FMA
FINANCIAL MARKETS AUTHORITY
TE MANA TĀTAI HOKOHOKO

Annual Report
Ripoata-ā-Tau

2020/21

About the Financial Markets Authority - Te Mana Tātai Hokohoko

The FMA is an independent Crown entity and New Zealand's principal conduct regulator of financial markets. Our overarching statutory purpose is to promote and facilitate the development of fair, efficient and transparent financial markets. Well-regulated financial markets are a cornerstone of a successful economy and the financial wellbeing of its participants. For more on our organisation and how we regulate see pages 24-37.

Compliance statement

Minister of Commerce and Consumer Affairs

This report is provided as required under sections 150 and 151 (3) of the Crown Entities Act 2004. It is the annual report of the Financial Markets Authority for the year ended 30 June 2021

Mark Todd
Chair
Financial Markets Authority
16 December 2021

Elizabeth Longworth
Chair
Audit and Risk Committee
16 December 2021

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Pūrongo mai i te Heamana me te Tumu Whakarae Matua

Message from the Chair and Chief Executive

May 2021 marked the FMA's 10th anniversary. Looking back to our first year, it is natural to draw parallels to today.

Then, like now, we were awaiting and preparing for new legislation that would expand our remit. We had an eye on KiwiSaver fees, and were monitoring compliance with new regulatory obligations for those providing financial advice.

At first glance it may seem like groundhog day. But the story of the FMA over the past decade is one of progress and growth, generated by the good work we have done, the trust we have built with industry, and the subsequent improvements we have seen in the conduct of much of our regulated population. Furthermore, investor confidence in New Zealand's financial markets has increased more or less steadily over the decade – to 72% in 2021, up from 58% in 2013 when we began tracking this in our annual Investor Confidence survey.

We are currently preparing for new responsibilities that will include licensing and supervising banks, insurers and non-bank deposit takers for conduct, reviewing the climate-related financial disclosures that will become mandatory for some entities, and monitoring compliance with new requirements for insurers regarding policies and protections for customers.

While previous regulatory reform has primarily been about filling gaps and replacing outdated legislation, the intention behind these changes reflects a deeper focus on serving the needs of customers, by ensuring they are treated fairly and have access to the information they need to make good decisions.

Our interest in KiwiSaver fees has matured into a more holistic focus on value for money, and our expectations have expanded to all managed funds. The guidance we produced this year sets out a framework for fund managers and supervisors to conduct a complete evaluation that takes into account not just fees, but also returns, advice and other services that provide value to investors.

And while the financial advice sector is currently getting up to speed with a refreshed set of obligations, we are confident that we have laid the groundwork, through engagement, consultation and collaboration with the adviser industry and Government over the past five years, for an enduring regulatory regime that delivers on its aim of increasing access to quality financial advice for New Zealanders.

COVID-19 has been an ever-present issue over the past year. The global pandemic had a weaker impact on the New Zealand economy than initially predicted, evidenced by a strong recovery in output and low unemployment in the first half of 2021, although we have since seen further disruption due to the Delta outbreak. New Zealand is among the first developed countries to begin raising interest rates in response to macroeconomic conditions, and future uncertainties remain around further COVID-19 disruptions, supply chain issues, asset prices, and rising labour costs.

Our strong response in the early stages of the pandemic gave us a clear direction for navigating subsequent lockdowns and managing further regulatory relief options where required. We published insights from our interactions with financial services firms in 2020, including examples we observed, to help firms strengthen their own response.

As always, a look back at our enforcement activity shows a busy and varied year.

We issued a warning to an individual for behaviour that likely amounted to market manipulation. We've been watching the significant growth of 'DIY' investing via online trading platforms, and used this warning as an

From the Chair

This annual report will be the last with Rob Everett as Chief Executive. On behalf of the Board, I want to acknowledge Rob's outstanding service over the past seven years, and recognise the great respect with which he is held both within the FMA and amongst our stakeholders generally.

As our second Chief Executive, overseeing a crucial period of development for the organisation, Rob has made an exceptional contribution to the success and standing of the FMA. We thank him for this and wish him all the best with his future endeavours.

We also look forward to welcoming Samantha Barrass as our new Chief Executive in the New Year.

opportunity to highlight, particularly to new investors, the obligations and responsibilities in regard to trading activity. We also published guidance for investors on the risks and obligations associated with online trading, and will be looking for further opportunities to reinforce this messaging, through education as well as enforcement.

We welcomed two court decisions that will see victims of convicted fraudsters Steven Robertson and Rodney McCall receive a portion of their money back. We sought asset preservation orders in relation to this case back in 2015, when we became concerned client funds were at risk, so it was pleasing to see this money will be returned to victims of the pair's fraudulent investment offers.

We spent a significant amount of time this year reviewing the cause and response for the various trading outages NZX experienced in 2020. We found NZX did not have adequate capability across its people, processes and platform to comply with its market operator obligations, and required it to submit an action plan for remedying these issues. Follow-up monitoring as part of our regular annual review has left us optimistic that NZX is on track to strengthen its technology capabilities.

Investment products that incorporate environmental, social and governance (ESG) outcomes have continued to grow in popularity. We have been thinking about them as 'integrated' financial products, that is, products that look beyond financial capital by integrating non-financial factors. We have seen it is often difficult to evidence and quantify non-financial outcomes, and our recent guidance sets out a framework for how providers can demonstrate to investors that these products are functioning as advertised and delivering the expected benefits.

For all the talk of change as we reflect on 10 years of the FMA, one thing that remains evergreen is our expectations for good conduct.

Firms are facing new obligations, new customers, new products, and new challenges such as cybersecurity threats and economic uncertainty. Good conduct, fuelled by sound governance and a focus on customers, is what will stand them in good stead as they navigate these changes, and is what we'll be looking for in our future licensing, monitoring and oversight.

Mark Todd

Chair

Rob Everett

Chief Executive

Ngā tekau tau ō te FMA

10 years of the FMA

The Financial Markets Authority was established 1 May 2011 in response to the need to address failures in New Zealand's financial markets, which were exacerbated by the global financial crisis. The 10 years since have seen us significantly widen our focus on conduct in financial services – here are some of the highlights from the past decade.

2011/12

Initiated and continued court action and investigations into failed finance companies, including reaching a settlement with Kiwi Finance Limited and full recovery for investors.

2012/13

Investigation into Ross Asset Management, following complaints received that customers were unable to withdraw funds. David Ross later pleaded guilty to criminal charges in relation to running a Ponzi scheme, and was sentenced to 10 years and 10 months in prison.

2013/14

- Implementation of the Financial Markets Conduct Act 2013 (FMC Act), which gave us regulatory powers relating to markets, conduct and fair dealing.
- Completed the remaining investigations into the collapsed finance companies, and initiated criminal proceedings with respect to three companies.

2014/15

- More than $51 million was recovered from failed finance companies Hanover, Dominion Finance, North South Finance and Strategic Finance to help repay investors.
- Milford Asset Management agreed to pay $1.5 million, and to improve its systems and controls, following our investigation into potential market manipulation.
- Launched our Investor Capability Strategy, which set a direction for working with other organisations and the financial sector to improve investor understanding and confidence.
- Issued the first licences for peer-to-peer lending platforms and crowdfunding providers.

2015/16

- Published our first report into sales practices within the life insurance industry, which identified 65,000 policies at risk of being 'churned' (shifted between providers to the benefit of the adviser), and 200 advisers using sales practices that required further monitoring.
- OPI Pacific Finance directors were sentenced to community work and ordered to pay reparations, after pleading guilty to charges of making untrue statements in a disclosure material.

2016/17

- Published a guide to FMA's view of conduct, describing for directors and senior managers the importance of good conduct, and the cultural and system issues that financial services entities must consider to ensure good outcomes for customers.
- The High Court found Mark Warminger, a senior trader at Milford Asset Management, committed market manipulation – a first-of-its-kind judgment that provided important clarification about the law. Warminger was ordered to pay a $400,000 penalty and received a five-year management ban.

2017/18

- As part of our ongoing focus on encouraging KiwiSaver members to take an active interest in their investment, we launched an online tool to guide people through checking they're on track to meet their goals. The associated media campaign reached more than 230,000 people from our target audience through Facebook and Instagram.
- Continued our work on insurance sales practices, publishing three reports looking at replacement business and conflicted conduct, the extent of soft commissions in the life and health insurance industries, and whether insurance providers' practices were designed to facilitate good outcomes for customers.
- Former registered financial adviser Anthony Norman Wilson was sentenced to 150 hours of community work, six months' community detention and ordered to pay reparations for forging clients' initials and falsely amending insurance applications.

2018/19

- With RBNZ, we carried out extensive reviews of the conduct and culture of New Zealand banks and life insurers. The reviews identified widespread poor practices and instances of potential misconduct. The response included changes at some entities (including the removal of sales incentives for bank frontline staff and managers) and ultimately a decision by the Government to introduce a regulatory regime for bank and insurer conduct.
- Mark Stephen Talbot admitted to insider trading conduct and entered a guilty plea on a representative charge for a breach of disclosure obligations. He was required to pay $150,000 in lieu of a penalty and barred from acting as a director or manager of a listed business for five years.
- Completed a thematic review of cyber resilience in financial services, based on providers' assessment of cyber risk and how prepared they are for a cyber attack.

2019/20

- Put parts of our planned work programme on hold to manage our part in the COVID-19 crisis. We increased engagement with firms and investors, collaborated with other agencies, and provided regulatory relief, guidance and leadership to support the financial sector.
- Steven Robertson was sentenced to six years and eight months in prison, after he was found to have misappropriated funds that clients believed were to be traded or invested on their behalf.
- In collaboration with the Institute of Directors, we released Ngā mea waiwai o te tūranga whakataka, a te reo Māori translation of our guide on the essentials of being a company director.

