

# ANNUAL REPORT 2015



**Hon Paul Goldsmith**

Minister of Commerce and Consumer Affairs

This report is provided as required under sections 150 and 151 (3) of the *Crown Entities Act 2004*. It is the annual report of the Financial Markets Authority and for the year ended 30 June, 2015.



**Murray Jack**

chair

21 September, 2015



**Rebecca Thomas**

chair – audit and risk committee

21 September, 2015



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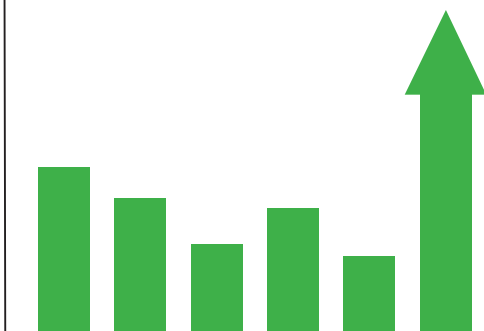
## Our role and strategic risk outlook

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.



## Our main achievements

One



### We helped grow capital markets

#### By making it easier for listed companies to raise funds

- Listed companies raised \$1.2 billion through streamlined same-class offers.

#### By licensing new ways for individuals and businesses to raise funds

- We licensed six new crowd-funding platforms, and two new peer-to-peer lenders.
- NZX launched NXT, a stepping-stone market for small to mid-sized firms.

Two



### We improved frontline regulation and co-operation

#### By strengthening our relationship with NZX

- We signed an MOU with NZX, clarifying how we interact with each other.

#### By working more closely with dispute resolution schemes

- We completed MOUs with all of NZ's dispute resolution schemes, to help us jointly identify significant issues for consumers.

## Three



### We addressed market conduct, integrity and sales practices

#### By completing the finance company cases

- More than \$51 million was recovered from Hanover, Dominion Finance, North South Finance and Strategic Finance to help repay investors.

#### By investigating market conduct

- Milford Asset Management agreed to pay \$1.5 million, and to improve its systems and controls, following our investigation into potential market manipulation.
- Pacific Edge agreed to pay \$500,000 to investors, and to review its practices, due to our investigation into continuous disclosure issues.

#### By focusing on the filing of financial statements

- We took four successful cases against seven directors for failing to file their financial statements.

#### By challenging sales practices

- ANZ, Westpac and ASB agreed to a third-party review due to our concerns over the sale of interest-rate swaps.

## Four



### We helped investors make better-informed decisions

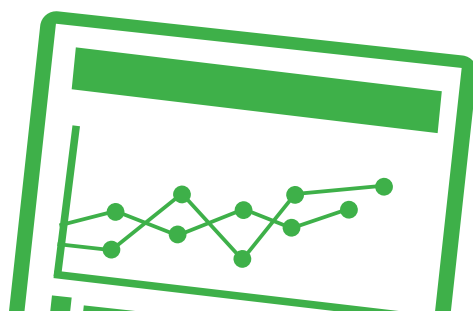
#### By finalising our investor capability strategy

- We published a strategy that sets out how we will work with other organisations and the financial sector to improve investor understanding and confidence.

#### By issuing public warnings

- We made more use of our powers to help consumers and investors, by naming specific firms we had significant concerns about.

Five



## We encouraged better governance

### By publishing our own guides

- We revamped our guide on corporate governance, and issued a new guide on preparing for a public listing.

### By focusing on financial reporting

- We brought top finance professionals and directors together at a conference, aimed at improving financial reporting.

Six



## We were more effective

### By sharpening our focus

- We developed and published our first comprehensive *Strategic Risk Outlook*, which explained our main priorities for the medium term.

### By helping to smooth major regulatory reform

- We consulted extensively with those we regulate, to fine-tune the practical application of the Financial Markets Conduct Act.
- We offered advice and guidance where it was needed.
- We granted exemptions when we believed this was justified.

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## From the chairman

### **“This year has been a turning point for the Financial Markets Authority.”**

For the past two years we have been steadily reorganising to reflect the new demands of the *Financial Markets Conduct Act 2013* which took full effect in December 2014.

Much of the post-GFC work we were undertaking is complete or in its later stages, and most regulated businesses and professionals are now anticipating the future, rather than contemplating the past. In short, the FMA is maturing into a substantive conduct regulator, with a clear picture of its work over the medium term.

Many of the businesses and professionals we now regulate were previously unregulated, or operated under much lighter regulatory arrangements. We are well aware of the regulatory burden this places on individuals, and we have mitigated this burden where possible.

We have begun to develop a deeper understanding of these sectors, which has enabled us to identify our main strategic risks and adjust our work accordingly. This has allowed the board and the senior management to begin focusing on systems and processes that will sustain the FMA over the next period. Notably, we have begun a comprehensive assessment of the resources we need, both human and financial, to build a sustainable regulator.

#### **Smart decisions**

The range of our mandate, which has coincided with a surge of activity in our public markets, as well as the various new capital-raising mechanisms under the FMC Act, is stretching our people and our financial resource.

That pressure is unlikely to abate. Further initiatives in the coming year include the International Monetary Fund’s comprehensive review of New Zealand’s financial services regulatory system – last conducted in 2004 – and the Government’s five-year review of the regulation of financial advisers and the Financial Service Providers Register.

Both of these are substantial and critical undertakings for the FMA.

Over the next year we will continue to fine-tune our strategic priorities while ensuring we operate within our means. The board and senior management are increasingly conscious of the heightened expectations market participants and investors have of the FMA, the constraints we work under given the extent of our regulatory mandate, and the need to make smart decisions about where to focus our resource and how to wield our regulatory powers.

#### **Board changes**

Simon Allen stood down as chairman this year. I would like to acknowledge his substantial contribution to the FMA as its inaugural chairman, beginning in 2011. He has steered the FMA through a demanding period as a new regulator, while dealing with a heavy workload from the resolution of finance company issues.

Justine Smythe and James Miller, who also joined us at our formation, also stood down this year.



Both brought highly valued perspectives and great energy to the board, and I would like to thank them for their contribution. Campbell Stuart, William Stevens, and Mark Todd were appointed to the board in June. I welcome their expertise and look forward to working closely with them.

A handwritten signature in black ink, appearing to read 'Murray Jack'. The signature is stylized and written in a cursive-like font.

**Murray Jack**  
chairman



## From the chief executive

**“The *Financial Markets Conduct Act 2013* was a fundamental overhaul of financial regulation in New Zealand. It came into effect during 2014, so we are still in the infancy of the new regime.”**

It will be some years yet before we can make firm judgments about the quality of its outcomes. However, identifiable results already include:

- financial services firms are recognising the need for consistently high standards of conduct across their operations, and our focus on the fair treatment of investors
- the quick uptake of new licences for crowd-funding and peer-to-peer lending, with a steady flow of new offers
- improvement in the frontline regulatory systems of NZX, and a stronger operational relationship between ourselves and NZX
- efforts by public companies to improve their disclosure in offer documents and in regular reporting
- the first debt and equity offers using new provisions that make it easier and cheaper for firms that already have public investors to make same-class offers
- NZX launching NXT, a stepping-stone market intended to make it easier and cheaper for smaller firms to raise money.

These early results demonstrate a willingness to respond to the FMC Act. They also show that some – but, perhaps, not yet enough – businesses are grasping the opportunities the Act provides, especially in capital-raising, better disclosure and in new categories of licensed business.

### **Making progress**

Our own achievements this year include:

- publishing our *Strategic Risk Outlook*, which identifies the main risks to the development of fair, efficient and transparent financial markets over the next three years
- a focus on quality governance through extensive engagement with directors, including a revamped guide on corporate governance and a new guide on preparing for a public listing
- finalising an investor capability strategy, which identifies how we believe we can help investors make better investment decisions
- making increasing use of our new regulatory powers, including powers that allow us to issue warnings and, if necessary, take immediate action
- closer co-operation with other government agencies and organisations.

### **Managing our resources**

A challenge in the medium term is achieving the best results possible within the resources available.

There was a spike in spending this year as we began implementing the FMC Act. Total revenue was \$30.2 million, down from \$31.2 million in 2014.

Expenditure rose to \$32.7 million from \$29.4 million, driven by increased



staff numbers (both permanent and contract) and by higher depreciation and amortisation costs.

The resulting deficit was covered out of accumulated funds but underlines a point recognised by the board and management – that careful prioritisation of resources is critical as the FMC Act is bedded in.

However, our capability will always rely most heavily on the quality of our staff. Competition is increasing for people with the skills we require, and this makes it harder to recruit and retain them. With this in mind, we have developed a comprehensive programme to ensure we attract, and keep, the best people possible.

Fortunately, we are blessed with staff who are passionate about serving New Zealand and making our markets better and safer. It is an honour to lead such an organisation.

A handwritten signature in black ink, appearing to read 'Rob Everett'.

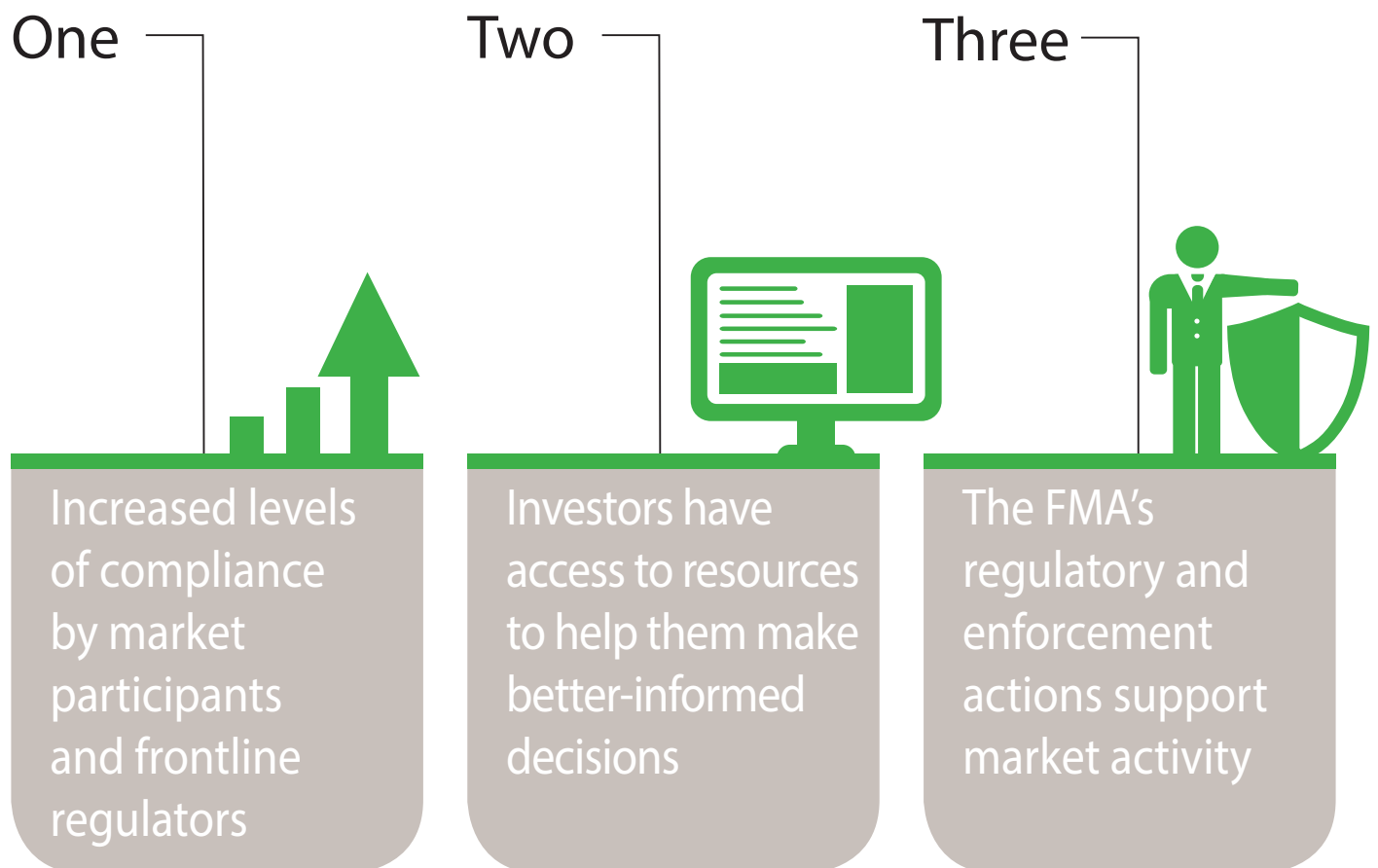
**Rob Everett**  
chief executive

# What we do



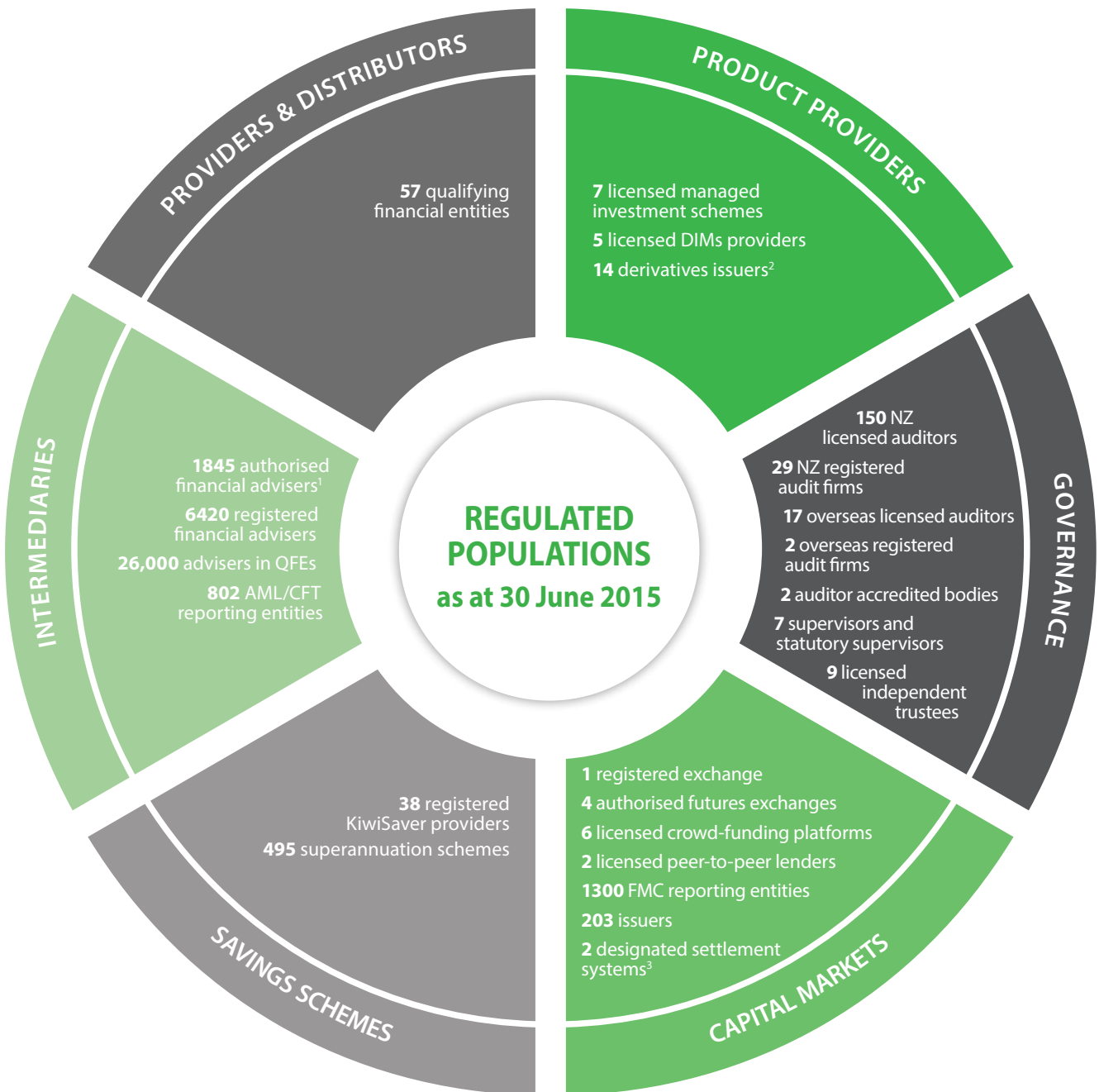
## Our three main priorities

We have three strategic priorities that contribute to the promotion and development of fair, efficient and transparent financial markets. They are:



# Who we regulate

The number of businesses, markets, and professionals we regulate has grown under the FMC Act.



