ANNUAL REPORT 2016

FMA
FINANCIAL MARKETS AUTHORITY
TE MANA TATAI HOKOHOKO - NEW ZEALAND

Hon Paul Goldsmith

Minister of Commerce and Consumer Affairs

This report is provided as required under 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, 2016.

Murray Jack

Chair
Financial Markets Authority
16 September, 2016

Arthur Grimes

Chair
Audit and Risk Committee
16 September, 2016

FMA
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TE MANA TATAI HOKOHOKO - NEW ZEALAND

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FMA Annual Report 2015-2016

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.

Five years of the FMA

2010

27 April, 2010

Minister for Commerce Simon Power announces the Securities Commission will be replaced

2011

1 May 2011

The FMA, a new, integrated financial markets regulator, replaces the Securities Commission

2013

13 September 2013

Financial Markets Conduct Act receives assent

2014

1 April 2014

Financial Markets Conduct Act comes into effect

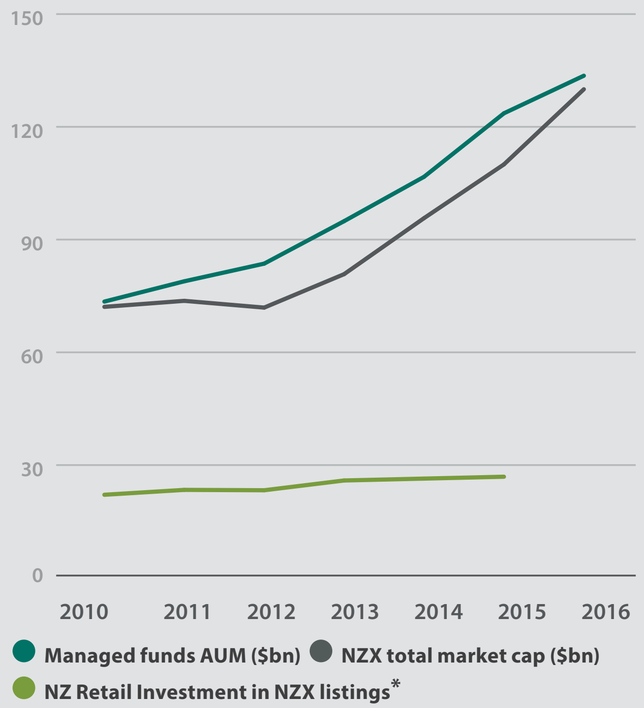
2016

1 December 2016

Transition to the Financial Markets Conduct Act regime completed

This year marks the fifth anniversary since the Financial Markets Authority replaced the Securities Commission and took over functions of other agencies including the former Ministry of Economic Development and the Government Actuary. The following two pages summarise our major focus areas during that time.

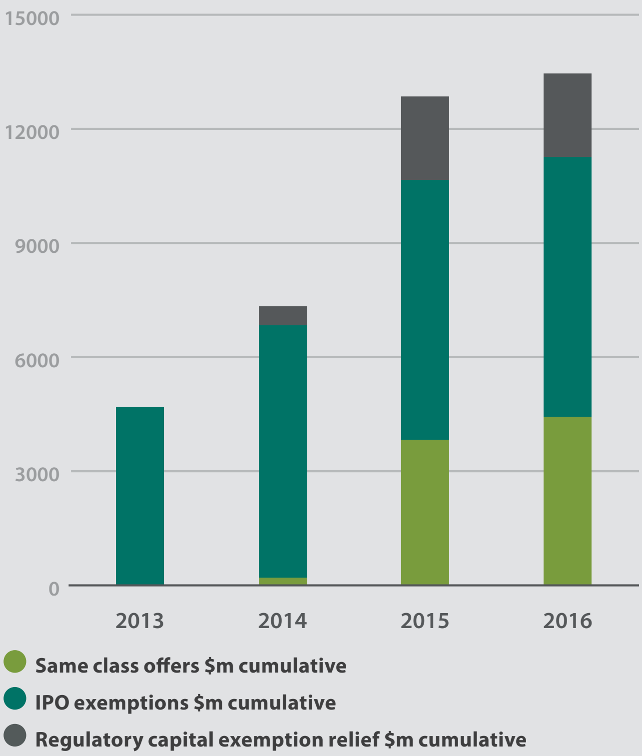
New Zealand's capital markets are growing



New Zealand's capital markets are growing strongly with both the market capitalisation of the NZX and managed fund assets under management nearly doubling since 2010. At the end of June 2016, 2.64 million Kiwis had joined a KiwiSaver scheme and collectively built over $30 billion in assets.

*2016 data is not yet available

Making it easier to raise capital



Year	Exemptions and same-class offers (same class offers allow firms to provide streamlined documents for debt or equity offers already available on the public market)
2013	– 4 IPO exemptions ($4.68bn)
2014	– 7 same class offers ($199.3m) – 12 IPO exemption ($1.95bn) – 2 regulatory capital relief exemptions ($500m)
2015	– 29 same-class offers ($3.63bn) – 3 IPO exemptions ($185.6m) – 4 regulatory capital relief exemptions ($1.7bn)
2016	– 5 same-class offers ($605m) – 1 IPO exemption ($299.1m)

Helping to grow New Zealand's capital markets

- Nearly $14 billion raised in capital markets, including $3 billion through new streamlined offers
- Equity markets grew 17.6% (to $117.8bn), while debt markets grew 71.1% (to $22.5bn)
- 12 new peer-to-peer lending and crowdfunding platforms licensed
- Helped to implement the Asia Region Funds Passport.

Helping investors to make better decisions

- Investor Capability Strategy launched, focusing on over-50s and KiwiSavers
- More than 60 warnings, alerts and investor guides published
- Consumer Advisory Network created.

Shaping and addressing market conduct

- More than 90 pieces of guidance and consultation issued
- Nearly $100 million returned to investors, or imposed as fines
- 28 Directors banned and 13 people agreed not to be involved in raising money from the public
- More than 80 reports published, highlighting issues across the financial services sector
- Nearly 2000 on-site visits and desk-based reviews completed

Being effective

- Extensive focus on optimising the capability and effectiveness of our people, our processes, our systems and our decision-making
- Commissioning and publishing an external review of our efficiency and effectiveness
- Previously unregulated professions and services licensed (including financial advisers, auditors, KiwiSaver schemes, managed investment schemes, independent trustees, derivatives issuers, crowdfunding platforms, peer-to-peer lenders, and supervisors)
- Worked with other government agencies to improve legislation
- Extensive engagement with industry to ease the transition to the new regulatory regime.

Five-year report card*

Assessment	**FMA 2011-2016**
Assessor	**Rob Everett, FMA Chief Executive**
What's gone well	
Enforcement	*Completing the finance company cases has been a significant achievement.*
Transparency	*Good effort in consultation and policy work in particular. The FMA's Strategic Risk Outlook explains what risks it is focused on and why.*
Reducing regulatory burden	*This work is not glamorous and often goes unseen, but regulatory relief by way of exemptions and designations under the FMC Act are crucial.*
Engaging with newly regulated sectors	*Good feedback on this. The effort made and resource committed to engagement is always worthwhile, even when those being regulated are not always happy about it.*
NZX oversight	*The FMA's influence on and oversight of the NZX's regulatory obligations is evident through the annual reviews.*
Inter-government relationships	*Has shared information, contributed to policy, and collaborated on issues across a wide range of topics.*
Corporate governance	*Significant work done in this area, often in partnership with the Institute of Directors. Has also worked closely with the NZX.*
International connectedness	*Worked hard on its relationship with other international regulators, especially the Australian Securities and Investments Commission and IOSCO.*
What's been more of a challenge	
Enforcement	*The switch in focus from punishment to prevention has brought some challenges. A tricky balancing act between speed and thoroughness of investigation, and openness versus confidentiality. More work to be done explaining the broader range of powers and tools now available, not just going to court.*
The new regulatory landscape	*Has been a culture shock for firms that have not been regulated before, and those regulated elsewhere but unused to it in NZ. We look to shift interactions on problematic issues from the defensive and adversarial, to having sensible and early conversations.*
Conclusion	
From the FMA's perspective, this is a pass. According to the latest Colmar Brunton survey, nearly two-thirds of investors agree, saying they're confident in the regulation of NZ's financial markets. A pass is OK, but the FMA will continue to strive to improve its effectiveness.	

* Adapted from Rob Everett's speech to the Trans-Tasman Business Circle on 25 May 2016.

Our key focus areas in 2015–2016

We encouraged better governance & culture

- Extensive engagement with institutional investors, Boards and professional organisations about our conduct and governance expectations.

We addressed conflicted conduct

- A review of sales of life insurance through advisory and broking channels identified 200 financial advisers for further monitoring, involving 65,000 active policies and $110 million in annual premiums, and prompted providers to review their practices.

We encouraged capital market growth & integrity

- 38 managed investment schemes licensed for the first time
- 66 overseas companies removed or dissuaded from registering on the Financial Service Providers Register
- Three new peer-to-peer lenders and one new crowd-funding platform licensed
- Civil proceedings issued against a portfolio manager for alleged market manipulation
- Six Directors sentenced after pleading guilty to charges we laid
- Helped to implement the Asia Region Funds Passport.
- Report on compliance with anti-money laundering and countering financing of terrorism (AML/CFT) legislation found improvements still needed.

We addressed sales and advice

- Report on financial sales and advice highlighted need for improvements
- Seven KiwiSaver initiatives completed, including consumer campaigns, and extensive interaction with providers.

We helped investors make better-informed decisions

- Insights into investor behaviour published
- Survey of over-50s highlighted their lack of planning for retirement
- 14 investor guides published.

We improved frontline regulation

- Ongoing focus on engagement with supervisors
- Review of the quality of high-risk audits found improvements still needed
- Review of NZX noted steady improvements over the past four years.

We strived for greater efficiency

- Organisational restructure and continuous development of staff capabilities to support effective, risk-based regulatory approach
- Completion of key decision-making frameworks for risk-management, enforcement, information and data
- A wider range of powers used
- Regulatory burden formally reduced in 47 specific matters through extensive engagement with regulated sectors on the application of legislation.

Contents

From the Chairman

For the past few years the Financial Markets Authority (FMA) has characterised itself, and the FMC Act underpinning its mandate, as being in transition. In the past year, it has been satisfying to watch the FMA evolve into a fully fledged conduct regulator entering the final stages of major regulatory change.

A huge amount of work has been undertaken since the FMA's establishment in 2011 to build the new regulator; to execute the legacy enforcement work relating to the finance company crisis; and to ensure that we are ready and able to accept the broad responsibilities placed on us.

It is not over yet. We have also been participating in a wholesale review of the financial adviser regime, which will require further change, and the necessary licensing and monitoring work. But what we do have a firm grasp of, and we're helping others to understand, is the full remit we now have under the FMC Act and other legislation.

This means that we also have a solid appreciation of the capabilities and resources we need to ensure we are the engaged and influential conduct regulator we are mandated – and fully inclined – to be. Critical to this is rigorous and self-critical evaluation of our strengths and weaknesses – whether that is people, skills, systems, processes, or risk analytics – as well as those of the sectors we regulate. With that in mind, the Board has supported our Chief Executive, Rob Everett, in an organisational restructure, and bolstering his Executive Team.

The aim has been to ensure that our use of resources and powers best supports the development and regulation of New Zealand's financial markets, and protects and serves the interests of investors.

The sense of transition has now passed from the FMA to the financial services industry. For some time, their primary experience of the FMA has been an emergency response law enforcement agency dealing mostly with cases under the old Securities Act and Securities Market Act. Now, however, the experience is increasingly that of dealing directly with a conduct supervisor seeking to exert its influence early, across the financial landscape, using a range of powers and increasingly speaking directly to investors and customers.

It will take some time for the financial services industry to feel this is 'business as usual'. In particular, they are still adjusting to our persistent focus on the relationship between culture, conduct and customer outcomes, rather than process.