2020/21

- The new regime for regulating financial advice was introduced, following almost five years of planning, development, and engagement with the financial advice sector, industry bodies and Government agencies.
- Published expectations and a framework for how fund managers can demonstrate they are providing value for money to investors.
- ANZ New Zealand admitted to breaches of the Financial Markets Conduct Act for misleading representations it made in the supply of credit card repayment insurance, after we alleged ANZ charged certain customers for policies that offered no cover or benefit.
- In response to the rise in the use of online investment platforms, we carried out online engagement activity to raise awareness of the risks and responsibilities related to share trading.

Te titiro ānō ki tātaritanga mō ngā tau 2020/21 me te pānui mai i ta mātou Pūrongo Whainga

2020/21 in review – reporting on our SOI measures

The following pages highlight activity from the 2020/21 year, categorised by the strategic intentions listed in our Statement of Intent (SOI), to demonstrate progress against the SOI performance measures.

Te whakatau ō te Rautaki whānui

Overarching strategic intention

Strategic intention: The FMA's actions promote fair, efficient and transparent financial markets

Fair, efficient, and transparent financial markets are a cornerstone of a well-functioning New Zealand economy. This defines the FMA's overarching statutory purpose. Within our statutory framework, we therefore work and engage with financial service providers, investors and customers to promote and facilitate developments that enhance fairness, efficiency and transparency in financial markets.

Performance measure: SOI 1

The FMA's actions promote fair, efficient and transparent financial markets.

Activity contributing to this measure

All of our activity highlighted on the following pages in this section ultimately aims to contribute to SOI 1. We use several measures to gauge the overall success of our activity. The measure in Table 1 surveys stakeholder perceptions of the FMA's role in supporting market integrity. The measure, which has been consistently high over the past five years, suggests that we have been successful in this regard.

Table 1:

Stakeholders agree that the FMA supports market integrity	
2017	88%
2018	87%
2019	88%
2020	89%
2021	**89%**

Source: Ease of Doing Business survey. See page 44 for details about the survey.

Table 2:

Stakeholders agree that the FMA helps raise standards of market conduct	
2017	85%
2018	82%
2019	84%
2020	85%
2021	**87%**

Source: Ease of Doing Business survey. See page 44 for details about the survey.

Results for the measure shown in Table 2, which indicates the extent to which stakeholders believe that our activity raises the standard of market conduct, remain at a high level. Market participants have also expressed confidence in the effective regulation of New Zealand's financial markets (Table 3). Confidence levels have returned to the levels recorded in 2017, following a decline in 2018. The fall in measured confidence in 2018 may reflect changes in the wording of the survey[1]. There were also various high-profile governance issues in listed companies that year, as well as significant attention on the Australian Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, which may have impacted investor confidence in regulation.

Table 3:

Investor confidence in New Zealand's financial markets being effectively regulated	
2016	63%
2017	69%
2018	59%
2019	60%
2020	68%
2021	**67%**

Source: Investor Confidence survey. See page 44 for details about the survey.

1: This involved removing details of who the regulators are, to make the question less leading.

Ngā mahi Kawanatanga me ngā tīkanga
Governance and culture

Strategic intention: Regulated firms have customer-centric cultures that serve the needs of customers. In particular, firms have appropriate governance and systems to manage conduct risk.

The internal culture of a financial services firm is a core driver of conduct. A customer-centric culture is an essential way for firms to reduce the likelihood and impact of misconduct. Governance, systems and controls that reflect a customer-centric approach are important elements of good conduct risk management.

Performance measure: SOI 2

Financial service providers demonstrate an appropriate customer-centric culture and improvements in governance, incentive structures, sales and advice processes, and systems to mitigate conduct risk.

Activity contributing to this measure

Supervision Insights report

We produced a report on our supervision activities and findings from our monitoring reviews of regulated entities for 18 months to June 2020. We observed some good progress in entities shifting their focus to serve the needs of customers, especially since the publication of our earlier reports on bank and life insurer conduct and culture.

While the report identified some significant compliance issues, we assessed that these were largely the result of a casual or careless approach to conduct and compliance, rather than being deliberate misconduct. However, we did note these issues had the potential to escalate into poor outcomes for customers if left unchecked, and called for further and more widespread improvements to governance and compliance to help mitigate conduct risk.

Conduct and culture update

In 2018 and 2019 we partnered with the RBNZ to complete comprehensive reviews of the conduct and culture of New Zealand banks and life insurers. We found serious weakness across both sectors that were putting customer at risk of poor outcomes, and required the firms to create action plans to address our concerns and increase their focus on governance and conduct risk.

We have reviewed progress on these plans over the past year, and found that most banks and some insurers have completed or will shortly complete their plan and transition the improvements they have made to 'business as usual'.

We have seen encouraging yet mixed results. Sales-based incentives for staff have generally been replaced with incentives that focus more on good outcomes for customers. However, we still have concerns about commissions paid to intermediaries, and have seen commission levels increasing, after they were lowered following our initial reviews.

Many firms have increased their focus on customer vulnerability, with initiatives such as improved identification of vulnerability risk factors, and training for staff on how to engage with and support customers who may be experiencing hardship or need additional support.

Reporting on remediation activity, where firms have identified issues that require them to compensate customers for not providing a product or service as intended, has been inconsistent, and issues requiring remediation continue to be identified.

Derivatives issuer sector risk assessment

Derivatives are complex financial instruments, and trading them is generally not suitable for most retail customers. In our sector risk assessment of derivatives issuers (DIs) we were therefore particularly keen to understand the governance, culture, systems and controls DIs have in place related to their treatment of customers.

Based on what DIs told us, we identified potential weaknesses in areas such as customer suitability assessments, treatment of vulnerable customers, and compliance with fair dealing provisions for advertising. Among our suggestions for improvement, we noted that DIs should continuously examine how they think about conduct, to ensure they consistently deliver good outcomes to their customers.

Spotlight on...

Managed fund fees and value for money

Our guidance on managed fund fees and value for money sets out how managers and supervisors of KiwiSaver schemes and other managed investment schemes can demonstrate they are meeting obligations, statutory duties and conduct expectations in respect of fees and value for money.

We saw the need for guidance after research suggested fees often do not correlate with the features or returns of an investment and, in the case of KiwiSaver funds, that benefits of scale which should be realised as funds under management increase are not being passed on to investors.

The guidance includes an expectation that fund managers will conduct an annual review to show how they are meeting these requirements. It includes questions to help frame the review, covering fees and returns, and advice and other services that should be part of a complete evaluation of value for money.

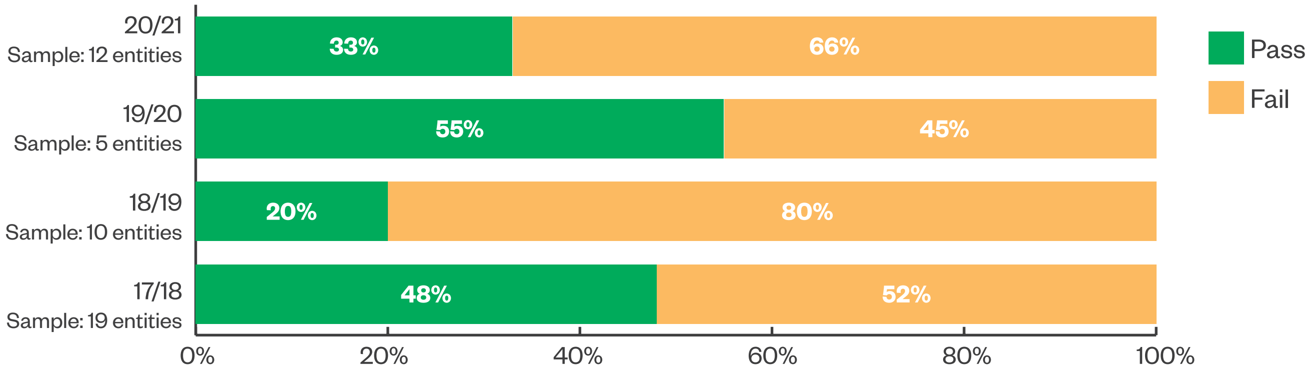
FMA Director of Investment Management Paul Gregory said: “The guidance does not tell managers what to charge and accepts managers can profit from competently managing investors’ money. But the guidance also recognises investors are paying the cost and taking the risk and, if high fees mean investors are not getting an appropriate share of that profit, the manager’s competence is far less relevant, and the investor should walk away.”

The guidance also highlights enforcement actions we may take if we determine a scheme’s fees are unreasonable. These include stop orders, direction orders, censures or action plans, altering, suspending or cancelling a licence, or court action.

Performance indicator

Licensed market participants show how they achieve good customer outcomes

One of the ways we assess whether firms can demonstrate they have the elements of a customer-centric culture is through our monitoring programme. For relevant monitoring visits, we assess on a pass/fail basis licensed market participants' governance, systems, controls, processes and training related to achieving good customer outcomes. The performance indicator below shows the results of this year's monitoring.



This year we conducted 19 monitoring visits. Seven were either related to AML/CFT monitoring and outside the scope of this measure or were referred for further investigation. Of 12 entities we assessed against this measure, we were only satisfied with four (33%).

Due to the restrictions we have faced over the past year with COVID lockdowns and limitations on in-person meetings, we had to reduce the number of entities we visited. We focused our attention on those we considered were higher risk and therefore less likely to be compliant, which is a factor in why fewer entities met the standards for this measure.

