies, collective investment schemes (fund managers) and financial advisers (both firms and individuals).

Full copies of all monitoring reports are available on our website at www.fma.govt.nz

We were pleased with the attempts made by reporting entities to comply with the AML/CFT Act and it was clear a considerable amount of effort had gone into the preparation. However, there were still some key areas of concern that require ongoing focus. In summary, these areas of concern include:

- the need for appropriate risk assessments linked to an AML/CFT programme
- ensuring customer due diligence is carried out effectively
- putting in place processes and systems for monitoring and reporting on suspicious transactions.

Monitoring brokers

In the year to 30 June 2014, we completed eight monitoring visits to brokers. This monitoring work determined further improvements are needed to better comply with legislative requirements, particularly Part 3A of the FA Act. We identified several key themes, including the need for:

- client consent to be obtained by brokers before taking a margin on interest earned on client money
- better protection of client identification and security reference numbers
- appropriate naming of client money and client property trust accounts
- appropriate reporting and increased reporting accuracy.

Monitoring securities trustees and statutory supervisors

In September 2012 we licensed securities trustees and statutory supervisors (licensees) pursuant to the *Securities Trustees and Statutory Supervisors Act 2011* (STSS Act). Since this time, we have continued our monitoring of compliance under the STSS Act and in the year to 30 June 2014 we completed eight on-site reviews and provided detailed feedback to each licensee.

Monitoring KiwiSaver schemes

We are one of several government agencies with a role in regulating the KiwiSaver sector. We are primarily responsible for the administration, compliance monitoring and enforcement of the *KiwiSaver Act 2006*. KiwiSaver trustees, as the frontline supervisors, also have responsibility for supervising the management and administration of non-restricted schemes.

In accordance with section 194 of the *KiwiSaver Act 2006*, we provided the KiwiSaver Report for the year ended 30 June 2014. It details the principal matters transacted under the Act during the one-year period and contains the seventh annual summary of the statistical returns required to be lodged by KiwiSaver schemes under section 125, as at 31 March 2014.

Among other actions, we undertook a thematic review that focused on trustees' arrangements to monitor retail KiwiSaver scheme managers' management of investment risk. Written feedback was provided to all KiwiSaver trustees as part of the review.

The number of KiwiSaver schemes registered at 30 June 2014 was 43, compared to 45 the previous year. We have registered one new scheme during the year.

The report was published on 1 October 2014.

Introducing new disclosure statements for KiwiSaver

The *KiwiSaver (Periodic Disclosure) Regulations 2013* came in to force on 1 July 2013. This requires issuers of non-restricted KiwiSaver schemes to prepare quarterly and annual disclosure statements.

The aim is to standardise the reporting of investment returns and fees to make it easier for investors to compare funds offered by non-restricted KiwiSaver providers. The first quarterly disclosure statements were published in October 2013 and annual disclosure statements were due by 27 June 2014.

KiwiSaver members can view the new statements on their KiwiSaver provider's website. Providers are required to have a prominent link to the disclosure statements.

There were 363 quarterly disclosure statements lodged for the quarter ended 30 September 2013. This number increased to 414 by 30 June 2014.

Monitoring superannuation schemes

We are responsible for the administration, compliance monitoring and enforcement of the *Superannuation Schemes Act 1989*. The Act makes no distinction between schemes that are provided to the general public, set up by individuals for themselves, or sponsored by private or state sector employers.

The number of superannuation schemes declined from 487 in 2012 to 457 in the calendar year 2013, a net reduction of 30. Most superannuation schemes are either employer-sponsored schemes or retail schemes, with assets of $15.438 billion and $5.057 billion respectively.

These figures do not include the Government Superannuation Fund (GSF), which was closed to new members in 1992. The GSF at 30 June 2013 had $3.318 billion in assets and 58,032 members, of whom 46,568 are receiving pensions or had deferred pension entitlements.

Our work involves engaging with trustees of the schemes to ensure they are complying with the *Superannuation Schemes Act 1989*. Our focus has been on:

- reviewing the activities of trustees
- discussing particular problems with trustees and their advisers
- providing the market with assistance on issues as they arise.

All scheme terminations were reviewed for compliance with the *Superannuation Schemes Act 1989*. A relatively constant number of schemes continue to be wound up; 44 this year, compared to 47 the previous year. The majority of trustees and their advisers have ensured that the requirements of the *Superannuation Schemes Act 1989* were met as part of the wind-up process.

The report was published on 1 October 2014.

Assessing organisations with regulatory responsibilities

We undertake regular reviews of frontline regulators. These reviews are aimed at lifting standards of conduct, ensuring effectiveness and helping frontline regulators better understand their regulatory obligations.

Our annual NZX General Obligations Review brought forward 11 actions to improve existing arrangements, as agreed with NZX. The actions are detailed in our review published in June 2014, covering the performance of NZX in the 12 months to 31 December 2013. Overall the review determines that NZX met its obligations under the *Securities Markets Act 1988*, to run markets in a fair, orderly and transparent way.

In December 2013 we published our assessment of the New Zealand Institute of Chartered Accountants (NZICA), and one of CPA Australia, including their respective ability to meet their obligations under the *Auditor Regulation Act 2011*. The reports covered the year to 30 June 2013 and required the accredited bodies to have adequate systems to license and register domestic auditors; monitor the registered population; promote competence among the population; and take action against misconduct. We found NZICA and CPA Australia both met their obligations for the period covered.

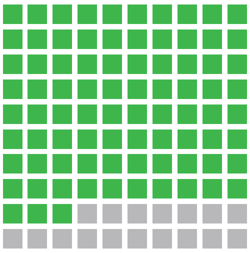
Implementing the *Financial Markets Conduct Act 2013*: Phase one

Phase one of the FMC Act came into effect on 1 April 2014. In preparation for phase one, we put in place a strategic implementation and engagement programme. The purpose of this programme was to ensure firms and professionals understand the opportunities that phase one of the Act provides and the changes that are required as part of the new Act.

Following the phase one implementation programme, Colmar Brunton undertook research with market participants to measure the industry's understanding of the role of the FMA and the effectiveness of our programme.

Below is a summary of key results.

Most market participants feel they understand the role of the FMA.



83%

know a lot / a fair amount about the FMA's role.

1 in 2 / 52%

MARKET PARTICIPANTS

feel the FMA has consulted well when introducing significant changes to the regulatory framework. The same proportion (52%) feel that the FMA's communications have assisted their understanding of their obligations under the FMC Act. Around a fifth of market participants disagree, prompting a need for further focus and support in this area.

1 in 4 / 27%

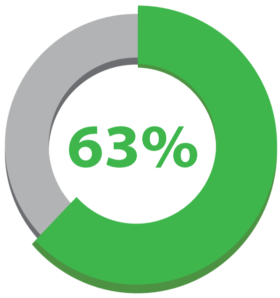
MARKET PARTICIPANTS

have or will apply for a licence under the FMC Act.

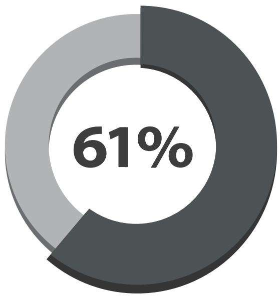
Among these participants the majority (73%) feel the FMA's communications have helped them understand the licensing process.

THE MAJORITY

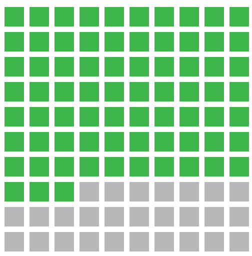
of participants feel they know more about the FMA now than they did a year ago.



Awareness of the FMA and its role has increased.



Understanding of the FMA's actions as a regulator has increased.



73%

communications assisted understanding.

Introducing new licensing under the *Financial Markets Conduct Act 2013*

With the implementation of phase one of the FMC Act on 1 April 2014, new peer-to-peer lending and equity crowd funding, as licensed activities, are now available. Applications for licences have been received for both activities and the first licences were granted shortly after 30 June 2014.

The following populations will be licensed under phase two of the FMC Act, beginning on 1 December 2014:

- managers of registered schemes (managed investment schemes), excluding restricted schemes
- derivatives issuers
- providers of discretionary investment management services (DIMS)
- independent trustees of restricted schemes.

During the year to 30 June 2014 we began consultation with these populations on draft minimum standards and conditions for licences.

Providing guidance for firms and professionals

We provide guidance to regulated sectors on expectations under current legislation. Considerable resource is devoted to constructing, issuing and testing the guidance materials.

During the year to 30 June 2014, we issued seven guidance notes covering core compliance themes, six guides for those seeking licences under the FMC Act and a series of information sheets on specific topics.

Guidance notes were issued on the following topics this year:

- discretionary investment management services
- limited personalised advice
- client communications and record-keeping
- broker obligations
- monitoring investment risk in KiwiSaver schemes
- regulatory reporting for AFAs and the release of the online reporting tool
- guidance for QFEs on the transfer of funds from Australian superannuation funds.

Testing the effectiveness of guidance

We allow a reasonable period for users to respond to guidance and then we test the extent to which businesses and professionals have met expectations. We do not always test the same guidance year-on-year and, as a result, the results for this measure vary. This year we tested aspects of guidance on:

- effective disclosure
- disclosing non-GAAP financial information
- the application of Code Standard 6(d) of the Code (AFAs).

The results showed 86 percent of those reviewed substantially met the expectations laid out in the guidance. While results remain high, this represents a decrease from 93 percent in 2012-13. This decrease reflects a number of changes we made to our reviews. The guidance has been in place for two years now, and we anticipate a deeper understanding of it.

New ways of raising capital provide opportunities for New Zealand businesses.

2. Investors have access to resources to help them make better-informed decisions

To ensure investors have access to information and resources that allow them to make informed decisions, we:

- promote clear, concise and effective disclosure – for investors and others – including in product disclosure statements
- promote high-quality financial reporting by issuers
- participate in cross-Government initiatives that are aimed at improving investor understanding of decision-making and risk.

Our agreed measures with results are:

Measure	Target	Method	2012-13 Result	2013-14 Result
Percentage of respondents to website and other questionnaires that agree the FMA's investor education materials are helpful and relevant.	To increase percentage of participants who agree year-on-year.	Web survey	80%	81%
Percentage of offer documents and financial statements reviewed that substantially meet expectation in the FMA guidance.	To maintain or increase baseline as set at 92% in 2012-13.	Internal assessment	92%	89%
Percentage of investors surveyed who believe that investment disclosure documents provided helped them to make an informed investment decision.	To increase baseline as set at 52% in 2012-13.	Survey undertaken for the FMA*	52%	53%*

*Survey - General Public and Investor Views 2014: Attitudes Toward New Zealand's Financial Markets.

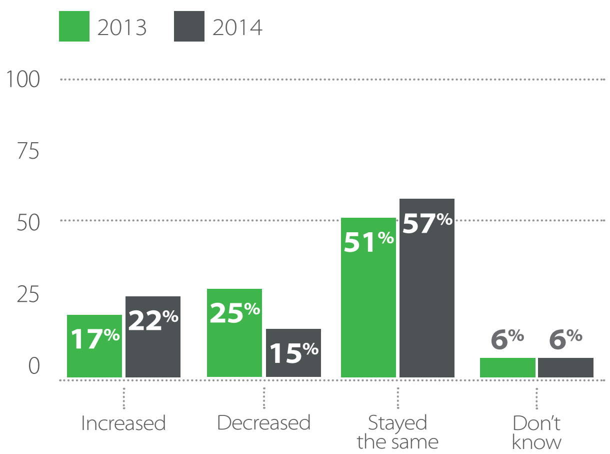
Reporting investor confidence in our financial markets

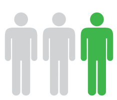
We published two major surveys this year on investor confidence in our financial markets. The first survey was conducted by Colmar Brunton – General Public and Investor Views 2014 – and looked at attitudes towards New Zealand's financial market. The second survey – Investor Experience of IPOs – had a more specific focus and was conducted by Colmar Brunton for the FMA and NZX.

The purpose of all survey work is to gauge the current level of investor confidence so we can then direct our efforts towards the gaps identified. A selection of survey results follow and full copies of all survey results are available at www.fma.govt.nz.

MAJOR SURVEY RESULTS

Compared to 2013, more New Zealanders report an increase in confidence in our financial markets and fewer say their confidence has decreased.

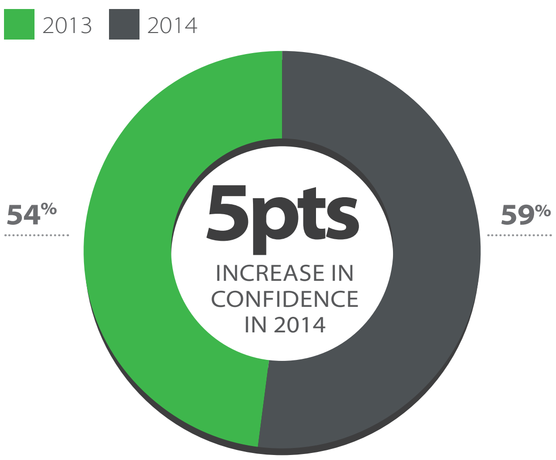



1 in 3/**35%**

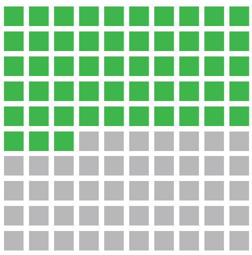
NEW ZEALANDERS

have heard of the FMA. Those who invest in New Zealand's financial markets are more likely to be aware of the FMA than those who do not (38% vs. 25%)

THE MAJORITY OF PARTICIPANTS feel more confident in the markets now than they did a year ago.



HALF OF THOSE WITH INVESTMENTS say the materials they received about their most recent investment were helpful in making an informed decision.