We're conscious this requires a balancing act. On one side is the operational impact on the industry, including the costs imposed, of new and different regulatory requirements. On the other is the benefit to New Zealand of a well-regulated financial services sector in which investors are confident participants.

We are committed to ensuring that during this period of adaptation we engage closely with providers, big and small, to explain our expectations, and to listen to theirs.

We believe we can influence improved conduct and culture within the financial services industry in a way that, over time, drives improved levels of confidence for participants, customers and investors.

Rebecca Thomas and Michael Webb, two of our foundation Board members, stepped down during the past year. Both brought significant markets and regulatory expertise to the organisation and I thank them for their contribution.

Lastly, on behalf of the Board I would like to thank Rob Everett, his Executive Team, and all FMA staff for their efforts over what has been a challenging past year.

Murray Jack
Chairman

From the Chief Executive

This year we have made an intense effort to shift up through the gears on the concept, and actual experience, of being a conduct regulator.

Conduct is the core component of the FMC Act. It's vital to New Zealand markets that are fair, efficient and transparent, and it's also vital to businesses, investors and consumers having confidence in our markets, rather than regarding them with suspicion.

Our conduct regulation mandate is a notable shift in emphasis for New Zealand's securities regulator. It refocuses our relationship with, and understanding of, the sectors we regulate. It broadens and deepens what we look for, to be confident that providers demonstrably have the interests of their customers at the centre of what they do and how they do it.

It is also a shift for providers. It means their senior leaders must think differently about what they do with their people and organisational culture, and their processes and controls, to show that they understand, and can demonstrate, good conduct.

The conduct of individuals within financial services is driven by culture within the industry and within firms. I have made it clear that the FMA doesn't set culture – that's the job of industry leaders. But we all know that culture is critical. It drives how people behave; it drives what actually happens at firms; and, in the end, it drives what customers experience and how they are treated.

By the time this report is published, we will have issued for feedback a guide to our view of conduct, for the Boards and senior management of licensed providers.

This is our attempt to provide insight not only into why we believe conduct matters, but how this will shape our supervisory, monitoring and enforcement work. It also explains how we will use conduct as a lens to view how market participants act.

We are conscious that another core element of the FMC Act is to help foster the growth and integrity of New Zealand's financial markets, and to clear the way for new and innovative sources of capital. Both elements have been reflected in some of the key activities of the past year, such as:

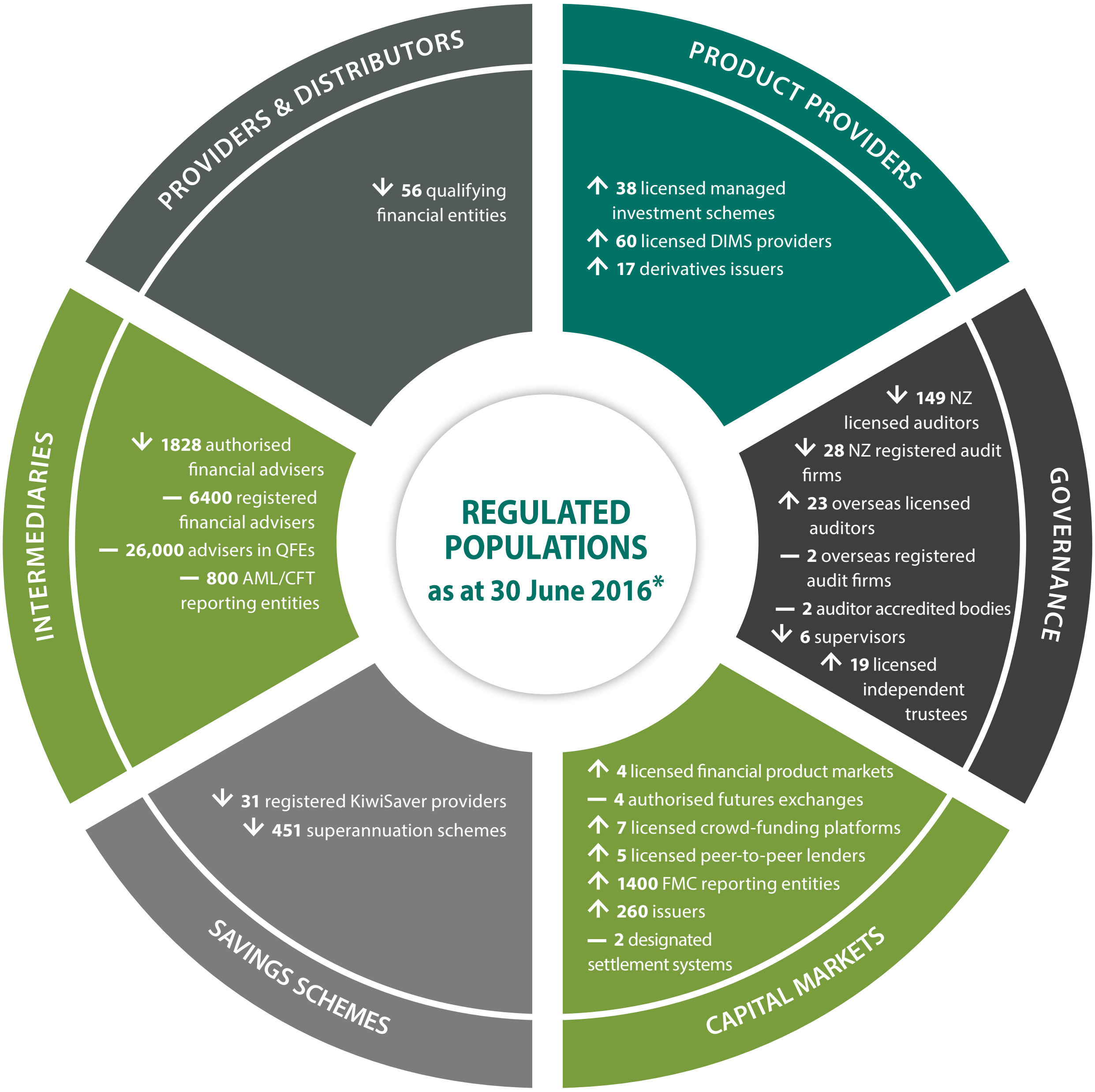
- extensive work with product and securities issuers and their advisers on their disclosure documents under the new FMC Act disclosure regime
- our report on replacement business in the life insurance industry
- removing, or preventing, 66 overseas companies from registering on the Financial Service Providers Register
- enforcement activity across a wide range of areas, including market manipulation, anti-money laundering, insider trading and fraudulent schemes
- licensing 38 managed investment schemes for the first time
- helping to implement Asia Region Funds Passport
- licensing three new peer-to-peer lenders and one new crowd-funding platform
- responding to numerous requests for regulatory relief from aspects of the new legislative framework
- helping MBIE review the operation of the financial advisers regime
- publishing our insights into the behavioural drivers of investment decision-making.

As I said in a speech earlier this year, providing someone with a phone or a TV is a transaction, but being trusted with someone else's money is a privilege, because it involves their future. New Zealanders deserve to be treated fairly, and to know that the provider they're dealing with has their interests at heart. That's what our conduct regime, and our regulation of it, is all about.

Rob Everett
Chief Executive

Who we regulate

The number of businesses, markets and professionals we regulate has continued to grow over the past year.



*Compared to 30 June 2015. Arrows denote whether the number has increased, decreased or remained the same.

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.

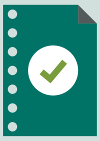
Laws we administer or apply:

- Financial Markets Conduct Act 2013
- Financial Reporting Act 2013
- Financial Markets Authority Act 2011
- Auditor Regulation Act 2011
- Financial Markets Supervisors Act 2011
- Anti-Money Laundering and Countering Financing of Terrorism Act 2009
- Financial Advisers Act 2008
- Limited Partnerships Act 2008
- Financial Service Providers (Registration and Dispute Resolution) Act 2008
- Co-operative Companies Act 1996
- Companies Act 1993
- Sections 45U and 45V of the Public Finance Act 1989 Part 5C of the Reserve Bank of New Zealand Act 1989
- Corporations (Investigation and Management) Act 1989
- Friendly Societies and Credit Unions Act 1982
- Trustee Companies Management Act 1975
- Trustee Companies Act 1967
- Building Societies Act 1965
- Sections 220, 228, 229, 240, 242, and 256 to 260, of the Crimes Act 1961
- Industrial and Provident Societies Act 1908.

Governance and culture

4

keynote engagements on our view of conduct



3

key reports on governance and enforcement completed and/or published

Engagement

We have maintained an active dialogue with Directors and senior management on the Financial Markets Conduct Act (FMC Act) and the opportunities it presents for reviewing and enhancing the practice and disclosure of good corporate governance. We also engaged with financial service providers on the governance challenges of embracing new aspects of the FMC Act, such as streamlining due diligence processes for continuously offered products, and for debt or equity offers for products already available on the public market.

We continued to engage with organisations interested in promoting high standards of corporate governance, such as the New Zealand Shareholders' Association and the Institute of Directors. Through the New Zealand Corporate Governance Forum, we surveyed a sample of institutional investors to test their levels of confidence in standards of corporate governance in New Zealand, their view of existing and emerging market risks, and the importance of good disclosure of corporate governance standards and practices. We also worked with NZX as they developed their consultation on corporate governance requirements for listed companies.

We began a review of corporate governance disclosures, intended to provide a snapshot of the extent to which our corporate governance principles can be seen in public disclosures to have been adopted by New Zealand companies.

Our view of conduct

We broadened the articulation of our view of conduct through key external engagements, including speeches at the Infinz awards and the Trans-Tasman Business Circle, and articles in the NZ Herald Capital Markets supplement and in KPMG's newsletter for the banking industry.

Publications

In August 2015 we published our annual Enforcement and Investigations Report, which outlined our regulatory responses to poor compliance and misconduct during the year. Governance, culture, and conflicted conduct were key issues identified in the report.

We also began a guide to our view of conduct, to help Boards and senior management of licensed providers, as well as financial service providers, consider how they can demonstrate good conduct to us and to their customers.

Conflicted conduct

$110 million

of annual life insurance premiums identified as being at higher risk of being churned

65,000

life insurance policies identified as being at higher risk of being churned

200

financial advisers identified for further monitoring of their sales practices

Insurance churn

In June 2016, we published our first report into sales practices within the life insurance industry. This revealed that of the $1.7 billion New Zealanders spent on annual life insurance premiums in the year to 30 June 2014, a significant number of existing policyholders were switched between providers.

We analysed four years of data from 12 life insurance providers, focusing on replacement business sold through authorised or registered financial advisers. We chose this group because they sold more than 40% of the policies in force in the review period, and there is a higher risk of churn as they generally sell policies from more than one provider. Our report identified 200 advisers for further monitoring.

The report showed that the quality of a policy was only a minor factor in whether a policy was replaced. High upfront commissions and overseas trips also appeared to be effective sales incentives for advisers.

We provided our findings to the Ministry of Business, Innovation and Employment (MBIE) to consider as part of its review of the Financial Advisers Act. We also engaged with insurance providers and the Financial Services Council to consider how they could address potential risk to consumers.

Data and insights from the report are available on our website to help consumers to make decisions when buying or renewing their life insurance. We also worked with the media and Consumer NZ to help inform consumers.

KiwiSaver sales practices

We continue to engage extensively with KiwiSaver providers about their interactions with their scheme members and their practices and conduct around attracting new members.