<sup>1</sup> as at 25 May 2015

<sup>2</sup> required under Part 7 of the FMC Act

<sup>3</sup> includes transitional derivatives issuers

# How we regulate

Our approach to market regulation is based on active and extensive engagement with businesses and professionals. Our specific functions are shown below.



**Laws we administer or apply:**

Financial Advisers Act 2008, Financial Markets Authority Act 2011, Financial Markets Conduct Act 2013, Financial Service Providers (Registration and Dispute Resolution) Act 2008, Part 4 and Schedule 1 of the Kiwi Saver 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, Anti-Money Laundering and Countering Financing of Terrorism Act 2009, Building Societies Act 1965, Companies Act 1993, Corporations (Investigation and Management) Act 1989, Sections 220, 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, Trustee Companies Management Act 1975, Co-operative Companies Act 1996, and Limited Partnerships Act 2008.

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



What we've done



SELL

## How we've performed

A key indicator of fair, efficient and transparent financial markets is investor confidence. Each year, we use an independent research company to survey New Zealand investors' attitudes to our financial markets.

Measure	Source	2013-14 Result	2014-15 Result	Change (in percentage points)
Percentage of investors who were very or fairly confident in New Zealand financial markets.	Public and investor survey	61%	65%	4↑

Measure	Target	Source	2013-14 Result	2014-15 Result	Change (in percentage points)
Percentage of market participants who substantially meet expectations of significant new guidance.	To <b>ACHIEVE</b> 80%	FMA data	84% <sup>1</sup>	85%	1↑
Percentage of market participants who are required to take corrective action as requested by the FMA following compliance review.	To <b>DECREASE</b> the need for corrective action year-on-year.	FMA data	17%	18%	1↓
Percentage of frontline regulators and gatekeepers who take appropriate corrective action as requested by the FMA following compliance review.	To <b>ACHIEVE</b> 100% compliance.	FMA data	100%	100%	Same
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 <b>MAINTAIN</b> baseline as set at 73% in 2012.	Stakeholder survey	73% <sup>2</sup>	74%	1↑

1 In the 2014 Annual Report this figure was mistakenly reported as 86% due to a misprint.

2 This result is from the stakeholder survey in 2012/13. There is no result for 2013/14 as the survey was not carried out in the 2013/14 year.

Comprehensive **stakeholder surveys** were conducted in 2012 and 2015 by Colmar Brunton on behalf of the FMA. In 2015 n=220, margin of error is +/- 6%, or +/- 9.6% compared to 2012 results.

The **public and investor surveys** were conducted in 2014 and 2015 by Colmar Brunton on behalf of the FMA. In 2015 n=1,000 for general public and n=763 for investors, margin of error is +/-3.1% to +/- 3.6%.

Measure	Target	Source	2013-14 Result	2014-15 Result	Change (in percentage points)
Percentage of stakeholders surveyed who agree that the FMA's oversight of frontline regulators and gatekeepers has been effective.	To <b>INCREASE</b> baseline as set at 40% in 2012.	Stakeholder survey	40% <sup>2</sup>	59%	19 <sup>↑</sup>
Percentage of respondents to website questionnaires that agree the FMA's investor education materials are helpful and relevant.	To <b>MAINTAIN</b> baseline as set at 80% in 2012.	Web survey	81%	N/A <sup>4</sup>	—
Percentage of offer documents and financial statements reviewed that substantially meet expectations in the FMA guidance.	To <b>MAINTAIN OR INCREASE</b> baseline as set at 92% in 2012.	FMA data	89%	90%	1 <sup>↑</sup>
Percentage of investors surveyed who believe that investment disclosure documents provided helped them to make an informed investment decision.	To <b>INCREASE</b> baseline as set at 52% in 2012.	Public and investor survey	53%	56%	3 <sup>↑</sup>
Percentage of stakeholders surveyed who believe the FMA's regulatory actions are proportionate.	To <b>INCREASE</b> baseline as set at 34% in 2012.	Stakeholder survey	34% <sup>2</sup>	50%	16 <sup>↑</sup>
Percentage of stakeholders surveyed who believe the FMA actions positively influence market behaviour.	To <b>INCREASE</b> baseline as set at 54% in 2012.	Stakeholder survey	54% <sup>2</sup>	60%	6 <sup>↑</sup>
FMA Regulatory Impact Statements consider the costs and support the benefits of significant new guidance.	To <b>ESTABLISH</b> baseline.	FMA data	None issued	None issued <sup>3</sup>	N/A

2 This result is from the stakeholder survey in 2012/13. There is no result for 2013/14 as the survey was not carried out in the 2013/14 year.

3 One issued, but it was not for significant new guidance.

4 Survey not carried out this year due to transition to new website.

Comprehensive **stakeholder surveys** were conducted in 2012 and 2015 by Colmar Brunton on behalf of the FMA. In 2015 n=220, margin of error is +/- 6%, or +/- 9.6% compared to 2012 results.

The **public and investor surveys** were conducted in 2014 and 2015 by Colmar Brunton on behalf of the FMA. In 2015 n=1,000 for general public and n=763 for investors, margin of error is +/-3.1% to +/- 3.6%.



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

### Our actions include:

- engaging regularly with businesses and professionals, particularly over significant changes to a statute or regulation
- providing guidance and supporting materials to help them comply
- conducting regular surveillance and monitoring, and providing reports on our findings
- taking appropriate and proportionate enforcement action
- communicating with businesses, professionals and the wider public about activities or products we have concerns about, and the associated risks.

### How we help people understand their obligations



### We provided guidance in the following areas:

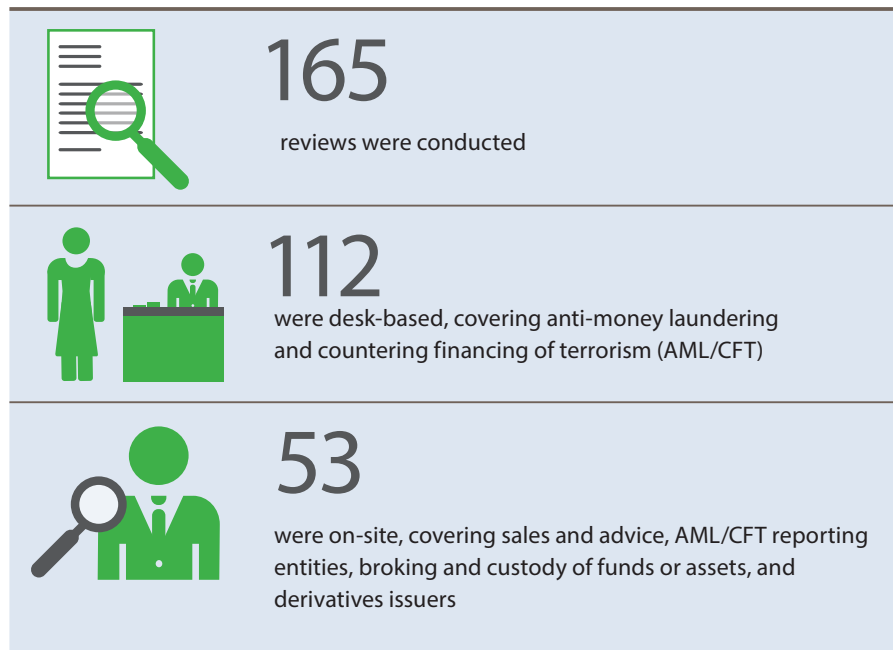
- governance and reporting duties under part 4 of the FMC Act
- statements of investment policy and objectives
- custodians of managed investment schemes
- discretionary investment management services
- related-party transactions in managed investment schemes
- a user guide specific to the new anti-money laundering and countering financing of terrorism (AML/CFT) legislation.

The transition to the FMC Act required us to provide support and advice for firms and professionals needing detailed information on their obligations.

We put extensive effort into this support and advice this year. Specifically, we:

- published guidance aimed at helping people understand in detail their regulatory obligations, and to help them anticipate our expectations in specific areas
- ran dedicated events, allowing professionals to meet our staff to find out more about specific aspects of the new regulation
- hosted a conference for 170 senior professionals and directors on quality financial reporting, which we believe helps investors and firms to better understand business performance and risk. We followed up this conference, 'Beyond IFRS: Quality Financial Reporting', with a report summarising the issues
- participated in financial services conferences, directors' events, and other professional associations, by explaining the FMC Act and the role of regulation in the New Zealand economy
- held formal consultations to help us understand how others understand aspects of regulation, and to help us refine our position before making a decision or providing guidance.

## How we supervise those we regulate



### One of our key functions as a regulator is to systematically assess the competency of those we regulate, and how well they are complying with their obligations.

Every year we assess businesses, professionals, funds, and licensed markets or exchanges, as part of our supervision programme. Our aim is to steadily improve the quality of compliance and competency we find, and to provide constructive feedback to those involved, as well as the wider market.

This year we have been steadily shifting our supervision work so it is focused on the key areas we identified in our *Strategic Risk Outlook*.

The key areas are sales and advice, conflicted conduct, capital market integrity, and governance and culture.

We publish the overall results of our supervision, so others can use the results for their own purposes.

We published reports on our monitoring of Qualifying Financial Entities (QFEs) and Authorised Financial Advisers (AFAs) in September 2014, and we published our report on AML/CFT in November 2014.

#### Our supervision work this year shows:

- most AML/CFT entities are complying broadly, although a growing number of technical issues have arisen
- there are some outstanding regulatory issues among some custodians and brokers, which we're asking firms to address
- there are some outstanding issues among some derivatives issuers, which we're asking firms to address.

## How we monitor financial advisers

**3** key reports were published on financial advisers.

Financial advisers, including those who work for QFEs, are a large part of New Zealand's retail financial services sector, and are therefore a priority for us.

We have focused especially on ensuring compliance in providing quality advice to consumers and investors. This year, our supervision and monitoring of advisers within QFEs, as well as AFAs, shows improvements relative to 2014. This indicates a constructive approach to our feedback.

We published our annual reports on QFEs and AFAs in September 2014. This year we also published a report that gave a snapshot of the sector and outlined key issues.

This was based on information required to be provided by AFAs for the first time.

#### Areas of continuing concern are:

- insufficient documentation of client goals
- a lack of well-defined objectives and scope of service.

Our focus has been on supporting AFAs who have issues meeting compliance standards, and providing feedback to QFEs to help them improve the performance of their advisers.

## How we monitor KiwiSaver

**10** providers were required to give us detailed information we will use to review our guidance and supervision.

**1** key report was published on KiwiSaver.

Our role as a conduct regulator means that KiwiSaver is a priority for us. While other government agencies also regulate KiwiSaver, they cover different aspects to us.

KiwiSaver amounts to a substantial part of New Zealand's collective wealth. There were almost 2.5 million members, and \$28.5 billion in assets, as at March 2015. Part of our role is to ensure that resources are available to investors that allow them to make informed decisions about KiwiSaver.

### Work underway this year includes:

- consulting on the use of fund names and risk indicators, for KiwiSaver and other managed funds, with the aim of achieving consistency. This helps investors to make better decisions
- reviewing how fees and returns are calculated in quarterly and annual disclosure statements, and in offer documents. The aim is to get consistency among KiwiSaver providers and managed funds
- reviewing aspects of sales and advice practices, based on information we sought from 10 providers that cover 80% of KiwiSaver members. Our analysis, when complete, will inform our work with managers, providers, and supervisors.

We continued our monitoring work under the *KiwiSaver Act 2006*, parts of which have been repealed by the FMC Act. We published our annual statutory report on KiwiSaver in September 2014.

## How we monitor frontline regulators

**4** key reports were published on frontline regulators, and audit quality.

Several professions and institutions have roles, under the law, in overseeing aspects of regulation. We review their performance and report on it publicly.

### Key reports published this year include:

- the general obligations review of NZX, New Zealand's only registered exchange. We found that in 2014 NZX met all its statutory obligations to ensure that its markets are fair, orderly and transparent. It completed all but one agreed action from the previous year, and the final one was underway. We also noted improvements in many areas
- our assessments of the New Zealand Institute of Chartered Accountants (NZICA), and CPA Australia, respectively, which are the accredited bodies for auditors in New Zealand. Both bodies met their obligations for the year to 30 June 2014.

We also published our annual review of audit quality in December 2014.

## How we monitor supervisors

**7** supervisors were licensed as at 30 June 2015 (down from 10 last year).

We license securities trustees and statutory supervisors – now all known as supervisors – under the *Financial Markets Supervisors Act 2011*. The lower number of licences this year reflects consolidation in the sector.