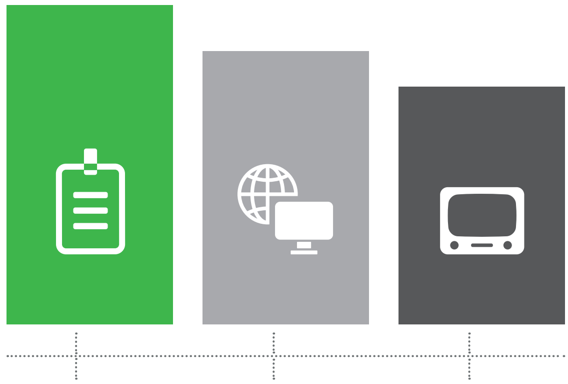
53%

whether or not to invest

Investor experience of IPOs

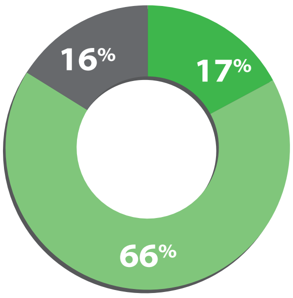
THE TOP THREE SOURCES

for investor information are the offer document, websites and media.



MOST PARTICIPANTS FELT

well-informed before making their investment decision.



83%

felt well-informed

- Very informed
- Fairly informed
- Not very informed, not at all informed, and don't know

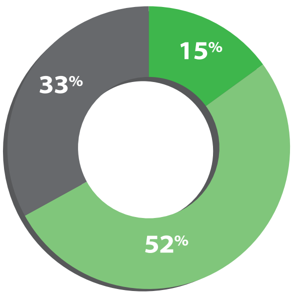
OTHER SOURCES OF INFORMATION INVESTORS USE INCLUDE

friends or family; company reports and publications; research reports; and advice from financial advisers and brokers.

Overall, the potential returns offered by the investment and its perceived safety are the main reason people choose their specific investment.

THE MAJORITY OF PARTICIPANTS

dipped into rather than thoroughly read the offer document.



85%

read the offer document in part rather than cover to cover

- All of it
- Most of it
- Some of it

Ensuring informed audiences: media relations

We have a proactive and accessible approach to communications and news media. Our intention is to ensure the public is well-informed about the latest developments and important news.

In the year to 30 June 2014, we issued 39 media releases on topics including enforcement action, guidance for regulated populations and aspects of investor information. We received 406 media enquiries and took part in 32 media interviews. We also provided opinion pieces on a variety of topics to major daily newspapers.

Ensuring informed audiences: general consumer and investor information

During the year we had information available to investors and consumers on the following financial market topics.

- Become a smart investor: the do's and don'ts
- KiwiSaver: are you getting the right advice?
- Be wary of 'low ball' offers
- Five questions to ask your financial adviser
- Confidence comes from sound advice
- How to spot an investment scam

As at 30 June 2014, the following new information for investors and consumers is currently under development.

- Crowd funding: information on investing with the crowd (in anticipation of licensing crowd funding platforms).
- Peer-to-peer lending: tips for lenders and borrowers (in anticipation of licensing a peer-to-peer lending platform).

In July 2013 we surveyed users of our investor-related web pages and found that 81 percent of those surveyed found our investor education materials helpful and relevant.

All investor information is included in the 'Help Me Invest' section of our website at www.fma.govt.nz

Improving disclosure in offer documents

We encourage high quality disclosure and undertake risk-based reviews of prospectuses against our Guidance Note: Effective Disclosure 2012. Where appropriate, we also review financial statements against our Guidance Note: Disclosing Non-GAAP Financial Information. Over the past year, 89 percent of the offer documents and financial statements we reviewed substantially met our expectations as set out in our guidance. This slight decrease from 2012-13 reflects a strengthening of our expectations now the guidance has been in place for two years.

Adopting the clear, concise and effective principle

Clear, concise and effective disclosure is one of the underlying principles for offers of securities, as included in the law that takes effect on 1 December 2014.

Since the publication of our Guidance Note: Effective Disclosure 2012, issuers have been increasingly adopting these 'clear, concise and effective' principles.

The vast majority of offer documents this year, including IPOs listed on NZX, used clear descriptions of risks, financial information and clear information on other key aspects of the offer.

Going concern disclosures in financial statements

The going concern assumption is one of the fundamental accounting concepts used in the preparation of financial statements. This year we performed a review of going concern disclosures in financial statements where issues had been identified. Our review covered both financial statements and audit opinion disclosures.

Our report was released in June 2014 and aimed to remind directors of the importance of the going concern assumption when preparing financial statements. We also highlighted the importance of consistency in the disclosures in financial statements and the audit report of those financial statements.

Thematic review of audit fee disclosure by listed issuers

In April 2014, we issued a report covering our review of disclosure in the financial statements of audit fees. This report included details on fees for other services paid to external auditors from a sample of listed issuers. The report highlighted that disclosures are often unclear, inconsistent and do not always comply with the relevant accounting standards. We included an example of best practice for disclosing audit fees and fees for other services. The example clearly discloses the different types of other fees paid to the auditor.

We recommend that where fees for other services are high, issuers should clearly disclose the level of fees paid to their auditor. We also emphasised the significance of the audit committee's role and encouraged issuers to have rigorous and open discussions with their external auditors.

Reporting on issuers' use of non-GAAP financial information

In September 2012, we published guidance for issuers on providing non-GAAP (generally accepted accounting principles) financial information. Since that time we have monitored disclosure and in September 2013 we released a report on our monitoring of disclosure for non-GAAP profit information in market communications.

As part of our monitoring, we undertook a review of 23 listed issuers. Our findings indicated that issuers were aware of our guidance and were starting to apply the guidelines when presenting non-GAAP information. However, not all aspects of the guidance were being followed. In some cases issuers gave more prominence to non-GAAP profit information. Instead, our recommendation is that issuers aim to provide a balanced 'whole picture' of their performance.

Reporting progress on unsolicited offers

In March 2014, we issued a report on our progress in regulating unsolicited offers, also known as low-ball offers. The report showed a decrease in complaints from investors since the *Securities Markets (Unsolicited Offers) Regulations 2012* came into effect on 1 December 2012.

In particular, investors with large holdings appear less likely to accept unsolicited offers than those with small holdings. Also, deeper discounts to the market price appear to result in lower rates of acceptance of unsolicited offers.

Our monitoring indicated a good level of compliance with the regulations in regard to unsolicited offers received by investors. Instances of non-compliance were relatively minor and in all cases they were rectified to our satisfaction.

Full copies of all reports are available on our website at www.fma.govt.nz

Clear, concise and effective offer documents help investors make better-informed investment decisions.

3. The FMA's regulatory and enforcement actions support market activity

To provide regulatory and enforcement action that supports market activity, we:

- take appropriate and proportionate enforcement action using a range of regulatory tools, where our response can range from warnings and administrative powers through to licensing sanctions and formal proceedings
- provide exemptions to facilitate compliance for new products and overseas issuers , including in other cases where the cost of compliance is not matched by improved outcomes for investors or participants
- coordinate and collaborate with local and international co-regulators to achieve a 'whole of system' approach to regulation
- identify potential risks through market intelligence and analysis
- monitor international regulatory development reviews and relevance to the New Zealand context; where we identify significant issues or gaps in New Zealand's regulatory framework, we advise and assist the Government in addressing these
- work with the Code Committee to maintain and update the Code (see page 44).

Our agreed measures with results are:

Measure	Target	Method	2012-13 Result	2013-14 Result
Percentage of stakeholders surveyed who believe the FMA's regulatory actions are proportionate.	To increase percentage of participants who agree year-on-year.	Stakeholder survey undertaken on behalf of the FMA	34%*	Next stakeholder survey 2015^
Percentage of stakeholders surveyed who believe the FMA's actions positively influence market behaviour.	To increase percentage of stakeholders who agree year-on-year.	Stakeholder survey undertaken on behalf of the FMA	54%*	Next stakeholder survey 2015^
The FMA regulatory impact statements (RIS) consider the costs and support the benefits of significant new guidance.**	To achieve 100 percent compliance.	FMA data	Not applicable in 2012-13 financial year	No RIS issued

* Stakeholder survey 2012.

^The FMA stakeholder survey is undertaken every three years and is used to measure stakeholder views of the FMA's performance. The next stakeholder survey is scheduled for 2015.

** This measure applies to significant new guidance initiated after 1 July 2013. The FMA has begun undertaking a regulatory impact analysis prior to issuing significant new guidance that is aimed at ensuring guidance is both appropriate and proportionate. No RIS was finalised this year, however a number of RIS are underway at 30 June 2014.

Responding to enquiries and complaints

In the year to 30 June 2014, we received a total of 2,701 enquiries and 839 complaints. The enquiries related primarily to:

- the FMA and the implementation of the FMC Act, including our engagement with the market in relation to the new Act
- legislation, policy and guidance regarding the AML regime.

Complaints related mainly to:

- alleged scams, including through foreign exchange platforms
- people or entities providing financial services without registration or authorisation
- custody of client funds.

Of the 839 complaints, 68 were referred to the FMA enforcement team. The majority related to existing investigations and a small number resulted in new investigation action. The other 771 complaints were either resolved, closed with no further action taken, or were referred to the FMA compliance team and are subject to ongoing consideration.

Complaints were lower than the previous year (2012-13) by 37 percent. The biggest single contributor to the fall in complaints was the resolution of the Ross Asset Management (In Liquidation) case, which was the cause of a substantial number of complaints in the previous year. A further contributor to the lower number of complaints, year-on-year, was a business that offered a forex trading platform. It had been the source of a considerable number of complaints in 2013.

Key areas of focus for FMA investigation and enforcement activity

This year the FMA's enforcement activities have focused on a broad range of harms threatening financial markets, including:

- responding to serious financial crime
- probing allegations of secondary markets violations, including insider trading or market manipulation
- addressing the persistent failure by some issuers to file financial statements
- completing the investigations into legacy finance company cases.

We have used a wide range of approaches to respond to misconduct. While we have commenced a number of court proceedings to deal with serious misconduct, we have also used a wide range of other regulatory tools available to us. As well as issuing warnings, we have entered into settlements to achieve financial returns for investors where this has been in the public interest. We have also worked collaboratively with financial markets' entities to resolve various issues of concern. The facts of every matter we look at are unique. In the matters dealt with in the year ending 30 June 2014, we have carefully considered and exercised judgement in determining how the FMA, as the regulator, needs to respond to the situation. We have given particular focus to being consistent and transparent in exercising our powers.

Enforcement and litigation

In the year to 30 June 2014, the FMA enforcement team was engaged in 76 inquiries and investigations and 29 litigation matters. These matters covered a wide range of issues that are detailed in the FMA Investigations and Enforcement Report.*

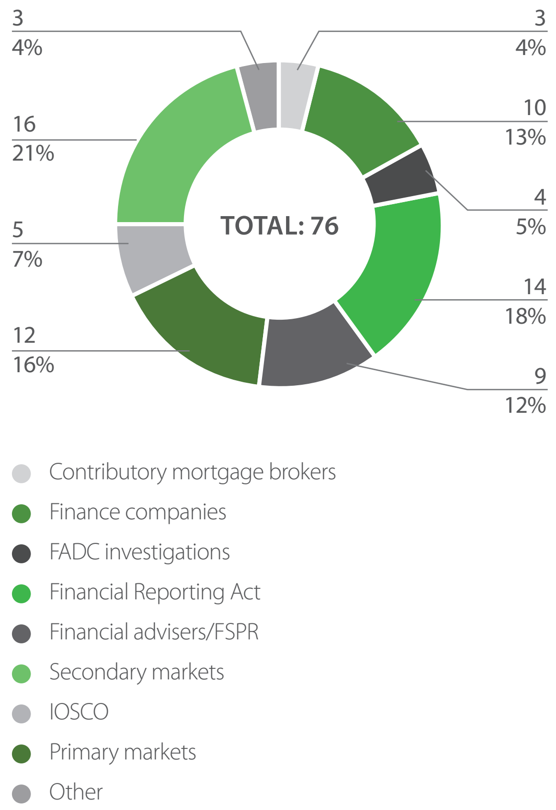
At 30 June 2014, we had 30 active inquiries and investigations underway. Proceedings before the courts continued in 13 cases.

Criminal proceedings

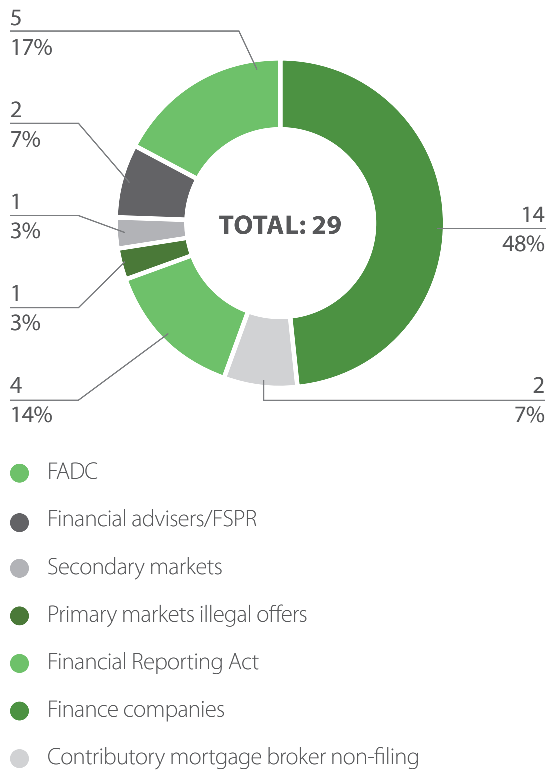
In the year to 30 June 2014, criminal proceedings were commenced against the directors of three finance companies:

- Viaduct Capital Limited (In Receivership)
- Mutual Finance Limited (In Receivership)
- OPI Pacific Finance Limited (In Receivership and In Liquidation).