Capital market growth and integrity

$132 billion
total funds under management in New Zealand

295
NZX listed securities

$4.3 billion
value traded on NZX in June 2016

$3.07 billion
raised through same-class offers during the financial year

270
offers made to investors

66
overseas companies removed or dissuaded from registering on the FSPR

45
DIMS providers

38
managed investment schemes licensed

6
Directors sentenced after pleading guilty to charges laid by the FMA

1
new crowd-funding platform licensed

3
new peer-to-peer lenders

41
AML/CFT desk-based visits and onsite reviews

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

We have worked closely with our co-regulators, the Reserve Bank and the Department of Internal Affairs, to ensure consistency of approach to AML/CFT regulation. In February 2016, we issued our second report on compliance with AML/CFT legislation and regulations, which found there was still room for improvement across the 800 regulated firms and individuals. In particular, we noted instances of a lack of senior management oversight, a lack of clear AML/CFT controls, insufficient ongoing customer due diligence and account monitoring, and insufficient or unclear information about the nature and purpose of business relationships with customers.

We carried out 29 desk-based reviews of AML/CFT frameworks and 12 onsite inspections. We provided detailed feedback on improvements needed.

We also issued a formal warning to Craigs Investment Partners Limited under section 80 of the AML/CFT Act. Craigs admitted that it failed to conduct adequate enhanced due diligence and/or failed to terminate its business relationship with a client when it had been unable to complete the required level of customer due diligence. We noted that the firm has taken steps to significantly improve its AML/CFT compliance programme.

Financial Service Providers Register (FSPR)

Since 2015, we have been actively reviewing overseas companies on the FSPR. We have also spent considerable time in court in relation to Vivier & Co and Excelsior Markets Ltd obtaining clarity about our deregistration powers.

Although this register is maintained by the Registrar of Companies, we have powers to direct the Registrar to remove companies where it is likely they are giving a false or misleading impression about the extent to which they are regulated in New Zealand. This year, 28 companies have been deregistered, and 14 have voluntarily deregistered. Another eight companies have been prevented from registering, and 16 applications have been voluntarily withdrawn or expired. Legislation relating to the FSPR is currently under review.

New Zealand Business Number

On 25 May 2016 the FMA was one of a number of agencies party to a Cabinet Office circular that sets out requirements for the New Zealand National Business Number. The FMA will ensure it meets the requirements.

Asia Region Funds Passport

In April 2016, we signed an agreement that brings more competition to the New Zealand managed fund market. The Asia Region Funds Passport, signed by New Zealand, Australia, Japan and Korea, is the culmination of six years' work and will allow high-quality managed funds to be offered more easily among member countries. The scheme came into effect in June 2016 and other eligible APEC economies are expected to join over time.

Capital market growth

There was a significant increase this year in the amount raised through same-class offers, from $1.2 billion to $3.07 billion. These allow firms to provide streamlined documents for debt or equity offers for products already available on the public market, making it quicker and cheaper to raise capital. Of the 270 offers made to investors during the year, 17 were same-class offers. We also spent considerable time working with the company and its advisers on the first initial public offer (IPO) under the new FMC Act regime.

Licensing

During the year we helped the first managed funds to transition into the FMC Act regime. We also licensed four property investment schemes for the first time, and processed all the licence applications for Discretionary Investment Management Services (DIMS) before the statutory deadline.

The How we've performed section on page 14 shows the influence we have had on providers seeking licences, through either requiring them to take remedial action to get a licence; or imposing conditions on their licence which we will follow up with monitoring, These include conditions relating to receiving information on customer outcomes and having in place risk and compliance frameworks relevant to their business activities.

Other activities demonstrating work on the integrity and efficiency of our markets

- We accepted enforceable undertakings from David John Hobbs and Jacqueline Hobbs, limiting their activities in New Zealand's financial markets.
- We issued our first stop order, against Green Gardens Finance Trust Limited, and warned the public to be wary of this company.
- We engaged with brokers to encourage wider dissemination of analyst research around IPOs and published guidance.
- OPI Pacific Finance Directors David Mark Anderson, Craig Robert White, Mark Lawrence Lacy and Jason Robert Duncan Maywald were each sentenced to community work and ordered to pay a total of A$400,000 in reparation to the company's receivers, after pleading guilty to charges of making untrue statements in a registered prospectus and in an advertisement.
- Strategic Planning Group Director Andrew Hrothgar Robinson was sentenced to 12 months' imprisonment after pleading guilty to charges of providing broking services without being registered, making a false statement in applying to become an authorised financial adviser, and making false statements in company accounts.
- SPG Investment Director Mark Andrew Turnock was sentenced to four months' home detention and 200 hours of community work after pleading guilty to making false statements in the company's financial accounts.
- We discontinued our civil proceedings against the Directors of Capital + Merchant Finance Limited, after deciding there would be little prospect of any recovery for investors if we pursued the claim.

Sales and advice

$28.5 billion
in assets were in KiwiSaver schemes at the end of March 2015

246,000
new members joined KiwiSaver in the year to March 2015 to bring total membership to 2.5 million

24
sales and advice reviews conducted

2
guidance notes on KiwiSaver published

2
key reports published

Sales and advice report

In November 2015, we published our first comprehensive review of the sales and advice sector, including around 26,000 advisers who work for large organisations such as banks and fund managers, and another 8,200 advisers who are either authorised or registered by us. While we saw some excellent practices, and a commitment to take their obligations seriously, we found there was still plenty of room for improvement to reach the standards of conduct we expect.

The review included KiwiSaver sales and advice practices, based on information we sought from 10 providers that cover 80% of KiwiSaver members. While we did not find any systemic issues with sales practices for KiwiSaver, we remain concerned that consumers are not always receiving the support they require or desire.

We indicated we would be stepping up our engagement with the sector over the next two to three years. We also intend to work collaboratively with the sector to help it improve sales and advice systems. We have since noted an increasing number of firms and professionals demonstrating a willingness to lift their standards to improve customer outcomes.

KiwiSaver

We completed several KiwiSaver initiatives during the year, including:

- We issued guidance on how managed funds should describe a fund's risk category and its description. We also issued guidance on fee disclosure by managed funds, including KiwiSaver funds. The aim of this guidance was to achieve consistency
- Our Money Week activities focused on KiwiSaver and encouraging investors to make active decisions
- We tracked default providers' efforts to help their members with financial literacy. We also sought information on marketing and communication campaigns to help existing default members stay informed and engaged
- We completed research on how KiwiSaver members read their annual KiwiSaver statements and what information is useful to them. We are working with other government agencies on revising the requirements for these
- We gathered detailed feedback from providers on issues caused by our current guidance on KiwiSaver sales and advice, and will be revising this guidance. This will include our view on the use of incentives. Changes to the code of conduct for authorised financial advisers mean our guidance on limited personalised advice is now out of date and will be removed.

Investor decision-making

Understanding investors better

Our Investor Capability Strategy, launched on 1 July 2015, focuses on areas that pose the greatest risk to investors aged over 50, and to KiwiSavers. During the year we released our over-50s research, a joint project with the Commission for Financial Capability (CFFC). With the help of other government agencies, we also published our insights into investor behaviour. These insights are the basis for a trial now underway with members of a KiwiSaver default scheme. We have also begun research into the readability of new managed fund updates.

Investor resources

We published a wide range of investor resources during the year, including new or updated guides on common investment products, as well as high-risk products; a comprehensive guide to getting financial advice; specialist information on investment and insurance advice; together with the CFFC, guides on investment basics such as risk versus return, and fees; and updated information on avoiding scams.

Investor warnings

Together with MBIE and NetSafe, we raised awareness of investment scams by regularly providing content for Facebook pages and a Google AdWords' investment scams' campaign. Facebook posts regularly reach 4-5,000 consumers and the AdWords campaign has seen a direct increase in the reporting of investment scams. We published four warnings about specific firms, as well as two general warnings. In May 2016, we issued forex training and advice company Cambrian Corporation Limited with a direction order to change its marketing materials. All our warnings and alerts are available on our website.

4000+

New Zealanders regularly reached through social media

40,000+

New Zealanders reached with Money Week activities

69

offers to investors used new easier-to-read product disclosure statements

14

investor-friendly guides published

4

public warnings about specific firms issued

Money Week

Our Money Week campaign focused on KiwiSaver and was on a larger scale than previous years. Street activities in Christchurch involved over 1000 people, and social media activity exposed our messages to over 40,000 followers of two high-profile New Zealanders. Media engagement generated significant interest, and included five joint FMA and CFFC videos via the NZ Herald website.

Extending our reach

We established a consumer advisory network which provides policy feedback, helps develop consumer resources, and regularly shares our content. We also promoted our investor guides through a newly established LinkedIn FMA investor information page, as well as through partner websites, newsletters and social channels. Search engine optimisation of the consumer sections of our website is underway.

Effective frontline regulators

38
audit files reviewed, including 13 listed companies

14
independent trustees licensed

12
registered audit firms reviewed

5
key reports published

NZX

Our annual review found that NZX met all its statutory obligations to ensure that its markets are fair, orderly and transparent. We noted a steady improvement in the infrastructure, governance and processes put in place. Through our regular engagement and discussion with NZX, we also noted clearer regulatory messages being given to issuers and more instances of potential non-compliance being referred to us for investigation.

Auditors

Our annual review of audit quality completed our first full cycle of audit quality reviews since the new audit oversight regime came into effect in 2012. We found that although there had been improvements, audit firms still needed to improve the quality and consistency of their audits. We initially contracted New Zealand Institute of Chartered Accountants (NZICA) to perform audit quality reviews of audit firms on our behalf. We have decided the time is right to bring this work in-house and to do the reviews ourselves from July 2016.

Our annual assessments of the accredited bodies for auditors in New Zealand, CPA Australia and the NZICA, found that both bodies met their obligations.

The FMA and MBIE also worked with European authorities over the last two years to ensure the New Zealand auditor oversight framework was accepted as "equivalent" to those of the EU. Agreement on this was secured after financial year-end, in August.

Supervisors

Financial Markets Supervisors (formerly trustees and statutory supervisors) play a critical role under the FMC Act, taking responsibility for frontline regulation of issuers of debt securities and also funds managers, including KiwiSaver providers.

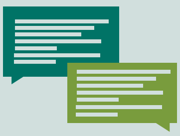
There were six supervisors licensed under the Financial Markets Supervisors Act 2011 at 30 June, a reduction of one on the same time last year (resulting from a market acquisition).

We review periodic reports from each of these supervisors, as well as notifications of breaches of obligations by their supervised entities. FMA staff meet regularly with senior staff of licensed supervisors. We carried out five onsite inspections of supervisors in the year to 30 June.

We continue to engage with supervisors to ensure they are prepared for their expanded roles under the FMC Act. We have asked supervisors to engage with their fund manager clients to help them to be ready to meet the FMC Act licensing criteria, and also to consider what changes might be needed to operational infrastructure to meet the ongoing standards of the FMC Act. We will continue to work with supervisors in the coming year to clarify expectations of their role in relation to licensed MIS managers.

FMA effectiveness and efficiency

4
key internal decision-making frameworks reviewed and implemented



3555
queries received

970
complaints received about markets, products, entities and individuals

315
queries from journalists or columnists answered

86
interviews given by our staff and, 80 speeches and presentations

45
media releases issued

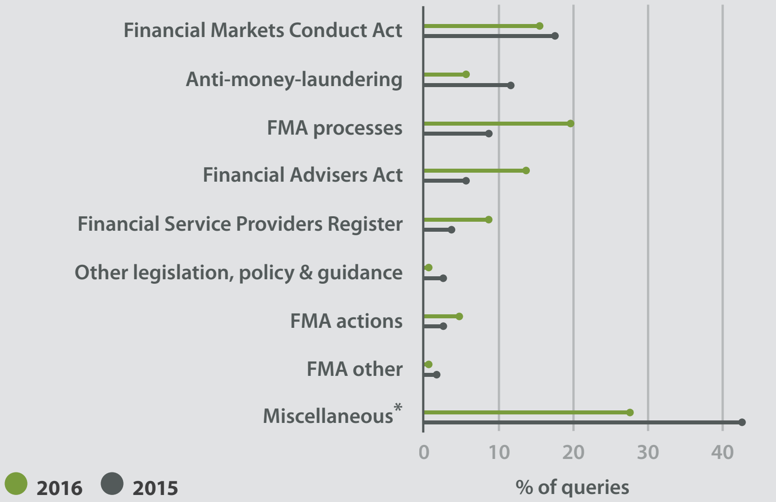
Continuous improvement in FMA capabilities

During the year we completed a new Enforcement Governance Framework, which we intend to publish to give greater transparency of how and when we choose to take enforcement action. We also completed a high-level assessment of our internal capabilities and established a set of core capabilities we expect all employees to demonstrate. We also reviewed and implemented an operational risk management framework and completed an information and data strategy.