A key theme for entities that failed was the lack of adequate measures in place to assess whether their products are suitable for the customer at the onboarding stage and throughout the product lifecycle. They also failed to show that conduct risk is a key area of focus, and that they have appropriate governance systems to manage conduct risk.

While some entities have taken steps towards removing sales incentives, there are still deficiencies. We saw examples where sales targets were removed from incentives but performance (rather than outcomes) was still a key criteria, and where the board had identified sales incentives an area for improvement but no changes had been made.

For entities that passed, conduct and culture was clear focus from the board level and was part of regular discussions. There were clear plans in place to ensure profit-driven sales targets were removed and replaced by customer-centric targets.

Arai atu i ngā mahi hianga
Deterrence of misconduct

Strategic intention: We deter misconduct through effective enforcement action.

Enforcing compliance with legislation and other regulations is core to our role as a regulator. Enforcement activity enables us to hold individuals and entities to account, send clear messages to industry regarding their obligations, and provide clarity on those obligations.

Performance measure: SOI 3

The FMA's actions promote credible deterrence of misconduct.

Activity contributing to this measure

This calendar of enforcement activity highlights key cases and actions where we have sought to hold individuals and entities to account for misconduct, and/or deter similar misconduct and poor behaviour.

September	• We issued a warning about scammers attempting to impersonate the FMA as part of a money transfer scam. The scam related to the transfer of money from China to New Zealand, and our warning was published in Mandarin and English. • We filed criminal charges against Rowan Charles Kearns, the founder and sole director of the Forestlands group, in relation to the Forestlands group of companies, for alleged disclosure and financial record-keeping breaches. • We imposed conditions on the derivatives issuer licence of CLSA Premium New Zealand Limited (formerly KVB Kunlun) to prevent the firm from making an offer to, or receiving further funds from, retail investors in relation to derivatives. We found the firm failed to meet some of its audit and assurance obligations for 2019 and were not confident it would be able to meet those obligations in the near future.
November	• We appointed a temporary manager to manage three schemes previously operated by Fund Managers Otago Limited (FMO). The schemes' supervisor, Trustees Executors Limited, determined it was in the best interests of investors to remove FMO as manager of those schemes. We later cancelled FMO's managed investment scheme manager licence after finding the entity had inadequate compliance and governance arrangements that resulted in continued material breaches of its licence obligations
December	• We issued a formal warning to an individual for conduct that was likely to have amounted to market manipulation, related to the individual using an online trading platform to buy a small amount of shares at a price materially higher than the last traded price, while attempting to sell a larger amount of shares at that same price. • Two court decisions were issued that will see victims of convicted fraudsters Steven Robertson and Rodney McCall receive a portion of their money back. McCall was also sentenced to 12 months' home detention. The men had previously been found guilty of various charges relating to defrauding investors. Additionally, the Supreme Court later rejected an appeal by Robertson, after he received a prison sentence of six years, eight months.

February	• Michael Reps, the New Zealand-based director of Pegasus Markets Limited, was sentenced to two months' community detention and 90 hours' community work after we brought criminal charges for breaches of the Financial Service Providers (Registration and Dispute Resolution) Act. The charges were based on the company stating on two different websites that it was registered on the Financial Service Providers Register, despite it being deregistered and receiving a warning from the Companies Office.
March	• The Financial Advisers Disciplinary Committee censured an Authorised Financial Adviser following a case we brought relating to alleged breaches of the Code of Professional Conduct for Authorised Financial Advisers. • The Auckland High Court ordered ANZ New Zealand to pay a $280,000 civil penalty for breaching the FMC Act by making misleading representations in the supply of credit card repayment insurance to customers. • We directed licensed derivatives issuer Rockfort Markets to remove or amend misleading advertising statements on its social media channels and website, after determining it did not provide a balanced view of the risks of the product it was promoting.
April	• We issued a statement warning the funds management industry to avoid advertising large investment returns for the 12-month period to 31 March 2021, as the period saw exceptional growth and focusing on it in isolation could mislead investors.
May	• CLSA Premium New Zealand Limited admitted to breaches of the Anti-Money Laundering and Countering Financing of Terrorism Act, after we brought proceedings against the licensed derivatives issuer for record-keeping and compliance failures.
June	• In December 2019 we filed civil proceedings against CBL Corporation Limited, six of its directors and the chief financial officer. The proceedings concern multiple breaches under the FMC Act for alleged failures to comply with initial public offering disclosure requirements and continuous disclosure obligations. The proceedings were filed in the Auckland High Court and a trial date has yet to be set down as at 30 June 2021.

Performance indicators

Stakeholders agree that the FMA maintains a strong enforcement function and helps to deter misconduct by holding it to account	**2021:** 71% **2020: 78%**

Source: Ease of Doing Business survey. See page 44 for details about the survey.

While this result has dropped from the previous year, the change is within the 9.9% margin of error for the Ease of Doing Business survey. Survey respondents did not provide any comments that indicated decreased confidence in our enforcement function, and as evidenced by the calendar of activity above we have maintained a strong and visible enforcement function with the aim of deterring misconduct and holding those responsible for misconduct to account.

Scam warnings data

We regularly issue warnings through our website and social media, about schemes or entities that have the hallmarks of a scam, or may be offering unregulated products or services.

Warnings and alerts published

Category	2019	2020	2021
Suspected scam	56	75	89
Unregistered business	29	19	24
Fake regulator	7	2	2
Total	68	83	95

Some alerts relate to multiple categories

Whakaū i ngā rerekētanga o te tuku pūtea
Implementation of remit changes

Strategic intention: We deliver policy objectives in a way that promotes confidence in the regulatory regime and financial markets generally.

A number of legislative reforms are underway. These are aimed at improving the conduct of financial institutions and market participants, and ultimately improving both the wellbeing of customers and investors, and confidence in financial markets.

By successfully implementing remit change (which includes building the FMA's internal capabilities to support these changes), we will deliver policy objectives in a way that promotes confidence in the regulatory regime and financial markets generally.

Performance measure: SOI 4

The FMA works with other regulatory and government agencies, and engages with market participants, to effectively and efficiently deliver its role in remit changes.

Activity contributing to this measure

New conduct licensing regime

The Financial Markets (Conduct of Institutions) Amendment Bill (CoFI) sets out a framework for the FMA to license and monitor banks, insurers and non-bank deposit takers in respect of their conduct towards customers. We have been working with MBIE on discussion papers and engagement with stakeholders.

Administering the new regime will require significantly expanded resources for the FMA. In preparation, we have conducted an internal review of our readiness for the CoFI legislation (as well as other additions to our remit), including looking at our regulatory model, core processes, resourcing levels and expertise. A programme of work is underway to drive the enhancements and developments that will ensure the FMA remains fit for purpose in the light of an expanded remit.

AML/CFT regime review

The Financial Action Task Force released its evaluation report on the effectiveness of New Zealand's AML/CFT (anti-money laundering and countering the financing of terrorism) regime in April. The findings were substantially positive, but did identify some technical shortcomings in legislation. We have been working with other AML regulators to develop a discussion document on a statutory review of the AML/CFT Act, which will be publicly released later this year.

Other regulatory activity

- We continued to work with MBIE on the review of insurance contract law. Proposed changes would see FMA responsible for monitoring compliance with new requirements for insurers regarding insurance policies and protections for customers.
- We contributed to the Government's tender process and appointment of the new KiwiSaver default providers. IRD and FMA will be working with new and outgoing providers on transition arrangements, and communicating with default members who are impacted by the changes.
- Following Cabinet's decision to introduce climate-related financial disclosures for NZX-listed issuers and some banks, insurers and other entities, we have been working with MBIE and the External Reporting Board on the proposed standards. Under the new regime we will

be responsible for guidance, monitoring, enforcement and reporting related to these disclosures.

- We collaborated with the Commission for Financial Capability on the development of the National Strategy for Financial Capability. The strategy outlines how we will contribute, including taking the lead on investor awareness campaigns and developing shared resources.
- We worked with RBNZ on preparations for the new financial market infrastructures regime, which will see FMA and RBNZ as joint regulators of central securities depositories, securities settlement systems, central counterparties, and trade repositories.
- We worked with MBIE on the development of the legislation and licensing requirements for the opt-in regime for licensing financial benchmark administrators.
- We continued to engage with our fellow Council of Financial Regulators members to deliver on the council's priorities. This included developing an official framework for assessing customer vulnerability, to help industry in developing their own approaches to assisting vulnerable consumers.
- We received MBIE's interim monitoring and evaluation report on the Financial Markets Conduct Act 2013, for which we have responsibility for monitoring and enforcing compliance. The conclusions of the report are substantially positive, with stakeholders stating that overall "the Act seems to be working well and is regarded as an improvement on the previous regime." The report highlights that there is confidence in financial markets, more efficient access to capital, and more innovative and flexible ways of participating in financial markets have emerged.

Performance indicator

Stakeholders agree that the FMA is effective and efficient in its role of implementing remit changes	**2021**: **60%** **2020: 71%**

Source: Ease of Doing Business survey. See page 44 for details about the survey.

Spotlight on...

New financial advice regime

On 15 March 2021 the new regulatory regime for financial advice under the Financial Markets Conduct Act 2013 came into effect. Under the new regime, anyone who gives regulated financial advice to retail clients must either hold or operate under a Financial Advice Provider licence. All providers of financial advice are now subject to the same obligation to place the interests of their clients first and must adhere to the new Code of Professional Conduct for Financial Advice Services.

John Botica, FMA Director of Market Engagement, said the start of the new licensing regime was the culmination of nearly five years' work aimed at promoting public trust and confidence in the financial advice sector.