INQUIRIES AND INVESTIGATIONS DURING 2013/2014



LITIGATION MATTERS 2013/2014



*The FMA Investigations and Enforcement Report, for the year ended 30 June 2014, was published on 25 September 2014. A full copy of the report is available at www.fma.govt.nz.

Percentages in the above graphs are rounded and may not add exactly to 100 percent.

In the case of Viaduct Capital Limited (In Receivership) and Mutual Finance Limited (In Receivership), charges have been filed under the *Crimes Act 1961* and the *Companies Act 1993*. In the case of OPI Pacific Finance Limited (In Receivership and In Liquidation), charges have been filed under the *Securities Act 1978*. Charges were also filed against contributory mortgage brokers and directors of issuers for failing to file annual reports and important financial statements. As at 30 June 2014, some of these cases remained before the courts (further details on page 42).

Belgrave Finance Limited (In Receivership and Liquidation)

In the case of Belgrave Finance Limited (In Receivership and In Liquidation), the FMA and SFO worked together to bring charges against one of the legal advisers, Mr Hugh Hamilton, for his role in facilitating criminal conduct by the directors of the company. Mr Hamilton was found guilty of 14 charges of theft in a special relationship. The charges related to loans with a value of more than $12 million, made by Belgrave Finance Limited (In Receivership and In Liquidation) to various related entities between June 2005 and March 2008. These charges involved advances made to various entities related to Mr Raymond Schofield.

Mr Hamilton was sentenced to four years and nine months imprisonment. He has filed a notice of appeal against sentence, which is yet to be determined by the courts.

Ross Asset Management Limited (In Liquidation)

Following a coordinated investigation, the SFO filed charges against Mr David Ross alleging that he conducted a Ponzi scheme which he disguised by falsely reporting clients' investments. Further charges were filed by the FMA against Mr Ross alleging breaches of financial markets legislation.

In August 2013 Mr Ross pleaded guilty to all of the FMA and SFO charges. In November 2013 he was sentenced in the Wellington District Court to 10 years and 10 months imprisonment.

Strategic Planning Group Limited

The Strategic Planning Group Limited case is currently before the courts. In this case, both the FMA and SFO have brought charges against the directors. The SFO alleges that one of the directors, who is also an AFA, engaged in serious criminal offending by the alleged theft of investor funds. The FMA charges allege that both directors made false statements in financial reporting and that the AFA has breached financial adviser legislation.

Civil proceedings

In the year to 30 June 2014, the following civil proceedings against the directors of finance companies remained before the courts:

- Dominion Finance Group Limited (In Receivership and In Liquidation)
- Capital + Merchant Finance Limited (In Receivership and In Liquidation)
- Hanover Finance Limited (Struck off) and related entities.

Market manipulation

In July 2013 we filed the first case alleging market manipulation in the trading of shares of a listed entity. In our claim we sought declarations of contravention and pecuniary penalties alleging that certain orders and trades made by an individual breached a trading prohibition in the *Securities Markets Act 1988*.

The FMA alleged that trades were conducted and created a false or misleading appearance with respect to: (a) the extent of active trading in the shares of the listed entity; and (b) the supply of, demand for, and price for trading in value of the listed shares. In this case, we considered that civil, rather than criminal, proceedings was the proportionate response. At 30 June 2014 the case remained before the court.

Since the end of the financial year (during the completion of this report) the case has been completed, with Mr Brian Peter Henry admitting to all of the claims. The court imposed a pecuniary penalty of $130,000, and its judgment highlighted the seriousness and impact of market manipulation in interfering with the integrity of New Zealand secondary markets.

Completed settlements

In the year to 30 June 2014, the FMA consented to, or participated in, settlements of civil claims brought against directors and third-parties involved in finance companies which had failed. Details of these settlements are included in the FMA Investigations and Enforcement Report 2014.

The use of warnings

During this reporting period we issued a number of warnings, some of which were published and others which were issued as private warnings, with an announcement made by us detailing that the warning had been issued. Warnings were issued in the case of St Laurence Limited (Struck off); Allied Nationwide Finance Limited (Struck off); and Phoenix Forex Limited (In Liquidation). Further details on other warnings and regulator activity by the FMA were published in the FMA Investigations and Enforcement Report.

Regulating secondary markets

Monitoring and investigating issues arising in secondary markets, including NZX, continues to be a priority focus for us. This year we filed proceedings in the first market manipulation case. Other cases regarding trading conduct remain under investigation as at 30 June 2014.

Details of new secondary markets matters dealt with this financial year are included in the FMA Investigations and Enforcement Report 2014.

Financial reporting obligations under the *Financial Reporting Act 1993*

Under the *Financial Reporting Act 1993*, the directors of an issuer making offers of securities to the public must ensure that the issuer's financial statements and a copy of the auditor's report are filed with the Registrar of Companies within a specified time frame. Each director who fails to meet these obligations commits an offence and can be liable for a fine of up to $100,000.

Non-filing has been a persistent problem for certain financial markets participants, prompting us to undertake a review of *Financial Reporting Act 1993* compliance.

In the year to 30 June 2014, we initiated prosecutions against the directors of eight issuers, having reached the view that their history of failing to file meant they presented the greatest potential harm. As at 30 June 2014 court proceedings were ongoing against the directors of five of these entities.

Providing exemptions

We have the power to grant exemptions when we believe the cost of compliance for an entity is not matched by improved outcomes for investors or participants. In the year to 30 June 2014, we considered 53 exemptions from securities law.

Five were class exemptions applying to a class of persons or transactions. The other 48 were individual exemptions applying to a particular entity or transaction.

Individual exemptions were also granted to a number of companies seeking to offer shares in their IPOs. The exemptions related to the form and content of the investment statement, with the purpose of encouraging a shorter, retail investor-focused offer document. These are only applied in cases where a separate investment statement and prospectus is used. These exemptions allow the presentation of information in a way that better assists retail investors to assess large and complex IPOs.

Following the establishment of key principles for effective IPO disclosure, we consulted on a class notice which could be relied on by any IPO issuer without incurring the cost of pursuing an individual exemption. A class notice was granted in August 2014.

A list of all current exemptions can be found on our website www.fma.govt.nz under 'Laws'. This includes details on a new class exemption for registered banks and an existing exemption for charity debt securities.

COLLABORATION, GOVERNANCE AND RISK

OUR COMMITTEES AND COLLABORATIVE PARTNERSHIPS

Code Committee for Authorised Financial Advisers

The Code Committee maintains the Code of Professional Conduct for Authorised Financial Advisers (the Code) that first came into force on 1 December 2010. The Code establishes the minimum standards of competence, knowledge, skills, ethical behaviour and client care. It also sets requirements for continuing education and training.

As at 30 June 2014, members of the Committee include:

- **David Ireland (Chairperson)***
  Partner, Kensington Swan
- **Ross Butler**
  Professional and independent director
- **Shane Edmonds**
  Manager of retail broking, Forsyth Barr Ltd
- **Professor Dimity Kingsford-Smith**
  Professor of Law at the University of New South Wales Law Faculty
- **David Russell**
  Consumer issues consultant and director
- **Michael Staal***
  Managing director, NZ Financial Planners
- **Gary Young**
  Chief executive, Insurance Brokers Association of New Zealand Inc (IBANZ).

This year the Code was reviewed by the Code Committee in accordance with the requirements of the FA Act. The revised Code took effect from 1 May 2014.

Further information about the work of the Committee can be found at: www.financialadvisercode.govt.nz

Financial Advisers Disciplinary Committee

The Financial Advisers Disciplinary Committee (FADC) is an independent body established under the FA Act. Specifically, the FADC's functions are:

- to conduct disciplinary proceedings arising out of complaints regarding AFAs in relation to breaches to the Code, as referred to the FADC by the FMA
- to consider and impose appropriate penalties that may range from recommending that the FMA cancel the AFA's authorisation, to imposing a fine not exceeding $10,000 as a result of the disciplinary proceedings.

As at 30 June 2014, members of the FADC include:

- **Hon Sir Bruce Robertson (Chairperson)**
  High Court Judge and President of the Courts of Appeal of Vanuatu and the Pitcairn Islands. Judge of the Qatar International Court and Disputes Resolution Centre
- **Tracey Berry**
  General manager at KiwiBank
- **Geoff Clews**
  Auckland barrister
- **Simon Hassan**
  Director of Hassan & Associates
- **Peter Houghton**
  Investment researcher
- **David Macdonald**
  Auditor-General of New Zealand from 1995-2002.

There were seven decisions published by the FADC this year. Details are available at www.fadc.govt.nz.

* David Ireland was reappointed Chairman and Michael Staal was reappointed to the Committee in July 2013.

Council of Financial Regulators

The permanent members of the Council of Financial Regulators are the FMA, the RBNZ, the Treasury, and MBIE. The Council meets quarterly and contributes to the efficiency and effectiveness of New Zealand's prudential and conduct regulation. The Council also works to promote the stability of the New Zealand financial system by providing a forum to review industry trends and issues.

The main objectives of the Council are to:

- share information on the strategic priorities of member agencies
- identify important issues and trends in the financial system that may impinge upon achievement of the agencies' regulatory objectives and, where appropriate, agree on processes to address those issues
- ensure a coordinated response to issues that may require a cross-agency involvement and put in place appropriate mechanisms to achieve this
- ensure appropriate coordination arrangements are in place for responding to events or developments.

Working with other organisations in New Zealand

We have Memorandums of Understanding (MOUs) with the following New Zealand organisations:

- the Commerce Commission, to establish arrangements in relation to fair dealing under financial markets legislation and the *Fair Trading Act 1986*
- the SFO, to ensure collaboration and minimise duplication of effort and resources with enforcement actions
- NZICA, to support the regulation of auditors or issuers under the *Auditor Regulation Act 2011*
- the RBNZ, to ensure a sound and dynamic financial system and grow New Zealand's capital base
- both the Financial Services Complaints Limited and Financial Dispute Resolution schemes, to support the work undertaken by the FMA and each dispute resolution scheme in relation to financial service providers.

Domestic/national policy coordination

We work closely with MBIE, the principal policy agency for financial sector regulation. The main focus of our collaboration in the year to 30 June 2014 was to provide advice and assistance to MBIE on the development of regulations to support the FMC Act.

We also provided advice and support to MBIE on the development of the Asia Region Funds Passport initiative. This initiative will allow managed funds based in participating jurisdictions to be offered more easily to investors in other participating jurisdictions. We participated in the working group that has developed a consultation paper on the funds passport, which was published by the Government in April 2014. Other members include: Australia; Singapore; Korea; Thailand; and the Philippines.

International relationships

We have an MOU with ASIC, the Australian Securities and Investment Commission. This MOU supports the extensive economic and financial relationship between New Zealand and Australia, including the cross-ownership of firms between the two countries and the number of common trans-Tasman financial services firms.

In addition, we have entered into 26 supervisory cooperation agreements with European Union securities regulators to supervise fund managers operating across borders. The agreements allow New Zealand fund managers to manage and market alternative investment funds in the European Union under the rules of the Alternative Investment Fund Managers Directive.

We have entered into MOUs with the following countries: Bulgaria; Cyprus; Czech Republic; Denmark; Estonia, Finland; France, Greece; Hungary; Iceland; Ireland; Italy; Latvia; Liechtenstein; Lithuania; Luxembourg; Malta; Norway; Poland; Portugal; Romania; Slovakia; Spain; Sweden; the Netherlands; and the United Kingdom.

International Organisation of Securities Commissions

We are a member of the International Organisation of Securities Commissions (IOSCO), whose members regulate more than 95 percent of the world's securities markets.

As a member of IOSCO, we cooperate with the development, implementation and promotion of internationally recognised standards of regulation, market oversight and enforcement. Our contribution to IOSCO is focused on areas that will achieve specific benefit for New Zealand's markets, recognising our role as a smaller, developed market that is open to overseas investment and market participation.

GOVERNANCE

Managing conflicts of interest

Our Board operates under a set of guidelines for members on conflicts of interest. The guidelines outline two sources of conflict of interest disclosures, namely the relevant provisions of the *Crown Entities Act 2004* and the common law disclosure rules.

We have a proactive approach to address these two areas of potential conflict. Board members provide monthly updates of securities they hold and details on professional and other relationships that are likely to give rise to interests if a matter comes before the Board. The intention is to prevent actual conflict arising and to ensure transparent operations.

If we have a matter for decision by the Board, it is our preference to identify conflicted members in advance and then to exclude those members from any sub-division of the Board that is formed to deal with the matter.

Divisions of the Board

We may determine that the powers of the FMA in relation to any matter, or class of matters, may be exercised by a separate sub-division. A sub-division is made up of three or more members of the Board.

Investigations carried out by the FMA are subject to an assessment by a Board division, where certain issues are reviewed. These issues include:

- the severity of the misconduct involved, or alleged to be involved
- the prospect of recovery for investors against assets of defendents convicted in criminal proceedings
- how best to advance an investigation through to an outcome that aligns with our enforcement objectives.

Audit and Risk Committee

The Audit and Risk Committee assists the Board with respect to internal controls; accounting policies; the approval of financial statements; and risk management. It also assists with the scope, objectives and functions of external and internal audit.

The Committee has three members: Murray Jack (Chair), Shelley Cave and Rebecca Thomas.

Performance and Remuneration Committee

The Performance and Remuneration Committee handles the assessment of performance and remuneration measures across the FMA and especially for the chief executive.

The Committee has three members: Justine Smyth (Chair), Simon Allen and James Miller.

OPERATIONAL RISK

Information and communications technology

Our ICT strategy is supported by four key delivery areas, to minimise risk and ensure the best possible approach to ICT.