Queries and complaints

Queries were down 25% this year, mostly due to last year's volume being unusually high because of regulatory changes. There was also a substantial drop in the number of miscellaneous queries handled by MBIE this year.

Main queries



Main complaints 2016

The number of complaints was down 21% this year. Due to changes in the way we categorise complaints, we are unable to directly compare this with last year. However, most categories were relatively unchanged. We continued to receive a significant number of complaints about forex trading platforms, although our project to review the Financial Service Providers Register made progress in this area.

Engagement with stakeholders and the media

Our engagement with stakeholders through guidance and information sheets was lower this year, as the FMC Act came fully into effect. We issued 16 formal consultations and 11 information sheets. We were more proactive with media engagement this year, holding four in-depth media briefings for the first time. We also developed seven contributed features for major publications.

Reducing regulatory burden

We have wide powers that enable us to provide regulatory relief and ensure requirements for businesses are reasonable and cost-effective when the risk of their activities is considered. This year we considered 81 matters, resulting in seven additional class exemptions notices, 39 individual exemption notices, and 1 individual designation notice.

Guidance

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

This year, our guidance and information sheets covered the following areas:

– AFA Authorisation renewal guide
– Licensing guide for MIS managers of forestry schemes
– Guidance note on risk indicators and description of managed funds
– Fee disclosure by managed funds
– A guide for community and voluntary organisations raising money from investors
– Custodians regulatory obligations under the Financial Advisers Act
– AML/CFT and Financial Advisers Act class exemptions for managed intermediaries
– Crowdfunding services for property investments
– A research report for IPOs under the FMC Act.

Financial Sector Assessment Program (FSAP)

In late 2016 the International Monetary Fund (IMF) will be visiting New Zealand to conduct a Financial Sector Assessment Program (FSAP) of this country's financial system. This will be a comprehensive assessment of the country's financial sector and will involve a joint effort between the Reserve Bank of New Zealand, the FMA, Treasury and MBIE. New Zealand's last assessment by the IMF was in 2003, and preparing for it has been a major undertaking for us.

Effectiveness and Efficiency Review

During the year, we commissioned Deloitte to review our effectiveness and efficiency. This was for our own information, as well as giving external stakeholders confidence in our ability to spend money wisely. We are already working towards some of the areas identified for improvement, while recognising the need to balance effort and resources. Further initiatives will be supported, where required, by business cases and associated funding considerations.

Summary details of the review and our response to it are online at the bottom of our strategic priorities page: fma.govt.nz/fmas-role/what-we-do/strategic-priorities/

*860 enquiries classified as Miscellaneous were received from MBIE and don't map with FMA categories. 145 were direct.

**141 complaints are categorised as Other. They include 61 referrals from the Companies Office and 28 from DIA about either removing or preventing entities from registering on the FSPR. 25 similar complaints came from individuals.

How we've performed

Our Statements of Intent set out forward-looking measures for our performance, reflecting delivery against our strategic intentions. In this Annual Report, we report on measures in our Statement of Intent for 2015-19. In many cases, the measures are new. Where results update existing measures, we include the previous year's result for comparison.

Key indicators

The Statement of Intent for 2015-19 identified two key measures we saw as solid indicators of fair, efficient and transparent New Zealand financial markets. Neither measure is fully in our control. The investor confidence measure is governed by market forces and the resulting sentiment, and the IMF assessment measure is an external assessment of New Zealand's financial regulatory framework and oversight regime.

For the investor confidence measure, we use an independent research company to survey New Zealand investors' attitudes to our financial markets. Over time, this measure has naturally tended to reflect the performance of our financial markets, as was the case with 2015-16 where more volatile markets reduced confidence. This also affected investors' confidence in whether the investment materials they received for their most recent investment were helpful.

The overall investor confidence result differed considerably between different types of investor, ranging from 57% confidence among KiwiSaver investors, to 80% among investors in managed funds or unit trusts. Confidence was also greater where investors were aware of the FMA and other frontline regulators (increasing from 59% confidence to 68%). This is also true of investment materials.

Overall, 50% of the 885 respondents with investments said they found the materials they received about their investments to be useful. Investors could have more than one investment, and of the 650 invested in KiwiSaver, 50% found their materials useful whereas 60% of the 111 investors in managed funds found their materials useful. 66% of investors aware of the FMA found their materials useful.

Measure	Target	Source	2015-16 Result
Investor confidence in New Zealand financial markets.	65-75%	Public and investor survey	59% 65% in 14/15
IMF Assessment of New Zealand against the IOSCO Objectives and Principles of Securities Regulation.	Achieved	IMF	Due in 2016-17

Other measures from the Statement of Intent for 2015-2019

Measure	Target	Source	2015-16 Result
Market participants adequately demonstrate how they meet the principles outlined in the FMA's handbook: Corporate Governance: Principles and Guidelines in New Zealand.	Improve on baseline	FMA data	Achieved for listed companies, not for unlisted companies[1]
Boards of licensed market participants receive information on customer outcomes.	Improve on baseline	FMA data	40% See note on page 17
Licensed market participants have risk and compliance frameworks in place that are relevant to their business activities.	Improve on baseline	FMA data	18% See note on page 17
Institutional investors have confidence in the standard of corporate governance in New Zealand.	70-75%	Institutional investor survey	91%
Conflict management procedures address conflicts relevant to a licensed market participant's business.	Improve on baseline	FMA data	35% See note on page 17
Stakeholders believe that FMA actions help raise standards of market conduct.	65-75%	Stakeholder survey	Result due in 2017-18
Stakeholders agree that FMA enforcement action targets the right issues.	60-70%	Stakeholder survey	Result due in 2017-18
Businesses use new lower-cost opportunities to raise capital in New Zealand.	Achieved	FMA data	Achieved See table on page III and market growth on page 8
The FMA uses tools to alleviate regulatory burden.	Achieved	FMA data	Achieved See exemptions page 13
Stakeholders agree that the level of regulatory burden is proportionate, in relation to FMA's strategic priorities.	65-75%	Stakeholder survey	Result due in 2017-18 50% in 14/15. Triennial measure
Stakeholders agree that FMA actions support market integrity.	70-75%	Ease of doing business survey	83% 73% 14/15

1. On average, listed companies disclosed 67% of information recommended by the handbook. Non-listed companies disclosed 24% of that information.

Measure	Target	Source	2015-16 Result
Market participants take action to improve their sales and advice processes, where shortcomings are identified.	Improve on baseline	FMA data	Baseline incomplete****
FMA monitoring of sales and advice processes is informed by the intelligence derived from complaints.	Achieved	FMA data	Achieved***
Investors believe that financial product information given to them helped them to make an informed decision.	65-75%	Public and investor survey	50% 56% in 14/15
The FMA works with government agencies and market participants to promote information and materials intended to improve investor capability.	Achieved	FMA data	Achieved See activities on page 10
FMA thematic reports on initial, periodic and ongoing disclosures lead to improvements in the areas identified.	Achieved	FMA data	Achieved**
Frontline regulators take action to address issues raised by the FMA relevant to their supervised populations.	Achieved	FMA data	Achieved See page 11
Licensed market operators have adequate arrangements in place to comply with their statutory obligations.	Achieved	FMA data	Achieved See NZX review page 11
Stakeholders agree that frontline regulators are effective in their role.	60-70%	Investor confidence survey	63% 49% in 14/15*
Stakeholders believe the FMA does a good job in regulating NZ's financial markets.	70-75%	Stakeholder survey	Result due in 2017-18 75% in 14/15
The FMA delivers its outputs within budget.	Achieved	FMA data	Achieved See actual and budget expenditure page 34
Stakeholders agree it is easy to do business with the FMA.	70-75%	Ease of doing business survey	64%

****While all those we informed about shortcomings in their sales and advice processes confirmed they had taken steps to address our feedback, at 30 June 2016 we had not verified this in all cases.

***For example, the Insurance Replacement Business Report on page 6 and the action taken on Cambrian on page 10 are both the result of complaints.

**For example guidance on (see page 13 and the guidance library on the FMA website): how managed funds should describe risk categories and fee disclosure by managed funds, including KiwiSaver.

*note that the question for the 2015/16 survey specified that 'frontline regulators' included the FMA, NZX and trustees and supervisors. This was because we believe there is a shared accountability for this measure.

Measure	Target	Source	2015-16 Result
The FMA works with other government agencies to reduce regulatory overlap and increase efficiencies.	Achieved	FMA data	Achieved See working with other agencies page 21
FMA participation in all-of-government contracts and initiatives achieves efficiency gains.	Achieved	FMA data	Achieved*

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 next is due in 2018.

A more targeted stakeholder survey on the ease of doing business with the FMA was conducted in 2016 by Colmar Brunton on behalf of the FMA, n=155, margin of error is +/- 7.9%.

The public and investor surveys were conducted in 2015 and 2016 by Colmar Brunton on behalf of the FMA. In 2015 and 2016 n=1,000, the overall margin of error is +/- 3.1%. The next is due in 2017.

Note on supervision measures

In respect of the measures, the percentages denote the number of applicants for licenses who met the measure at the time they applied for the licence. To be granted the licence, the applicant had to either undertake remedial action as appropriate to the measure; or specific conditions appropriate to the measure were attached to their licence, which the FMA will then review through future monitoring.

- boards of licensed market participants receive information on customer outcomes (see explanation a. below)
- licensed market participants have risk and compliance frameworks in place that are relevant to their business activities (see explanation b. below)
- conflict management procedures address conflicts relevant to the licensed market participant's business
- market participants take action to improve their sales and advice processes where shortcomings are identified.

a. The licensed population making up these measures are derivative issuers, discretionary investment management schemes (DIMS), personalised DIMS and managed investment schemes.

   We expect boards to regularly receive and review management information to ensure that customers are being treated fairly, such as:

   - customer complaints data
   - remuneration structures and criteria for promotion and rewards
   - sales and performance data.

   Through our entity-based monitoring, we will look at the proportion of boards reviewed that do receive this information and if and how they act on it.

b. We expect market participants will have in place risk management frameworks and compliance processes including:

   Compliance Assurance

   Adequate and effective arrangements to challenge and test the design and operation of their processes and controls, and the adequacy of their governance and management information.

   Culture

   Governance and compliance arrangements that promote a culture of compliance with their obligations as a licensee, and ensure appropriate risk management and fair treatment of investors.

   Governance

   A high-level body responsible for overseeing compliance with their market services licensee obligations – and ensuring appropriate risk management.

   Through our entity-based monitoring, we will look at the proportion of licensed market participants reviewed that have risk and compliance frameworks in place that are relevant to their business activities.

*Where applicable, we participate in all-of-government contracts to achieve efficiency from scale.