The regime is now in a two-year transitional phase, within which all those operating under a transitional licence must move to a full licence to continue proving financial advice. As of April 2021 the transitional regime encompassed:

Over the year leading up to the launch, we engaged extensively with industry to help ensure entities and advisers were prepared. We set the final standard conditions for full licences, and confirmed three classes of financial advice service, following consultation with the industry and Government agencies.

We also granted exemptions and published guidance on multiple aspects of the new regime and the transition. On the technical side, we developed a process for licensing, including a portal that interfaces with the Financial Service Providers Register.

The overarching aim of the changes is to improve New Zealanders' access to quality financial advice. We reiterated this in consumer communications, which let people know about the duties and obligations of advisers, including those set out in the new Code of Conduct, and our role in regulating financial advice.

1,807	1,197	10,736	12,287
Approved licences	Authorised Bodies	Financial Advisers	Nominated Representatives

Whiriwhiringa Kaupapa mo ngā kaiwhakarato me ngā kaiutu moni

Investor and customer decision-making

Strategic intention: Investors and customers are engaged and make active choices based on clear, concise and effective information.

Clear, concise and effective disclosure and financial reporting by issuers of financial products is critical to enable investors to make informed decisions.

Similarly, we expect all financial service providers to ensure communications with investors and customers are clear, concise and effective. This includes making efforts to ensure customers and investors are engaged and make active decisions on an ongoing basis about the financial products and services they purchase.

Focusing on effective communication and processes and practices that enable investors and customers to make decisions in their best interest is an important component of a customer-centric culture.

By focusing on this priority, we expect to see improved engagement by investors and customers with product providers and improved disclosure by those providers. This will lead to improved decision-making and the purchase of more suitable products.

Performance measure: SOI 5

Investors and customers are engaged and make active and informed decisions based on clear, concise and effective information and communication.

Activity contributing to this measure

Engagement with investors, customers and stakeholders

We want to reach new audiences, and recognise that where people get news and information is changing. We now have five social media accounts, which continue to gain in popularity. Followers on our Facebook and LinkedIn accounts grew by 107% and 25% respectively year on year for the year ending 30 June. Our average monthly engagement on Facebook increased from 1.8% in October 2019 to 7.3% in April 2021.

Engaging KiwiSaver members

Data supplied by providers showed over 12,000 KiwiSaver members aged 26-35 years old are in lower risk or conservative funds, potentially missing out on significant investment returns. We ran a communications campaign across media channels and social media, urging young New Zealanders to check:

- whether they are in the right fund for their age and circumstances
- whether they could be contributing more
- whether they're getting value for money from their provider
- the amount they're on track to have at retirement.

The campaign delivered around 341,000 impressions across digital channels, and received coverage in a dozen national and regional media outlets.

KiwiSaver Annual Report

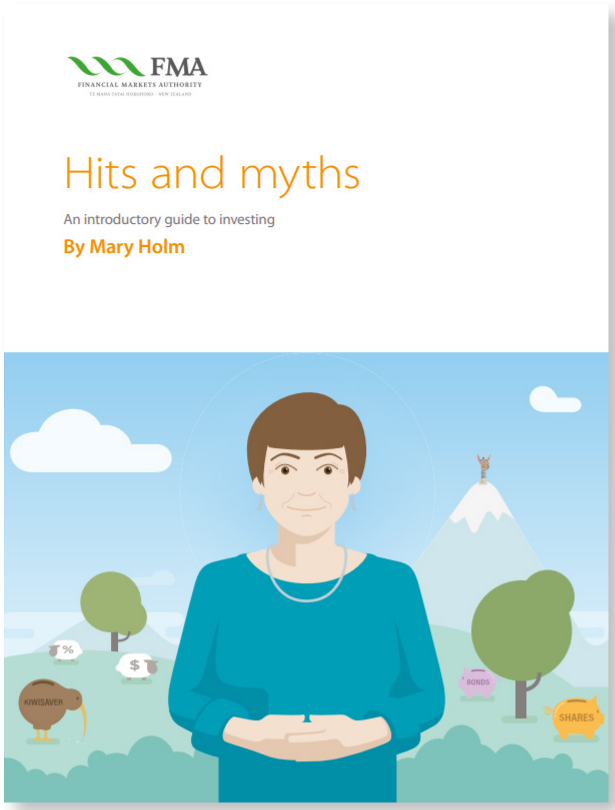
The KiwiSaver Annual Report for the 12 months to March 2020 showed that KiwiSaver continued to grow despite market volatility and economic uncertainty caused by the early impacts of COVID-19. However, nearly a quarter of KiwiSaver members remained in default conservative funds, and fewer members than the previous year made an active decision about their fund – these metrics are an indication of how effective default fund providers are at communicating with their members.

KiwiSaver fund switching research

We published findings from research into KiwiSaver switching activity, which showed 58,356 of the KiwiSaver members surveyed made 88,112 switches, meaning some made multiple switches. Fund switching at the height of the COVID-19 market volatility last year was three times higher than usual, and five times higher among people aged 26 to 35. By August 2020, only 9.1% of people who switched to a lower-risk fund between February and April 2020 had switched back to a high-growth fund. We have encouraged KiwiSaver providers to consider how the behavioural insights from the report could help improve their communications with customers, and likewise have used the findings to inform the key audiences and messages for our own KiwiSaver consumer engagement.

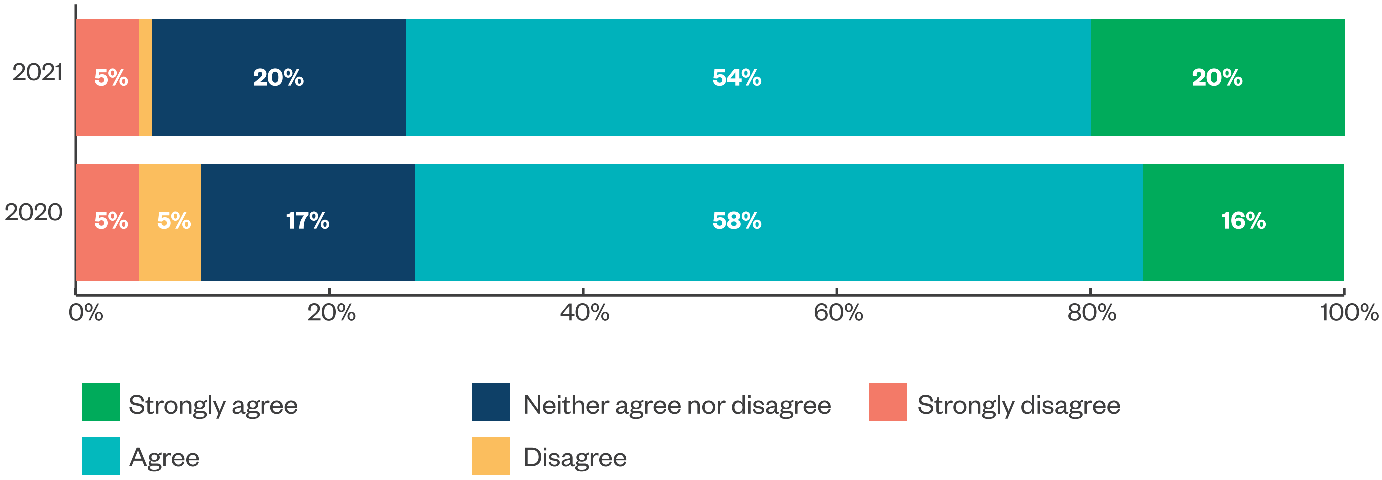
Investor guides

One of our priorities is to ensure New Zealanders are making informed decisions about the products they invest in. To support this, we added to our suite of investor guides with two new publications: Bond Voyage, which covers the basics of choosing, buying and owning bonds, and Hits and Myths, a look at some common myths and misconceptions about investing, produced in collaboration with Mary Holm. The launch of Hits and Myths during World Investor Week 2020 was supported by a range of engagement activity across multiple media and social channels, including a live Q+A Facebook event with Mary Holm, which attracted more than 3500 live and delayed viewers, and Facebook tiles promoting the guide and event, which achieved around 150,000 reach.



Performance indicator

To what extent do you agree or disagree that the information materials you received were clear, concise and effective?



Source: 2021 Investor Confidence Survey. See page 44 for details about the survey.

Raising awareness of investment scams

From 1 April to 5 November 2020, we issued 61 warnings about investment scams, of which 34% were impostor scams, where the names and details of legitimate businesses are unlawfully used by scammers to trick investors. By comparison, in the same timeframe during 2019, we issued 40 warnings, of which 10% were impostor scams. To help combat the increasing risk, we marked Fraud Awareness Week with a consumer campaign highlighting the hallmarks of an imposter scam, along with a case study of a Christchurch investment firm that was impersonated online by scammers.

During the year we began publishing a weekly wrap highlighting recent scam warnings, as well as real life case studies based on the personal stories of scam victims. These case studies have been picked up by mainstream media and receive strong engagement from our audiences.

Spotlight on...

FMA's guide to talking about money online

We released a guide to talking about money online, following concerns some social media influencers and bloggers may be straying into regulated financial advice.

The guide includes examples of where discussion about financial matters might cross the line into regulated financial advice, for which you are required to operate under a licence from the FMA.

FMA Chief Executive Rob Everett says "It's great to see more people taking an interest and talking about financial matters online, helping others get more familiar with financial products."

"However, influencers do not want to find themselves caught offering advice they're not qualified or authorised to give. It's also important for consumers to be wary of taking an influencer's recommendation that might not be suitable for them."