1. **Services are digital by default.** Our data is captured and secured electronically to enable timely information flows; make reporting easy; and to allow reliable tracking, analytics and monitoring activities. As a business practice we aim to minimise the use of paper where possible.
2. **Information security is a priority.** The security of our ICT systems is a top priority and we measure compliance against best-practice standards internally and through independent third party audits.
3. **Data is open.** We operate in line with the Government's policy on taking an open and transparent approach to data while respecting privacy and security.
4. **Mobile is the way we work.** Seamless, secure and remote access is available to all staff from any approved device. This approach assists us to become more mobile and to better interact with market participants.

Based on these areas of focus, we are currently implementing a technology project and set of systems that allow our people to focus on solving problems, rather than gathering information. While our core work management tools are already in place, we are continuing to develop these to better support the evolving needs of the FMA.

Over the next two years we will continue to build additional online tools for market participants and we will increase our ability to access, interpret and analyse regulatory information. We recognise that as our regulatory mandate grows, we must support our increased scope with the appropriate ICT solutions.

Business continuity and disaster preparedness

Our business continuity plan outlines our approach to disaster preparedness. This includes our systems for responding to significant events and emergencies that may cause the evacuation of one or more FMA office locations for more than one day.

Our approach is underpinned by two key strategies, which are: (1) a split-office approach to location with offices in Wellington and Auckland; and (2) the ability for all staff to work remotely from home if required.

Our offices are in modern buildings with warrants of fitness issued under the *Building Act 2004*. Our health and wellbeing framework includes an employee-led safety and risk committee that supports our preparedness for disasters, helps identify new risks, and works to ensure our approach against known risks remains effective. We carry supplies of emergency food and water and have staff trained in first-aid to respond before emergency services can arrive.

ICT systems are hosted in an external Government-approved data centre. All staff can access our computer systems remotely through a secure portal and we have a mobility programme which gives our people access to key information through FMA-approved mobiles and tablets.

With the earthquakes experienced in Wellington this financial year, we had an opportunity to test and refine our emergency response focus. We aim to ensure our employees are safe and that their first responsibilities are to their own wellbeing and that of their immediate family and community. Staff are equipped with earthquake emergency packs in the office to cover short-term emergencies.

We also participate in the Government's Shake Out programme. This programme helps individuals and organisations ensure better preparations for major earthquakes.

Our business continuity plan does not cover large-scale national emergencies. Instead, this level of event would rely heavily on working with the national emergency services.

OUR PEOPLE AND HOW WE WORK

OUR VALUES

WE ARE

BOLD
Enterprising, Intrepid, Daring

PROACTIVE
Strategic, Can-do, Forward-thinking

RESPECTED
Astute, Credible, Fair, Accountable,
Consistent, Transparent

CONNECTED
Visible, In-the-know, Influential

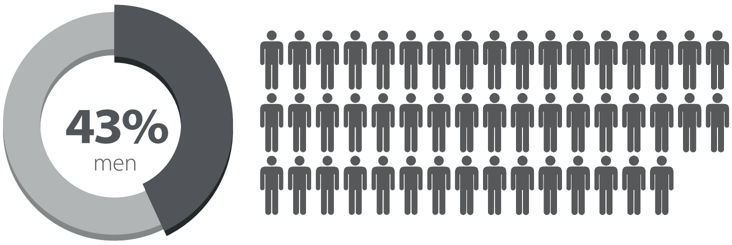
AGILE
Nimble, Adaptable, Energetic

MEET OUR PEOPLE

In the last 12 months our total employee headcount has increased from 146 at 30 June 2013, to 164 at 30 June 2014. This increase is due largely to the additional workload generated by the implementation of the FMC Act. Additional staff were employed on fixed-term contracts to support the implementation. There were 10 staff employed on such arrangements in 2013 and 34 in 2014.

We have also had an increase in staff turnover this year. The major reason for staff leaving related to new career opportunities outside of the FMA. The increase in turnover also reflected the steady evolution of the FMA from start-up to a fully-operational regulator, and the organisation's changing role under the FMC Act.

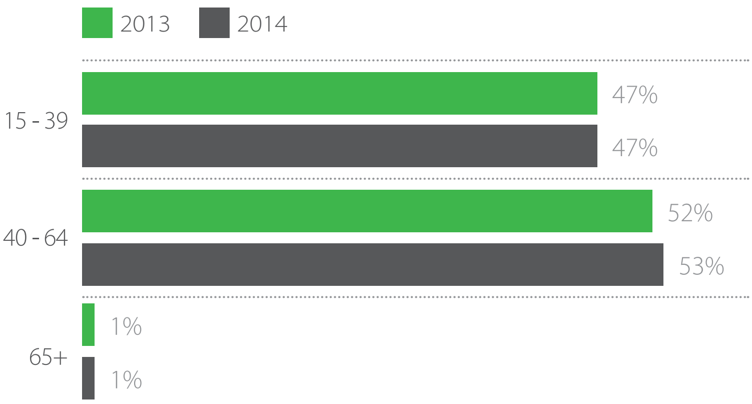
The average length of service with the FMA is 1.99 years, including service with the FMA's predecessor agencies.



164 TOTAL EMPLOYEES

At the FMA we strive to create an inspiring workplace that delivers quality results.

AGE PROFILE (By % rounded to the nearest whole number, may equal more than 100%)



TOTAL HEADCOUNT	2013	2014
Permanent	120	116
Fixed Term	8	10
Casual	1	2
Contractor / Temp	10	34
Secondee	7	2
Total	**146**	**164**

66% AUCKLAND

34% WELLINGTON

AVERAGE LENGTH OF SERVICE (years) including service with predecessor (the Securities Commission)

2013 / 14	1.99
2012 / 13	2.86
2011 / 12	2.01
2010 / 2011	2.40

TURNOVER

	2013	2014
Total turnover	14%	22%

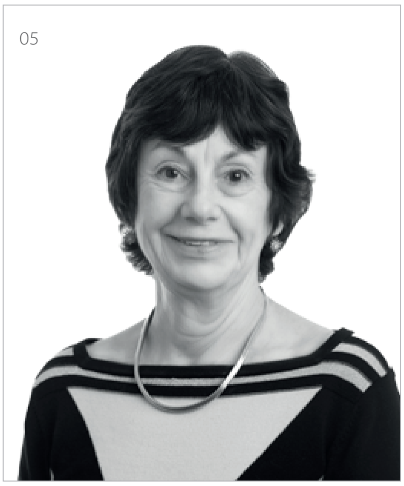
MEET OUR BOARD

01


02


03


04


05


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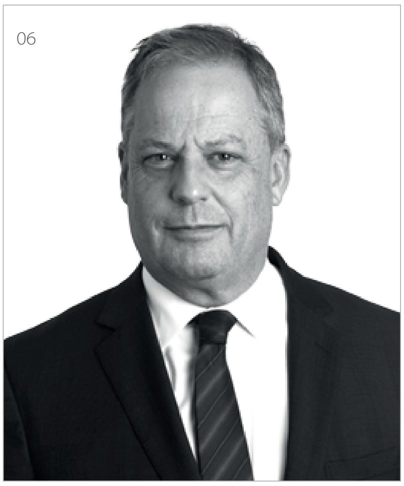

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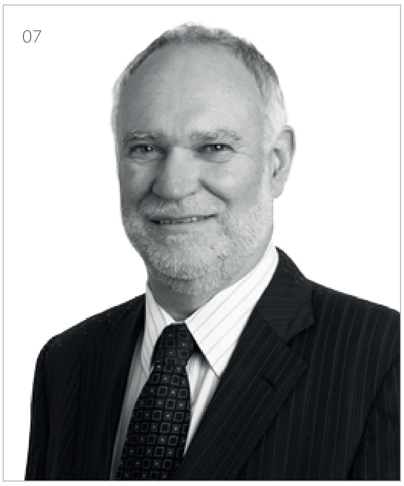

08


09


Board members

The FMA Board as at 30 June 2014*

01

Simon Allen, BSc, BCom
Chairperson and member. Term 1: May 2011 - April 2013. Term 2: May 2013 - October 2014.

Auckland
Simon is a professional director with more than 30 years experience in both the New Zealand and Australian markets. His current appointments include: Chair of Crown Fibre Holdings Limited; Chair of Auckland Council Investments Limited; and Deputy Chair of St Cuthbert's College.

02

Arthur Grimes,** BSocSc (Hons), MSc, PhD
Member. Term 1: May 2011 - April 2013 (as associate member). Term 2: May 2014 - April 2019 (as full member).

Wellington
Arthur is an economist with extensive experience in the financial sector. His current appointments include: Senior Fellow, Motu Economic & Public Policy Research; Adjunct Professor, Economics, University of Auckland Business School; Chair of Hugo Group Strategy sessions; and Trustee, Wellington Jazz and Music Festival Trust.

03

James Miller, BCom, FCA
Member. Term 1: May 2011 - April 2015

Auckland
With more than 15 years in the financial sector, James specialises in company research. His current appointments include: director role at NZX Limited; NZCDC Settlement System (subsidiary of NZX); Mighty River Power Limited; ACC; and Auckland International Airport Limited.

04

Justine Smyth, BCom
Member. Term 1: May 2011 - April 2015.

Auckland
Justine is a professional director with experience in governance, mergers and acquisitions, taxation and financial performance. Her current appointments include: director Spark NZ Limited; Auckland International Airport Limited; and Lingerie Brands Limited. She is also Chair of the New Zealand Breast Cancer Foundation.

05

Mary Holm, BA, MA, MBA
Member. Term 1: May 2011 - April 2016.

Auckland
Mary is a financial columnist, author and seminar presenter. She was a member of the Capital Market Development Taskforce and the Savings Working Group. Mary is currently a director of the Banking Ombudsman Scheme.

06

Michael Webb, LLB
Member. Term 1: May 2011 - April 2015.

Auckland
Michael is a barrister specialising in banking, corporate, financial markets, insolvency and regulatory law. He has acted in regulatory capacities in New Zealand and the Middle East. His current appointments include non-executive adviser to the Board of Deloitte New Zealand and director of Crown Irrigation Investments Limited.

07

Murray Jack^, BCA, FCA
Member. Term 1: May 2011 - April 2014. Term 2: May 2014 - April 2019.

Wellington
Murray is Chairman of Deloitte New Zealand, having previously been Chief Executive from 2005 to 2011. With more than 25 years' experience as a management consultant, his additional appointments include: Chair of the FMA Audit and Risk Committee; Board member of the New Zealand Institute of Charted Accountants; and Chairman Designate of Chartered Accountants Australia and New Zealand.

08

Shelley Cave^, LLB
Member. Term 1: May 2011 - April 2014. Term 2: May 2014 - April 2017.

Auckland
Shelley is a professional director and is also on the Board of the Government Superannuation Fund Authority. She is a consultant to Simpson Grierson and was formerly a partner specialising in corporate and securities law.

09

Rebecca Thomas (Mrs. Rebecca Eele), LLB (Hons)
Associate Member. Term 1: May 2011 - April 2016.

Auckland
Rebecca has more than 25 years' experience in financial markets in a variety of senior roles and is currently Chief Executive of Mint Asset Management Limited. Her additional appointments include: Board member of KiwiRail Holdings Limited and Chair of its Audit Finance and Risk Committee; and trustee of the Professionelle Foundation.

* During the year Colin Giffney, Mark Verbiest and Bruce Sheppard stood down as Board members.

** Dr Arthur Grimes transitioned from an associate member to become a full member of the Board.

^ Shelley Cave and Murray Jack were reappointed to the Board.

MEET OUR STRATEGIC LEADERSHIP TEAM

The FMA Board

CHIEF EXECUTIVE

BOARD SECRETARY

Compliance	Corporate Operations	Enforcement & Investigations	External Communications	Governance, Policy & Strategy	Primary Markets & Investor Resources
Licensing and supervision responsibilities, including auditors, financial advisers, KiwiSaver, NZX, QFEs, and superannuation schemes.	Corporate services, including facilities, finance, HR, and ICT.	Inquiries, investigations and litigation.	Business-to-business communications, government relations and media relations.	Legal advice, risk management and risk advice, regulatory strategy, and the FMA's own governance and audit.	Investor resources, retail offer information and issuers, market consultation and engagement.

Strategic leadership team

As at 30 June 2014

01

Rob Everett

Chief Executive

Rob was appointed Chief Executive in November 2013 and joined the FMA in February 2014. Originally from the United Kingdom, Rob was previously a director with regulatory consultancy Promontory Financial Group. Before that he spent 17 years at Bank of America Merrill Lynch in Europe, Asia and North America. Rob brings a truly global perspective to the leadership of the FMA and has experience in investment banking, legal and risk management. His experience also includes providing advice on corporate governance, compliance and other regulatory matters.

02

Belinda Moffat

Enforcement and Investigations

Belinda brings extensive experience to the team through her background in legal private practice, and as in-house counsel at a major New Zealand financial institution. She has worked as a commercial litigation lawyer in both New Zealand and the United Kingdom and has appeared before courts and tribunals in relation to commercial, banking and finance, competition and criminal matters. Belinda is now responsible for developing and leading the FMA's investigation, forensic accounting and litigation capability.

03

Dave Brady

Corporate Operations

Dave has a broad background across utilities, property and construction, internet and airline industries. His current role at the FMA draws on this experience to ensure the FMA has the operational efficiency to support the growth and business goals of the organisation. Dave's previous roles include: management consultant at Davis Ogilvie & Partners; financial controller of property ventures; and operating as a freelance business consultant.

04

Elaine Campbell

Compliance

Elaine leads and oversees the licensing and supervision of all financial markets participants, from individual AFAs through to securities markets. Elaine has significant regulatory and legal experience. Immediately prior to joining the FMA Elaine was head of market supervision of NZX and executive counsel of the Markets Disciplinary Tribunal. Elaine has worked as a commercial lawyer in New Zealand, the United Kingdom and the United States of America.