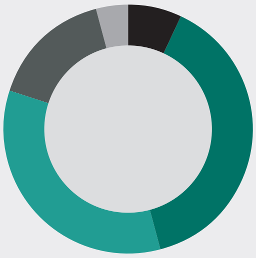
Our people

Gender

57% Female

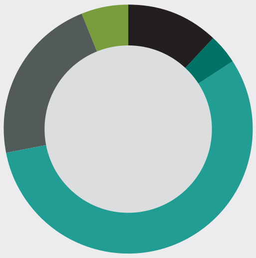
43% Male

Age



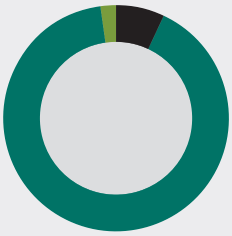
- 20-29 **7%**
- 30-39 **39%**
- 40-49 **34%**
- 50-59 **16%**
- Over 60 **4%**

Ethnicity*



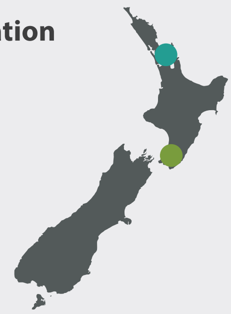
- Asian/Indian **12%**
- Māori/Pacific Island **4%**
- NZ European/Pakeha **56%**
- UK/European/Australian/ South African **22%**
- Other **6%**

Disability**



- Hearing/vision impairment **7%**
- Not applicable **91%**
- Other **2%**

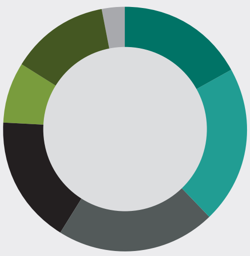
Location



65% Auckland

35% Wellington

Where we hired staff from in 2015/16



- Corporate **17%**
- Financial services **21%**
- Government **21%**
- International **17%**
- Internal **8%**
- Legal **13%**
- Other **3%**

Employment type

Employment type	2015	2016
Total	**167**	**168**
Permanent	133	143
Fixed term	9	12
Casual	1	0
Contractor/temp	20	13
Secondee	4	0
Turnover	**21.5%**	**18.9%**
Average service length	**2.33 years**	**2.77 years**

* Based on data submitted by 95 staff and contractors.
** Based on data submitted by 88 staff and contractors.

What we have to offer

This year, after considerable staff consultation, we launched our employment value proposition (EVP), which identifies the unique benefits and experiences that employees gain from working at the FMA, and supports how we attract and retain our people.

A key part of the EVP programme is defining what makes us special:

We're leading the way

We're doing work that counts

We're unique

We're balanced

We're part of something bigger

Key results

- This year, the Board signed off a three-year Strategic People Plan that identified five key objectives:
- We will translate the FMA's purpose and strategic objectives into everything we do
- Our culture will be constructive and reflect our shared values
- We attract, develop and retain top talent and leaders to ensure we have the right skills and resources we need to achieve our purpose
- Our employees are safe, well and diverse
- Our managers are provided with valued information to ensure quality people decisions.

We have identified activities to achieve these objectives, some of which are described below.

How we review our programmes and policies

Following feedback from staff, we have placed more emphasis on career development, providing effective feedback, collaboration, working more effectively and recognising employees' contributions during the year. We have developed programmes and activities, including career management seminars as part of a Careers Month, and 'meeting-lite Fridays' to aid productivity. We also introduced a revised performance management programme that has a stronger focus on career development and coaching.

We place 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 our policies and programmes that help retain key staff. We collect data on the diversity and demographics of our existing staff, and those who apply for roles at the FMA. We also comprehensively reviewed our health and safety policies and practices to ensure they would 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. There are several ways we encourage staff feedback, including our culture survey, employee focus groups, our performance management programme, exit interviews, and our staff-led health and safety committee.

How we value our staff

We are a member of Diversity Works and are committed to being a good employer. This is reflected in our 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 programmes such as internal communications, a wellness programme, reward and recognition, and our 'fun squad'. We regularly run a culture survey, and use the results to develop specific initiatives. This year we ran a high-performing specialist programme to develop the careers of our non-management staff. We also revised our performance management programme to support our desired coaching culture, and to emphasise our commitment to our employees' development and careers, while still ensuring staff are accountable for results.

Recruitment, selection and induction

We aim to recruit based on individual ability and achievement. We try to have diverse interviewing panels and hold at least two interviews. We are committed to a diverse workforce, so collect and report on our diversity statistics. We have also revised our induction programme for all new hires.

Employee development, promotion and exit

From this year our performance management programme includes a stronger focus on development and career aspirations. Remuneration and development opportunities are linked to results. We hold exit interviews with any permanent employee who leaves. We have also placed more emphasis on our talent management initiatives. We have identified our key successors and the development opportunities they require. We have also identified the core technical capabilities we want all our staff to demonstrate. Our learning and development initiatives will be targeted at ensuring everyone has the capability needed.

Flexibility and work design

We use a mixed-resourcing model for recruitment, to maintain flexibility. We also have a variety of work arrangements, 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. Our remuneration approach is reviewed annually, taking into account business performance, affordability, equity, retention, and the need to recognise and reward individual performance. We have introduced special leave for all employees who have completed three years' service, and additional leave for all employees over the Christmas period.

Harassment and bullying prevention

Our Code of Conduct and values provide a benchmark for the behaviour expected. 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 events, as well as free flu jabs, and discounted health insurance and gym membership. We support several charities through staff donations and volunteering. We have a staff-led committee and a range of policies and emergency procedures. Prior to the new Health and Safety at Work Act 2015 coming into effect, we engaged a consultant to audit our policies and practices. We also consulted staff, and we are committed to continuing high standards of health and safety at the FMA.

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 MBIE on policy that affects regulation, and on initiatives in financial services.

Joint priorities with MBIE this year included:

– taking part in the five-year review of two key statutes, the Financial Advisers Act 2008 and the Financial Service Providers Act 2008.

– helping to implement an Asia Region Funds Passport, which allows managed funds to be more easily offered across member countries. New Zealand, Australia, Japan and Korea are already members of the scheme and other APEC countries are expected to join.

– 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.

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. We are members, along with the Reserve Bank, the Treasury, and MBIE.

How we collaborate with other NZ organisations

Memorandums of Understanding (MOUs)

We have MOUs with the Commerce Commission, the Serious Fraud Office, Chartered Accountants Australia and New Zealand, the Reserve Bank, and NZX. These clarify how we interact with each other, and help strengthen frontline regulation.

We also have MOUs with all four dispute resolution schemes: the Insurance & Financial Services Ombudsman Scheme, the Banking Ombudsman Scheme, Financial Services Complaints Ltd, and the Financial Dispute Resolution Scheme. These MOUs jointly identify significant issues for consumers, and enable thematic reviews of complaints. There are measures to ensure data integrity and privacy is maintained, with privacy remaining fundamental to the arrangements.

On 21 July 2016 the FMA signed a MoU with The Auditor-General. As part of this MoU, the Auditor-General has invited the FMA to undertake quality reviews of FMC audits that Audit New Zealand carry out pursuant to section 67 of the Auditor Regulation Act 2011. The FMA will report to the Auditor-General the results of these quality reviews.

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).

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.

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.

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

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 identify any conflicts ahead of a Board discussion and then exclude those members from any Board discussion or Board 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: Arthur Grimes (Chair), Mark Todd 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.

Meet the Board

as at 30 June 2016*

Murray Jack, Chair

Murray has over 30 years' experience as a management consultant, and was previously a member of the Securities Commission. He is also Chair of Chartered Accountants Australia & New Zealand and Education Payroll Limited. *Current term expires April 2019.*

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 lawyer for over 20 years. *Current term expires April 2017.*

Arthur Grimes

Arthur is Senior Fellow with Motu Economic and Public Policy Research Trust, Adjunct Professor (Economics) at Victoria University of Wellington and Chair of the Hugo Group strategy sessions. He was previously Southpac CEO and Chair of the Reserve Bank. *Current term expires April 2019.*

Mary Holm

Mary is a financial columnist, author and seminar presenter. She was a member of the Capital Markets Development Taskforce and the Savings Working Group, and has been a newspaper business editor and part-time senior lecturer at the University of Auckland. *Current term expires June 2019.*

William Stevens

William has over 25 years' experience as an investment adviser. He is an NZX adviser, is a Director of Craigs Investment Partners, and Chairs the Dingwall Trust for Children. He was previously Deputy Chair of the New Zealand Markets Disciplinary Tribunal. *Current term expires June 2020.*

Vanessa Stoddart

Vanessa is also a Director of NZ Refinery, Paymark (until September 2016), The Warehouse Group, and The Alliance Group, and a member of the Tertiary Education Commission. She was previously a Senior Executive at Air New Zealand and CEO of Carter Holt Harvey Packaging Australia. *Current term expires June 2021.*

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. *Current term expires June 2018.*

Mark Todd

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

* During the year, Rebecca Thomas (Mrs Rebecca Eele) and Michael Webb stood down as Board members when their terms ended.

Meet the Executive Committee

as at 30 June 2016*

Rob Everett, Chief Executive

Before taking up his role as Chief Executive in February 2014, Rob spent his career in investment banking, legal and risk management. After 17 years at Merrill Lynch in London, Hong Kong and New York in a variety of senior roles (including General Counsel and COO for Europe), he spent a year with regulatory consultants Promontory before moving to New Zealand at the end of 2013.

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.

Sarah Coleman, Director of People and Capability

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

Paul Gregory, Director of External Communications and Investor Capability

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

Nick Kynoch, General Counsel

As well as advising the FMA Executive and Board, Nick leads our enforcement and litigation, policy and governance, corporate legal and internal audit teams. He has extensive international legal experience, including with Barclays Investment Bank and several international law firms.

Liam Mason, Director of Regulation

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.

Simone Robbers, Director of Strategy and Risk

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

Garth Stanish, Director of Capital Markets

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

*During the year, People and Capability Director Diana Christensen, External Communications Director Owen Gill, and Enforcement and Investigations Director Belinda Moffat left the FMA.

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 2016.

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 33 to 57, that comprise the statement of financial position as at 30 June 2016, the statement of comprehensive revenue and expense, 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 14 to 17 and 28 to 32.

In our opinion:

- the financial statements of the Authority:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2016; 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 2016, 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 16 September 2016. 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

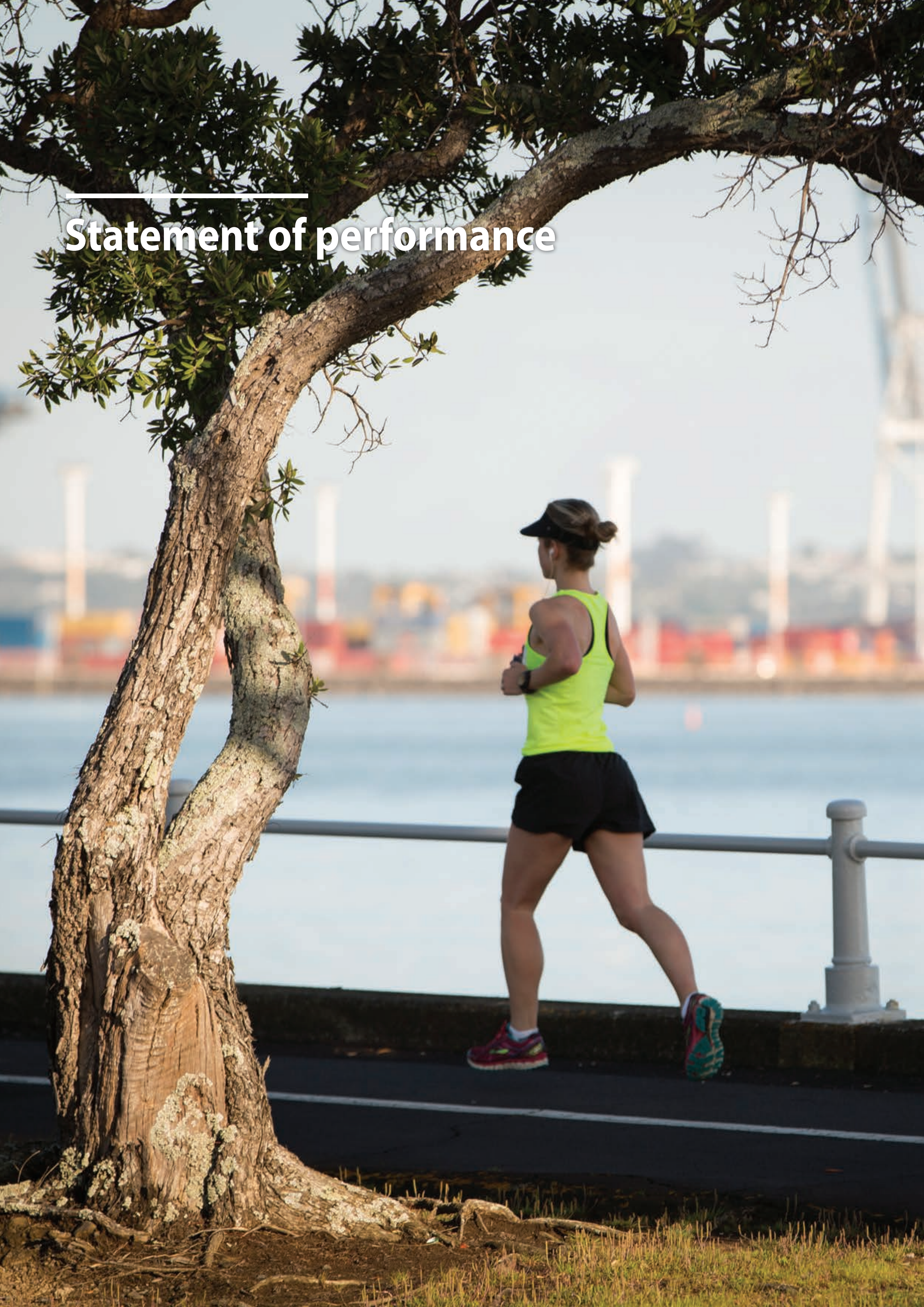
When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