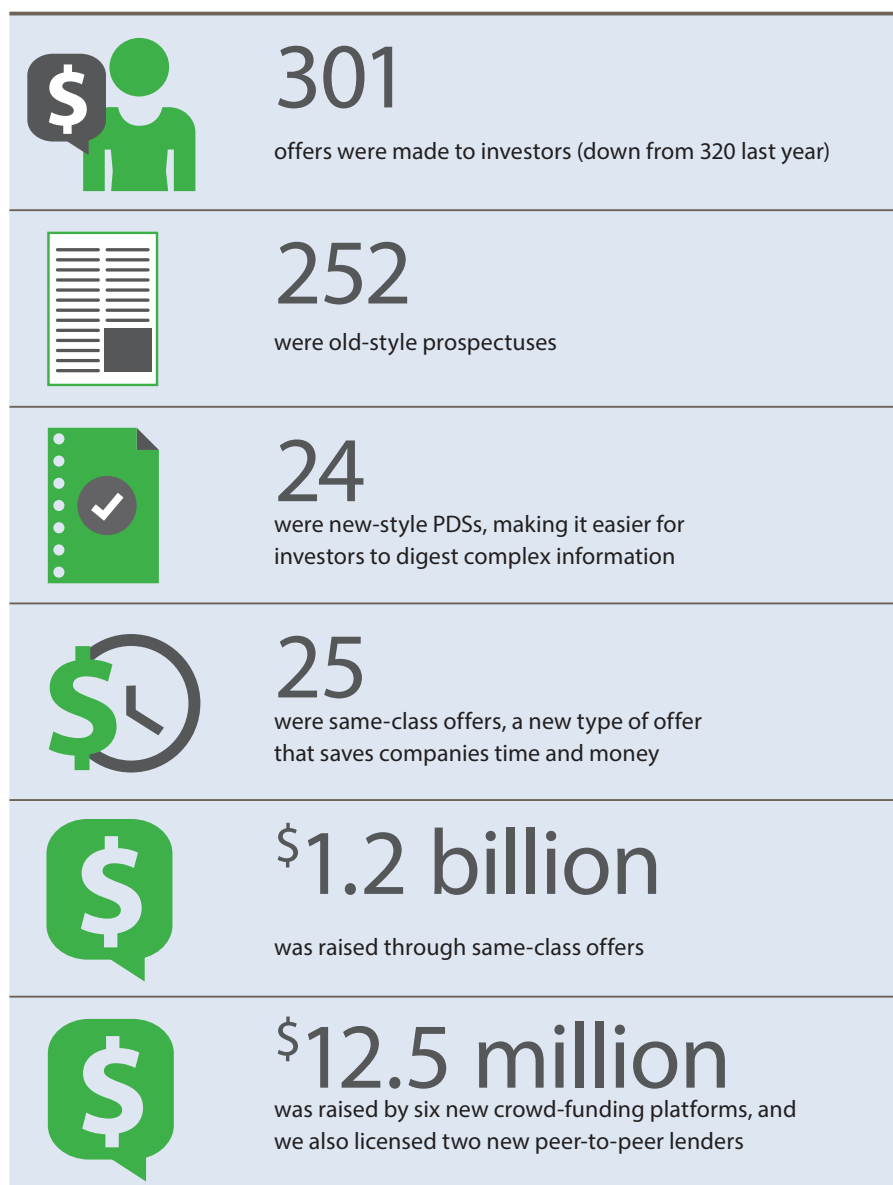
We work closely with supervisors, including reviews of their notifications and onsite inspections. We also meet regularly with senior supervisory staff. This recognises the key role they play in the governance of financial services providers, including managed funds, KiwiSaver schemes, and debt securities.

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

### Our actions include:

- helping issuers meet high standards of disclosure so that investors can make informed decisions, and monitoring selected offers to ensure legal disclosure requirements are met
- providing material for investors to help them understand financial services, or particular products
- working closely with other government agencies to ensure information available to investors fits an overall strategy that is geared to the specific requirements of New Zealanders
- providing public warnings and alerts about businesses, or types of conduct, that pose a threat to investors.

### How we improve disclosure for investors



**For investors, one of the biggest improvements under the FMC Act is the new disclosure regime for offers of debt, equity, derivatives, and managed investment products (including managed funds).**

Instead of a lengthy prospectus or investment statement, companies can now provide a shorter and more useful product disclosure statement (PDS). This came into effect on 1 December 2014, but there is a two-year transition period during which a prospectus can still be provided under the previous legislation.

Our focus has been on helping companies transition to the new regime. Most issuers – including those who have continued to make offers under the previous legislation – have observed the clear, concise and effective disclosure principles that are encouraged in our guidance and now set out in the FMC Act. Overall, offer documents have been shorter, with more focused information directly relevant to investors.

We have also helped firms using the new disclosure regime for same-class offers. The FMC Act allows firms to provide streamlined documents when making a debt or equity offer for products already available on the public market. This makes it quicker and cheaper for firms to raise capital.

The FMC Act also introduced licensing for crowd-funding platforms (which enable investors to support specific projects) and peer-to-peer lenders (which enable unrelated individuals to lend and borrow money). We licensed six crowd-funding platforms during the year, and two peer-to-peer lenders.

## How we help ensure investors are better-informed



### Investor resources we have published this year included:

- a guide to bank capital notes, which are a particularly complex product for retail investors, and which have attracted more than \$1 billion of investment in 12 months
- a guide to product disclosure statements, which are intended to be more investor-friendly than previous lengthy offer documents.

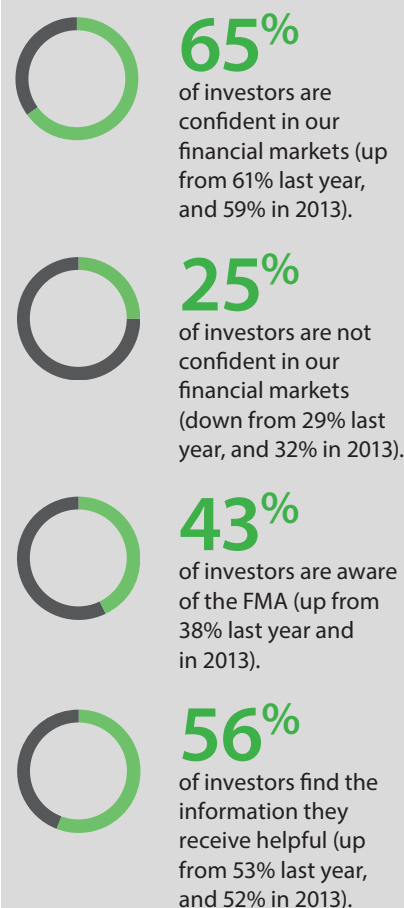
During Money Week 2014 – the annual initiative organised by the Commission for Financial Capability (CFFC) – we ran a free event in Auckland. The event included an expert panel, and was aimed at retail investors who wanted to better understand risk. A high-quality video of the event was placed on YouTube. For Money Week, we also surveyed New Zealanders’ understanding of investment risk, and published the results.

### How we intend to improve our strategy

A priority this year was publishing a strategy that explains where we will focus most of our effort to improve investor understanding and confidence. It was launched by the Commerce Minister in July 2015 and aligns with the Government’s broader strategy on financial capability, to ensure that our work is integrated with other government agencies.

The strategy identifies specific demographic groups, product types, and problems that we will target, either directly or in co-operation with other agencies and providers.

## What investors think of the markets and our role



Each year we survey New Zealanders to measure their attitudes to our financial markets. This year, there were small but steady improvements in most measures.

*The full survey results are on our website.*

## How we warn the public about our concerns

**7** public warnings about specific firms were issued by us this year (up from one last year).

This year, we made more extensive use of our powers to issue warnings and alerts about firms we think investors should be wary of, or if we are concerned about aspects of a firm's conduct.

We published six warnings about specific firms. We used our statutory power to require one of those firms to publish our warning on its website. We published an additional warning that a specific firm is not registered in New Zealand to offer financial services, even though it may claim it is. All these warnings are on our website.

We also issue more general warnings if we are concerned about a type of conduct or product, or when we believe investors should be cautious. This year we drew investors' attention to cold-calling scams, particularly ones from overseas offering 'big win'-type services, including in foreign exchange trading.

We also warned investors about UK pension transfers, where we believed the advertising gave a misleading impression of urgency. We have since observed a marked improvement in this advertising.

## How we reach investors through the media and online



58

media releases were issued (up 36% on last year)



498

queries from journalists or columnists were answered (up 23% on last year)



80

interviews were given by FMA staff (up 105% on last year)

One of the main reasons for our increased media presence this year was increased enforcement action. Many releases contained information for investors, such as warnings, or information to help them understand regulation of financial services. Others were about aspects of the FMC Act that are relevant to those we regulate.

We launched a fully redesigned website in March 2015, with improved navigation and search. This makes the site much easier for investors, and those we regulate, to use.

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

#### Our actions include:

- taking appropriate and proportionate enforcement action based on the full range of tools available, from warnings and administrative powers through to licensing sanctions and formal proceedings
- providing exemptions where the cost of compliance is not matched by improved outcomes for investors or businesses, or to encourage compliance for new products and overseas issuers
- co-ordinating and collaborating with local and international co-regulators
- identifying potential risks through market intelligence and analysis
- monitoring international regulatory developments and their relevance to New Zealand, and advising the Government and helping them address any significant issues or gaps in New Zealand
- working with the Code Committee to maintain and update the Code of Professional Conduct for AFAs.

#### Queries and complaints



4763

queries were received by us this year (up 76% on last year)



1051

complaints were received by us this year (up 25% on last year)

Queries were substantially higher than in the previous two years, mostly due to regulatory changes.

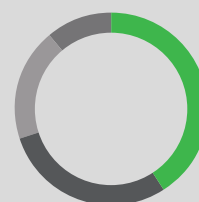
These changes included the second phase of the FMC Act coming into effect at the beginning of December, new requirements around anti-money laundering processes, and new reporting requirements for financial advisers. We welcome these queries as it shows people are keen to manage the changes well.

Queries about FMA processes covered a wide range of subjects, including new licensing requirements and updates to the Financial Service Providers Register. This increase is also welcome, as many were queries about potential removals from the register.

The main reason for the increase in complaints was our investigation into Arena Capital, trading as BlackfortFX. Many of these came after we announced our investigation and urged investors to contact us.

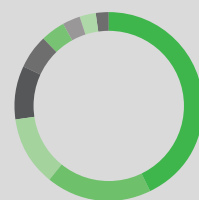
We continue to have serious concerns about the high level of complaints about online foreign exchange trading platforms. Our project to deregister companies we have concerns about from the Financial Service Providers Register is a crucial step in addressing this issue.

#### Main complaints in 2015



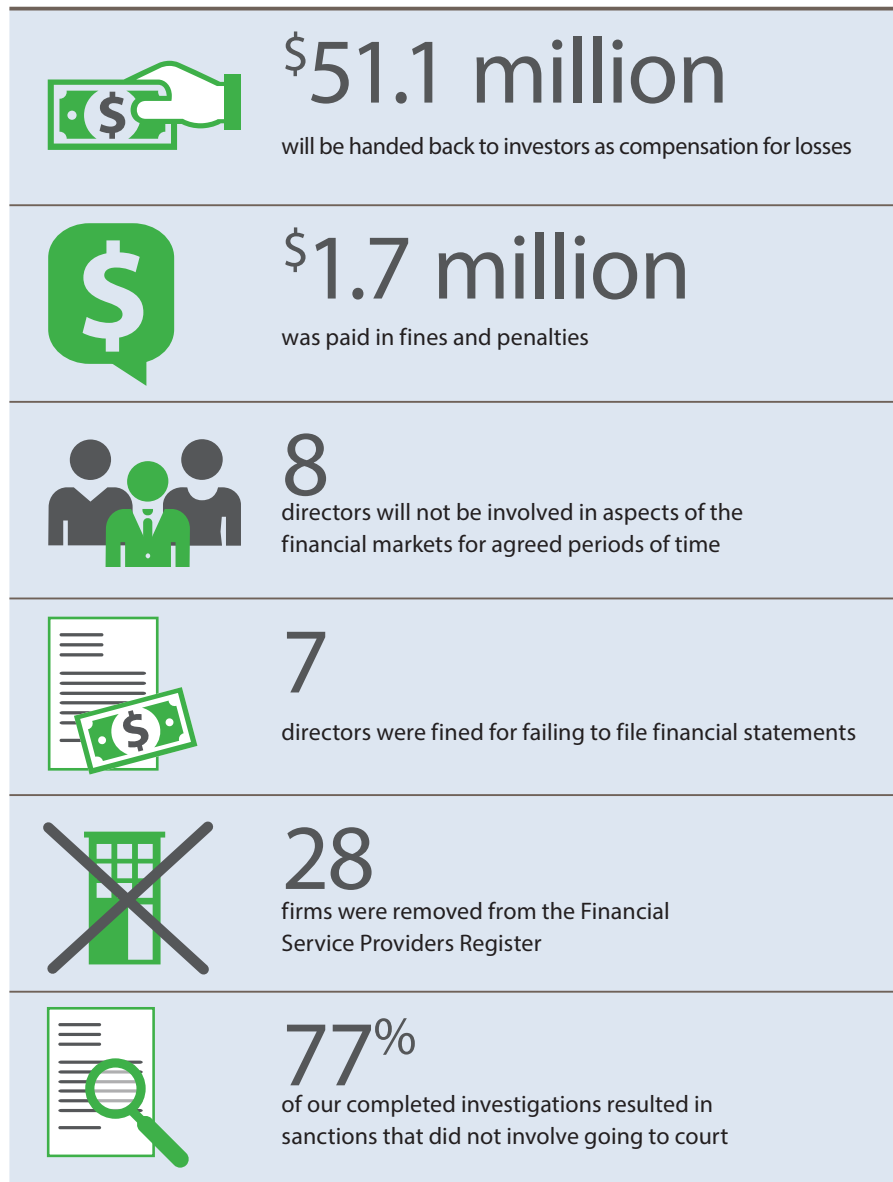
- Other 41% (incl 10% forex trading)
- Alleged fraud or scams 29% (incl 20% forex trading)
- Withholding client money 19% (incl 16% forex trading)
- Financial advice 11% (incl 4% advisers, 2% banks, 1% fund managers)

#### Main queries in 2015



- Miscellaneous 43%
- Financial Markets Conduct Act 18%
- Anti-money-laundering 12%
- FMA processes 9%
- Financial Advisers Act 6%
- Financial Service Providers Register 4%
- Other legislation, policy & guidance 3%
- FMA actions 3%
- FMA other 2%

## Investigations and litigation

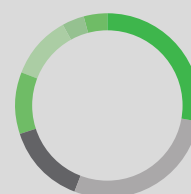


We had six successful court judgments this year. But we also used a wider range of regulatory responses – including warnings, enforceable undertakings, and payments in lieu of a penalty – across a broad range of issues. This resulted in 77% of our completed investigations being dealt with without going to court.

All our investigations into the remaining finance company cases are now complete. These cases accounted for only 2% of investigations and 28% of litigation matters during the year. Our overall workload reflects our transition to harms-based conduct regulation, mostly involving financial services that are licensed or authorised.