Te whakapono me te manawanui ki nga Makete Nunui
Trust and confidence in capital markets

Strategic intention: Investors and participants have trust and confidence in New Zealand capital markets, enabling the sustainable growth of those markets.

There are numerous factors that drive trust, confidence and growth in capital markets. We seek to promote trust and confidence by exercising our regulatory responsibilities, in particular:

- influencing improvements in audit quality, disclosure and financial reporting, and corporate governance
- maintaining effective oversight of NZX and other licensed capital-raising platforms
- providing credible deterrence in relation to trading misconduct.

This priority is closely linked to both investor and customer decision-making, and deterrence of misconduct. For this priority we are looking to see an improved level of confidence in the regulation of New Zealand capital markets, as well as higher levels of trust and confidence in those markets overall.

Performance measure: SOI 6

The FMA's actions promote trust and confidence in, and sustainable development of, New Zealand's capital markets.

Activity contributing to this measure

Oversight of NZX

In March and April 2020, NZX experienced trading volume-related system issues that resulted in market outages. We launched a review into these issues, which later expanded to include NZX's response to DDoS (Distributed Denial of Service) attacks it experienced in August 2020. Our review found NZX did not have adequate capability across its people, processes and platform to comply with its market operator obligations.

NZX subsequently submitted an action plan for remedying the issues we identified. In our annual general obligations review of NZX published in June 2021 we noted that NZX has made improvements to its regulatory arrangements and monitoring – although ultimately failed to meet its general obligations as a licensed market operator due to the technology issues.

Throughout the year we also engaged frequently with NZX's regulatory arm, NZ RegCo, on cases of potential misconduct they have observed in trading activity.

Audit quality reviews

Every year we publish a report on the findings from our audit reviews of FMC reporting entities. These reviews help to promote trust and confidence in capital markets by assessing how well licensed auditors are meeting their obligations and highlighting areas for improvement that we follow up on in subsequent reviews. The Audit Quality Monitoring Report for 2020 concluded that audit quality has continued to improve, with the overall number of issues discovered by the FMA reducing over time.

Filing of financial statements

We monitor compliance with financial statement filing requirements for FMC reporting entities on an ongoing basis. In 2020, we issued two infringement notices and one warning letter to reporting entities and their directors in relation to non-filing. We also filed criminal charges against a director for alleged disclosure and financial record keeping breaches across multiple companies, which included alleged failure to file financial statements for a number of years. The timely availability of financial statements is an important tool for investor decision-making. By investigating non-compliance with filing obligations, and taking enforcement action when warranted, we intend to maintain trust and confidence in markets and listed entities.

Peer-to-peer lending and crowdfunding

Our 2020 statistical report on peer-to-peer lending and equity crowdfunding showed these sectors experienced steady growth over the period – particularly crowdfunding, where the number of successful offers increased by 30% and the total amount raised increased by 20%. Our licensing and oversight of peer-to-peer and crowdfunding providers contributes to the sustainable development of markets, as these services offer lower-cost alternatives for raising capital and matching investors with borrowers.

Facilitating new capital-raising options

We approved a financial product market licence (with tailored conditions) and exemptions to allow for Catalist Public Market, a proposed new financial product market targeted at small and medium-sized enterprises, to make ‘same class’ offers and small offers of $2 million or less for products quoted on the market. Where possible we look to support new and innovative capital-raising options such as this, balanced with sufficient investor protections, to help foster the sustainable development of our capital markets.

Spotlight on...

Integrated financial products

We released guidance on financial products that incorporate non-financial factors, such as ‘green’ bonds and ‘socially responsible’ managed funds.

In developing the ‘Disclosure framework for integrated financial products’ guidance, we are supporting New Zealand’s transition to an ‘integrated’ financial system – which not only takes into account financial returns but also non-financial factors such natural, social and human capital impacts.

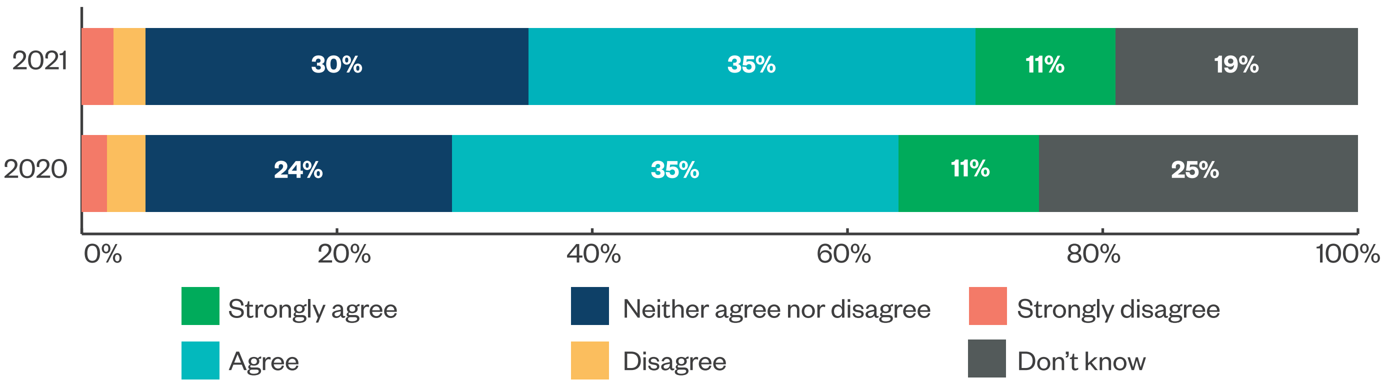
The guidance sets out how ‘fair dealing’ provisions in the FMC Act pertain to integrated financial products, the type of disclosure the FMA expects from issuers of such products, and our enforcement options in this area.

Sarah Vrede, FMA Director of Capital Markets, said the FMA’s support for the transition to an integrated financial system is aligned directly to its strategic priorities, in particular promoting trust and confidence in capital markets and supporting better investor and customer decision-making.

“Demand for integrated financial products is continuing to grow, and we want investors to have confidence that these products will deliver what they claim.”

Performance indicators

FMA’s actions promote trust and confidence in New Zealand capital markets



Source: 2021 Investor Confidence Survey. See page 44 for details about the survey.

Tō mātou rōpū
Our organisation

About the FMA

The FMA is an independent Crown entity and New Zealand's principal conduct regulator of financial markets. Our overarching statutory purpose is to promote and facilitate the development of fair, efficient and transparent financial markets. Well-regulated financial markets are a cornerstone of a successful economy and the financial wellbeing of its participants.

What do we do?

As New Zealand's principal conduct regulator of financial markets, we focus on protecting investors, customers and the integrity of markets through influencing how participants behave towards their customers, investors and each other.

Our activities include:

- Policy and guidance - We engage and provide information and guidance that assists firms and professionals to comply with the law. We keep under review the law and practices relating to financial markets and participants.
- Information and resources - We provide information and resources to help investors and customers make better investment and financial decisions.
- Licensing - We license a range of firms and professionals that meet the requirements in law.
- Monitoring and supervision - We monitor and assess conduct, compliance and competency of market participants.
- Investigations and enforcement - Through our investigation and enforcement activities we aim to raise standards of behaviour, deter misconduct, and hold to account those whose conduct harms the operation of our financial markets.
- Environmental scanning - We scan the environment to identify the most significant risks to and opportunities for promoting our priorities.

In delivering our functions we work and engage closely with industry, investors and customers, the Government and other agencies.

What do we expect?

When interpreting our statutory objectives we consider:

- Fair to mean providers and participants acting fairly, professionally and with integrity, focusing on serving the needs of customers (see below).
- Efficient to mean dynamic and accessible markets that facilitate growth and innovation.

Serving the needs of customers

This means financial service providers focus on:

- treating customers fairly in all interactions
- recognising and prioritising the interests of customers and effectively managing the conflicts of interest that arise
- giving customers clear, concise and effective information
- designing and distributing products that are suitable, work as expected and as represented, and are targeted at appropriate customer groups
- ensuring adequate after-sales care, including complaints and claims handling, and not imposing unnecessary barriers to switching or exiting a product or service
- effectively monitoring their own conduct, and where relevant the conduct of suppliers and distributors, to ensure they can identify, rectify and learn from mistakes.

- Transparent to mean investors and customers get the clear, concise and effective information they need to make informed decisions.

We also want to see capable and engaged investors and customers operating in those markets.

We expect all market participants to act fairly and professionally, and be committed to pursuing the objectives and spirit of regulation rather than just the letter of the law. We expect financial service providers to engage openly, honestly and proactively with us.

Fair, efficient and transparent financial markets will promote high levels of trust and confidence. Markets will be effective in matching investors with those that need capital and New Zealanders will be able to access quality advice, investment management and other financial services they need.

Effective financial markets are central to supporting the four capitals of the Treasury's living standards framework and to the broader Government's economic strategy of improving the wellbeing and living standards of New Zealanders through sustainable and inclusive growth.

How we approach our work

The following principles underpin our regulatory approach and guide our regulatory decisions.

- **Intelligence-led and harm-based:** we use intelligence to identify and assess the areas of greatest harm to investors, customers and financial markets, and the drivers of that harm.
- **Outcome-focused:** we focus our resources on where we have the greatest opportunity of achieving desired outcomes and reducing harm. We consider the most appropriate action for each situation, recognising the limits of our powers, and considering regulatory burden and potential unintended consequences of our actions.
- **Effective and efficient:** we regularly review the use of our resources to enhance our effectiveness and efficiency.
- **Consistent and transparent:** we clearly communicate our intentions and expectations to market participants, and explain our actions.
- **Flexible and responsive:** we have an operating model that enables us to adapt and respond quickly to changing market conditions. We seek and act on feedback, and learn from our experiences.
- **A systems view:** we promote an integrated and coordinated approach to financial markets regulation in New Zealand. The FMA is a member of the Council of Financial Regulators (CoFR), together with the RBNZ, MBIE, Treasury and the Commerce Commission. CoFR provides a forum for a continuous, forward-looking focus on system risks and regulatory coordination by members..