05

Liam Mason

Governance, Policy and Strategy

Liam is Board Secretary and leads the FMA's legal team, overseeing the FMA's internal legal function. He is responsible for risk management, internal audit and corporate governance, strategy, research and analysis, and regulatory policy and tools. Liam has extensive experience in securities law and corporate governance matters, advising Board members and staff on securities and financial services law and policy, Crown entity governance and legal compliance.

06

Owen Gill

External Communications

Owen leads the strategic and operational management of the FMA's communications functions. He has worked for Australia's two largest regulators – the Australian Securities and Investments Commission (ASIC) and the Australian Competition and Consumer Commission (ACCC) – including on the implementation of licensing and conduct provisions in financial services.

07

Simone Robbers

Primary Markets and Investor Resources

Simone leads and oversees the development of the FMA's regulatory strategies and activities relating to primary markets and investor resources. This includes helping businesses and market participants understand their obligations when offering products or investments and encouraging the clarity, quality and effectiveness of financial product information for investors. Simone is a senior lawyer with a strong commercial background in financial services and has held senior legal, risk and compliance roles in the financial services industry in New Zealand and Edinburgh.

BEING A GOOD EMPLOYER

We are a member of the Equal Employment Opportunities (EEO) Trust and are committed to being a good employer.

Below we have outlined our activities across each of the seven key elements for being a good employer, as defined by the Human Rights Commission.

Leadership, accountability and culture	Our performance management programme assesses the critical capabilities and results needed to contribute to achieving our strategic focus. This programme sets clear expectations and holds employees accountable for their results. Our FMA Code of Conduct and our FMA Values act as a supporting guide for employees on cultural expectations. The FMA Code of Conduct outlines what it means to be an employee of the FMA. In late 2013 we expanded our leadership development programme, which initially focused just on the strategic leadership team. It now includes the next layer of management. A third-party provider runs the programme.
Recruitment, selection and induction	Our recruitment approach ensures our people are chosen and rewarded based on individual ability and achievement. This recruitment process is supported by an orientation and induction programme which introduces the FMA's expectations to new employees.
Employee development, promotion and exit	Our performance management programme provides a structured process for managing individual employee performance, goals and development opportunities. We hold exit interviews upon departure of any permanent member of staff and use the information to ensure we remain a good and fair place to work.
Flexibility and work design	The FMA's recruitment approach is based on a mixed-resourcing model, to maintain flexibility and respond to fluctuating resource and skill demands. This means we have a variety of positions and work arrangements available, as appropriate to business needs. Arrangements include full-time, part-time, casual work, contract agreements, flexible work hours and the ability to work from home.
Remuneration, recognition and conditions	S.T.A.R Works is our recognition programme and includes a combination of formal and informal ways to acknowledge staff who have performed well. These include an annual Chairperson Award and Values Awards, through to quarterly and monthly Chief Executive Team Awards and Senior Leadership Choice Awards. The remuneration strategy is reviewed annually to balance the need to recognise and reward individual efforts. The annual review takes into account business goals, affordability, fair-mindedness, recruitment and retention.
Harassment and bullying prevention	Our FMA Code of Conduct and organisational values provide a benchmark for the appropriate behaviours expected of our people. In addition, a range of formal policies dealing with bullying, harassment and discrimination reflect our zero tolerance approach.
Safe and healthy environment	Our Wellnessworks programme encourages a healthy environment for our employees. The programme includes employee assistance and support; discounted gym membership rates; discounted health insurance; and encouragement to participate in team health events throughout the year. Health events include: fresh fruit Mondays; 10,000 Steps; Winter Wellness; Round the Bays and triathlon events. Our Wellnessworks programme also supports a number of charities through donations and volunteering. The programme was announced as a finalist in the Wellness Award and State Services Commission Public Sector Award categories at the 2013 HRINZ Awards. Employee safety and risk management is supported by a staff-led committee and a range of policies and emergency procedures. The safety of employees at work is a key priority for us.

STATEMENT OF SERVICE PERFORMANCE

PERFORMANCE STANDARDS AND MEASURES FOR THE OUTPUT OF THE FMA

For the 12 months ended 30 June 2014

Appropriation One

Licensing and compliance monitoring functions

	ACTUAL $000s 12 months to 30 June 2014	BUDGET $000s 12 months to 30 June 2014
Revenue	14,112	13,310
Expenditure	12,722	12,585
Surplus/(Deficit)	**1,390**	**725**

Major variances against budget: surplus is over budget due to higher regulatory income received than forecast.

Output 2013/14 forecast standard	Output achievement	Status
Risk-based monitoring and surveillance		
On receipt of a fully completed application for a licence, 90 percent are processed in accordance with established processes and time frames, including: • QFEs will be processed within 60 working days • statutory supervisors and securities trustees will be processed within 60 working days • AFAs will be processed within 20 working days.	QFEs: four applications were received during the year. Three were completed within the 60 working days. One is currently being assessed within the time frame (100 percent).	Achieved
	Statutory supervisors and securities trustees: no new applications were received during the 2013/14 financial year.	Not applicable
	AFAs: 108 applications were approved during the year. 107 applicants (99 percent) were informed of the outcome within 20 working days of fully evidencing their applications.	Achieved
Reviews of registered securities markets and accredited bodies are completed and published annually.	Reviews of the following registered securities markets and accredited bodies were completed and published. • Accredited bodies reports for NZICA and CPA Australia were published in December 2013. • The General Obligations Review on NZX was published in June 2014.	Achieved

Output 2013/14 forecast standard	Output achievement	Status
The FMA conducts five thematic monitoring projects per annum.	Nine thematic monitoring projects were conducted during the year on the following topics. 1. Post-implementation AML monitoring programme. 2. Broker monitoring focusing on large-scale retail custody. 3. NZX project. 4. Non-GAAP disclosures. 5. Financial advisers and other financial markets participants in the Canterbury region. 6. AFAs within a QFE. 7. Unsolicited offers. 8. Disclosure of fees paid to auditors by listed issuers. 9. Going concern disclosures in financial statements.	Achieved
The FMA publishes five reports on significant issues arising from monitoring and surveillance work per annum.	The FMA published seven reports on significant issues arising from monitoring and surveillance work and one report is in progress as at 30 June 2014. 1. A report on monitoring of non-GAAP disclosures was published on 26 September 2013. 2. An AFA monitoring report was published on 20 March 2014. This report includes monitoring on financial advisers and other financial markets participants in the Canterbury region. 3. An unsolicited offers monitoring report was published on 27 March 2014. 4. A report on disclosure of fees paid to auditors by listed issuers was published on 7 April 2014. 5. A report on going concern disclosures in financial statements was published on 30 June 2014. 6. A report summarising the monitoring of securities trustees and statutory supervisors was published in April 2014. 7. The publication for the AML monitoring report is in progress and will be published in the 2014-15 year.	Achieved

Output 2013/14 forecast standard	Output achievement	Status
Prospectuses for new offers of securities are screened for risk-based review within five working days after registration.	100 percent of the prospectuses for new offers of securities (86 in total) were screened for risk-based review within five working days after registration.	Achieved
100 percent of high-risk prospectuses are reviewed post-registration.	100 percent of high-risk prospectuses (22 in total) were reviewed post-registration.	Achieved
5 percent of other prospectuses are reviewed post-registration.	6.7 percent of other prospectuses were reviewed post registration. For the purposes of these calculations, please note: • 320 prospectuses were registered during the year and 22 were classified as high-risk prospectuses • the number of other prospectuses = 298 (320 - 22) • the number of other prospectuses reviewed = 20 • 20/298 = 6.7 percent.	Achieved
In 100 percent of cases where the FMA intervenes, disclosures are improved or documents withdrawn.	In 100 percent of the 13 cases where the FMA intervened, disclosures were improved or documents withdrawn.	Achieved
Less than 5 percent of licensing decisions are successfully challenged.	No licensing decisions were challenged during the year.	Not applicable

Appropriation Two

Market analysis and guidance, investor awareness and regulatory engagement

	ACTUAL $000s 12 months to 30 June 2014	BUDGET $000s 12 months to 30 June 2014
Revenue	7,493	7,471
Expenditure	9,069	7,424
Surplus/(Deficit)	**(1,576)**	**47**

Major variances against budget: expenditure is over budget due to activities the FMA undertook in relation to the new FMC Act. These activities used more resources than forecast.

Output 2013/14 forecast standard	Output achievement	Status
Market analysis and guidance		
Respondents to the annual market participant survey agree that the FMA consults well when introducing significant changes to the regulatory framework.	The FMA stakeholder survey is no longer an annual survey. The market participant survey on phase one of the FMC Act shows 52 percent of respondents say they agree or strongly agree that the FMA consulted well on regulatory changes. 27 percent neither agree nor disagree, and16 percent disagree.	Not applicable
Market participants' input is proactively gained and considered prior to establishing all significant new guidance.	The FMA has proactively gained and considered input from market participants on all significant new guidance during the year ending 30 June 2014. Significant guidance was issued this year on the following topics: • DIMS • limited personalised advice • the KiwiSaver quarterly and annual disclosure statement process guide • monitoring investment risk in KiwiSaver schemes • broker obligations • regulatory reporting guide for AFAs.	Achieved

Output 2013/14 forecast standard	Output achievement	Status
Quarterly briefings are provided to the Minister of Commerce highlighting key priorities for reform.	The FMA provided quarterly briefings to the Minister of Commerce highlighting key priorities to reform. The quarterly briefings were held on: • 28 August 2013 • 21 November 2013 • 10 March 2014 • 19 June 2014.	Achieved
90 percent of completed applications for exemptions are processed within six weeks of receiving all relevant information, or as agreed with the applicant.	In the financial year ending 30 June 2014, 100 percent of the 53 completed exemption applications were processed within six weeks from the date of receiving applications, or as agreed with applicants. Five class exemptions were considered and six were granted as one exemption was replaced by two. 48 individual exemptions were considered, with 44 granted, one declined and three withdrawn.	Achieved
Internal threat and risk assessments are produced in accordance with the FMA's intelligence and risk framework.	The FMA produced four reports during the year and all of them conformed to FMA's intelligence and risk framework.	Achieved
Government agencies are satisfied with the quality of advice and assistance provided by the FMA.	Government agencies the FMA interacts with frequently were surveyed informally and are satisfied with the quality of advice and assistance provided by the FMA.	Achieved
Market and investor engagement		
90 percent of enquiries receive a substantive response from the FMA within 20 working days of the FMA receiving all relevant information.	96.9 percent of enquiries received a substantive response from the FMA within 20 working days of the FMA receiving all relevant information.	Achieved
Fifty public engagements are undertaken annually by the FMA staff.	The FMA undertook 72 public engagements in the year ended 30 June 2014.	Achieved

Output 2013/14 forecast standard	Output achievement	Status
The number of website visits increases from the 2012/2013 baseline (220,000*). * Extrapolated from six months of data.	Number of visits: 310,177 YTD Number of unique visits: 173,645 YTD (each unique visitor is counted only once over the month) Average duration: 3:03 minutes	Achieved
70 percent of respondents to the annual market participant survey say their level of awareness and understanding of the FMA's actions has maintained or increased in the past year.	The FMA stakeholder survey is no longer an annual survey. The market participant survey on phase one of the FMC Act shows that 63 percent of respondents know more about the FMA now than they did a year ago; 61 percent of respondents say they know more about the FMA's actions as a regulator, relative to a year ago.	Not applicable
The FMA publishes investor messages on all significant thematic risks.	The FMA regularly scans the environment for risks and issues that might adversely impact our objective of fair, efficient and transparent financial markets. Over the past 12 months, the FMA has identified and acted to mitigate a number of risks. 70 percent of the significant thematic risks identified were determined as requiring investor messaging. The FMA published investor messages on all of these risks. Messages were published through websites, media releases and presentations. The remaining 30 percent of the thematic risks either did not require investor messaging, or were still being assessed at the time of this report.	Achieved
The Consumer Advisory Panel is consulted on the development of the FMA's investor education materials.	The Consumer Advisory Panel was consulted and asked for feedback on the development of the FMA's 'Become a smart investor' brochure during the first quarter. The panel was not convened during the rest of the year because there were no substantial matters requiring its attention. The FMA is reconsidering the role of the panel and how best to engage and maximise the expertise of panel members, as it formulates its investor education strategy over the coming months.	Achieved

Appropriation Three

Investigation and enforcement functions

	ACTUAL $000s 12 months to 30 June 2014	BUDGET $000s 12 months to 30 June 2014
Revenue	7,973	7,973
Expenditure	6,117	7,677
Surplus/(Deficit)	**1,856**	**296**

Major variances against budget: expenditure is under-budget due to increased use of in-house capability to deliver enforcement activities, with lower external assistance than budgeted. More resources were allocated to implement the FMC Act (Appropriation Two).