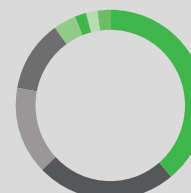
*For more detail on these activities and issues, see our Investigations and Enforcement Report 2015.*

### Litigation matters in 2015



- finance companies 28%
- financial reporting by public issuers 28%
- financial adviser and FSPR regime 14%
- primary markets including offer disclosure, unlawful offers, compliance with management bans 11%
- secondary markets, including market manipulation and disclosure obligations 11%
- Financial Advisers Disciplinary Committee 4%
- s34 proceeding 4%

### Inquiries and investigations in 2015



- primary markets including offer disclosure, unlawful offers, compliance with management bans 39%
- secondary markets, including insider trading, market manipulation and disclosure obligations 24%
- financial adviser and FSPR regime 15%
- financial reporting by public issuers 12%
- potential s34 actions 4%
- potential AFA code breaches 2%
- finance companies 2%
- AML/CFT 2%



The key outcomes from our investigations and litigations are outlined below.

#### **Governance and culture**

- Milford Asset Management agreed to pay \$1.1 million, and contributed \$400,000 to our costs, following our investigation into market manipulation.
- Seven directors were fined a total of \$210,625 for failing to file financial statements.

#### **Conflicted conduct**

- The lawyer for Belgrave Finance was convicted and sentenced to prison for his role in the company's collapse, in a joint FMA/SFO prosecution.

#### **Capital market growth and integrity**

- Brian Peter Henry was ordered to pay \$130,000 in the first case of manipulating the market brought in New Zealand.
- We issued a warning to an online trader for suspected market manipulation.
- We got preservation orders over the assets of Arena Capital, trading as BlackfortFX, because of our concerns that investor funds could be at risk. We are working with the SFO on a criminal investigation.

#### **Sales and advice**

- ANZ, Westpac and ASB Bank agreed to a third-party review of sales and marketing processes, alongside their settlements with the Commerce Commission, over the sale of interest-rate swaps to rural customers.

#### **Investor decision-making**

- We settled civil proceedings with Hanover, securing \$18 million compensation for investors, and undertakings from the directors not to be involved in banks or finance companies for three years.
- \$10 million in compensation was paid to investors, in a settlement with the FMA and the receivers and liquidators of Dominion Finance and North South Finance.
- The directors of SPI Property Fund agreed to pay \$640,000 in compensation to investors, and will not seek or hold money from the public for five years, following our investigation into their failure to keep investors informed.
- We began civil proceedings against Archer Capital and Healthcare Industry over alleged breaches of their substantial shareholder disclosure obligations in their potential takeover bid for Abano Healthcare.
- We issued a public warning to Pacific Edge about potential breaches of its continuous disclosure obligations. It agreed to improve its compliance and paid \$500,000 compensation to investors.
- \$22 million in compensation was paid to investors, in a settlement with the FMA and the receivers of Strategic Finance. The directors also undertook not to be involved in public companies for five years.

#### **Effective frontline regulators**

- For the first time, we used our powers under s34 of the *Financial Markets Authority Act 2011* to file a civil case against Prince and Partners, trustee of failed finance company Viaduct Capital.

#### **FMA effectiveness and efficiency**

- By using the full range of regulatory tools, and not using litigation as our default response, we enhanced our own effectiveness and efficiency. Where possible, we aim to be transparent about these decisions and the criteria applied.

**We have an extensive mandate under new financial markets legislation. Over the past year, we have also dealt with remaining cases under the Securities Act 1978.**

This combination of new powers and legacy cases shows we have applied our enforcement capabilities widely, along with other regulatory tools such as public warnings. The selected examples below highlight the range of matters we have dealt with.



## Exemptions



50

total exemptions were granted this year (down from 53 last year)



33

were individual exemptions (down from 48 last year)



17

were class exemptions (up from five last year)

We have the power to exempt people and transactions from some legislative requirements if we believe compliance is not matched by improved outcomes for investors, businesses or financial markets. Exemptions effectively allow us to maintain the overall integrity of regulation, while recognising the practicalities of business.

Class exemptions apply to a particular group of people, businesses, or transactions. Individual exemptions apply to a particular business or transaction.

We only grant exemptions following careful consideration and when the applicable legislative test is met. Where necessary, we consult stakeholders first.

We expect the number of exemptions we will consider will grow over the coming year, as the FMC Act takes full effect.

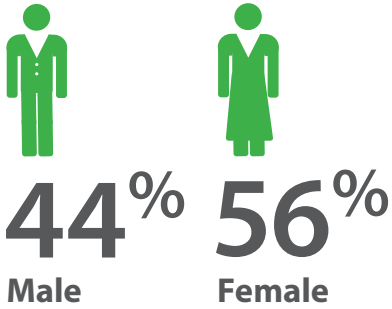
*A list of all current exemptions can be found on our website.*

A photograph of three women in professional attire standing in a modern office hallway. The woman on the left has blonde hair and is wearing a red top and a dark skirt with red high heels. The woman in the middle has dark hair and is wearing a black blazer over a red top and black trousers with white loafers. The woman on the right has dark hair and is wearing a black blazer over a green and white striped top and a black skirt with black high heels. They are all looking at a document held by the woman on the right. The floor is covered with a vibrant, multi-colored striped carpet. In the background, there is a reception desk with a logo that says "FINANCIAL MARKETS".

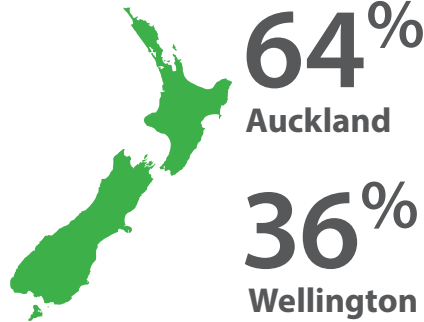
Who we are

# Meet our people

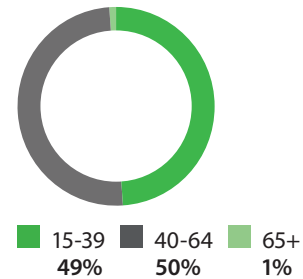
## Gender\*



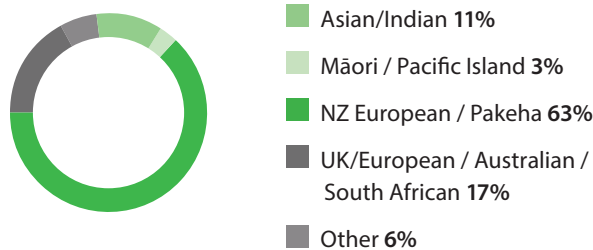
## Location\*



## Age\*



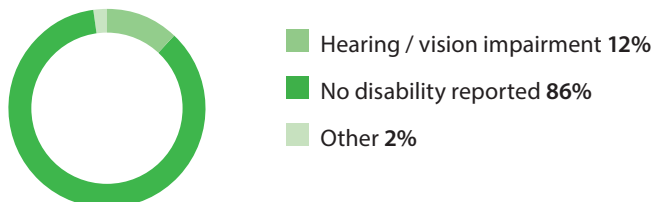
## Ethnicity\*



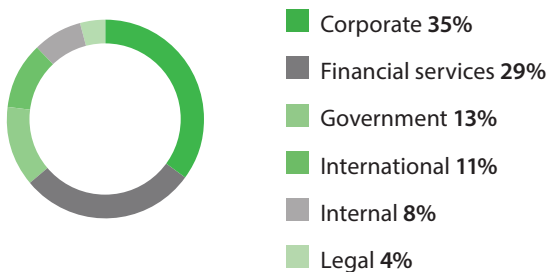
## Employment type

	2014	2015
<b>Total</b>	<b>164</b>	<b>167</b>
Permanent	116	133
Fixed term	10	9
Casual	2	1
Contractor / temp	34	20
Seconded	2	4
Turnover	21.8%	21.5%
Average service length	1.99 years	2.33 years

## Disability\*



## Where we find our staff



Almost two-thirds of our staff are hired through our internal recruitment team. This includes direct applications, internal moves, promotions and referrals. The rest are hired through agency partners and are often for contracts or hard-to-fill roles.

\* Based on a survey completed by 92 permanent staff. Responses were voluntary.

## How we value our staff

We are a member of the Equal Employment Opportunities (EEO) Trust and are committed to being a good employer. This is reflected in our EEO policy and is managed in the following ways.



### Leadership, accountability and culture

Our code of conduct and agreed values help shape our culture, which is supported through various programmes such as internal communications, wellness, resilience, reward and recognition, and our 'fun squad'. We conduct an annual culture survey, and use the results to help develop specific initiatives for each part of the business.

This year we expanded our leadership development programme to include an extra layer of management. We also developed a high-performing specialist programme. These programmes are run by an independent provider. Our performance management programme ensures employees are accountable for their results, based on clear expectations.



### Recruitment, selection and induction

We aim to ensure our staff are chosen and rewarded based on individual ability and achievement. This year, we began collecting diversity information from potential staff, as well as existing staff. We also began investigating a diversity programme that will be specific to the FMA. We run an orientation and induction programme for all new employees.



### Employee development, promotion and exit

Our performance management programme helps manage individual employee performance and goals. Remuneration and development opportunities are linked to results. We hold exit interviews with any permanent employee who leaves, and use the information to ensure we remain a good and fair place to work. We have also begun work on a three-year strategy that contains many new initiatives, such as identifying 'star' employees, new approaches to staff development, and potential changes to remuneration policy.



### Flexibility and work design

We use a mixed-resourcing model for recruitment, to maintain flexibility. We also have a variety of positions and work arrangements available, including full-time, part-time, casual work, contract agreements, flexible work hours and the ability to work from home.



### Remuneration, recognition and conditions

Our recognition programme has formal and informal ways to acknowledge staff effort, including a variety of regular awards. Our remuneration strategy is reviewed annually. This review takes into account business goals, affordability, fair-mindedness, recruitment and retention, as well as the need to recognise and reward individual performance.



### Harassment and bullying prevention

Our code of conduct and agreed values provide a benchmark for the behaviour expected of our people. We also have a range of formal policies dealing with bullying, harassment and discrimination, to reflect our zero-tolerance approach.



### Safe and healthy environment

Our wellness programme includes regular internal and external events, as well as free flu jabs, discounted health insurance, and discounted gym membership rates. It supports several charities through staff donations and volunteering. We also provide resilience training for all staff. Employee safety and risk management is supported by a staff-led committee and a range of policies and emergency procedures, which will be independently audited in 2015.

## What we have to offer

	<h3>We're leading the way</h3>
	<h3>We're doing work that counts</h3>
	<h3>We're unique</h3>
	<h3>We're balanced</h3>
	<h3>We're part of something bigger</h3>
<p>Recruiting and retaining talented and highly skilled people, and recognising their performance, is a priority for us.</p> <p>This year we developed a comprehensive employee value proposition (EVP) to ensure we are attracting, and keeping, the best people possible. A key part of the EVP programme, due to be launched in 2015, was defining the particular qualities we have to offer.</p>	

## Key results

This year we carried out a thorough review of our policies and strategies as an employer, including:

- how we manage performance to better reflect our role, and to keep pace with our growing regulatory mandate
- we expanded our professional development programme for staff, to ensure it is comprehensive and offers the right opportunities for our type of work
- we completed a programme that defines the particular professional opportunities we offer.

\* FMA turnover reporting may not be directly comparable to other employers due to definitional variation.

Our turnover this year remained high, at 21.5%\*, relative to similar New Zealand workplaces. This largely reflects our changing role under the FMC Act. Staff who were contracted, or on fixed-term arrangements, left progressively during the year as transitional work was completed. We expect turnover to reduce over the coming year.

## How we review our programmes and policies

Following feedback from staff, we reviewed how we treat values and behaviour, and have increased our emphasis on career development. We extended our leadership development programme, and reviewed our existing policies on the extra value that we offer employees.

We put a high priority on recruiting and retaining people who share our vision, and recognising their performance. This is becoming more challenging as competition increases for highly skilled people, and we are reviewing policies such as remuneration. We have begun collecting data on the diversity and demographics of our existing staff, and potential employees through recruitment, to make sure we are a good employer. We also intend to review our health and safety obligations to comply with new health and safety legislation.

## How staff participate in policy-making

Feedback from individual staff is important to ensure we are addressing any employment issues in the workplace. There are several programmes to encourage staff feedback, including our annual culture survey, our performance management programme, exit interviews, and our staff-led health and safety committee.

# How we work







## How we work with other NZ government agencies

As New Zealand's financial services regulator, we have a key role in several areas of the economy.

That requires us to work closely with other government agencies that have similar or overlapping interests, to ensure government policies are implemented smoothly and to ensure we take a coherent approach to regulated businesses.

We work closely with the **Ministry of Business, Innovation, and Employment** (MBIE) on policy that affects regulation, and on initiatives in financial services.

### Joint priorities with MBIE this year included:

- co-ordinating the five-year review of two key statutes, the *Financial Advisers Act 2008* and the *Financial Service Providers Act 2008*. The terms of reference were announced in March 2015
- advice on the development of an Asia region funds passport, which would allow managed funds to be more easily offered across member countries. New Zealand is a member of the working group, along with Australia, Singapore, South Korea, Thailand and the Philippines
- scoping two portals to give investors better access to comprehensive online information on financial services offers. One of those portals, Disclose register, launched online in April 2015, with information on new offers of financial products and managed funds in New Zealand
- refining and adjusting the detail of regulations made under the FMC Act, to ensure they are implemented smoothly now that the second phase of the Act has come into effect.

We also worked with the Ministry of Justice on an initiative aimed at reducing regulatory overlap for businesses with anti-money laundering obligations.

The main forum for financial services regulators in New Zealand is the Council of Financial Regulators (CoFR), which meets quarterly. Its aim is to co-ordinate financial services regulation across agencies, and to share information. Permanent members are the FMA, the Reserve Bank, the Treasury, and MBIE.



## How we collaborate with other NZ organisations

### Memorandums of Understanding (MOUs)

This year we signed three significant MOUs that will strengthen our role as a regulator, and help other agencies achieve their objectives.

- In January 2015, we signed an MOU with NZX.
- In April 2015, we completed MOUs with the remaining two dispute resolution schemes: the **Insurance & Savings Ombudsman**, and the **Banking Ombudsman Scheme**, bringing the total to four.

The MOU with NZX clarifies how we interact with each other, and will strengthen frontline regulation. We already had MOUs with two of the four dispute resolution schemes, and completing MOUs with the remaining two will help us to jointly identify significant issues for consumers, and to enable thematic reviews of complaints. There are measures to ensure data integrity and privacy is maintained, with privacy remaining fundamental to the arrangements.