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

Robert Cox

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

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-or-year performance information provided by the FMA under section 19A of the Public Finance Act 1989.

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

In the Board's opinion, these financial statements and statement of performance fairly reflect the financial position and operation of the FMA for the 12 months ended 30 June 2016.

Murray Jack

Chair
16 September, 2016

Arthur Grimes

Chair – Audit and Risk Committee
16 September, 2016

Performance standards and measures for the output of FMA for the 12 months ended 30 June 2016

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

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

	Actual $000s 12 months to 30 June 2016	Budget $000s 12 months to 30 June 2016	Actual $000s 12 months to 30 June 2015
Revenue	28,512	28,382	28,518
Expenditure	32,536	32,746	30,996
Surplus/(Deficit)	**(4,024)**	**(4,364)**	**(2,478)**

The FMA's operations are guided by the seven strategic priorities identified in our Strategic Risk Outlook, as set out on page I.

We outline 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.

	Actual $000s 12 months to 30 June 2016	Budget $000s 12 months to 30 June 2016	Actual $000s 12 months to 30 June 2015
Revenue	6,835	6,835	8,262
Expenditure	7,364	8,548	7,659
Surplus/(Deficit)	**(529)**	**(1,713)**	**603**

Major variances against budget: Expenditure is under budget mainly due to less investigation and enforcement actions taking place during the period than budget.

FORECAST STANDARD	Actual 2015/16	Target 2015/16	Actual 2014/15
RISK-BASED PROPORTIONATE AND TIMELY ACTION AGAINST MISCONDUCT			
80% of inquiries and investigations are conducted within the timeframes and standards defined in the enforcement governance framework.	96%	80%	89%
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
100% of MOU requests for assistance are completed within agreed timeframes to the satisfaction of international regulators.	100%	100%	100%
95% of misconduct reports about market participants are acknowledged within two working days of receipt by the FMA's assistance team.	98%	95%	99%
90% of misconduct reports about market participants received by the FMA's assistance team are evaluated and determined for further action, referral or closing and the reporter is advised within 10 working days of receiving all relevant information.	98%	90%	96%
90% of frontline regulator referrals and misconduct reports about market participants requiring urgent attention are prioritised for action within one working day of receipt by the FMA's assistance team.	100%	90%	100%
Stakeholders agree that the FMA's enforcement actions deter misconduct in New Zealand's financial markets*.	Not applicable	70%	New measure for 2015/16

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

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 with disclosure requirements under financial markets legislation.

	Actual $000s 12 months to 30 June 2016	Budget $000s 12 months to 30 June 2016	Actual $000s 12 months to 30 June 2015
Revenue	13,307	13,252	14,460
Expenditure	13,871	14, 003	13,193
Surplus/(Deficit)	**(564)**	**(751)**	**1,267**

Major variances against budget: Both revenue and expenditure are closely in line with budget.

FORECAST STANDARD	Actual 2015/16	Target 2015/16	Actual 2014/15
RISK-BASED MONITORING AND SURVEILLANCE			
Once received by the FMA, 90% of fully completed licence applications* are processed within 60 working days and in accordance with established processes.	100%	90%	New measure for 2015/16
Reviews of registered securities markets and accredited bodies are completed and published annually.	100%	100%	100%
The FMA reports on five thematic monitoring projects per year focusing on its strategic priorities.	Five	Five	Six
Regulated offers are risk-assessed within five working days after a new Product Disclosure Statement (PDS) is lodged or a new prospectus is registered.	100%	100%	100%
100% of high-risk regulated offers are reviewed post-registration or lodgement.	100%	100%	100%
In 100% of cases where the FMA has reviewed regulated offers and found issues of material concern, disclosures and offer information are improved or documents withdrawn.	100%	100%	100%
95% of the FMA's licensing decisions are unchallenged or upheld.	100%	95%	100%
The FMA's strategic priorities are incorporated into its entity-based monitoring programme.	Achieved	Achieved	New measure for 2015/16

* Includes AFA, QFE, Auditors and Supervisors licence applications (including renewals and variations for AFA and QFE). Measure does not include FMC Act licence applications received during the transition period.

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.

	Actual $000s 12 months to 30 June 2016	Budget $000s 12 months to 30 June 2016	Actual $000s 12 months to 30 June 2015
Revenue	8,370	8,295	5,796
Expenditure	11,301	10,195	10,144
Surplus/(Deficit)	**(2,931)**	**(1,900)**	**(4,348)**

Major variances against budget: Expenditure is over budget because more activities were undertaken in relation to market analysis and guidance, investor awareness and other regulatory engagement including the FMC Act implementation.

FORECAST STANDARD	Actual 2015/16	Target 2015/16	Actual 2014/15
MARKET ANALYSIS AND GUIDANCE			
Market participants' input is sought and considered before establishing all significant new guidance.	100%	100%	100%
The FMA briefs the Minister of Commerce on key financial markets issues and conduct priorities on a quarterly basis.	100%	100%	100%
95% of completed applications for exemptions are processed within six weeks of receiving all relevant information or as agreed with applicant.	100%	95%	100%
Government agencies are satisfied with the quality of advice and assistance provided by the FMA.	Satisfied	Satisfied	Satisfied
The FMA's Strategic Risk Outlook is reviewed annually to incorporate new market developments.	Achieved	Achieved	New measure for 2015/16
MARKET AND INVESTOR ENGAGEMENT			
95% of enquiries receive a substantive response from the FMA within 20 working days of the FMA receiving all relevant information.	99%	95%	99%
The FMA undertakes at least 20 industry or business presentations or speeches per year, with the aim of providing better information and insight for regulated populations.	21	20	New measure for 2015/16
75% of the FMA website visitors surveyed rate the content they accessed as useful in helping them to comply, or to make informed investment decisions.	96%	75%	New measure for 2015/16
The FMA undertakes three investor awareness initiatives per year focusing on improving investor capability.	Four	Three	New measure for 2015/16
80% of market participants with an FMA relationship manager say they have benefitted from the relationship.	91%	80%	New measure for 2015/16

Financial Markets Authority litigation fund

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

	Actual $000s 12 months to 30 June 2016	Budget $000s 12 months to 30 June 2016	Actual $000s 12 months to 30 June 2015
Appropriation revenue*	1,333	2,000	1,429
Other Revenue	53	–	255
Total Revenue	1,386	2,000	1,684
Expenditure	1,386	2,000	1,684
Surplus/(Deficit)	–	–	–

* 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 2015/16	Budget standard of performance 2015/16	Actual 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.	The FMA undertook litigation using the litigation fund as per the conditions of use.

Financial statements

Statement of comprehensive revenue and expense

for the 12 months ended 30 June 2016

	Note	**Actual 2016 $000s**	**Budget 2016 $000s**	Actual 2015 $000s
REVENUE FROM NON-EXCHANGE TRANSACTIONS				
Government grant	2	26,184	26,184	26,184
Litigation fund revenue	3	1,386	2,000	1,684
REVENUE FROM EXCHANGE TRANSACTIONS				
Interest		312	101	606
Other revenue	4	2,016	2,098	1,658
Total revenue		**29,898**	**30,383**	**30,132**
EXPENDITURE				
Personnel expenses	5	21,845	21,123	20,799
Depreciation and amortisation	8,9	3,179	3,627	2,305
Other operating expenditure	7	7,512	7,997	7,822
Litigation fund expenditure	3	1,386	2,000	1,684
Total expenditure		**33,922**	**34,747**	**32,610**
Surplus/(deficit)		(4,024)	(4,364)	(2,478)
Total comprehensive revenue and expense		**(4,024)**	**(4,364)**	**(2,478)**
TOTAL COMPREHENSIVE REVENUE AND EXPENSE COMPRISES:				
Net operating surplus/(deficit)		(4,024)	(4,364)	(2,478)
Net litigation fund surplus/(deficit)		–	–	–
Total comprehensive revenue and expense		**(4,024)**	**(4,364)**	**(2,478)**

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 2016

	Note	**Actual 2016 $000s**	**Budget 2016 $000s**	Actual 2015 $000s
OPENING BALANCE				
Accumulated funds		6,560	6,520	9,038
Litigation fund		844	844	844
Capital contributions		8,777	8,777	8,777
Total opening balances		**16,181**	**16,141**	**18,659**
COMPREHENSIVE REVENUE AND EXPENSE FOR THE YEAR				
Net operating surplus/(deficit)		(4,024)	(4,364)	(2,478)
Net litigation fund surplus/(deficit)		–	–	–
Other comprehensive revenue and expense		–	–	–
Total comprehensive revenue and expense		**(4,024)**	**(4,364)**	**(2,478)**
Closing balances 30 June		**12,157**	**11,777**	**16,181**
Accumulated funds		2,536	2,156	6,560
Litigation fund	3	844	844	844
Capital contribution		8,777	8,777	8,777
Total closing balances		**12,157**	**11,777**	**16,181**

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 2016

	Note	**Actual 2016 $000s**	**Budget 2016 $000s**	Actual 2015 $000s
ASSETS				
Current assets				
Cash and cash equivalents		1,051	2,022	4,847
Term deposits		5,500	–	4,000
Cash and cash equivalents – litigation fund		288	261	374
GST receivable		201	355	392
Receivables	13	1,373	1,333	1,740
Total current assets		**8,413**	**3,971**	**11,353**
Non-current assets				
Property, plant and equipment	8	3,055	1,363	3,676
Intangible assets	9	5,598	8,594	6,005
Total non-current assets		**8,653**	**9,957**	**9,681**
Total assets		**17,066**	**13,928**	**21,034**
LIABILITIES				
Current liabilities				
Creditors and other payables	14	1,966	1,053	2,158
Employee entitlements		939	800	773
Lease liabilities	11	142	265	142
Total current liabilities		**3,047**	**2,118**	**3,073**
Non-current liabilities				
Creditors and other payables	14	115	33	–
Lease liabilities	11	1,050	–	1,083
Provisions	12	697	–	697
Total non-current liabilities		**1,862**	**33**	**1,780**
Total liabilities		**4,909**	**2,151**	**4,853**
EQUITY				
Accumulated funds		2,536	2,156	6,560
Litigation fund	3	844	844	844
Capital contribution		8,777	8,777	8,777
Total equity		**12,157**	**11,777**	**16,181**
Total equity and liabilities		**17,066**	**13,928**	**21,034**