Output 2013/14 forecast standard	Output achievement	Status
Risk-based proportionate and timely action against misconduct		
Inquiries and investigations are conducted within the time frames and standards defined in the enforcement governance framework.	84 percent of inquiries and investigations (target 70 percent) were conducted within the time frames and standards defined in the enforcement governance framework. Inquiries and investigations assessed in this measure include those that have been referred to the FMA enforcement team since 1 March 2012, when the enforcement governance framework was adopted. These remain active or have been closed during the period.	Achieved
The FMA works with the SFO on all investigations of joint interest in accordance with Memorandum of Understanding (MOU) arrangements.	An MOU is in place with the SFO. The FMA continues to comply with the requirements of the MOU, with ongoing monthly and quarterly meetings at senior management level as well as operationally. The FMA worked throughout the year with SFO on several prosecutions and investigations in accordance with the MOU.	Achieved

Output 2013/14 forecast standard	Output achievement	Status
Details of all public enforcement actions are published on the FMA's website.	100 percent of the public enforcement actions taken by the FMA in the year have been reported on the FMA's website, including: • status of the FMA investigations into failed finance companies • prosecutions and proceedings • finance company cases before the courts • the FMA cases before the courts • court decisions • orders, reports and outcomes • warnings, alerts and scams • FADC decisions • media statements and other media content.	Achieved
A report on the key issues and themes arising from investigations and enforcement activities and outcomes is published annually.	An annual report on the key issues and themes arising from investigations and enforcement activities and outcomes for the year to 30 June 2014 was published on 25 September 2014.	Achieved
80 percent of complaints, tips and referrals received are processed within established time frames. • Complaints, tips and referrals are acknowledged within two working days. • Frontline regulator referrals are acknowledged and prioritised for action within one working day. • Complaints receive a substantive response within 20 working days of receiving all relevant information.	During the year, 99.8 percent of complaints, tips and referrals were acknowledged within two working days.	Achieved
	100 percent of the 40 frontline regulator referrals were acknowledged and prioritised for action within one working day.	Achieved
	96.4 percent of complaints, tips and referrals received by the FMA's assistance team received a substantive response from the FMA within 20 working days of receiving all relevant information.	Achieved
MOU requests for assistance are completed within agreed time frames to the satisfaction of international regulators.	100 percent of MOU requests for assistance have been completed within agreed time frames, to the satisfaction of international regulators.	Achieved

Our work makes a tangible difference to business and investment in New Zealand. That's what motivates the people who work here.

FINANCIAL STATEMENTS

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STATEMENT OF RESPONSIBILITY

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

The Board of the FMA has the responsibility 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 service performance fairly reflect the financial position and operations of the FMA for the 12 months ended 30 June 2014.

Signed on behalf of the Board:

Simon Allen
Chairman
29 October 2014

Murray Jack
Chairman, Audit and Risk Committee
29 October 2014

STATEMENT OF COMPREHENSIVE INCOME

For the 12 months ended 30 June 2014

	Note	Actual 2014 $000s	Budget 2014 $000s	Actual 2013 $000s
Income				
Government grant	2	27,770	27,770	25,461
Litigation fund income	3	1,609	2,000	2006
Interest		727	500	600
Other income	4	1,082	484	833
Total income		**31,188**	**30,754**	**28,900**
Expenditure				
Personnel expenses	5	19,273	17,806	15,372
Depreciation and amortisation	8,9	1,402	1,520	1,036
Other operating expenditure	7	7,286	8,360	6,784
Litigation fund expenditure	3	1,452	2,000	2,163
Total expenditure		**29,413**	**29,686**	**25,355**
Surplus		1,775	1,068	3,545
Total comprehensive income		**1,775**	**1,068**	**3,545**
Total comprehensive income comprises				
Net operating surplus/(deficit)		1,618	1,068	3,702
Net litigation fund surplus/(deficit)		157	-	(157)
Total comprehensive income		**1,775**	**1,068**	**3,545**

Explanations of major variances against budget are provided in note 20.

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the 12 months ended 30 June 2014

	Note	Actual 2014 $000s	Budget 2014 $000s	Actual 2013 $000s
Opening balance				
Accumulated funds		7,420	8,186	3,718
Litigation fund		687	844	844
Capital contributions		8,777	8,777	8,777
Total opening balances		**16,884**	**17,807**	**13,339**
Comprehensive income				
Net operating surplus/(deficit)		1,618	1,068	3,702
Net litigation fund surplus/(deficit)		157	-	(157)
Other comprehensive income		-	-	-
Total comprehensive income		**1,775**	**1,068**	**3,545**
Owner transactions				
Capital contribution				
Total owner transactions				
Closing balances 30 June		**18,659**	**18,875**	**16,884**
Accumulated funds		9,038	9,254	7,420
Litigation fund	3	844	844	687
Capital contribution		8,777	8,777	8,777
Total closing balances		**18,659**	**18,875**	**16,884**

Explanations of major variances against budget are provided in note 20.

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Note	Actual 2014 $000s	Budget 2014 $000s	Actual 2013 $000s
Assets				
Current assets				
Cash and cash equivalents		1,644	2,958	1,388
Term deposits		13,500	13,028	14,028
Cash and cash equivalents – litigation fund		331	275	368
GST receivable		426	25	253
Debtors and other receivables	13	1,540	1,250	1,500
Total current assets		**17,441**	**17,536**	**17,537**
Non-current assets				
Property, plant and equipment	8	1,575	1,584	1,753
Intangible assets	9	3,395	2,616	1,477
Total non-current assets		**4,970**	**4,200**	**3,230**
Total assets		**22,411**	**21,736**	**20,767**
Liabilities				
Current liabilities				
Creditors and other payables	14	2,361	1,451	2,282
Employee entitlements		977	996	1,030
Lease incentive liability	11	308	97	97
Total current liabilities		**3,646**	**2,544**	**3,409**
Non-current liabilities				
Creditors and other payables	14	-	-	135
Lease incentive liability	11	-	211	272
Provisions	12	106	106	67
Total non-current liabilities		**106**	**317**	**474**
Total liabilities		**3,752**	**2,861**	**3,883**
Equity				
Accumulated funds		9,038	9,254	7,420
Litigation fund	3	844	844	687
Capital contribution		8,777	8,777	8,777
Total equity		**18,659**	**18,875**	**16,884**
Total equity and liabilities		**22,411**	**21,736**	**20,767**

Explanations of major variances against budget are provided in note 20.

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

For the 12 months ended 30 June 2014

	Note	Actual 2014 $000s	Budget 2014 $000s	Actual 2013 $000s
Cash flows from operating activities				
Cash was provided from:				
– Government grant		27,770	27,770	25,461
– Litigation fund income		1,734	2,000	2,195
– Interest		746	500	458
– Other income		930	484	739
– Fees collected on behalf of MBIE		1	-	5
– Goods and services tax (net)		(142)	(25)	80
Cash was disbursed to:				
- Suppliers		(9,325)	(9,934)	(9,247)
- Employees		(19,183)	(17,806)	(14,812)
Net cash flows from operating activities	**15**	**2,531**	**2,989**	**4,879**
Cash flows from investing activities				
Cash was provided from:				
- Sale of fixed assets		-	-	35
- Decrease in term deposits		22,028	1,000	4,000
Cash was applied to:				
- Purchase of property, plant and equipment		(357)	(510)	(628)
- Purchase of intangible assets		(2,483)	(1,740)	(1,470)
- Increase in term deposit		(21,500)	-	(8,000)
Net cash flows from investing activities		**(2,312)**	**(1,250)**	**(6,063)**

Explanations of major variances against budget are provided in note 20.

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS (CONTINUED)

For the 12 months ended 30 June 2014

	Actual 2014 $000s	Budget 2014 $000s	Actual 2013 $000s
Net increase/(decrease) in cash and cash equivalents	**219**	**1,739**	**(1,184)**
Cash and cash equivalents at the beginning of the year	1,756	1,494	2,940
Cash and cash equivalents at the end of the year	**1,975**	**3,233**	**1,756**
Comprising			
Cash and cash equivalents	1,644	2,958	1,388
Cash and cash equivalents – litigation fund	331	275	368
	1,975	**3,233**	**1,756**

Explanations of major variances against budget are provided in note 20.

NOTES TO THE FINANCIAL STATEMENTS

For the 12 months ended 30 June 2014

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Accounting policies that directly relate to a specific note are included in italics throughout this section.

NOTES TO THE FINANCIAL STATEMENTS

For the 12 months ended 30 June 2014

Who is the FMA and what is the basis of financial statement preparation?

Note 1 — Reporting entity and basis of preparation

The FMA is an independent Crown entity as defined by the *Crown Entities Act 2004*. The FMA was established on 1 May 2011 by the *Financial Markets Authority Act 2011*, is domiciled in New Zealand and its ultimate parent is the New Zealand Crown.

The FMA is responsible for ensuring public confidence in New Zealand's financial markets, promoting innovation and supporting the growth of New Zealand's capital base through effective regulation.

The financial statements for the FMA are for the year ended 30 June 2014 and were approved by the Board on 28 October 2014.

Basis of preparation

Statement of compliance and measurement base

These financial statements for the FMA have been prepared in accordance with the requirements of the *Crown Entities Act 2004*. The financial statements have been prepared on a historical-cost basis for a going concern in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and they comply with New Zealand International Financial Reporting Standards (IFRS) and other applicable financial reporting standards as appropriate for public-benefit entities.

Functional and presentational currency

These financial statements are presented in New Zealand dollars which is the entity's functional currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand dollars ($000).

Use of estimates and judgments

The process of applying accounting policies requires the FMA to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on past experience and various other factors that are believed to be reasonable under the circumstances. Estimates have been used in calculating provisions. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Where do FMA's funds come from?

Note 2 — Revenue from the Crown

Revenue from the Crown is recognised as revenue when earned and is reported in the financial period to which it relates. Revenue is measured at the fair value of consideration received or receivable.

The FMA has been provided with funding from the Crown for specific purposes as set out in its founding legislation and the scope of the relevant Government appropriations. Apart from these general restrictions, there are no unfulfilled conditions or contingencies attached to Government funding.

Note 3 — Litigation fund income

Reimbursements from the Crown to top up the fund are shown as income in the period to which the FMA's claim for reimbursement relates. The balance of the fund is disclosed as a component of equity in the statement of financial position. The fund is restricted for approved litigation purposes only.

The Government has appropriated a litigation fund to cover actual litigation costs of up to a maximum of $2.0 million for the 12 months ended 30 June 2014 (2013: $2.0 million).

A summary of the movements in the fund during the reporting period is as follows:

	Actual 2014 $000	Actual 2013 $000
Opening balance	**687**	**844**
Government grant revenue	1,505	2,000
Interest income	9	6
Settlements and cost recoveries	95	-
Total litigation fund income	**1,609**	**2,006**
Expenditure on eligible litigation	(1,452)	(2,163)
Capital repayment	-	-
Closing balance	**844**	**687**
Comprising		
Cash and cash equivalents		
– Current account	8	1
– Call account	323	367
	331	368
Trade and other receivables	679	825
Trade and other payables	(166)	(506)
Balance	**844**	**687**

NOTES TO THE FINANCIAL STATEMENTS

For the 12 months ended 30 June 2014

Note 4 — Other income

	Actual 2014 $000	Actual 2013 $000
Audit Quality Review fees	553	190
Licence Fees	341	365
Sundry income	188	278
Total other income	**1,082**	**833**

Sundry income includes superannuation fee income, court cost recoveries and miscellaneous income.

How does the FMA spend the funds?

Note 5 — Personnel costs

Employee benefits

Short term employee benefits, including holidays, are recognised as an expense over the period in which they accrue. Benefits that are due to be settled within 12 months after the end of the period in which the employee renders the related service are accrued based on the higher of current, or rolling twelve months average, rate of pay.

A liability and an expense are recognised for performance pay where there is a contractual obligation or where there is a past practice that has created a constructive obligation.

Superannuation schemes

Obligations for contributions to KiwiSaver, the State Sector Retirement Savings Scheme, the Government Superannuation Fund and the DBP Contributors Scheme are accounted for as defined contribution superannuation scheme and are recognised as an expense in the statement of comprehensive income as incurred.

	Actual 2014 $000s	Actual 2013 $000s
Salaries and wages	13,957	12,577
Defined contribution plan employer contributions	382	250
ACC	37	38
Fringe benefit tax	1	1
Member and committee fees	672	726
Contract staff	3,673	1,479
Recruitment/transitional costs	551	301
Total personnel costs	**19,273**	**15,372**

Note 6 — Transactions with related parties

All related-party transactions have been entered into on an arm's-length basis.

The FMA is a wholly owned entity of the Crown.

Significant transactions with government-related entities

The FMA has been provided with funding from the Crown of $28 million (2013: $26 million) during the year for specific purposes as set out in the FMA's founding legislation and the scope of the relevant Government appropriations.

Collectively, but not individually, significant transactions with Government-related entities

In conducting its activities, the FMA is required to pay various taxes and levies (such as GST, FBT, PAYE, and ACC levies) to the Crown and entities related to the Crown. The payment of these taxes and levies, other than income tax, is based on the standard terms and conditions that apply to all tax and levy payers. The FMA is exempt from paying income tax.

The FMA also purchases goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown. Purchases from these Government-related entities totalled $0.52 million (2013: $0.46 million). These purchases included but were not limited to the purchase of electricity from Genesis Power Limited and Mercury Energy, air travel from Air New Zealand Limited, postal services from New Zealand Post Limited, communication services from MBIE, printing and subscriptions from the Department of Internal Affairs and staff training from the New Zealand Police.

Transactions with suppliers

The following transactions were entered into during the year with entities associated with key management personnel:

		Transaction value		Balance outstanding Year ended 30 June	
	Suppliers	2014 $000s	2013 $000s	2014 $000s	2013 $000s
M. Jack	New Zealand Institute of Chartered Accountants	578	191	150	114
M. Jack	Deloitte New Zealand	214	670	30	206
S. Cave/ M. Verbiest	Simpson Grierson	-	182	-	-
J. Miller	NZX Limited	26	26	2	-
J. Miller/ J. Smyth	Auckland International Airport Limited	16	14	-	-
J. Miller	Accident Compensation Corporation	37	14	31	32
J. Smyth/ M. Verbiest	Telecom Corporation of New Zealand Limited	2	1	-	-
D. Ireland	Kensington Swan	-	6	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the 12 months ended 30 June 2014

Transactions with suppliers (continued)

- New Zealand Institute of Chartered Accountants, of which M. Jack, Member of the FMA, is a director. The expenses relate to subscription fees, course fees, publication costs and professional services in respect of auditor reviews.
- Deloitte New Zealand, of which M. Jack, Member of the FMA, is a partner and Chairman. The expenses relate to professional services in relation to matters that the FMA is investigating.
- NZX Limited, of which J. Miller, Member of FMA, is a director. The expenses relate to subscription and publication costs.
- Auckland International Airport Limited, of which J. Miller, Member of the FMA, is a director and J. Smyth, Member of the FMA, is a director. The expenses relate to parking fees incurred by the FMA staff during work-related travel.
- Accident Compensation Corporation, of which J. Miller, Member of the FMA, is a Board member. The expense relates to ACC levies.
- Telecom Corporation of New Zealand Limited, of which J. Smyth, Member of the FMA, is a director and M. Verbiest, Member of the FMA (resigned February 2014), is the Chairman. The expenses relate to telecommunications.