We have previously agreed MOUs with the Commerce Commission, the Serious Fraud Office, the New Zealand Institute of Chartered Accountants, the Reserve Bank, Financial Services Complaints Ltd, and the Financial Dispute Resolution scheme.

### Code Committee for Authorised Financial Advisers

This committee maintains the code of professional conduct for Authorised Financial Advisers (AFAs), which establishes minimum standards of competence, knowledge, skills, ethical behaviour and client care. It also sets requirements for continuing education and training. We appoint members under the *Financial Advisers Act 2008* (FA Act).

Members as at 30 June 2015: **David Ireland (chair)** partner at Kensington Swan; **Ross Butler**, professional and independent director; **Shane Edmond**, manager of retail broking at Forsyth Barr; **Professor Dimity Kingsford-Smith**, professor of law at University of New South Wales Law Faculty; **David Russell**, consumer issues consultant and director; **Gary Young**, chief executive of Insurance Brokers Association of New Zealand (IBANZ); **Martin Hawes**, authorised financial adviser, director and author; **Stephen O'Connor**, principal at Mitre Wealth Management; **Mel Biss**, general manager of governance, assurance and business support, ANZ Wealth.

### Financial Advisers Disciplinary Committee

We refer complaints about AFAs to this committee, which conducts disciplinary proceedings. It also considers and imposes appropriate penalties. It is an independent body established under the FA Act. There were no decisions published this year.

Members as at 30 June 2015: **Hon Sir Bruce Robertson** (chair), 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 1995-2002.



## How we represent NZ internationally

New Zealand's markets are part of a global system, and New Zealand is a net importer of capital.

That means we are dependent on high-quality regulation, here and internationally, to support our financial services sector. We have a particularly close relationship with Australia, including cross-ownership of many businesses.

Therefore, our international contribution is focused on:

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

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

### **IOSCO committees we have been involved in this year include:**

- an IOSCO enforcement committee
- the assessments committee, which encourages effective and consistent implementation of IOSCO's regulatory principles to raise standards of market conduct and investor protection internationally, and to reduce the costs of conducting business across borders

- the screening group, which screens applications by regulators to join the IOSCO Multilateral MOU
- the issuer accounting, audit and disclosure committee
- the Asia-Pacific regional group.

Our contribution to IOSCO this year included providing New Zealand insights for a report, published in June 2015, on credible deterrence in the enforcement of securities regulation. At the accounting and disclosure committee we outlined our 'Beyond IFRS' initiative, based on the conference we ran in Auckland in 2014.

In the assessments committee, we are leading a review of the quality of regulation in an IOSCO signatory country.

And in the coming year, we will take part in a joint meeting of Asia-Pacific regulators and large international financial services firms to deepen our understanding of the main cross-border issues these firms face.

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

The agreements allow New Zealand fund managers to manage and market alternative investment funds in 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.



## How our board manages governance

### **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: the relevant provisions of the *Crown Entities Act 2004*, and the common law disclosure rules. Board members provide monthly updates of securities they hold, and details of professional and other relationships that could cause potential conflicts. The intent is to prevent conflicts arising and to ensure transparent operations. We prefer to identify any conflicts ahead of a board discussion and then exclude those members from any sub-division.

### **Board divisions**

A division of the board consists of three or more members, and may be used for any particular matter. Divisions are also used to consider recommendations on FMA investigations. Issues assessed include the severity of the misconduct identified or alleged to be involved, the threat or harm to our markets, public interest considerations, and the progress of an investigation through to an outcome that meets our enforcement objectives.

### **Audit and risk committee**

This committee considers internal controls, accounting policies, and risk management. It also approves financial statements, and helps with the scope, objectives and functions of external and internal audits. It has three members: Rebecca Thomas (chair), Arthur Grimes, and William Stevens.

### **Performance and remuneration committee**

This committee assesses performance and remuneration measures across the FMA and especially for the chief executive. It has three members: Murray Jack (chair), Shelley Cave and Campbell Stuart.



# Statement of performance

## Statement of responsibility

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

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

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

In the board's opinion, these financial statements and statement of performance fairly reflect the financial position and operations of the FMA for the 12 months ended 30 June 2015.

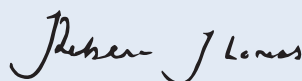
Signed on behalf of the board:



**Murray Jack**

chair

21 September, 2015



**Rebecca Thomas**

chair – audit and risk committee

21 September, 2015

## Performance standards and measures for the output of FMA for the 12 months ended 30 June 2015

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

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

	Actual 12 months to 30 June 2015	Budget 12 months to 30 June 2015	Actual 12 months to 30 June 2014
Revenue	28,518	29,451	29,579
Expenditure	30,996	30,582	27,961
<b>Surplus/(Deficit)</b>	<b>(2,478)</b>	<b>(1,131)</b>	<b>1,618</b>

The FMA will work to achieve three key impacts to contribute to the promotion and development of fair, efficient and transparent financial markets. These are:

- increased levels of compliance of market participants and frontline regulators
- investors have access to resources that help them make more informed decisions
- our regulatory and enforcement actions support market activity.

## We outline below how the FMA's performance is assessed for each MCA category

### Category One: Investigation and enforcement functions

This category is limited to the performance of statutory functions relating to the investigation and enforcement of financial markets legislation, including the assessment of complaints, tips and referrals.

	<b>Actual 12 months to 30 June 2015</b>	<b>Budget 12 months to 30 June 2015</b>	<b>Actual 12 months to 30 June 2014</b>
Revenue	8,262	7,973	7,973
Expenditure	7,659	6,921	6,117
<b>Surplus/(Deficit)</b>	<b>603</b>	<b>1,052</b>	<b>1,856</b>

**Major variances against budget:** Revenue is over budget due to a settlement received towards the FMA's enforcement costs, and expenditure is also over budget due to more investigation and enforcement actions taking place.

<b>Forecast standard</b>	<b>Actual 2014/15</b>	<b>Target 2014/15</b>	<b>Actual 2013/14</b>
<b>Risk-based proportionate and timely action against misconduct</b>			
70% of inquiries and investigations are conducted within the timeframes and standards defined in the enforcement governance framework.	89%	70%	84%
The FMA works with SFO on all investigations of joint interest in accordance with Memorandum of Understanding (MOU) arrangements.	100%	100%	100%
Details of all public enforcement actions are published on the FMA's website.	100%	100%	100%
A report on the key issues and themes arising from investigations and enforcement activities and outcomes is published annually.	One report	One report	One report
90% of MOU requests for assistance are completed within agreed timeframes to the satisfaction of international regulators.	100%	90%	100%
80% of misconduct reports about market participants are processed within established timeframes, once received by the FMA's assistance team.			
<ul style="list-style-type: none"> <li>Acknowledged within two working days</li> </ul>	98.6%	80%	99.8%
<ul style="list-style-type: none"> <li>Evaluated and determined for further action, referral or closing, and the reporter is advised within 10 working days of receiving all relevant information</li> </ul>	95.9%	80%	New measure for 2014/15
<ul style="list-style-type: none"> <li>Frontline regulator referrals or cases requiring urgent attention prioritised for action within one working day.</li> </ul>	100%	80%	100%

## Category Two: Licensing and compliance monitoring functions

This category is limited to the performance of statutory functions relating to licensing of market participants and risk-based monitoring of compliance, including compliance with disclosure requirements under financial markets legislation.

	<b>Actual 12 months to 30 June 2015</b>	<b>Budget 12 months to 30 June 2015</b>	<b>Actual 12 months to 30 June 2014</b>
Revenue	14,460	15,681	14,112
Expenditure	13,193	15,947	12,722
<b>Surplus/(Deficit)</b>	<b>1,267</b>	<b>(266)</b>	<b>1,390</b>

**Major variances against budget:** Revenue is below budget due to a lower volume of licensing applications received during the period. As a result, fewer resources were allocated to this category, resulting in lower expenditure.

<b>Forecast standard</b>	<b>Actual 2014/15</b>	<b>Target 2014/15</b>	<b>Actual 2013/14</b>
<b>Risk-based monitoring and surveillance</b>			
On receipt of a fully completed application for a licence, 90% are processed in accordance with established processes and timeframes.			
• QFEs will be processed within 60 working days	100%	90%	100%
• Statutory supervisors and securities trustees will be processed within 60 working days	100%	90%	Not applicable –no application
• AFAs will be processed within 20 working days.	100%	90%	99%
Reviews of registered securities markets and accredited bodies are completed and published annually.	100%	100%	100%
The FMA conducts five thematic monitoring projects per annum.	9	5	9
The FMA publishes five reports per annum on significant issues arising from monitoring and surveillance work	6	5	7
Regulated offers are screened for risk-based review within five working days after a new product disclosure statement is lodged or a new prospectus is registered.	100%	100%	100%
100% of high-risk prospectuses are reviewed post-registration or lodgement	100 %	100%	100%
The FMA has the systems and procedures in place by 1 December 2014 to allow assessment of licence applications submitted under the FMC Act	Achieved	Achieved	New measure for 2014/15
The FMA has the systems and procedures in place by 1 December 2014 to review regulated offers made under Part 3 of the FMC Act.	Achieved	Achieved	New measure for 2014/15
In 100% of cases where the FMA intervenes, disclosures are improved or documents withdrawn.	100 %	100%	100%
Less than 5% of licensing decisions are successfully challenged.	No licensing decisions were challenged	<5%	No licensing decisions were challenged

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

This category is limited to the performance of statutory functions relating to market intelligence, guidance, exemptions, investor education, and regulatory and government co-operation and advice.

	<b>Actual 12 months to 30 June 2015</b>	<b>Budget 12 months to 30 June 2015</b>	<b>Actual 12 months to 30 June 2014</b>
Revenue	5,796	5,797	7,493
Expenditure	10,144	7,714	9,069
<b>Surplus/(Deficit)</b>	<b>(4,348)</b>	<b>(1,917)</b>	<b>(1,576)</b>

**Major variances against budget:** Expenditure is over budget due to activities that the FMA undertook in relation to the FMC Act implementation which used more resources than budget.

<b>Forecast standard</b>	<b>Actual 2014/15</b>	<b>Target 2014/15</b>	<b>Actual 2013/14</b>
<b>Market analysis and guidance</b>			
Respondents to the annual market participant survey agree that the FMA consults well when introducing significant changes to the regulatory framework.	66% <sup>1</sup>	60%	Not applicable – no survey
Market participants' input is proactively gained and considered before establishing all significant new guidance.	100%	100%	100%
Quarterly briefings are provided to the Minister of Commerce highlighting key priorities for reform.	100%	100%	100%
90% of completed applications for exemptions are processed within six weeks of receiving all relevant information, or as agreed with applicant.	100%	90%	100%
Internal threat or risk assessments are produced in accordance with FMA's intelligence and risk framework.	100%	100%	100%
Government agencies are satisfied with the quality of advice and assistance provided by the FMA.	Satisfied	Satisfied	Satisfied

<sup>1</sup> N=220, Margin of error=+/-6.6%

Forecast standard	Actual 2014/15	Target 2014/15	Actual 2013/14
<b>Market and investor engagement</b>			
90% of enquiries receive a substantive response from the FMA within 20 working days of the FMA receiving all relevant information.	98.5%	90%	96.9%
50 public engagements are undertaken annually by FMA staff.	87	50	72
The number of website visits increases from the baseline.	340,050	>220,000	310,177
70% of respondents to the annual market participant survey <sup>2</sup> say their level of awareness and understanding of the FMA's actions has maintained or increased in the past year.	The FMA's three-yearly stakeholder survey 2015 shows: - 63% of respondents say their level of awareness of the FMA has increased in the past year. - 60% of respondents say their level of understanding of the FMA's actions has increased in the past year <sup>3</sup> .	70%	Not applicable – no survey
The FMA publishes investor messages on significant thematic risks.	100%	100%	100%
The Consumer Advisory Panel is consulted on the development of the FMA's investor education materials.	Not achieved – No meetings of the panel took place during the financial year ending 30 June 2015. The role of the panel is currently being reconsidered.	100%	100%

## Financial Markets Authority litigation fund

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

	Actual 12 months to 30 June 2015	Budget 12 months to 30 June 2015	Actual 12 months to 30 June 2014
Appropriation revenue*	1,429	2,000	1,505
Other revenue	255	-	104
Total revenue	1,684	2,000	1,609
Expenditure	1,684	2,000	1,452
<b>Surplus/(Deficit)</b>	-	-	<b>157</b>

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

**Major variances against budget:** Litigation expenditure was below budget primarily because of the timing of litigation matters and the settlement of litigation brought by the FMA proceedings.

Assessment of performance	Actual standard of performance 2014/15	Budgeted standard of performance 2014/15
The Financial Markets Authority delivers a strong and credible monitoring and enforcement regime to uphold the Government's financial and securities markets law. Litigation is one of the tools used in carrying out the FMA's enforcement functions under its enabling statutes.	The FMA undertook litigation using the litigation fund as per the conditions of use.	The FMA undertakes litigation using the litigation fund as per the conditions of use.

2 In order to measure long-term shifts in responses, we commission a three-yearly stakeholder survey, not an annual market participant survey.

The stakeholder survey includes market participants and other key audiences, such as co-regulators and industry associations.

3 N=220, Margin of error=+/-6.6%





# Financial statements

Uneven Swap Bulk Input Rollover Pre-delivery Cancellation

Razor ID:

Survey 3.50%  
Bank of New Zealand  
Reserve Bank of New Zealand

Toolbox

- RBNZ Policy Rate
- CT Futures Market
- WIRP Implied Probability
- ECFC Analyst Forecasts

NZ Interest Rates

- BTMH NZ Bond Market
- CG NZ Govt Yield
- CG NZ Swaps Curve
- MMR Bank Bills
- HTTP Wholesale & Retail...
- XLTP OIS Implied Proba...

Exchange Rate

- HTTP FX Fixings
- GP NZ\$ Trade Weighte...
- HTTP NZ\$ TWI Weights

Leading Indicators

- HS Inflation Survey
- GP Business Confidence
- GP BNZ Mfg. Performa...
- HTTP Expectations Survey
- GP Outlook - Eco Acti...
- GP Westpac Consumer...