The legislation underpinning our work includes:

- Financial Markets Authority Act 2011
- Financial Markets Conduct (FMC) Act 2013
- Auditor Regulation Act 2011
- Financial Advisers Act 2008
- Financial Services Legislation Amendment Act 2019
- Financial Markets Supervisors Act 2011
- KiwiSaver Act 2006 (Part 4 and Schedule 1)
- Anti-Money Laundering and Countering Financing of Terrorism Act 2009

Who we regulate

Retail Advice and Access

Enables distribution of products on an advised or sales basis, or directly through online platforms

- Financial Advice Providers
- Derivatives issuers
- Retail platforms and aggregators
- Alternative capital raising (eg peer-to-peer and crowdfunding)

Capital Markets

Enables matching of issuers with investors, and creation and trading of securities

- Issuers
- Brokers
- Trading venues (eg financial product markets such as NZX)
- Audit
- Market infrastructure (eg settlement systems)

Investment Management

Provides investment vehicles and services to enable investors to seek returns on capital

- Retail funds, KiwiSaver, superannuation etc
- Wholesale funds
- Supervisors and licensed independent trustees
- Discretionary investment management services (DIMS)
- Custodians

Insurance

Provides risk management functions for both individuals and businesses

- Life insurance
- Non-life insurance

Banking

Provides access to deposit taking, payment services, and lending facilities (both secured and unsecured)

- Deposit taking
- Payment services
- Mortgages
- Overdrafts
- Credit cards
- Personal loans

Direct regulatory relationship with FMA, including licensed participants

Other participants/activities that benefit from FMA regulation

Planning and reporting framework

Strategic Risk Outlook

Medium term (3-5 year) view of risks and issues, strategic priorities that reflect our key focus areas, and the regulatory outcomes we seek to achieve.

Statement of Intent

Outlook and performance measures to show what success will look like over a four-year horizon for the FMA, market participants and investors.

Annual Corporate Plan

Outlines activities for the coming year that will promote our strategic priorities, address regulatory risks and deliver sector outcomes.

Statement of Performance Expectations

Annual performance targets and financial forecast showing how we intend to perform the services we receive funding for.

Annual Report

Yearly report of progress against the Statement of Intent, results against Statement of Performance Expectations, and overview of key activities and achievements.

Poari
Board

Mark Todd

Chairman, LLB Hons

Mark has over 25 years' experience in financial markets regulation, including as a partner at a major law firm and through holding governance roles with both listed and unlisted companies. He co-founded Anti-Money Laundering Solutions and chaired Mint Asset Management. He was also the Customer Advocate at Westpac New Zealand.

Current term ends May 2024

Ainsley McLaren

Member, BCom

Ainsley has over 25 years of broad financial services experience including investment management, fixed interest and financial markets. Her experience includes various senior roles at ASB Group Limited in both investment management and financial markets. Ainsley is currently leading clients and communications at Harbour Asset Management. Until June 2018, she was also a board member of the Government Superannuation Fund Authority and Hohepa Auckland Regional Board.

Current term ends September 2021

Christopher Swasbrook

Member, BCom

Christopher has more than 25 years' experience in stockbroking and funds management. He is currently the Managing Director of Elevation Capital Management Limited, Director of NZX-listed New Zealand Rural Land Company, NZX-listed Allied Farmers Limited, Bethunes Investments Limited and SwimTastic Limited. He is also a Member of NZ Markets Disciplinary Tribunal (since 2013) and a Member of the NZX Listing Sub-Committee (since 2008). He was previously a Partner at Goldman Sachs JBWere.

Current term ends June 2024

Elizabeth Longworth

Member, FMA Audit and Risk Committee Chair, LLM

Elizabeth has over 20 years' legal experience, predominantly in commercial, banking and technology law, as well as international governance and development expertise. She has specialties in information policies and disclosure, risk management, ESG, ethics and ADR. As the Executive Director of UNESCO, Paris, Elizabeth had strategic and oversight responsibilities across the organisation. She was the Director of the UN office for disaster risk reduction, Geneva. Previous NZ roles include Sector Director at Industry New Zealand and In-house Counsel at the Reserve Bank.

Current term ends July 2023

Prasanna Gai

Member, B.Ec (Hons), M.Phil, D.Phil

Prasanna is Professor of Macroeconomics at the University of Auckland and a Senior Research Fellow at the Deutsche Bundesbank. He brings over 25 years of experience in financial market issues from academic and high-level policy roles. Prasanna was Special Adviser to the Governor of the Bank of Canada, Senior Adviser at the Bank of England, and Member of the Advisory Scientific Committee of the European Systemic Risk Board. He was also Professor of Economics at the Australian National University and a Visiting Fellow of All Souls College, Oxford.

Current term ends April 2023

Sue Chetwin

Member, CNZM, LLB

Sue has more than 12 years' experience working for and on behalf of consumers and is the former CEO of Consumer New Zealand. She is a strong supporter of financial regulations that encourage innovation while protecting consumer interests. She chairs the Government's review of drug buying agency PHARMAC and is a member of the Law Society Independent Steering Group Committee considering the terms of reference for the statutory framework for legal services. She is also a director of Food Standards Australia NZ. Her experience includes 25 years in journalism including editing the Sunday News, Sunday Star Times and Herald on Sunday.

Current term ends September 2022

Vanessa Stoddart

Member, BCom/LLB (Hons), PG Dip in Prof Ethics

Vanessa is a Director of The New Zealand Refining Company Ltd, OneFortyOne Plantations Pty Ltd, Chairs the Audit and Risk Committee for MBIE and holds other charitable and advisory governance roles. She was previously a Senior Executive at Air New Zealand and CEO of Carter Holt Harvey Packaging Australia.

Current term ended 30 June 2021; term extension date to be confirmed

Tia Greenaway

Future Director - Observing

Tia Greenaway is a Principal Analyst at the Climate Change Commission and has broad experience in the Māori sector due to her various roles on Trust Boards and as an adviser. Tia has a Masters in Professional Accounting, and is a member of Chartered Accountants Australia and New Zealand.

Current term ends September 2021

Komiti Whakahaere
Executive committee

Chief Executive

Rob Everett

Rob manages the FMA on behalf of the Board, and exercises the powers of the Board that are delegated to him. He also directly oversees our internal risk and assurance function. His background is in investment banking, risk management and regulatory consulting.

Operations

Chief Operating Officer: Brad Edley

Brad leads the FMA's corporate services team, which includes the strategic and day-to-day functions of our finance, facilities, technology, procurement, business planning and project management functions. His background is in accounting and finance management at an executive level.

Banking and Insurance

Director: Clare Bolingford

Clare leads the coordination and market engagement for expected conduct licensing regime for banks and insurance firms. She has international regulatory experience in financial markets conduct, capital markets and prudential policy.

Supervision

Director: James Greig

James leads the monitoring and oversight functions of the FMA, which are responsible for supervising and reviewing financial markets participants to ensure compliance, and identifying and responding to misconduct. James has worked in banking and insurance strategy, operations, technology, financial crime and risk management.

External Communications & Investor Capability

Director: Louise Nicholson

Louise leads the teams responsible for investor capability, media, publications, marketing and digital communications. Her background is in communications and public affairs, with both banking industry and media agency experience.

Market Engagement; Regulation (acting)

Director: John Botica

John leads the FMA's market engagement activities, with a current focus on the new financial advice regime. In his acting role he also oversees our compliance, licensing, intelligence and conduct assessment functions. He has extensive experience in management and consulting in the financial services sector.

General Counsel

Director: Liam Mason

Liam leads our enforcement and litigation, policy and governance, corporate legal and evidence and investigations teams. His background is in securities and financial services law and policy, corporate governance, Crown entity governance and legal compliance.

Capital Markets

Director: Sarah Vrede

Sarah oversees the teams responsible for primary and secondary markets, disclosure and financial reporting by issuers, market infrastructure, intermediary platforms, clearing providers, and auditors. She has public and private sector experience in financial and capital markets.

Investment Management

Director: Paul Gregory

Paul is responsible for the FMA's strategy and approach to investment management providers and products, including KiwiSaver. His background is in investment management and communications management.

Strategy & Stakeholder Relations

Director: Scott McMurray

Scott oversees regulatory strategy and prioritisation, sector risk management, and government and industry relations. His background is in industry relations, policy review, communications and public affairs.

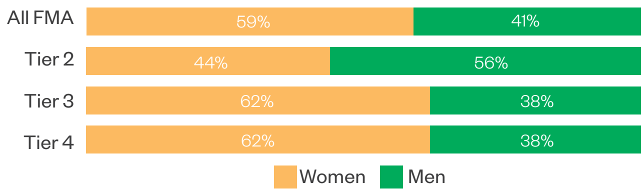
People & Capability

Director: Sarah Feehan

Sarah leads our human resources, recruitment, organisational development, and capability and culture functions. She has senior human resources experience, including in the legal sector.