These transactions are on normal commercial terms and there are no other material transactions between members and the FMA in any capacity other than that to which they were appointed.

No related-party debts have been written off or forgiven during the year.

Key management personnel compensation

	Actual 2014 $000s	Actual 2013 $000s
Short term employee benefits		
– Members' fees	606	683
– Code Committee fees	35	35
– Disciplinary Committee fees	31	9
– Executive team remuneration	2,726	2,501
	3,398	**3,228**
Termination benefits	70	-
Total key management personnel compensation	**3,468**	**3,228**

Key management personnel includes all Board and Committee members and the executive team.

Composition of Members' fees

Members fees are paid on the basis of time spent on the work of the FMA. Fees were:

	Actual 2014 $000s	Actual 2013 $000s
S. Allen	240	308
S. Cave	40	42
R. Eele	36	27
C. Giffney	33	40
A. Grimes	22	39
M. Holm	32	30
M. Jack	29	31
J. Miller	46	36
B. Sheppard	23	32
J. Smyth	57	37
M. Verbiest	22	30
M. Webb	26	31
Total Members' fees	**606**	**683**

Colin Giffney and Bruce Sheppard's membership term expired at 30 April 2014 and their membership was not renewed. Mark Verbiest resigned with effect from March 2014.

Composition of Code Committee fees

Code Committee fees are paid on the basis of time spent on the work of the committee. Fees were:

	Actual 2014 $000s	Actual 2013 $000s
R. Butler	2	5
D. Ireland	27	12
D. Kingsford	1	7
D. Russell	1	3
M. Staal	2	5
G. Young	2	3
Total Code Committee fees	**35**	**35**

NOTES TO THE FINANCIAL STATEMENTS

For the 12 months ended 30 June 2014

Composition of Financial Advisers Disciplinary Committee fees

Financial Advisers Disciplinary Committee fees are paid on the basis of time spent on the work of the committee. Fees were:

	Actual 2014 $000s	Actual 2013 $000s
T. Berry	1	1
G. Clews	8	2
S. Hassan	5	1
P. Houghton	6	1
D. McDonald	2	1
J. Robertson (Sir Bruce Robertson)	9	3
Total Financial Advisers Disciplinary Committee fees	**31**	**9**

Employee remuneration

During the period, the number of FMA employees, not being members, who received remuneration and other benefits in excess of $100,000, were:

Remuneration paid or payable $	Number of employees 2014	Number of employees 2013
500,001 to 510,000	-	1
310,001 to 320,000	1	-
300,001 to 310,000	2	1
280,001 to 290,000	1	1
270,001 to 280,000	1	-
260,001 to 270,000	1	3
210,001 to 220,000	1	-
201,001 to 210,000	2	-
190,001 to 200,000	-	1
170,001 to 180,000	2	2
160,001 to 170,000	4	6
150,001 to 160,000	1	3
140,001 to 150,000	4	3
130,001 to 140,000	6	4
120,001 to 130,000	6	7
110,001 to 120,000	11	11
100,001 to 110,000	8	7

During the 12-month period ended 30 June 2014, seven employees received compensation and other benefits in relation to cessation totalling $266,892 (2013: six employees, $128,533).

Professional indemnity insurance

The FMA has purchased director's and officer's liability and professional indemnity insurance cover during the period. This insurance is in respect of the liability or costs of Board members and employees.

Note 7 — Other operating expenses

	Actual 2014 $000s	Actual 2013 $000s
Fees to auditors		
- fees to Audit New Zealand for financial statements audit	55	62
Doubtful debts expense	12	-
Loss on disposal of fixed assets	1	69
Operating lease expenses	1,178	1,177
Professional services	1,861	2,196
Services and supplies	3,287	2,598
Travel and accommodation	892	682
Total other operating expenses	**7,286**	**6,784**

Services and supplies are mainly ICT expenses.

Property, plant and software used by the FMA for its operations

Note 8 — Property, plant and equipment

Property, plant and equipment are recognised at cost less depreciation, and less any impairment losses.

Costs are recognised as capital work in progress until the assets are operating in a manner intended by management, at which time the costs are transferred to the appropriate property, plant and equipment asset. When put into use, the depreciation charge commences.

The following classes of property, plant and equipment have been depreciated over their economic lives on the following basis:

- *Office furniture – 20 percent of diminishing value*
- *Office equipment – straight line over three years*
- *Leasehold improvements – straight line over remaining life of lease.*

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year-end.

NOTES TO THE FINANCIAL STATEMENTS

For the 12 months ended 30 June 2014

	Office equipment $000s	Office furniture $000s	Leasehold improvements $000s	Capital work in progress $000s	Total $000s
Cost					
Property, plant and equipment at 1 July 2012	1,020	343	1,238	-	2,601
Additions	136	87	41	6	270
Adjustments	-	-	(59)	-	(59)
Disposals	(104)	-	-	-	(104)
Balance at 30 June 2013	**1,052**	**430**	**1,220**	**6**	**2,708**
Additions	168	76	25	132	401
Disposals	(33)	(2)	-	-	(35)
Balance at 30 June 2014	**1,187**	**504**	**1,245**	**138**	**3,074**
Accumulated depreciation					
Property, plant and equipment at 1 July 2012	(352)	(52)	(61)	-	(465)
Depreciation expense	(348)	(64)	(171)	-	(583)
Elimination on disposal	93	-	-	-	93
Balance at 30 June 2013	**(607)**	**(116)**	**(232)**	**-**	**(955)**
Depreciation expense	(338)	(66)	(174)	-	(578)
Elimination on disposal	32	2	-	-	34
Balance at 30 June 2014	**(913)**	**(180)**	**(406)**	**-**	**(1,499)**
Carrying amounts					
At 30 June 2013	445	314	988	6	1,753
At 30 June 2014	274	324	839	138	1,575

There are no restrictions over the titles of the FMA's property, plant and equipment nor are any items of property, plant or equipment pledged as security for liabilities.

Note 9 — Intangible assets

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

The costs associated with the development of intangible assets for internal use are recognised as capital work in progress until the assets are operating in a manner intended by management, at which time the costs are transferred to software. When put into use, the depreciation charge commences.

Costs associated with maintaining computer software are recognised as an expense when incurred.

Costs associated with development and maintenance of the FMA's website are recognised as expenses when incurred.

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each financial year is recognised in the surplus or deficit.

The useful life and associated amortisation rate of acquired computer software is three years (33.3 percent).

	Computer software $000s	Capital work in progress $000s	Total $000s
Cost			
Intangible assets 1 July 2012	376	-	376
Additions	263	1,414	1,677
Transfers from Capital work in progress	1,414	(1,414)	-
Disposals	(76)	-	(76)
Balance at 30 June 2013	**1,977**	**-**	**1,977**
Additions	214	2,528	2,742
Transfers from Capital work in progress	1,305	(1,305)	-
Balance at 30 June 2014	**3,496**	**1,223**	**4,719**
Accumulated amortisation			
Intangible assets 1 July 2012	(65)	-	(65)
Amortisation expense	(453)	-	(453)
Elimination on disposal	18	-	18
Balance at 30 June 2013	**(500)**	**-**	**(500)**
Amortisation expense	(824)	-	(824)
Balance at 30 June 2014	**(1,324)**	**-**	**(1,324)**
Carrying amounts			
At 30 June 2013	1,477	-	1,477
At 30 June 2014	2,172	1,223	3,395

There are no restrictions over the titles of the FMA's intangible assets nor are any intangible assets pledged as security for liabilities.

NOTES TO THE FINANCIAL STATEMENTS

For the 12 months ended 30 June 2014

Impairment of property, plant and equipment, and intangible assets

During the 2014 year no impairment has been recognised (2013: nil).

Note 10 — Operating leases and capital commitments

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

Lease incentives received are recognised in the surplus or deficit over the lease term as an integral part of the total lease expense.

Operating leases as lessee

	Grey Street $000s	Takutai Square $000s	Total $000s
2014			
Not later than one year	420	872	1,292
Later than one year and not later than five years	1,679	1,912	3,591
Later than five years	839	-	839
Total non-cancellable operating leases	**2,938**	**2,784**	**5,722**
2013			
Not later than one year	420	828	1,248
Later than one year and not later than five years	1,679	2,784	4,463
Later than five years	1,259	-	1,259
Total non-cancellable operating leases	**3,358**	**3,612**	**6,970**

The FMA has two leased properties as at 30 June 2014.

In Wellington, Grey Street's lease commenced on 1 July 2012 and expires on 30 June 2021, with two rights of renewal to 30 June 2024 and 30 June 2027. For lease make-good provision, the FMA has assumed it will vacate the premises at the end of the lease term, being 30 June 2021.

In Auckland, Takutai Square's lease commenced on 1 September 2011 and expires on 31 August 2017. For the lease make-good provision, the FMA has assumed that it will vacate the premises at the end of the lease term, being 31 August 2017.

The FMA is to surrender its current sub lease of Takutai Square with effect from 1 November 2014, and is to enter into a new lease agreement directly with the landlord with a lease expiry date of 31 March 2023.

Capital commitments

There are no capital commitments at balance date.

Note 11 — Occupancy incentives

Rent holiday liability

This represents amounts received from landlords for a rent holiday. Rent holiday liability is amortised over the life of the lease.

Capital contribution

Capital contribution payments received from landlords are amortised over the life of the lease where the assets are owned by the FMA. Where a landlord owns certain assets that are paid for out of capital contribution, the landlord's portion of assets is not recorded in the FMA's property, plant and equipment.

Rent holiday liability

Takutai Square: A rent holiday of $24,158 (2013:$144,918) was received during the year. The amortisation of the accumulated rent holiday liability commenced on 1 September 2013 and $60,394 was amortised during the year. In addition, $25,001 (2013: $25,001) of the capital contribution payments were amortised during the year.

Note 12 — Provisions

A provision is recognised for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event and it is probable that an outflow of future economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

	Actual 2014 $000s	Actual 2013 $000s
Non-current portion		
Lease make-good	106	67
Total non-current portion	106	67
Total provisions	**106**	**67**

NOTES TO THE FINANCIAL STATEMENTS

For the 12 months ended 30 June 2014

Lease make-good provision

In respect of certain leases, the FMA is required at the expiry of the lease term to make good any damage caused to the premises and to remove any fixtures or fittings installed by the FMA. The FMA has the option to renew both current premises leases, which affects the timing of expected cash outflows to make good the premises. Information about the FMA's leasing arrangements is disclosed in note 10.

Movements for each class of provision are as follows:

	Provision for lease on vacated property $000s	Lease make-good $000s	Total $000s
Balance at 1 July 2012	421	35	456
Additional provisions made	-	32	32
Amounts used	(421)	-	(421)
Balance at 30 June 2013	**-**	**67**	**67**
Balance at 1 July 2013	-	67	67
Additional provisions made	-	39	39
Amounts used	-	-	-
Balance at 30 June 2014	**-**	**106**	**106**

Other

Note 13 — Debtors and other receivables

Short-term debtors and other receivables are recorded at their face value, less any provisions for impairment.

The FMA recognises a provision for impairment where there is an objective evidence of its debtors being unable to make required payments.

	Actual 2014 $000s	Actual 2013 $000s
Trade debtors	664	641
Other receivables	626	649
Prepayments	250	210
Total debtors and other receivables	**1,540**	**1,500**

The carrying value of receivables approximates their fair value.

The ageing profile of trade debtors at year-end is detailed below:

	2014 $000s
Not past due	538
Past due one to 30 days	60
Past due 31 to 60 days	24
Past due 61 to 90 days	8
Past due over 90 days	34
Total	**664**

	2013 $000s
Not past due	546
Past due one to 30 days	88
Past due 31 to 60 days	7
Past due 61 to 90 days	-
Past due over 90 days	-
Total	**641**

All trade debtors greater than 30 days in age are considered to be past due. The impairment assessment is performed on a collective basis.

There has been an individual impairment of $11,878 recognised in 2014 (2013: nil).

NOTES TO THE FINANCIAL STATEMENTS

For the 12 months ended 30 June 2014

Note 14 — Creditors and other payables

Short-term creditors and other payables are recorded at their face value as they are non-interest bearing and are generally settled within 30 days.

	Actual 2014 $000s	Actual 2013 $000s
Current		
Trade creditors	1,744	1,676
Accrued expenses and other payables	603	603
Income in advance	14	3
Total current creditors and other payables	**2,361**	**2,282**
Non-current		
Accrued expenses and other payables	-	135
Total non-current creditors and other payables	**2,361**	**135**

Note 15 — Reconciliation of the net surplus from operations with the net cash flows from operating activities

	Actual 2014 $000s	Actual 2013 $000s
Reporting surplus (deficit)	1,775	3,545
Add non-cash items		
Allocation of doubtful debt provision	12	-
Allocation of lease incentives	(61)	120
Allocation of leasehold provisions	38	32
Depreciation/amortisation	1,402	1,036
Add/(less) movement in working capital		
(Decrease)/increase in creditors	(48)	(737)
Decrease/(increase) in debtors	(224)	303
(Decrease)/increase in employment entitlements	(61)	200
Add/(less) movement in investing activity		
Loss on sale of fixed assets	1	69
(Decrease)/increase in creditors relating to investing activities	(303)	311
Net cash flows from operating activities	**2,531**	**4,879**

NOTES TO THE FINANCIAL STATEMENTS

For the 12 months ended 30 June 2014

Note 16 — Contingencies

Contingent liabilities are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

Contingent liabilities

The FMA undertakes civil court action from time to time. Should the FMA be unsuccessful in any case, costs could be awarded against it. Cost awards are at the court's discretion.