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 2016

	Note	Actual 2016 $000s	Budget 2016 $000s	Actual 2015 $000s
CASHFLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Receipts from non-exchange transactions:				
– government grant		26,184	26,184	26,184
– litigation fund revenue		1,316	2,000	1,620
Receipts from exchange transactions:				
– other revenue		1,974	2,088	1,808
– interest		407	77	677
– MBIE fees collected/(repaid)		97	–	(3)
– Goods and services tax (net)		96	4	(10)
Cash was disbursed to:				
– suppliers		(8,548)	(10,444)	(9,485)
– employees		(21,894)	(21,121)	(21,015)
Net cashflows from operating activities	15	**(368)**	**(1,212)**	**(224)**
CASHFLOWS FROM INVESTING ACTIVITIES				
Cash was provided from:				
– sale of fixed assets		–	–	1
– decrease in term deposits		18,500	4,000	22,500
Cash was applied to:				
– purchase of property, plant and equipment		(157)	(158)	(1,080)
– purchase of intangible assets		(1,857)	(4,443)	(4,951)
– increase in term deposit		(20,000)	–	(13,000)
Net cashflows from investing activities		**(3,514)**	**(601)**	**3,470**
Net increase/(decrease) in cash and cash equivalents		(3,882)	(1,813)	3,246
Cash and cash equivalents at the beginning of the year		5,221	4,096	1,975
Cash and cash equivalents at the end of the year		**1,339**	**2,283**	**5,221**
COMPRISING				
Cash and cash equivalents		1,051	2,022	4,847
Cash and cash equivalents – litigation fund		288	261	374
		1,339	**2,283**	**5,221**

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 2016

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 2016, and were approved by the Board on 16 September 2016.

Basis of preparation

The financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently throughout the year.

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.

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 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 and there are no further conditions.

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 2016 (2015: $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 2016

	Actual 2016 $000s	Actual 2015 $000s
Opening balance	**844**	**844**
Government grant revenue	1,333	1,429
Interest revenue	7	14
Settlements and cost recoveries	46	241
Total litigation fund revenue	**1,386**	**1,684**
Expenditure on eligible litigation	(1,386)	(1,684)
Closing balance	**844**	**844**
COMPRISING		
Cash and cash equivalents		
– current account	3	8
– call account	285	366
	288	**374**
Trade and other receivables	937	785
Trade and other payables	(381)	(315)
Balance	**844**	**844**

Hanover settlement: As a result of the settlement of civil proceedings against the former directors of Hanover Finance Ltd, Hanover Capital Ltd, and United Finance Ltd, $18 million was received into FMA's nominated trust account at 30 June 2015 held by Deloitte. Deloitte is appointed to manage the allocation and distribution of settlement monies to eligible investors on FMA's behalf. The FMA does not hold the beneficial ownership interests of the trust money and accordingly these balances and the distributions, interest earned and professional services fees paid from this fund are not recognised in the financial statements of the FMA. The balance held in the trust account as at 30 June 2016 was $5.1 million including interest earned of $328K, four separate distributions made to eligible investors totalling $12.8 million and payment of professional services fees of $475K.

Note 4 — Other revenue

	Actual 2016 $000s	Actual 2015 $000s
Audit quality review fees	290	343
Licence fees	1,585	770
Superannuation fees	131	200
Sundry revenue	10	345
Total other revenue	**2,016**	**1,658**

Sundry revenue includes court cost recoveries and miscellaneous revenue.

Notes to the financial statements

for the 12 months ended 30 June 2016

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 scheme and are recognised as an expense in the statement of comprehensive revenue and expense as incurred.

	Actual 2016 $000s	Actual 2015 $000s
Salaries and wages	17,264	15,090
Defined contribution plan employer contributions	462	400
ACC	21	43
Member and Committee fees	536	528
Contract staff	3,202	4,333
Recruitment/transitional costs	360	405
Total personnel costs	**21,845**	**20,799**

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 arm's-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 arm's 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 arms-length 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 is Chair of Chartered Accountants Australia and New Zealand. This amalgamated body has regulatory responsibilities for New Zealand resident-issuer auditors, for which the FMA has oversight.

– Michael Webb was on the FMA's Board until 7 June 2016. 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 2016

Transactions with suppliers

Supplier	Purpose of transactions	Transaction value	
		2016 $000s	**2015 $000s**
Deloitte New Zealand	Enforcement/forensic services, disbursement recovery and business consultancy	559*	268
Chartered Accountants Australia and New Zealand	Auditor quality reviews, training and annual membership fees	276	395

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.

* Does not include professional services fees paid to Deloitte in managing the Hanover settlement. Refer to note 3.

Key management personnel compensation

	Actual 2016 $000s	Actual 2015 $000s
SHORT-TERM EMPLOYEE BENEFITS		
– Board members' remuneration	486	510
– full-time equivalent members	1.14	1.21
– Code Committee remuneration	50	18
– full-time equivalent Code Committee members	0.21	0.09
– Executive Team remuneration	2,596	2,195
– full-time equivalent Executive Team	7.86	6.93
	3,132	**2,723**
Termination benefits – Executive Team	83	97
Total key management personnel compensation	**3,215**	**2,820**
Total full time equivalent personnel	**9.21**	**8.23**

Key management personnel include all Board and Committee members and the Executive Team.

The full-time equivalent for Board and Committee members has been determined based 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 2016

Composition of Board members' remuneration

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

	Actual 2016 $000s	Actual 2015 $000s
S. Allen	–	103
S. Cave	45	51
R. Eele	41	40
A. Grimes	44	38
M. Holm	37	38
M. Jack	148	103
J. Miller	–	44
J. Smyth	–	41
V. Stoddart	3	–
W. Stevens	41	3
C. Stuart	39	3
M. Todd	47	3
M. Webb	41	43
Total Board members' remuneration	**486**	**510**

New member:

Member name	**Membership term start date**
Vanessa Stoddart	7th June 2016

Leaving members:

Member name	**Membership term expiry date**
Rebecca Eele	3rd May 2016
Michael Webb	7th June 2016

Notes to the financial statements

for the 12 months ended 30 June 2016

Composition of Code Committee remuneration

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

	Actual 2016 $000s	Actual 2015 $000s
M. Biss	4	1
R. Butler	4	1
J. Duffy	3	–
S. Edmond	–	1
M Hawes	3	1
D. Ireland	26	7
D. Kingsford	1	4
S. O'Connor	5	1
D. Russell	1	1
G. Young	3	1
Total Code Committee remuneration	**50**	**18**

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:

	Actual 2016 $000s	Actual 2015 $000s
T. Berry	–	–
G. Clews	–	–
S. Hassan	–	–
P. Houghton	–	–
D. McDonald	–	–
J. Robertson (Sir Bruce Robertson)	–	–
Total Financial Advisers Disciplinary Committee remuneration	**–**	**–**

No meetings were held during the 2015/16 financial period.

Notes to the financial statements

for the 12 months ended 30 June 2016

Employee remuneration

During the period, the number of employees who received remuneration and other benefits in excess of $100,000, were:

Remuneration paid or payable ($)	**Number of employees 2016**	Number of employees 2015
540,001 to 550,000	1	–
530,001 to 540,000	–	1
350,001 to 360,000	1	–
340,001 to 350,000	1	1
330,001 to 340,000	–	1
320,001 to 330,000	–	1
310,001 to 320,000	–	–
300,001 to 310,000	–	–
290,001 to 300,000	–	1
280,001 to 290,000	–	–
270,001 to 280,000	–	–
260,001 to 270,000	–	–
240,001 to 250,000	1	–
230,001 to 240,000	1	–
220,001 to 230,000	1	1
210,001 to 220,000	–	1
201,001 to 210,000	3	1
190,001 to 200,000	2	2
180,001 to 190,000	1	1
170,001 to 180,000	2	3
160,001 to 170,000	3	2
150,001 to 160,000	6	1
140,001 to 150,000	4	4
130,001 to 140,000	8	4
120,001 to 130,000	17	12
110,001 to 120,000	10	13
100,001 to 110,000	15	5

During the 12-month period ended 30 June 2016, two employees received compensation and other benefits in relation to cessation totalling $93,717 (2015: six employees, $177,309).

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.

Notes to the financial statements

for the 12 months ended 30 June 2016

Note 7 — Other operating expenses

	Actual 2016 $000s	Actual 2015 $000s
Fees to auditors		
– fees to Audit New Zealand for financial statements audit	71	58
Doubtful debts expense	6	–
Impairment of capital work in progress	72	359
Loss on disposal of fixed assets	–	7
Operating lease expenses	1,809	1,282
Professional services	1,932	1,854
Services and supplies	3,122	3,357
Travel and accommodation	500	905
Total other operating expenses	**7,512**	**7,822**

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.

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 commences.

There has been a change in depreciation policy that is applicable to the following classes of property, plant and equipment acquired on or after 1 July 2015:

	Assets acquired pre 1 July 2015	**Assets acquired post 1 July 2015**
Office furniture	20 percent of diminishing value	Straight line over five years
Office equipment	Straight line over three years	Straight line over a period of 3 to 5 years based on the estimated useful lives of each category of asset
Leasehold improvements	Straight line over remaining life of lease	Straight line over remaining life of lease

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

Notes to the financial statements

for the 12 months ended 30 June 2016

	Office equipment $000s	Office furniture $000s	Leasehold improvements $000s	Capital work in progress $000s	Total $000s
COST					
Property, plant and equipment at 1 July 2014	1,187	504	1,245	138	3,074
Additions	319	232	1,431	719	2,701
Transfers from capital work in Progress	–	–	857	(857)	–
Disposals	(161)	–	–	–	(161)
Balance at 30 June 2015	**1,345**	**736**	**3,533**	**–**	**5,614**
Additions	33	–	18	–	51
Transfers from capital work in progress	–	–	–	–	–
Disposals	(3)	–	–	–	(3)
Balance at 30 June 2016	**1,375**	**736**	**3,551**	**–**	**5,662**
ACCUMULATED DEPRECIATION					
Property, plant and equipment at 1 July 2014	(913)	(180)	(406)	–	(1,499)
Depreciation expense	(226)	(87)	(279)	–	(592)
Elimination on disposal	153	–	–	–	153
Balance at 30 June 2015	**(986)**	**(267)**	**(685)**	**–**	**(1,938)**
Depreciation expense	(190)	(85)	(396)	–	(671)
Elimination on disposal	2	–	–	–	2
Balance at 30 June 2016	**(1,174)**	**(352)**	**(1,081)**	**–**	**(2,607)**
CARRYING AMOUNTS					
At 30 June 2015	359	469	2,848	–	3,676
At 30 June 2016	201	384	2,470	–	3,055

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

Plant and equipment obtained in a non-exchange transaction

In 2016, the FMA recognised $nil (2015: $939,781) 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.

Note 9 — Intangible assets

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

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

Costs associated with maintaining computer software are recognised as an expense when incurred. Costs associated with development and maintenance of the FMA's website are recognised as expenses when incurred.

Notes to the financial statements

for the 12 months ended 30 June 2016

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.