2016 2017

3.50	3.30
1.30	1.70
4.90	4.70

MIFI

Search or enter your command here

Composite | CAPITAL MARKETS | FORT

Spreadsheet

Table with columns: Symbol, Bid, Ask, Bid-Ask, Bid-Bid, Ask-Ask, Bid-Bid, Ask-Ask

Symbol: AUZ020H, AUZ020D0, AUZ020H, AUZ020H, AUZ020H, AUZ020H, AUZ020H, AUZ020H, AUZ020H, AUZ020H, AUZ020H

Price: 1.0188, 1.0187, 1.0186, 1.0185, 1.0184, 1.0183, 1.0182, 1.0181, 1.0180, 1.0179, 1.0178

Volume: 100000, 100000, 100000, 100000, 100000, 100000, 100000, 100000, 100000, 100000, 100000

Price: 1.0188, 1.0187, 1.0186, 1.0185, 1.0184, 1.0183, 1.0182, 1.0181, 1.0180, 1.0179, 1.0178

Volume: 100000, 100000, 100000, 100000, 100000, 100000, 100000, 100000, 100000, 100000, 100000

Price: 1.0188, 1.0187, 1.0186, 1.0185, 1.0184, 1.0183, 1.0182, 1.0181, 1.0180, 1.0179, 1.0178

Volume: 100000, 100000, 100000, 100000, 100000, 100000, 100000, 100000, 100000, 100000, 100000

Price: 1.0188, 1.0187, 1.0186, 1.0185, 1.0184, 1.0183, 1.0182, 1.0181, 1.0180, 1.0179, 1.0178

Volume: 100000, 100000, 100000, 100000, 100000, 100000, 100000, 100000, 100000, 100000, 100000

More: Ukraine Will Use Moratorium If No Talks

Ukraine Finance Ministry: Treasury

Creditors must agree on terms

Ukraine will use moratorium

Trade deal is key

RBNZ - Settlement

Monetary Policy

PACIFIC: Treasury

Daily FX: NZD/USD

Central Bank Watch

Forex Street: NZD/USD

Forex Street: AUD/USD

Jpmorgan Trust 1: 4

Global Economy Watch

06/11 17:30 CH

Retail Sales YTD YoY	0.1%
Industrial Production YTD YoY	0.2%
Industrial Production YTD YoY	0.2%
Fixed Assets Ex Rural YTD YoY	0.3%
Bloomberg GDP Monthly Estimate YoY	0.4%
REINZ House Sales YoY	0.5%

06/11 18:00 NZ

# Statement of comprehensive revenue and expense

for the 12 months ended 30 June 2015

	Note	Actual 2015 \$000s	Budget 2015 \$000s	Actual 2014 \$000s
<b>REVENUE FROM NON-EXCHANGE TRANSACTIONS</b>				
Government grant	2	26,184	26,184	27,770
Litigation fund revenue	3	1,684	2,000	1,609
Property, plant and equipment acquired in a non-exchange transaction	8, 11	70	-	-
<b>REVENUE FROM EXCHANGE TRANSACTIONS</b>				
Interest		606	700	727
Other revenue	4	1,658	2,567	1,082
<b>Total revenue</b>		<b>30,202</b>	<b>31,451</b>	<b>31,188</b>
<b>EXPENDITURE</b>				
Personnel expenses	5	20,799	19,663	19,273
Depreciation and amortisation	8, 9	2,305	2,106	1,402
Other operating expenditure	7	7,892	8,813	7,286
Litigation fund expenditure	3	1,684	2,000	1,452
<b>Total expenditure</b>		<b>32,680</b>	<b>32,582</b>	<b>29,413</b>
Surplus/(deficit)		(2,478)	(1,131)	1,775
<b>Total comprehensive revenue and expense</b>		<b>(2,478)</b>	<b>(1,131)</b>	<b>1,775</b>
<b>TOTAL COMPREHENSIVE REVENUE AND EXPENSE COMPRISES:</b>				
Net operating surplus/(deficit)		(2,478)	(1,131)	1,618
Net litigation fund surplus/(deficit)		-	-	157
<b>Total comprehensive revenue and expense</b>		<b>(2,478)</b>	<b>(1,131)</b>	<b>1,775</b>

Explanations of major variances against budget are provided in note 21.  
The accompanying notes form part of these financial statements.

# Statement of changes in equity

for the 12 months ended 30 June 2015

	Note	Actual 2015 \$000s	Budget 2015 \$000s	Actual 2014 \$000s
<b>OPENING BALANCE</b>				
Accumulated funds		9,038	8,651	7,420
Litigation fund		844	844	687
Capital contributions		8,777	8,777	8,777
<b>Total opening balances</b>		<b>18,659</b>	<b>18,272</b>	<b>16,884</b>
<b>COMPREHENSIVE REVENUE AND EXPENSE FOR THE YEAR</b>				
Net operating surplus/(deficit)		(2,478)	(1,131)	1,618
Net litigation fund surplus/(deficit)		-	-	157
Other comprehensive revenue and expense		-	-	-
<b>Total comprehensive revenue and expense</b>		<b>(2,478)</b>	<b>(1,131)</b>	<b>1,775</b>
<b>Closing balances 30 June</b>				
Accumulated funds		6,560	7,520	9,038
Litigation fund	3	844	844	844
Capital contribution		8,777	8,777	8,777
<b>Total closing balances</b>		<b>16,181</b>	<b>17,141</b>	<b>18,659</b>

Explanations of major variances against budget are provided in note 21.  
The accompanying notes form part of these financial statements.

# Statement of financial position

as at 30 June 2015

	Note	Actual 2015 \$000s	Budget 2015 \$000s	Actual 2014 \$000s
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		4,847	2,011	1,644
Term deposits		4,000	11,000	13,500
Cash and cash equivalents – litigation fund		374	428	331
GST receivable		392	346	426
Receivables	13	1,740	188	1,540
<b>Total current assets</b>		<b>11,353</b>	<b>13,973</b>	<b>17,441</b>
<b>Non-current assets</b>				
Property, plant and equipment	8	3,676	1,473	1,575
Intangible assets	9	6,005	3,579	3,395
<b>Total non-current assets</b>		<b>9,681</b>	<b>5,052</b>	<b>4,970</b>
<b>Total assets</b>		<b>21,034</b>	<b>19,025</b>	<b>22,411</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Creditors and other payables	14	2,158	1,120	2,361
Employee entitlements		773	467	977
Lease liabilities	11	142	97	308
<b>Total current liabilities</b>		<b>3,073</b>	<b>1,684</b>	<b>3,646</b>
<b>Non-current liabilities</b>				
Creditors and other payables	14	-	86	-
Lease liabilities	11	1,083	114	-
Provisions	12	697	-	106
<b>Total non-current liabilities</b>		<b>1,780</b>	<b>200</b>	<b>106</b>
<b>Total liabilities</b>		<b>4,853</b>	<b>1,884</b>	<b>3,752</b>
<b>EQUITY</b>				
Accumulated funds		6,560	7,520	9,038
Litigation fund	3	844	844	844
Capital contribution		8,777	8,777	8,777
<b>Total equity</b>		<b>16,181</b>	<b>17,141</b>	<b>18,659</b>
<b>Total equity and liabilities</b>		<b>21,034</b>	<b>19,025</b>	<b>22,411</b>

Explanations of major variances against budget are provided in note 21.  
The accompanying notes form part of these financial statements.

# Statement of cashflows

for the 12 months ended 30 June 2015

	Note	Actual 2015 \$000s	Budget 2015 \$000s	Actual 2014 \$000s
<b>CASHFLOWS FROM OPERATING ACTIVITIES</b>				
<b>Cash was provided from:</b>				
Receipts from non-exchange transactions				
– government grant		26,184	26,184	27,770
– litigation fund revenue		1,620	2,000	1,734
Receipts from exchange transactions				
– other revenue		1,808	7,173	930
– interest		677	700	746
– MBIE fees collected/(repaid)		(3)	-	1
– Goods and services tax (net)		(10)	(2,200)	(142)
<b>Cash was disbursed to:</b>				
– suppliers		(9,485)	(13,436)	(9,325)
– employees		(21,015)	(19,664)	(19,183)
<b>Net cashflows from operating activities</b>	15	<b>(224)</b>	<b>757</b>	<b>2,531</b>
<b>CASHFLOWS FROM INVESTING ACTIVITIES</b>				
<b>Cash was provided from:</b>				
– sale of fixed assets		1	-	-
– decrease in term deposits		22,500	20,000	22,028
<b>Cash was applied to:</b>				
– purchase of property, plant and equipment		(1,080)	(446)	(357)
– purchase of intangible assets		(4,951)	(2,130)	(2,483)
– increase in term deposit		(13,000)	(18,500)	(21,500)
<b>Net cashflows from investing activities</b>		<b>3,470</b>	<b>(1,076)</b>	<b>(2,312)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>3,246</b>	<b>(319)</b>	<b>219</b>
Cash and cash equivalents at the beginning of the year		1,975	2,758	1,756
<b>Cash and cash equivalents at the end of the year</b>		<b>5,221</b>	<b>2,439</b>	<b>1,975</b>
<b>COMPRISING</b>				
Cash and cash equivalents		4,847	2,011	1,644
Cash and cash equivalents – litigation fund		374	428	331
		<b>5,221</b>	<b>2,439</b>	<b>1,975</b>

Explanations of major variances against budget are provided in note 21.  
 The accompanying notes form part of these financial statements.

# Notes to the financial statements

for the 12 months ended 30 June 2015

Accounting policies directly relevant to a note are in italics at the beginning of the note.

## 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 2015, and were approved by the board on 21 September 2015.

### 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*, which includes the requirements to comply with generally accepted accounting practice in New Zealand (NZ GAAP).

The financial statements have been prepared in accordance with Tier 1 PBE accounting standards.

These financial statements are the first financial statements presented in accordance with the new PBE accounting standards. The changes arising on transition to the new PBE accounting standards are explained in note 22.

### 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, revenue 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 the 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 when the funding becomes receivable by the FMA. 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 revenue

*Reimbursements from the Crown to top up the fund are shown as revenue 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 million for the 12 months ended 30 June 2015 (2014: \$2 million).

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

# Notes to the financial statements

for the 12 months ended 30 June 2015

	<b>Actual 2015 \$000s</b>	Actual 2014 \$000s
<b>Opening balance</b>	<b>844</b>	687
Government grant revenue	1,429	1,505
Interest revenue	14	9
Settlements and cost recoveries	241	95
<b>Total litigation fund revenue</b>	<b>1,684</b>	<b>1,609</b>
Expenditure on eligible litigation	(1,684)	(1,452)
Capital repayment	-	-
<b>Closing balance</b>	<b>844</b>	<b>844</b>
<b>COMPRISING</b>		
Cash and cash equivalents		
– current account	8	8
– call account	366	323
	<b>374</b>	<b>331</b>
Trade and other receivables	785	679
Trade and other payables	(315)	(166)
<b>Balance</b>	<b>844</b>	<b>844</b>

Hanover settlement: As a result of settlement of civil proceedings against the former directors of Hanover Finance Ltd, Hanover Capital Ltd, and United Finance Ltd, and in line with the 28 April 2015 settlement agreement, \$18 million was received on 30 June, 2015 into FMA's nominated trust account held by Deloitte. Deloitte has been engaged by the FMA to manage the allocation and distribution of the settlement payment to eligible investors.

## Note 4 — Other revenue

*Licence fee revenues are recognised in full when licence activity occurs and is invoiced.*

	<b>Actual 2015 \$000s</b>	Actual 2014 \$000s
Audit quality review fees	343	553
Licence fees	770	341
Superannuation fees	200	147
Sundry revenue	345	41
<b>Total other revenue</b>	<b>1,658</b>	<b>1,082</b>

Sundry revenue includes court cost recoveries and miscellaneous revenue.

# Notes to the financial statements

for the 12 months ended 30 June 2015

## 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 12 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 schemes and are recognised as an expense in the statement of comprehensive revenue and expense as incurred.

	<b>Actual 2015 \$000s</b>	Actual 2014 \$000s
Salaries and wages	15,090	13,957
Defined contribution plan employer contributions	400	382
ACC	43	37
Fringe benefit tax	-	1
Member and committee fees	528	672
Contract staff	4,333	3,673
Recruitment/transitional costs	405	551
<b>Total personnel costs</b>	<b>20,799</b>	<b>19,273</b>

### Note 6 — Transactions with related parties

The FMA is a wholly owned entity of the Crown.

All related-party transactions have been entered into on an arms-length basis.

In accordance with PBE IPSAS 20, related party disclosures have not been made for transactions with related parties that are within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those that is reasonable to expect the FMA would have adopted in dealing with the party at arms length in the same circumstances.

However, the following related party disclosures are made voluntarily, recognising the FMA's role as a publicly funded agency. The transactions were entered into on an arms-length basis irrespective of the disclosed related party relationships on the FMA's board.

For the purposes of disclosure, the FMA notes:

- Murray Jack chairs the FMA board. He was chair of Deloitte in New Zealand until 3 November 2014 and withdrew as a partner on 31 May 2015. He is chair of Chartered Accountants Australia and New Zealand which fully owns the New Zealand Institute of Chartered Accountants (NZICA). NZICA has regulatory responsibilities for New Zealand resident-issuer auditors, for which the FMA has oversight. Mr Jack is not on the NZICA board.
- Michael Webb is on the FMA's board. He is a non-executive adviser to Deloitte's board in New Zealand.



# Notes to the financial statements

for the 12 months ended 30 June 2015

## Transactions with suppliers

Supplier	Purpose of transactions	Transaction value	
		2015 \$000s	2014 \$000s
Deloitte New Zealand	Enforcement/ forensic services and disbursement recovery	268	214
NZICA	Auditor quality reviews, training and annual membership fees	395	578

Transactions with other government agencies have not been disclosed as related-party transactions, as they are consistent with the normal operating arrangements between government agencies and have been undertaken on the normal terms and conditions for such transactions.

## Key management personnel compensation

	Actual 2015 \$000s	Actual 2014 \$000s
<b>SHORT-TERM EMPLOYEE BENEFITS</b>		
– board members' remuneration	510	606
– full-time equivalent members	1.21	1.47
– Code Committee remuneration	18	35
– full-time equivalent Code Committee members	0.09	0.15
– Disciplinary Committee remuneration	–	31
– full-time equivalent Disciplinary Committee members	–	0.12
– executive team remuneration	2,195	2,726
– full-time equivalent executive team	6.93	9.52
	<b>2,723</b>	<b>3,398</b>
Termination benefits	97	70
<b>Total key management personnel compensation</b>	<b>2,820</b>	<b>3,468</b>
<b>Total full-time equivalent personnel</b>	<b>8.23</b>	<b>11.26</b>

Key management personnel includes all board and committee members and the executive team.

The full-time equivalent for board and committee members has been determined on the frequency and length of board and committee meetings, and the estimated time to prepare for such meetings.

# Notes to the financial statements

for the 12 months ended 30 June 2015

## Composition of board members' remuneration

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

	<b>Actual 2015 \$000s</b>	Actual 2014 \$000s
S Allen	103	240
S Cave	51	40
R Eele	40	36
C Giffney	-	33
A Grimes	38	22
M Holm	38	32
M Jack	103	29
J Miller	44	46
B Sheppard	-	23
J Smyth	41	57
W Stevens	3	-
C Stuart	3	-
M Todd	3	-
M Verbiest	-	22
M Webb	43	26
<b>Total board members' remuneration</b>	<b>510</b>	<b>606</b>

Simon Allen resigned as chairman with effect from 30 November 2014, and was succeeded by Murray Jack. James Miller and Justine Smyth's membership term expired at 30 April 2015, and their membership was not renewed. William Stevens, Campbell Stuart and Mark Todd were appointed as members with effect from 8 June 2015.