No actions as at balance date are likely to have a material effect on the FMA's financial position. (2013: Nil).

Contingent assets

There are no contingent assets at balance date. (2013: Nil).

Note 17 — Events after the balance sheet date

There were no significant events after the balance date. The FMA is in lease negotiations for additional office space for the Auckland building.

Note 18 — Financial instruments

Financial instrument categories

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method. All financial assets being cash and cash equivalents, term deposits, trade and other receivables have been categorised as loans and receivables.

Financial liabilities being trade and other payables (excluding income in advance) are categorised as financial liabilities measured at amortised cost.

Financial instrument risks

The FMA's activities expose it to a variety of financial instrument risks, including market risk, credit risk and liquidity risk. The FMA has a series of policies to manage the risks associated with financial instruments and seeks to minimise exposure to those instruments. These policies do not allow any transactions that are speculative in nature to be entered into.

Market risk

The only market risk to which the FMA is subject is interest rate risk. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Considering the FMA's exposure to interest rate risk arises from term investments only, the exposure to such risk is limited.

Term deposits are made for periods less than, equal to or greater than three months depending on the cash requirements of the FMA. Term deposits earn interest at the respective short term deposit rates.

Sensitivity analysis

As at 30 June 2014, if the average interest rate on interest-bearing deposits over the year had been 100 basis points higher or lower, with all other variables held constant, the surplus for the 12 months would have been $164,639 (2012: $157,841) higher or $152,521 (2013: $156,119) lower.

Credit risk

Credit risk represents the risk that a third party will default on its obligations to the FMA, causing it to incur a loss. Financial instruments which subject the FMA to credit risk consist of bank balances, bank term deposits and trade and other receivables. For each of these, the maximum credit exposure is best represented by the carrying amount in the statement of financial position.

Cash and deposits are held with Westpac New Zealand Limited, which is a registered bank in New Zealand and is rated Moody's Aa3 and Standard & Poor's AA – for its long-term credit rating.

The FMA does not require collateral or security to support financial instruments. Trade receivables mainly relate to receivables from the Government so exposure to this risk is very low.

Liquidity risk

Liquidity risk represents the FMA's ability to meet its contractual obligations associated with financial liabilities. Prudent liquidity risk management implies maintaining sufficient cash and the ability to close out market positions. The FMA mostly manages liquidity risk by continuously monitoring forecast and actual cash flow requirements.

The FMA's creditors are mainly those reported as trade and other payables. The FMA aims to pay these within normal commercial terms, that is, by the 20th of the month, if not earlier.

The FMA has cash and other short-term deposits that it can use to meet its ongoing payment obligations.

Contractual maturity analysis of financial liabilities

As the FMA's creditors are mainly those reported as trade and other payables the FMA will pay these within six months of incurring the liability.

Note 19 — Capital management

The FMA's capital is its equity, which is comprised of accumulated funds, litigation fund and capital contribution. Equity is represented by net assets.

The FMA is subject to the financial management and accountability provisions of the *Crown Entities Act 2004*, which imposes restrictions in relation to borrowings, acquisition of securities, issuing guarantees and indemnities, and the use of derivatives.

The FMA manages its equity as a by-product of prudently managing revenues, expenses, assets, liabilities, investments and general financial dealings to ensure that the FMA effectively achieves its objectives and purpose, while remaining a going concern.

NOTES TO THE FINANCIAL STATEMENTS

For the 12 months ended 30 June 2014

How did the FMA perform against budget?

Note 20 — Explanation of major variances against budget

The budget figures are derived from the Statement of Intent 2013–2016 as approved by the Board in May 2013. The budget figures are for the 12 months to 30 June 2014 and have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by the Board in preparing these financial statements.

Explanations for major variances from the FMA's budgeted figures in the statement of intent are as follows:

Statement of comprehensive income

1. Income
   - Other income was higher than budget as a consequence of:

     – auditor quality review fees which were not budgeted
2. Expenditure
   - Personnel costs were higher than budget due to the timing of recruitment and use of additional contract staff which can be attributed to the implementation of the FMC Act and supporting systems work
   - Operating expenses were below budget as a consequence of higher personnel costs as we undertook more work internally without external assistance resulting in lower expert fees and professional services expenses, which were partly off-set by higher than budgeted ICT costs due to the timing of various projects.
3. Litigation fund expenditure
   - Expenditure was below budget as a consequence of the timing of case work and the culmination of proceedings / investigations on residual finance company cases.

Statement of financial position

1. Assets
   - Cash and cash equivalents and term deposits were lower than budget. This was due to a higher spend on capital work in progress and higher employee costs resulting from increased activity to meet the FMA's regulatory obligations.
   - Capital work in progress was higher than budget. This was due to the capital programme spend on intangible assets for systems to meet the requirements of regulatory legislation. In addition, refurbishment works were undertaken at the Auckland office.
2. Liabilities
   - Creditors and other payables were higher than budget due to timing of expenditure being different to that forecast.

Statement of cash flows

1. Cash flows from operating activities
   - Cash disbursed to employees was higher than budget primarily due to the impact of the FMC Act and supporting systems work.
2. Cash flows from investing activities
   - Cash applied to the purchase of intangible assets was higher than budget due to capital work in progress spend on intangible assets.

Appendix: Other accounting policies

Changes in accounting policies

There have been no changes in accounting policies during the financial year.

Standards, amendments and interpretations issued that are not yet effective and have not been early adopted

These are the last financial statements to be prepared under NZ IFRS standards. In the future, financial statements will be prepared under the International Public Sector Accounting Standards.

XRB developed the full suite of standards for public sector entities based on current International Public Sector Accounting Standards.

The effective date for these new standards for public sector entities is for reporting periods beginning on or after 1 July 2014. This means the FMA will transition to the new standards in preparing its 30 June 2015 financial statements. Based on the initial analysis, the FMA believes there will be no major implications arising from the new Public Sector Accounting Standards.

Significant accounting policies

Significant accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Term deposits

This category includes only term deposits with maturities greater than three months.

Impairment of property, plant and equipment, and intangible assets

Property, plant and equipment, and intangible assets that have finite useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Given that the future economic benefits of the FMA's assets are not directly related to the ability to generate net cash flows, the value in use of these assets is measured on the basis of depreciated replacement cost.

An impairment loss is recognised in the statement of comprehensive income whenever the carrying amount of an asset exceeds its recoverable amount. Any reversal of impairment losses is also recognised in the statement of comprehensive income.

Goods and services tax

All items in the financial statements are exclusive of goods and services tax (GST), except for receivables and payables which are presented on a GST-inclusive basis.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department is included as part of current assets or current liabilities in the statement of financial position.

Commitments and contingencies are disclosed exclusive of GST.

Income tax

The FMA is a public authority, and consequently is exempt from the payment of income tax under the *Income Tax Act 2007*. Accordingly, no provision has been made for income tax.

Cost allocation policy

The FMA has determined the cost of outputs using the cost allocation system outlined below.

- Direct costs are those costs directly attributed to an output. Indirect costs are those costs that cannot be identified in an economically feasible manner with a specific output.
- Direct costs are charged directly to outputs. Indirect costs are charged to outputs based on cost drivers and related activity or usage information. Personnel costs are charged on the basis of actual time incurred. Other indirect costs are assigned to outputs based on the proportion of direct staff time for each output.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of the Financial Markets Authority's financial statements and non-financial performance information for the year ended 30 June 2014

The Auditor General is the auditor of the Financial Markets Authority (the Authority). The Auditor General has appointed me, Robert Cox, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and non-financial performance information of the Authority on her behalf.

We have audited the financial statements of the Authority on pages 70 to 96, that comprise the statement of financial position as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and notes to the financial statements that include accounting policies and other explanatory information; and the non-financial performance information of the Authority that comprises the statement of service performance on pages 58 to 65 and the reporting of results against outcome and impact measures on pages 24, 25, 32 and 38.

Opinion

In our opinion the financial statements of the Authority on pages 70 to 96:

- comply with generally accepted accounting practice in New Zealand;
- fairly reflect the Authority's:
  - financial position as at 30 June 2014; and
  - financial performance and cash flows for the year ended on that date.

The non-financial performance information of the Authority on pages 24, 25, 32 and 38 and 58 to 65:

- complies with generally accepted accounting practice in New Zealand; and
- fairly reflects the Authority's service performance and impacts for the year ended 30 June 2014, including for each class of outputs:
  - the service performance compared with forecasts in the statement of forecast service performance at the start of the financial year; and
  - the actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.

Our audit was completed on 29 October 2014. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board and our responsibilities, and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and non-financial performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and non-financial performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and non-financial performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and non-financial performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Authority's financial statements and non-financial performance information that fairly reflect the matters to which they relate. We consider internal control 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.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board;
- the appropriateness of the reported non-financial performance information within the Authority's framework for reporting performance;
- the adequacy of all disclosures in the financial statements and non-financial performance information; and
- the overall presentation of the financial statements and non-financial performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and non-financial performance information. Also, we did not evaluate the security and controls over the electronic publication of the financial statements and non-financial performance information.

We have obtained all the information and explanations we required and believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board

The Board is responsible for preparing financial statements and non-financial performance information that:

- comply with generally accepted accounting practice in New Zealand;
- fairly reflect the Authority's financial position, financial performance and cash flows; and
- fairly reflect the Authority's service performance and impacts.

The Board is also responsible for such internal control as is determined necessary to enable the preparation of financial statements and non-financial performance information that are free from material misstatement, whether due to fraud or error. The Board is also responsible for the publication of the financial statements and non-financial performance information, whether in printed or electronic form.

The Board's responsibilities arise from the *Crown Entities Act 2004*.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and non-financial performance information and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the *Public Audit Act 2001* and the *Crown Entities Act 2004*.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, we have no relationship with or interests in the Authority.

Robert Cox Audit New Zealand
On behalf of the Auditor General Wellington, New Zealand

APPENDICES

LAWS THAT WE ADMINISTER OR APPLY

The FMA performs functions in respect of all persons

- *Financial Advisers Act 2008*
- *Financial Markets Authority Act 2011*
- *Financial Markets Conduct Act 2013*
- *Financial Service Providers (Registration and Dispute Resolution) Act 2008*
- *Parts 4 and 5 and Schedules 1 and 2 of the KiwiSaver Act 2006**
- *Securities Act 1978**
- *Securities Markets Act 1988**
- *Securities Transfer Act 1991*
- *Superannuation Schemes Act 1989*
- *Unit Trusts Act 1960*
- *Auditor Regulation Act 2011*
- *Financial Markets Supervisors Act 2011*

* Repealed by the *Financial Markets Conduct Act 2013.*

The FMA performs functions in respect of financial markets participants

- *Anti-Money Laundering and Countering Financing of Terrorism Act 2009*
- *Building Societies Act 1965*
- *Companies Act 1993*
- *Corporations (Investigation and Management) Act 1989*
- *Sections 228, 229, 240, 242, and 256 to 260, of the Crimes Act 1961*
- *Financial Reporting Act 2013*
- *Friendly Societies and Credit Unions Act 1982*
- *Industrial and Provident Societies Act 1908*
- *Part 5C of the Reserve Bank of New Zealand Act 1989*
- *Trustee Companies Act 1967*
- *Co-operative Companies Act 1996*
- *Limited Partnerships Act 2008*

WHO WE REGULATE data at June 2014, unless stated

Providers and distributors	
Qualifying financial entities	57
Intermediaries and product providers	
Authorised financial advisers	1,877
Registered financial advisers	6,580
Trustees and supervisors (including for KiwiSaver, debt securities, participatory securities, retirement villages and unit trusts). All are licensed for more than one product or service.	10
Authorised futures' dealers	60
Governance	
New Zealand licensed auditors	141
New Zealand registered audit firms	30
Overseas licensed auditors	12
Overseas registered audit firms	1
Accredited bodies (NZICA and CPA Australia)	2
Savings schemes	
Registered KiwiSaver schemes	45
Superannuation schemes (at 30 December 2013)	457
Capital markets	
Registered exchange (NZX: comprises five registered markets)	1
Authorised futures exchanges (ASX 24, NZX, ICE Futures Europe, ICE Futures U.S.)	4

DIRECTORY

Nature of business	The Financial Markets Authority (FMA) is an independent Crown entity and New Zealand's financial conduct regulator.
Auckland office	Level 5, Ernst & Young Building 2 Takutai Square, Britomart, Auckland DX Box CX10033 PO Box 106 672, Auckland 1143 Phone: (09) 300 0400
Wellington office	Level 2 1 Grey Street, Wellington PO Box 1179, Wellington 6140 Phone: (04) 472 9830
Auditors	Audit New Zealand – Mana Arotake Aotearoa
Glossary	A full glossary, including terms referenced in this annual report, is available at www.fma.govt.nz
The FMA complaints line	For all complaints, reports of misconduct or tip-offs, contact: 0800 434 566 (+64 3 962 2698 for overseas callers)
The FMA general enquiries	For all enquiries and questions, contact: 0800 434 567
	Please visit our website to learn more about us and to obtain an electronic version of this report http://www.fma.govt.nz/
	http://www.fma.govt.nz/feeds/fma
	https://twitter.com/FMAmedia
	Annual report design & print by Blue Star Group New Zealand Level 2, 86 Parnell Road, Auckland 1052 www.bluestargroup.co.nz/business/bluestarworks.shtml
FSC www.fsc.org FSC® C107054 The mark of responsible forestry	The FMA annual report is printed on environmentally responsible papers, manufactured using Elemental Chlorine Free pulp from Well Managed Forests. It is produced under the environmental management system ISO 14001, which aims to prevent pollution and achieve continual improvement. This report is printed with vegetable-based, mineral-oil-free inks.

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