There has been a change in depreciation policy in respect of computer software acquired on or after 1 July 2015. Computer software is depreciated as follows:

- *Computer software acquired pre 1 July 2015 – the useful life and associated amortisation rate is three years (33.3%).*
- *Computer software acquired post 1 July 2015 – to be amortised over three to five years (20% -33.33%), based on the expected useful life of each asset.*

	Computer software $000s	Capital work in progress $000s	Total $000s
COST			
Intangible assets 1 July 2014	3,496	1,223	4,719
Additions	30	4,652	4,682
Disposals	(76)	–	(76)
Transfers from capital work in progress	3,409	(3,409)	–
Balance at 30 June 2015	**6,859**	**2,466**	**9,325**
Additions	487	1,708	2,195
Disposals/adjustments	–	(22)	(22)
Impairment provision utilised	–	(287)	(287)
Transfers from capital work in progress	2,146	(2,146)	–
Balance at 30 June 2016	**9,492**	**1,719**	**11,211**
ACCUMULATED DEPRECIATION			
Intangible assets 1 July 2014	(1,324)	–	(1,324)
Amortisation expense	(1,713)	–	(1,713)
Elimination on disposal	76		76
Balance at 30 June 2015	**(2,961)**	**–**	**(2,961)**
Amortisation expense	(2,508)	–	(2,508)
Elimination on disposal	–		–
Balance at 30 June 2016	**(5,469)**	**–**	**(5,469)**
IMPAIRMENT PROVISION			
Costs provided at 1 July 2015	–	(359)	(359)
Additional costs provided	–	(72)	(72)
Provision utilised	–	287	287
Balance at 30 June 2016	**–**	**(144)**	**(144)**
At 30 June 2015	3,898	2,107	6,005
At 30 June 2016	4,023	1,575	5,598

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 2016

Impairment of property, plant and equipment, and intangible assets

During the current year an impairment of $72,360 (2015: $358,928) has been recognised in respect of 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
2016			
Not later than one year	436	1,342	1,778
Later than one year and not later than five years	1,745	5,812	7,557
Later than five years	–	2,778	2,778
Total non-cancellable operating leases	**2,181**	**9,931**	**12,113**
2015			
Not later than one year	436	1,300	1,736
Later than one year and not later than five years	1,745	5,631	7,376
Later than five years	436	4,300	4,736
Total non-cancellable operating leases	**2,617**	**11,231**	**13,848**

The FMA has two leased properties as at 30 June 2016.

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

The FMA's lease of Takutai Square expires on 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.

Capital commitments

There are no capital commitments at balance date (2015: nil).

Notes to the financial statements
for the 12 months ended 30 June 2016

Note 11 — Occupancy 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 sublessor in the previous financial period 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 2014	–	308		308
Unused amounts recognised	–	(308)		(308)
Incentives received	939	250	–	1,189
Amortisation	(70)	(18)	124	36
Balance at 30 June 2015	**869**	**232**	**124**	**1,225**
Balance at 1 July 2015	869	232	124	1,225
Incentives received	-	-	-	-
Amortisation	(112)	(30)	109	(33)
Balance at 30 June 2016	**757**	**202**	**233**	**1,192**

Notes to the financial statements
for the 12 months ended 30 June 2016

Takutai Square

The following transactions occurred in the prior financial year in respect of the surrender of the sublease:

Gifted Assets

An incentive of $939,781 was recognised in respect of office furniture and leasehold improvements gifted.

Occupancy Incentives

The unamortised incentives received were recognised in full resulting in a favourable adjustment of $308,666.
An incentive of $250,000 was received.

	Actual 2016 $000s	Actual 2015 $000s
NON-CURRENT PORTION		
Occupancy incentives	817	959
Deferred rental	233	124
Total non-current portion	**1,050**	**1083**
CURRENT PORTION		
Occupancy incentives	142	142
Deferred rental	–	–
Total current portion	**142**	**142**
Total lease liabilities	**1,192**	**1,225**

Notes to the financial statements

for the 12 months ended 30 June 2016

Note 12 — Provisions

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

	Actual 2016 $000s	Actual 2015 $000s
NON-CURRENT PORTION		
Lease make-good	697	697
Total non-current portion	697	697
Total provisions	**697**	**697**

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:

	Lease make-good provision $000s
Balance at 1 July 2014	106
Additional provisions made	685
Unused amounts reversed	(94)
Balance at 30 June 2015	**697**
Balance at 1 July 2015	697
Additional provisions made	–
Unused amounts reversed	–
Balance at 30 June 2016	**697**

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 2016

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.

	Actual 2016 $000s	Actual 2015 $000s
Trade debtors	698	931
Other receivables	469	504
Total debtors and other receivables	1,167	1,435
Prepayments	206	305
Total receivables	**1,373**	**1,740**
TOTAL DEBTORS AND OTHER RECEIVABLES COMPRISE:		
Receivables from services provided (exchange transactions)	383	726
Receivables from grants (non-exchange transactions)	784	709
Total debtors and other receivables	**1,167**	**1,435**

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

	2016 $000s	2015 $000s
Not past due	592	565
Past due one to 30 days	49	347
Past due 31 to 60 days	34	6
Past due 61 to 90 days	–	9
Past due over 90 days	23	4
Total	**698**	**931**

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

An individual impairment of $6,146 has been recognised during the current year (2015-$11,878).

Notes to the financial statements

for the 12 months ended 30 June 2016

Note 14 — Creditors and other payables

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

	Actual 2016 $000s	Actual 2015 $000s
CURRENT		
Trade creditors	936	1,654
Accrued expenses and other payables	1,012	495
Revenue in advance	18	9
Total current creditors and other payables	**1,966**	**2,158**
NON-CURRENT		
Accrued expenses and other payables	115	–
Total non-current creditors and other payables	**115**	**–**
TOTAL CURRENT CREDITORS AND OTHER PAYABLES COMPRISE:		
Creditors and other payables under exchange transactions	1,966	2,158
Creditors and other payables under non-exchange transactions	–	–
Total current creditors and other payables	**1,966**	**2,158**

Notes to the financial statements

for the 12 months ended 30 June 2016

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

	Actual 2016 $000s	Actual 2015 $000s
REPORTING SURPLUS (DEFICIT)	(4,024)	(2,478)
Add non-cash items:		
– allocation of doubtful debt provision	6	–
– allocation of lease incentives	(142)	(396)
– allocation of deferred rental	109	124
– allocation of leasehold provisions	–	(94)
– depreciation/amortisation	3,179	2,305
– impairment of capital work in progress	42	359
Add/(less) movement in working capital:		
– (decrease)/increase in creditors	103	(317)
– decrease/(increase) in receivables	551	83
– (decrease)/increase in employment entitlements	(13)	(90)
Add/(less) movement in investing activity:		
– loss on sale of fixed assets	–	7
– (decrease)/increase in creditors relating to investing activities	(179)	273
Net cashflows from operating activities	**(368)**	**(224)**

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 (2015: nil).

Contingent assets

There are no contingent assets at balance date (2015: nil).

Note 17 — Events after the balance date

There were no significant events after the balance date.

Note 18 — Going concern

There is currently no indication of anything which would affect the FMA's ability to continue as a going concern.

Notes to the financial statements
for the 12 months ended 30 June 2016

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 because of changes in market interest rates. Considering the FMA's exposure to interest rate risk arises from term investments only, the exposure to such risk is limited.

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

Sensitivity analysis

As at 30 June 2016, 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 for the 12 months would have been $68,396 lower (2015: $106,587 lower) or $61,002 higher (2015: $89,565 higher).

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 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, Bank of New Zealand Limited, ASB Bank Limited, ANZ Bank New Zealand Limited and Kiwibank Limited. They are all registered banks in New Zealand and their long-term credit ratings are:

	Moody's	Standard & Poors
Westpac New Zealand Limited	Aa3	AA-
Bank of New Zealand Limited	Aa3	AA-
ASB Bank Limited	Aa3	AA-
ANZ Bank New Zealand Limited	Aa3	AA-
Kiwibank Limited	Aa3	A+

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 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.

Notes to the financial statements

for the 12 months ended 30 June 2016

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 in relation to borrowings, acquisition of securities, issuing guarantees and indemnities, and the use of derivatives.

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

The FMA is currently working with MBIE to review its funding. The review considers a range of potential funding models taking into account that FMA's responsibilities have significantly expanded under the Financial Markets Conduct Act and other financial markets legislation since funding was first set following its establishment in 2011. Following a public consultation, a funding proposal is expected to be presented to the Government in 2016 for approval to be effective from 1 July 2017.

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 2015–2016 as approved by the Board in June 2015. The budget figures are for the 12 months to 30 June 2016 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 intent are as follows:

Statement of comprehensive revenue and expense

Revenue

Litigation fund revenue was significantly lower than budget due to the timing of litigation work.

Expenditure

Personnel costs were higher than budget as a result of higher contract staff costs incurred in respect of the FMC licensing work undertaken and a higher proportion of OPEX related project work being undertaken as a result of the upcoming Financial Sector Assessment Program review, and the timing of certain CAPEX projects.

Depreciation and amortisation is lower than budget as a result of a lower year to date CAPEX spend. This has been partially off-set by the depreciation of unbudgeted gifted assets and make-good provisions.

Operating expenses were below budget mainly due to cost control disciplines put in place during the period, and delay in spend timing across FY15/16 and FY16/17.

Litigation fund

Litigation fund expenditure was below budget as a consequence of the timing of litigation matters and the settlement of litigation brought by the FMA proceedings.

Statement of Financial Position

Assets

Cash, cash equivalents and term deposits were higher than budget as a result of underspend in both OPEX and CAPEX expenditure during the period.

Non-current assets :

- Property, plant and equipment are higher than budget as a result of the unbudgeted capitalisation of assets gifted by the sub-lessor, and the capitalisation of unbudgeted lease make-good provisions.
- Intangible assets are lower than budget due to the nature and phasing of the project work resulting in higher OPEX expenditure.

Liabilities

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

Lease liabilities were significantly higher than budget due to unbudgeted capitalisation of gifted assets, lease make-good provisions, a cash lease incentive and treatment of future rental increases.

Statement of cashflows

Cashflows from operating activities

Cash disbursed to suppliers was significantly lower than budget primarily due to less litigation fund expenditure and cost control disciplines implemented.

Cash disbursed to employees was higher than budget due to the FMC licensing work undertaken and a higher proportion of OPEX related project work.

Cashflows from investing activities

Cash applied to purchase intangible assets was substantially lower than budget due to the nature and phasing of project work undertaken.

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

Cost allocation policy

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

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

Glossary

Australian Securities and Investments Commission (ASIC)	Australia's corporate, markets and financial services regulator.
Authorised Financial Advisers (AFAs)	Financial advisers authorised by the FMA under the Financial Advisers Act 2008.
Anti-money laundering and countering financing of terrorism legislation (AML/CFT)	Law that supports the detection and deterrence of money laundering and financing of terrorism.
Commission for Financial Capability (CFFC)	A Crown entity that aims to increase New Zealanders' financial literacy and their financial preparedness for retirement.
Crowd-funding	A means of raising small amounts of funds for projects from a large number of people, using the internet.
Discretionary investment management services (DIMS)	An investment arrangement where a financial adviser makes the buy-sell decisions for a client's portfolio, rather than the client.
Financial Markets Conduct Act 2013 (FMC Act)	The Act aims to promote and facilitate the development of fair, efficient, and transparent financial markets.
Financial Service Providers Register (FSPR)	A searchable online public register, run by the Companies Office, which lists companies and individuals in New Zealand providing financial services.
Frontline regulator	A business or professional who has statutory obligations to ensure regulatory and professional standards of practice are met by other businesses and professionals.
International Financial Reporting Standards (IFRS)	A common global language for business affairs so that company accounts are understandable and comparable across international boundaries.
IOSCO	International Organization of Securities Commissions
NZX	NZX Ltd is a New Zealand company that builds and operates capital, risk and commodity markets and the supporting infrastructure.
Peer-to-peer lending	A way for peers or unrelated individuals to borrow or lend money, bypassing traditional financial institutions such as banks or finance companies.
Qualifying Financial Entities (QFEs)	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.
Same-class offers	Financial products with identical rights, privileges, limitations and conditions, with limited variations allowed for debt securities.

FMA

FINANCIAL MARKETS AUTHORITY

TE MANA TATAI HOKOHOKO - NEW ZEALAND