## Composition of Code Committee remuneration

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

	<b>Actual 2015 \$000s</b>	Actual 2014 \$000s
M Biss	1	-
R Butler	1	2
S Edmond	1	-
M Hawes	1	-
D Ireland	7	27
D Kingsford	4	1
S O'Connor	1	-
D Russell	1	1
M Staal	-	2
G Young	1	2
<b>Total Code Committee remuneration</b>	<b>18</b>	<b>35</b>

# Notes to the financial statements

for the 12 months ended 30 June 2015

## Composition of Financial Advisers Disciplinary Committee remuneration

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

	<b>Actual 2015 \$000s</b>	Actual 2014 \$000s
T Berry	-	1
G Clews	-	8
S Hassan	-	5
P Houghton	-	6
D McDonald	-	2
J Robertson (Sir Bruce Robertson)	-	-
<b>Total Financial Advisers Disciplinary Committee remuneration</b>	<b>-</b>	<b>31</b>

No meetings were held during the 2014/15 financial period.

## Employee remuneration

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

<b>Remuneration paid or payable (\$)</b>	<b>Number of employees 2015</b>	Number of employees 2014
530,001 to 540,000	1	-
340,001 to 350,000	1	-
330,001 to 340,000	1	-
320,001 to 330,000	1	-
310,001 to 320,000	-	1
300,001 to 310,000	-	2
290,001 to 300,000	1	-
280,001 to 290,000	-	1
270,001 to 280,000	-	1
260,001 to 270,000	-	1
220,001 to 230,000	1	-
210,001 to 220,000	1	1
201,001 to 210,000	1	2
190,001 to 200,000	2	-
180,001 to 190,000	1	-
170,001 to 180,000	3	2
160,001 to 170,000	2	4
150,001 to 160,000	1	1
140,001 to 150,000	4	4
130,001 to 140,000	4	6
120,001 to 130,000	12	6
110,001 to 120,000	13	11
100,001 to 110,000	5	8

During the 12-month period ended 30 June 2015, six employees received compensation and other benefits in relation to cessation totalling \$177,309 (2014: seven employees, \$266,892).

# Notes to the financial statements

for the 12 months ended 30 June 2015

## Professional indemnity insurance

The FMA has purchased directors' and officers' 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

	<b>Actual 2015 \$000s</b>	Actual 2014 \$000s
Fees to auditors		
– fees to Audit New Zealand for financial statements audit	58	55
Doubtful debts expense	-	12
Impairment of capital work in progress	359	-
Loss on disposal of fixed assets	7	1
Operating lease expenses	1,352	1,178
Professional services	1,854	1,861
Services and supplies	3,357	3,287
Travel and accommodation	905	892
<b>Total other operating expenses</b>	<b>7,892</b>	<b>7,286</b>

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.*

*Where an item of property, plant and equipment is acquired in a non-exchange transaction for \$nil or nominal consideration, the asset is initially measured at its fair value. To the extent that there is no return obligation, the fair value of the asset acquired in a non-exchange transaction is recognised as revenue.*

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

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

- Office furniture – 20% of diminishing value
- Office equipment – straight line over three years
- Leasehold improvements – straight line over the 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 2015

	Office equipment \$000s	Office furniture \$000s	Leasehold Improvements \$000s	Capital work in progress \$000s	Total \$000s
<b>COST</b>					
Property, plant and equipment at 1 July 2013	1,052	430	1,220	6	2,708
Additions	168	76	25	132	401
Disposals	(33)	(2)	-	-	(35)
<b>Balance at 30 June 2014</b>	<b>1,187</b>	<b>504</b>	<b>1,245</b>	<b>138</b>	<b>3,074</b>
Additions	319	232	1,431	719	2,701
Transfers from capital work in progress	-	-	857	(857)	-
Disposals	(161)	-	-	-	(161)
<b>Balance at 30 June 2015</b>	<b>1,345</b>	<b>736</b>	<b>3,533</b>	<b>-</b>	<b>5,614</b>
<b>ACCUMULATED DEPRECIATION</b>					
Property, plant and equipment at 1 July 2013	(607)	(116)	(232)	-	(955)
Depreciation expense	(338)	(66)	(174)	-	(578)
Elimination on disposal	32	2	-	-	34
<b>Balance at 30 June 2014</b>	<b>(913)</b>	<b>(180)</b>	<b>(406)</b>	<b>-</b>	<b>(1,499)</b>
Depreciation expense	(226)	(87)	(279)	-	(592)
Elimination on disposal	153	-	-	-	153
<b>Balance at 30 June 2015</b>	<b>(986)</b>	<b>(267)</b>	<b>(685)</b>	<b>-</b>	<b>(1,938)</b>
<b>CARRYING AMOUNTS</b>					
At 30 June 2014	274	324	839	138	1,575
At 30 June 2015	359	469	2,848	-	3,676

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

## Plant and equipment obtained in a non-exchange transaction

During the current financial year, the FMA recognised \$939,781 (2014: \$nil) as office furniture and leasehold improvements gifted by the sub-lessor of the Takutai Square office. The office furniture and leasehold improvements were initially recognised at their fair value with reference to the market price of these assets at the date control was obtained.

# Notes to the financial statements

for the 12 months ended 30 June 2015

## Note 9 — Intangible assets

Acquired computer software licences 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%).

	Computer software \$000s	Capital work in progress \$000s	Total \$000s
<b>COST</b>			
Intangible assets 1 July 2013	1,977	-	1,977
Additions	214	2,528	2,742
Transfers from capital work in progress	1,305	(1,305)	-
<b>Balance at 30 June 2014</b>	<b>3,496</b>	<b>1,223</b>	<b>4,719</b>
Additions	30	4,652	4,682
Disposals	(76)	-	(76)
Transfers from capital work in progress	3,409	(3,409)	-
<b>Balance at 30 June 2015</b>	<b>6,859</b>	<b>2,466</b>	<b>9,325</b>
<b>ACCUMULATED DEPRECIATION</b>			
Intangible assets 1 July 2013	(500)	-	(500)
Amortisation expense	(824)	-	(824)
<b>Balance at 30 June 2014</b>	<b>(1,324)</b>	<b>-</b>	<b>(1,324)</b>
Amortisation expense	(1,713)	-	(1,713)
Elimination on disposal	76	-	76
<b>Balance at 30 June 2015</b>	<b>(2,961)</b>	<b>-</b>	<b>(2,961)</b>
<b>IMPAIRMENT PROVISION</b>			
Costs provided	-	(359)	(359)
<b>Balance at 30 June 2015</b>	<b>-</b>	<b>(359)</b>	<b>(359)</b>
At 30 June 2014	2,172	1,223	3,395
At 30 June 2015	3,898	2,107	6,005

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 2015

## Impairment of property, plant and equipment, and intangible assets

During the current year an impairment of \$358,928 (2014: nil) has been recognised for intangible assets.

## 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
<b>2015</b>			
Not later than one year	420	1,300	1,720
Later than one year and not later than five years	1,679	5,631	7,310
Later than five years	420	4,300	4,720
<b>Total non-cancellable operating leases</b>	<b>2,519</b>	<b>11,231</b>	<b>13,750</b>
<b>2014</b>			
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
<b>Total non-cancellable operating leases</b>	<b>2,938</b>	<b>2,784</b>	<b>5,722</b>

The operating lease commitments reflected above are based on future lease rental values which incorporate any contractual, annual adjustments on a compounding basis. The operating lease expenses reflected in note 7, however, have been recognised on a straight-line basis over the lease term, net of rent holidays and incentives received.

The FMA has two leased properties as at 30 June 2015.

In Wellington, Grey Street's lease began 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.

The FMA surrendered its sub-lease of Takutai Square with effect from 15 November 2014, and has entered into a new lease agreement directly with the landlord with a lease expiry date of 31 March 2023. 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 March 2023.

### Capital commitments

There are no capital commitments at balance date (2014: nil).

# Notes to the financial statements

for the 12 months ended 30 June 2015

## Note 11 — Lease liabilities

### Occupancy incentives

#### 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.

#### Gifted assets

Office furniture and leasehold improvements gifted by the sub-lessor have been recognised at their fair value with reference to the market price of these assets at the date control was obtained. The value recognised is to be amortised over the life of the lease.

#### Deferred rental liability

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, which will create a deferred rental liability during the initial stages of the lease as the lease agreement provides for future rent increases.

Movements for each type of lease liability are as follows:

	Gifted assets \$000s	Occupancy incentives \$000s	Deferred rental \$000s	Total \$000s
Balance at 1 July 2013	-	369	-	369
Incentives received	-	-	-	-
Amortisation	-	(61)	-	(61)
<b>Balance at 30 June 2014</b>	<b>-</b>	<b>308</b>	<b>-</b>	<b>308</b>
Balance at 1 July 2014	-	308	-	308
Unused amounts recognised	-	(308)	-	(308)
Incentives received	939	250	-	1,189
Amortisation	(70)	(18)	124	36
<b>Balance at 30 June 2015</b>	<b>869</b>	<b>232</b>	<b>124</b>	<b>1,225</b>



# Notes to the financial statements

for the 12 months ended 30 June 2015

## Takutai Square

An incentive of \$939,781 has been recognised during the current year for office furniture and leasehold improvements gifted in respect of the surrender of the sub-lease, resulting in the recognition of non-exchange revenue amounting to \$70,132 in the current year, with the remaining balance to be amortised over the period of the new lease.

During the 2014 year, the FMA accounted for the following in respect of the sub-lease: net amortisation of the rent holiday received of \$36,236, and amortisation of \$25,001 relating to the capital contribution.

On surrender of the sub-lease during the current year, the unamortised incentives received were recognised in full, resulting in a favourable adjustment of \$308,666.

An incentive of \$250,000 was received during the current year in respect of the surrender of the sub-lease, resulting in amortisation of \$18,657.

	<b>Actual 2015 \$000s</b>	Actual 2014 \$000s
<b>NON-CURRENT PORTION</b>		
Gifted assets	757	-
Occupancy incentives	202	-
Deferred rental	124	-
<b>Total non-current portion</b>	<b>1,083</b>	<b>-</b>
<b>CURRENT PORTION</b>		
Gifted assets	112	-
Occupancy incentives	30	308
Deferred rental	-	-
<b>Total current portion</b>	<b>142</b>	<b>308</b>
<b>Total lease liabilities</b>	<b>1,225</b>	<b>308</b>

# Notes to the financial statements

for the 12 months ended 30 June 2015

## 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.

	<b>Actual 2015 \$000s</b>	Actual 2014 \$000s
<b>NON-CURRENT PORTION</b>		
Lease make-good	697	106
Total non-current portion	697	106
<b>Total provisions</b>	<b>697</b>	<b>106</b>

### 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. Information about the FMA's leasing arrangements is disclosed in note 10.

Movements for each class of provision are as follows:

	<b>Lease make-good provision \$000s</b>
Balance at 1 July 2013	67
Additional provisions made	39
Amounts used	-
<b>Balance at 30 June 2014</b>	<b>106</b>
Balance at 1 July 2014	106
Additional provisions made	685
Amounts used	(94)
<b>Balance at 30 June 2015</b>	<b>697</b>

The anticipated costs provided for the surrendered sub-lease, amounting to \$94,444, have been reversed, and the anticipated costs required to make good both leased properties have been provided for in full.

# Notes to the financial statements

for the 12 months ended 30 June 2015

## Note 13 — 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 objective evidence of its debtors being unable to make required payments.

	<b>Actual 2015 \$000s</b>	Actual 2014 \$000s
<b>Trade debtors</b>	931	664
Other receivables	504	626
Total debtors and other receivables	1,435	1,290
Prepayments	305	250
<b>Total receivables</b>	<b>1,740</b>	<b>1,540</b>
<b>TOTAL DEBTORS AND OTHER RECEIVABLES COMPRISE:</b>		
Receivables from services provided (exchange transactions)	726	636
Receivables from grants (non-exchange transactions)	709	654
<b>Total debtors and other receivables</b>	<b>1,435</b>	<b>1,290</b>

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

	<b>2015 \$000s</b>	2014 \$000s
Not past due	565	538
Past due one to 30 days	347	60
Past due 31 to 60 days	6	24
Past due 61 to 90 days	9	8
Past due over 90 days	4	34
<b>Total</b>	<b>931</b>	<b>664</b>

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 no change to the individual impairment recognised in 2014 of \$11,878.

# Notes to the financial statements

for the 12 months ended 30 June 2015

## Note 14 — Creditors and other payables from exchange transactions

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.

	<b>Actual 2015 \$000s</b>	Actual 2014 \$000s
<b>CURRENT</b>		
Trade creditors	1,654	1,744
Accrued expenses and other payables	495	603
Revenue in advance	9	14
<b>Total current creditors and other payables</b>	<b>2,158</b>	<b>2,361</b>
<b>NON-CURRENT</b>		
Accrued expenses and other payables	-	-
<b>Total non-current creditors and other payables</b>	<b>2,158</b>	<b>2,361</b>
<b>TOTAL CURRENT CREDITORS AND OTHER PAYABLES COMPRISE:</b>		
Creditors and other payables under exchange transactions	2,158	2,361
Creditors and other payables under non-exchange transactions	-	-

# Notes to the financial statements

for the 12 months ended 30 June 2015

## Note 15 — Reconciliation of the net surplus from operations with the net cashflows from operating activities

	<b>Actual 2015 \$000s</b>	Actual 2014 \$000s
<b>REPORTING SURPLUS (DEFICIT)</b>	(2,478)	1,775
<b>Add non-cash items:</b>		
– allocation of doubtful debt provision	-	12
– gifted asset revenue	(70)	-
– allocation of lease incentives	(326)	(61)
– allocation of deferred rental	124	-
– allocation of leasehold provisions	(94)	38
– depreciation/amortisation	2,305	1,402
– impairment of capital work in progress	359	-
<b>Add/(less) movement in working capital:</b>		
– (decrease)/increase in creditors	(317)	(48)
– decrease/(increase) in receivables	83	(224)
– (decrease)/increase in employment entitlements	(90)	(61)
<b>Add/(less) movement in investing activity:</b>		
– loss on sale of fixed assets	7	1
– (decrease)/increase in creditors relating to investing activities	273	(303)
<b>Net cashflows from operating activities</b>	<b>(224)</b>	<b>2,531</b>

## 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 (2014: nil).

### Contingent assets

There are no contingent assets at balance date (2014: nil).