Tāngata
People

Gender



Age

11%	37%	28%	20%	4%
20-29	30-39	40-49	50-59	>60

Ethnicity/nationality

50%	20%	17%	4%	2%	8%
NZ European/ Pakeha	European	Asian (inc. Indian & Middle Eastern)	Māori	Pacific islander	Other or not specified

Health issues

7% Mental health

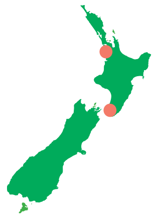
2% Hearing/vision impairment

4% Other

The data for gender, age, ethnicity/nationality, and health issues comes from the Diversity and Inclusion survey of staff conducted during the 2019/20 reporting period (April 2020). We run this survey on an 18-month basis; it did not take place during the 2020/21 year.

Location

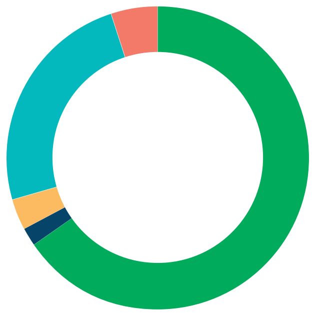
70% Auckland



30% Wellington

Capability framework

Training attended by theme



Regulatory expertise

Legal

Leadership

Increasing productivity

Communication and engagement

Employment type

	2021	2020	2019
Total	**263**	241	212
Permanent	**242**	213	188
Fixed-term	**5**	5	7
Contractor/temp	**14**	18	14
Secondee	**2**	2	3
Voluntary turnover*	**9.6%**	13.8	22%
Average service length	**3.2 years**	3.3 years	3.4 years

Where we find our staff**

	2021	2020	2019
Corporate	**6%**	23%	21%
Financial services	**10%**	9%	17%
Government	**14%**	25%	12%
International	**6%**	4%	6%
Internal	**48%**	16%	33%
Legal	**5%**	10%	10%
Other	**11%**	13%	1%

* Based on resignations of permanent employees only.

** Based on recruitment of permanent and fixed-term employees only.

Totals may not add exactly due to rounding.

Leadership, accountability and culture

We continue to follow the principles of a good employer with an emphasis on creating and maintaining strong and stable leadership. Our quarterly coaching conversations are designed to support forward-focused performance and development plans that foster a collaborative and high-performing work culture. We regularly survey staff on how the organisation is performing and their perception of workplace culture, and empower teams to identify on areas to nurture and improve. We encourage leaders to focus on leading their teams with energy and empathy. The development of the FMA's vision, purpose and refreshed values completed in June 2021 gives people clarity on the FMA's overall purpose and the individual behaviours expected in our workplace.

Recruitment, selection and induction

With COVID-19 impacting an already tight labour market, our selection and recruitment activities were adapted throughout the year to accommodate online interviewing, onboarding and induction. We have broadened our selection processes to non-traditional areas and are working on technical training to support people from outside the financial services industry. Work has continued on our employee value proposition, which is further supported by our refreshed behavioural values. Surveying of all new staff highlights the success of our comprehensive recruitment and induction programme that centres on excellent communication.

Diversity and inclusion

Through the strategic work plan set in 2020, our Diversity & Inclusion working group and senior leadership team are focused on building quality working relationships, that accommodate all of our employees. People are encouraged to foster a sense of inclusion by supporting and celebrating the many different cultures of friends and colleagues.

Employee development, promotion and exit

Our learning and development programme, based on our capability framework, continues to mature. We have broadened both technical and non-technical training and development opportunities. We have adapted to blended classroom and virtual learning environments, supporting our staff to grow and learn no matter where they are located. Our aspiration for the continued improvement of the learning programme is to have staff being able to learn on the job, acquire skills and knowledge from across the organisation, and develop a greater understanding of our purpose and remit.

Roles are advertised internally to allow for promotion opportunities. In 2020/21 over 40% of appointments were from internal applicants. For people who leave the organisation, we continue to provide both an exit survey and a one-to-one meeting to understand their reasons for leaving. This information is themed, with the permission of the employee, and reported to line managers to help improve people's working experiences.

Flexibility and work design

Our 'flexible by default' policy has been successfully implemented throughout the organisation, supported by our 'New Ways of Working' group.

An internal review of our effectiveness as an organisation, similar to a performance improvement framework exercise, has given our people the opportunity to have their say – participating in the design of our regulatory framework and in decisions that affect the day-to-day operations of the FMA. By involving staff in the design of how we exercise our remit, we are fostering staff who have energy and commitment to deliver on our strategic priorities.

We continue to offer great work locations with modern facilities, supported by digital equipment to allow a flexible and seamless working experience.

Remuneration, recognition and conditions

Our remuneration management system continues to sit within the organisation's broader approach to rewards, which encompasses both financial and non-financial benefits. Non-financial rewards, part of the FMA's broader employee value proposition, include additional leave, flexible working practices, and our wellbeing programme. We also actively monitor and address pay equity and gender pay gap issues.

We have had regard to the Public Service Commission guidance of pay restraint across the public sector for the 1 July 2021 pay review. In line with other public sector agencies, the FMA's Chief Executive took a voluntary 20% reduction in salary for six months from 1 June 2020 to 30 November 2020. In accordance with the Remuneration Authority (COVID-19 Measures) Amendment Act 2020, for the period from 9 July 2020 to 6 January 2021 the FMA Board Chair's remuneration rate was reduced by 20%, the Board members' remuneration rate was reduced by 10%, and the Disciplinary Committee Chair's remuneration rate was reduced by 10%.

Harassment and bullying prevention

We are alert to issues and instances of harassment or bullying in the workplace. We survey staff in our cultural survey and in our exit interview process. We encourage staff to talk with their manager or People and Capability business partner at any time if they are subject to harassment or bullying or witness incidents. We have a number of escalation points throughout the organisation, and ensure staff are aware of the avenues to raise concern. We want our organisation to be a workplace where people trust each other and treat each other with respect at all times.

Safe and healthy environment

Our Health, Safety and Wellbeing Committee ensures policies, processes and practices are fit for purpose and promote a mindset of risk identification and proactive management of health, safety and wellbeing issues. Throughout the year, we have monitored and responded to issues where our work environment may be compromised (predominantly COVID-19 related, from a stress and wellbeing perspective), where significant stress and/or fatigue is identified or where an issue may be surfacing, or where staff are at risk of physical harm in the case of public-facing work. We continue to receive positive feedback from staff surveys in relation to our health and safety responsiveness and initiatives.

As part of our wellbeing programme we take a holistic approach encouraging aspects of self-care. In response to a staff survey we have introduced a regular series bringing in speakers to cover topics such as the power of mindset, ergonomics for your workspace, improving sleep, mindfulness, and how to make lifestyle changes stick. These talks have been well-attended both online and in person.

Ngā Kaupapa Here me ngā mahi Kāwanatanga

Governance, policies and operations

The FMA was established by the Financial Markets Authority Act 2011. The Minister of Commerce and Consumer Affairs is responsible for the FMA. The Minister sends us an annual Letter of Expectations. We frequently engage with the Minister, briefing him on our current priorities and discussing the alignment of our work with the Government's objectives.

FMA Board

The Crown Entities Act 2004 sets out the collective and individual duties of the FMA Board and its members. The Board is the governing body of FMA. The Board's focus is generally on the critical strategic and regulatory policy issues that determine the overall success of FMA. This includes:

- setting FMA's strategic direction and strategic priorities
- appointing FMA's Chief Executive and providing oversight of his performance and, through him/her, the staff of FMA
- ensuring that FMA's actions are consistent with its objectives, functions, SOI and output agreement (if any)
- maintaining the appropriate relationship with stakeholders
- complying with FMA's obligations under the Health and Safety at Work Act 2015
- ensuring that FMA operates in a financially responsible manner – achieving results and doing so within budget (operating within agreed budget parameters and managing assets and liabilities prudently).

The Board is responsible for setting policies to govern how the FMA operates, including policies for:

- managing staff conflicts of interest
- holding and dealing with information securely
- procurement and purchasing
- managing sensitive expenditure and the receipt of gifts.

The Board has delegated most regulatory decisions to staff, but retains ultimate decision-making authority for the use of some of the FMA's powers related to enforcement and exemptions. These matters are often considered by a division of the Board, which is a group of at least three Board members who have been assigned to deal with a matter or class of matter.

The Board has two subcommittees:

- the Audit and Risk Committee, which 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
- the People, Performance and Remuneration Committee, which oversees FMA's performance, remuneration, development and engagement systems, including setting the Chief Executive's remuneration and key performance indicators, and considering talent management and succession planning strategies.

Group	Number of meetings 2020/21
FMA Board	12
Audit and Risk Committee	7
People, Performance and Remuneration Committee	4
Exemptions Division	5
Enforcement Division	8

The FMA Board is appointed by the Governor-General, on the advice of the Minister. Industry representation is an important factor in the makeup of the Board. Members are drawn from a range of sectors, including financial services, with a particular focus on governance experience or expertise, or otherwise representing views of stakeholders such as retail investors and consumers. The diverse views and expertise offered by members of the Board are valuable inputs to the FMA meeting its regulatory objectives.

It is inevitable, with a Board featuring market representatives, that some members may have a potential or actual conflict of interest in relation to a decision to be made or matter to be considered. The FMA has well-established conflict management practices consistent with sections 62 to 72 of the Crown Entities Act 2004, which set out the conflict of interest and disclosure rules for members of Crown Entities. In the event that a potential or actual conflict is identified for a member in relation to matters for Board decision or consideration, that member is recused from taking part in the discussion on the matter and does not receive any materials or information relating to the matter.

Internal governance

The Chief Executive's role is to manage the FMA on behalf of the Board and exercise the powers of the Board that the Board delegates to him/her. The FMA has a comprehensive delegations framework, to ensure approvals (particularly those relating to enforcement activity and the granting of licences and authorisations) can only be made by an appropriately senior staff member.