# Notes to the financial statements

for the 12 months ended 30 June 2015

## Note 17 — Events after the balance sheet date

There were no significant events after the balance date.

## Note 18 — Going concern

These financial statements have been prepared on the going concern basis. There is currently no indication of anything which would affect the FMA's ability to continue as a going concern.

## Note 19 — 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 revenue 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 cashflows of a financial instrument will fluctuate due to changes in market interest rates. Considering the FMA's exposure to interest rate risk comes 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 our cash requirements, and earn interest at the respective short-term deposit rates.

### Sensitivity analysis

As at 30 June 2015, 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 (deficit)/surplus for the 12 months would have been \$106,587 lower (2014: \$164,639 higher) or \$89,565 higher (2014: \$152,521 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 Aa2 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 cashflow 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 following 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 20 — 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 impose restrictions on 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 we effectively achieve our objectives and purpose, while remaining a going concern.

# Notes to the financial statements

for the 12 months ended 30 June 2015

## How did the FMA perform against budget?

### Note 21 — Explanation of major variances against budget

*The budget figures are derived from the Statement of Performance Expectations 2014–2015 as approved by the board in May 2014. The budget figures are for the 12 months to 30 June 2015 and have been prepared in accordance with PBE FRS-42, 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 Performance Expectations* are as follows:

#### Statement of comprehensive revenue and expense

##### Revenue

Other revenue was lower than budget due to:

- lower FMC licensing fees. As this is a new revenue stream, it has been difficult to anticipate demand for the various FMC licences
- lower auditor quality review fees than budget as a result of fewer reviews undertaken than anticipated.

##### Expenditure

Personnel costs were higher than budget due to the use of additional contract staff which can be attributed to the second phase of the FMC Act implementation and supporting systems work.

Depreciation and amortisation exceeded budget due to a higher intangible asset capital spend and timing of capitalisation.

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 expense.

#### Litigation fund

Litigation fund expenditure was below budget primarily because of the timing of litigation matters and the settlement of litigation brought by FMA proceedings.

#### Statement of financial position

##### Assets

Cash, cash equivalents and term deposits were lower than budget due to higher spending on property, plant and equipment, and intangible assets. This was needed to meet our regulatory obligations.

Receivables exceeded budget, and this can be attributed to:

- the unbudgeted occupancy incentive received subsequent to the financial year end
- a higher than anticipated final quarter litigation fund claim for the reimbursement of expenses incurred
- a larger value of prepaid expenditure at financial year end than originally budgeted
- a larger WIP balance than anticipated in respect of unbilled exemption, auditor quality review and licence work.

Non-current assets were 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 work was undertaken at the Auckland office.

##### Liabilities

Creditors and other payables were higher than budget due to the timing of expenditure being different to that forecast.

#### Statement of cashflows

##### Cashflows from operating activities

Cash disbursed to employees was higher than budget primarily due to the impact of the FMC Act and supporting systems work.

#### Cashflows from investing activities:

Cash applied to purchase of intangible assets was higher than budget due to spending on intangible assets for systems to meet our regulatory obligations.

Cash applied to purchase of property, plant and equipment was higher than budget due to refurbishment in the Auckland office.

### Note 22 — Changes arising on transition to new PBE accounting standards

The accounting policies adopted in these financial statements are consistent with those of a previous financial year, except for instances when the accounting or reporting requirements of a PBE standard are different to NZ IFRS (PBE) as outlined below.

The changes to accounting policies and disclosure as a result of the first-time application of PBE accounting standards are as follows.

#### PBE IPSAS1: Presentation of financial statements

There are minor differences between PBE IPSAS1 and the equivalent NZ IFRS (PBE) standard. These differences have an effect on disclosure only. The changes in disclosure resulting from the application of PBE IPSAS1 are the following:

##### Receivables from exchange and non-exchange transactions

In the financial statements of the previous financial year, receivables were presented as a single total in the statement of financial position and note. However, PBE IPSAS 1 requires receivables from non-exchange transactions and receivables from exchange transactions to be presented separately in the statement of financial position or by disclosure in the relevant note. This requirement has been affected by

# Notes to the financial statements

for the 12 months ended 30 June 2015

amending the note and affects the presentations of both current and comparative receivables figures.

## **Revenue from non-exchange transactions**

PBE IPSAS 23 prescribes the financial reporting requirements for revenue arising from non-exchange transactions. There is no equivalent financial reporting standard under NZ IFRS. The accounting for FMA government grant revenue is not affected by the application of this standard. PBE IPSAS 23 requires revenue from non-exchange transactions, such as grants, to be recognised as soon as the inflow of resources can be recognised as an asset in the financial statements, unless the inflow of resources meets the definition of, and recognition criteria of, a liability. Non-exchange revenue from grants can only be deferred and recognised as a liability if there is a condition attached to the grant that requires the grant to be used as specified by the grantor, or return of the cash if the grantee does not perform as specified. There are no unfulfilled conditions attached to FMA government funding received and the revenue is recognised in the period to which it relates. Therefore, the only change in respect of this revenue as a result of the application of this standard is that government grant revenue will be presented as revenue from non-exchange transactions in the statement of comprehensive revenue and expense. This requirement affects the presentations of both current and comparative revenue figures.

Litigation fund revenue in respect of reimbursements from the Crown to top up the fund is shown as revenue in the period to which the litigation expenditure incurred relates. The fund is restricted for approved litigation purposes only and there are no further conditions, therefore this revenue will be presented as revenue from non-exchange transactions in the statement of comprehensive revenue and expense. This requirement affects the presentations of both current and comparative revenue figures.

## **Revenue from exchange transactions**

PBE IPSAS 9 prescribes an exchange transaction as one in which the entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services, or use of assets) to the other party in exchange. This revenue was included in other revenue and will be presented as other revenue, and categorised as revenue from exchange transactions in the statement of comprehensive revenue and expense with relevant detail in the specific note. This requirement affects the presentations of both current and comparative revenue figures.

## **Recognition and measurement adjustments**

There have been no adjustments required in adopting the new PBE Standards.



## Appendix: Other accounting policies

### 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 FMA's property, plant and equipment and intangible assets are not held with the primary objective of generating a commercial return, these assets are classified as non-cash generating assets, and therefore 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 revenue and expense whenever the carrying amount of an asset exceeds its recoverable amount. Any reversal of impairment losses is also recognised in the statement of comprehensive revenue and expense.

### 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 is therefore 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.

# Independent Auditor's Report

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

## To the readers of the Financial Markets Authority's financial statements and performance information for the year ended 30 June 2015.

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 the performance information, including the performance information for an appropriation, of the Authority on her behalf.

### Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the Authority on pages 35 to 59, that comprise the statement of financial position as at 30 June 2015, the statement of comprehensive revenue and expenses, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Authority on pages 9 to 10 and 30 to 34.

In our opinion:

- the financial statements of the Authority:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2015; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Public Benefit Entity Standards.
- the performance information:
  - presents fairly, in all material respects, the Authority's performance for the year ended 30 June 2015, including:
    - for each class of reportable outputs:
      - its standards of performance achieved as compared with forecasts included in the statement of performance expectations for the financial year;
      - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year;
    - what has been achieved with the appropriation; and
    - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure.
  - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 21 September 2015. 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 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 the 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 the 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 the performance information.

The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the 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 performance information 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 performance information within the Authority's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and the performance information; and
- the overall presentation of the financial statements and the performance information.

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

- comply with generally accepted accounting practice in New Zealand and International Public Sector Accounting Standards;
- present fairly the Authority's financial position, financial performance and cash flows; and
- present fairly the Authority's performance.

The Board's responsibilities arise from the Crown Entities Act 2004 and the Public Finance Act 1989. The Board is responsible for such internal control as it determines is necessary to enable the preparation of financial statements and 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 the performance information, whether in printed or electronic form.

#### **Responsibilities of the Auditor**

We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

#### **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.



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**Robert Cox**

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

## Meet the board (as at 30 June, 2015<sup>1</sup>)



**Murray Jack, chair**

Murray has over 30 years' experience as an adviser to business and government, and was previously a member of the Securities Commission. He also chairs the Chartered Accountants Australia and New Zealand, and was previously chair and chief executive of Deloitte New Zealand.



**Campbell Stuart**

Campbell has 25 years' experience in stockbroking and funds management. He is also a director of Aspiring Asset Management. He was previously managing principal at UBS New Zealand, was on the NZX Disciplinary Committee, and was vice chair of NZX.



**Shelley Cave**

Shelley is a professional director who also sits on the board of the Government Superannuation Fund Authority, and held roles on the Financial Markets Establishment Board and the Securities Commission. She was previously a capital markets lawyer for over 20 years.



**Arthur Grimes**

Arthur is an economist and is a senior fellow with the Motu Economic and Public Policy Research Trust. He is an adjunct professor of the University of Auckland and chaired the Reserve Bank for 11 years. He also chairs Hugo Group strategy sessions.



**Michael Webb**

Michael is a commercial barrister with extensive board experience in both the private and public sectors. He is a non-executive adviser to the board of Deloitte New Zealand and is a director of Crown Irrigation Investments.



**Rebecca Thomas (Mrs Rebecca Eele)**

Rebecca has more than 25 years' experience in law and business, including governance roles on UK listed and unlisted companies. She is chief executive of Mint Asset Management, a trustee of the Professionelle Foundation, and is on the board of KiwiRail Holdings, Mint Group, and Black and White Group.



**Mary Holm**

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



**Mark Todd**

Mark is a lawyer with over 20 years' experience in financial markets regulation, and has held governance roles with several listed and unlisted companies. He is director and co-founder of Anti-Money Laundering Solutions, is a director of Westpac Life, and chairs Mint Asset Management.



**William Stevens**

William has over 25 years' experience as an investment adviser. He is an authorised financial adviser, an NZX adviser, and is a director of Craigs Investment Partners. He was previously deputy chair of the New Zealand Markets Disciplinary Tribunal.

## Meet the executive committee (as at 30 June, 2015<sup>2</sup>)



### **Rob Everett, chief executive**

Originally from the UK, Rob has extensive experience in investment banking, legal and risk management. He was previously a director with regulatory consultancy Promontory Financial Group and spent 17 years at Bank of America Merrill Lynch in Europe, Asia and North America.



### **Garth Stanish, director of markets oversight**

Garth's team oversees licensed product markets, secondary market conduct, crowd-funding, peer-to-peer lending, licensed supervisors, auditors and KiwiSaver. He has extensive dispute resolution experience, and is a former head of issuer regulation and acting head of regulation at NZX.



### **Belinda Moffat, director of enforcement and investigations**

Belinda is an experienced litigation lawyer and has appeared before courts and tribunals primarily in New Zealand and the UK in relation to commercial, banking and finance, competition and criminal matters. She was previously head of dispute resolution for Westpac.



### **Owen Gill, director of external communications**

Owen leads the strategic management of FMA's communications. His previous communications roles include the Australian Securities and Investments Commission, the Australian Competition and Consumer Commission, Sydney's urban rail network, and the Bank of New Zealand.



### **John Botica, chief operating officer**

John leads the FMA's corporate services and market engagement activities. He was co-founder of the Assure NZ Group, managing director at Guardian Trust, and general manager of wealth management at AXA.



### **Simone Robbers, director of primary markets and investor resources**

Simone leads the development of the FMA's regulatory strategies and activities for primary markets and investor resources. She has held senior legal, risk and compliance roles in the financial services industry in New Zealand and Edinburgh.



### **Diana Christensen, director of people and capability**

Diana has extensive human resource and project management experience, including change management, employment relations and organisation design. She has held senior HR management positions in the banking, public service, retail and tertiary education sectors.



### **Liam Mason, general counsel<sup>3</sup>**

Liam leads licensing and supervision, and is also responsible for the FMA's compliance frameworks, contact centre, and intelligence functions. He has extensive experience in securities law, financial services law and policy, and legal compliance.

<sup>1</sup> During the year James Miller and Justine Smyth stood down as board members, when their terms ended. Simon Allen stood down as chairman, when his term ended.

<sup>2</sup> During the year, compliance director Elaine Campbell, and corporate operations director Dave Brady, resigned.

<sup>3</sup> On July 1, Liam Mason became director of regulation.

# Glossary

<b>Australian Securities and Investments Commission (ASIC)</b>	Australia's corporate, markets and financial services regulator.
<b>Authorised Financial Advisers (AFAs)</b>	Financial advisers authorised by the FMA under the <i>Financial Advisers Act 2008</i> .
<b>Anti-money laundering and countering financing of terrorism legislation (AML/CFT)</b>	Law that supports the detection and deterrence of money laundering and financing of terrorism.
<b>Commission for Financial Capability (CFFC)</b>	A Crown entity that aims to increase New Zealanders' financial literacy and their financial preparedness for retirement.
<b>Crowd-funding</b>	A means of raising small amounts of funds for projects from a large number of people, using the internet.
<b>Code Committee</b>	A committee set up in 2009 to draft a Code of Professional Conduct for authorised financial advisers.
<b>Disclose register</b>	A register for offers of financial products and managed investment schemes under the <i>Financial Markets Conduct Act 2013</i> .
<b>Discretionary investment management services (DIMS)</b>	An investment arrangement where a financial adviser makes the buy-sell decisions for a client's portfolio, rather than the client.
<b>Financial Markets Conduct Act 2013 (FMC Act)</b>	The Act aims to promote and facilitate the development of fair, efficient, and transparent financial markets.
<b>Financial Service Providers Register (FSPR)</b>	A searchable online public register, run by the Companies Office, which lists companies and individuals in New Zealand providing financial services.
<b>Frontline regulator</b>	A business or professional who has statutory obligations to ensure regulatory and professional standards of practice are met by other businesses and professionals.
<b>Interest-rate swaps</b>	A financial derivative where two parties agree to exchange interest-rate cash based on a pre-agreed rate.
<b>International Financial Reporting Standards (IFRS)</b>	A common global language for business affairs so that company accounts are understandable and comparable across international boundaries.
<b>IOSCO</b>	International Organization of Securities Commissions
<b>NZX</b>	NZX Ltd is a New Zealand company that builds and operates capital, risk and commodity markets and the supporting infrastructure.
<b>NXT</b>	A market operated by the NZX for smaller, fast-growing companies.
<b>Peer-to-peer lending</b>	A way for peers or unrelated individuals to borrow or lend money, bypassing traditional financial institutions such as banks or finance companies.
<b>Qualifying Financial Entities (QFEs)</b>	QFEs are firms or groups licensed by the FMA to provide financial advice. QFEs are responsible for their employees and contractors' financial advice service. Most large financial service firms are included in this category.
<b>s34 proceeding</b>	A proceeding under section 34 of the <i>Financial Markets Authority Act 2011</i> , which enables the FMA to exercise another person's right to take action against an individual or company who is or has been in the financial markets industry.