The Executive Committee, comprising the Chief Executive and the directors (see pages 30-31), is a forum for executive decision-making on issues of strategic importance to the FMA.

We also have a range of internal committees and groups that meet regularly to review significant policies, projects and decisions.

These include:

- Strategy Committee
- Regulatory Policy Committee
- Investigations Review Group
- KiwiSaver Strategy Group
- Knowledge Management Committee
- Change Governance Committee

The committees are comprised of relevant experts, and senior staff from across the organisation.

Our Risk and Assurance Manager runs a continuous review programme to ensure the integrity of our operational and risk management processes.

FMA staff are subject to a code of conduct, and a range of policies relating to finance, employee obligations, information management and travel.

Te Ao Māori strategy

We have committed to developing an overarching Te Ao Māori strategy, which will inform our work programme and engagement approach. This year the Board signed off a framework for the strategy, and we launched a process to recruit a specialist to guide the development and implementation of our strategy. We have also invested in training to develop cultural capability across governance, executive and teams.

Internal effectiveness and efficiency

Our goal is to be an efficient and effective intelligence-led regulator. Our Operations and Intelligence teams support this goal internally by managing the development and operation of systems and digital tools.

This year we continued with our digital transformation project, which aims to make the FMA's information technology functions and systems more cost-effective, agile, secure and modern. This included completing the migration of our systems to the cloud.

We reworked our technology around online forms, which will make it easier to deploy digital forms, and eventually lead to more streamlined and secure processes for entities to apply for licences and submit regulatory returns data.

We have also improved our systems for remote working, to support our principles of flexible working, and maintained a focus on continuous cybersecurity improvement across our systems and processes.

We continually review our data analytics strategy and capability, which has included examination of the future use and related ongoing costs of running the existing platform, and other available alternatives. The advancements of cloud analytics tools present a better fit the FMA's size, budget and complexity, so we have decided to move away from the existing on-premises platform.

The decision to move to more cost-effective cloud options means we have made significant ongoing operational cost savings. However, the value of the upfront capital investment of the existing tool was not fully realised, and this has resulted in an impairment of this asset of $850k in the 2020/21 financial year.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of the Financial Markets Authority's financial statements and performance information for the year ended 30 June 2021

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

Opinion

We have audited:

- the financial statements of the Authority on pages 52 to 83, that comprise the statement of financial position as at 30 June 2021, the statement of comprehensive revenue and expenses, statement of changes in equity, and statement of cash flows for the year ended on that date and the notes to the financial statements including a summary of significant accounting policies and other explanatory information; and
- the performance information of the Authority on pages 8 and 9 and pages 43 to 51.

In our opinion:

- the financial statements of the Authority on pages 52 to 83:
    - present fairly, in all material respects:
        - its financial position as at 30 June 2021; and
        - its financial performance and cash flows for the year then ended; and
    - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards; and
- the performance information on pages 8 and 9 and pages 43 to 51:
    - presents fairly, in all material respects, the Authority's performance for the year ended 30 June 2021, including:
        - for each class of reportable outputs:
            - its standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and

- its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year; and
- what has been achieved with the appropriation; and
- the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure.

○ complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 16 December 2021. This is the date at which our opinion is expressed.

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

Basis for our opinion

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

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

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

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

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

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

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

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

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

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

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

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

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

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.

- We evaluate the appropriateness of the reported performance information within the Authority's framework for reporting its performance.

- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

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

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board is responsible for the other information. The other information comprises the information included on pages 1 to 7, 10 to 37, and page 42, but does not include the financial statements and the performance information, and our auditor's report thereon.

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

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

Independence

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

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

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

Te paearu o ā mātou mahi
How we performed

Pūrongo o te Kawenga
Statement of Responsibility

The Board is responsible for the preparation of the FMA's financial statements and statement of performance, and for the judgments made in them. The Board is responsible for any end-of-year performance information provided by the FMA under section 19A of the Public Finance Act 1989. The Board is responsible for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting. In the Board's opinion, these financial statements and statement of performance fairly reflect the financial position and operation of the FMA for the year ended 30 June 2021.

Mark Todd
Chair
Financial Markets Authority
16 December 2021

Elizabeth Longworth
Chair
Audit and Risk Committee
16 December 2021

Pūrongo o te Mahi
Statement of Performance

This section describes the progress made by the FMA in achieving the levels of performance outlined in the Statement of Performance Expectations (SPE) for 2020/21.

The FMA receives funding from the Ministry of Business, Innovation and Employment through Vote Business, Science and Innovation to deliver services through two output classes – Services and Advice to Support Well-functioning Financial Markets and Financial Markets Authority Litigation Fund.

Under the SPE the FMA has performance standards and measures for each of the two output classes for the 12 months ended 30 June 2021. The output class Services and Advice to Support Well-functioning Financial Markets is reported under 3 categories which align to the classifications within this multi category appropriation. The financial results for each output class and each category for the multi category appropriation are reported on throughout this section.

Performance targets are included for each appropriation. Where the performance targets in the Vote align with the target in the FMA's SPE they are reported against under the applicable category in this section of the Annual Report. Where the performance target in the Vote differs from the target in the SPE or there is not a corresponding target in the SPE these targets are separately identified.

The aim of our regulatory activities, in line with our strategic priorities and appropriation category, is to minimise conduct risks, improve behaviours within our markets, and benefit market participants and investors. The purpose of this appropriation is to support well-functioning financial markets through the activities of the FMA. Success is measured by SPE 1, the overarching measure that reflects our overall statutory purpose of fair, transparent and efficient financial markets.

Performance standards and measures for the output of the FMA for the 12 months ended 30 June 2021

For our SPE performance measures, assessment of our performance against the targets is based on the following scaled rating system.

- Achieved – result is 100% or more of target.
- Substantially achieved – result is within 5% of target (calculated as the result proportionate to the target being between 95% and 99.99%)
- Not achieved – result is within less than 5% of target (calculated as the result proportionate to the target being less than 95%)

Surveys

Data for some of our performance measures comes from the following surveys.

Ease of Doing Business survey

Survey of key FMA stakeholders to understand the effectiveness of interactions FMA has with stakeholders and satisfaction with the service it provides.

2021	2020
Sample: 112 responses **Margin of error:** +/- 9.9% (at the 95% confidence level). **Response rate:** 22%	**Sample:** 98 responses **Margin of error:** +/- 9.9% (at the 95% confidence level) **Response rate:** 18%

Investor confidence survey

Survey of New Zealanders' attitudes towards and confidence in New Zealand's financial markets. The data is weighted to ensure the sample is representative of the New Zealand population by age, gender, region, and ethnicity, therefore there is no response rate for this survey.

2021	2020
Sample: 1020 responses **Margin of error:** +/-3% (at the 95% confidence level)	**Sample:** 1003 responses **Margin of error:** +/-3% (at the 95% confidence level)

Stakeholder Relationship Management survey

Survey of entities that participate in our Stakeholder Relationship Management programme. As the survey population is small and limited, there is no margin of error for this survey.

2021	2020
Sample: 20 responses **Response rate:** 77%	**Sample:** 18 responses **Response rate:** 69%

Overarching measure

The overarching measure reflects the Multi-Category Appropriation 'Services and Advice to Support Well-functioning Financial Markets', which covers all three funding categories. The single overarching purpose of this appropriation is to support well-functioning financial markets through the activities of the Financial Markets Authority.

Actual 12 months to 30 June 2020 $000s		Actual 12 months to 30 June 2021 $000s	Budget 12 months to 30 June 2021 $000s
37,084	Revenue	49,610	49,526
42,702	Expenditure	47,798	49,035
(5,618)	**Surplus/(Deficit)**	**1,812**	**491**

Measure	Target 2020/21	Actual 2020/21	Actual 2019/20	Information source
SPE 1 Index measure Financial service providers and investors of New Zealand financial services believe that FMA's actions promote fair, efficient and transparent financial markets	Achieved	**Achieved** Achievement of this measure is based on meeting the targets for the two sub-components below.	New for 2020/21	See below
		Index sub-measures		
Stakeholders agree that the FMA's actions help raise standards of market conduct and integrity	85%	**88% - Achieved** This result is consistent with previous years and shows continuing high degree of support for FMA's actions.	87%[2]	Ease of Doing Business survey[3]
Investors are confident in the quality of regulation of New Zealand's financial markets	65%	**67% - Achieved** Our annual survey of attitudes to investing and markets recorded another high score for effective regulation of the markets in the 2021 survey.	68%[4]	Investor Confidence survey[3]

2, 4: Reported as part of the previous SPE 1 measure

3: See page 44 for information about the survey

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 12 months to 30 June 2020 $000s		Actual 12 months to 30 June 2021 $000s	Budget 12 months to 30 June 2021 $000s
6,243	Revenue	10,283	10,282
8,514	Expenditure	12,153	10,396
(2,271)	**Surplus/(Deficit)**	**(1,870)**	**(114)**

Major variances against budget: Expenditure is higher than budget due to the significant increase in the in-house work undertaken before cases move into the litigation phase, which has resulted in higher than budgeted staff hours in this category during the period.

Measure	Target 2020/21	Actual 2020/21	Actual 2019/20	Information source
SPE 2 Progress of all investigation cases is reported to the FMA Board every 40 working days	100%	**100% - Achieved** Papers for the board accompanied by a case schedule setting out the progress of all investigation and litigation matters were prepared at least once every 40 working days.	100%[5]	Internal tracking of investigation and enforcement activity
SPE 3 Misconduct cases[6] are evaluated and decisions on follow-up actions are made within 9 working days of the information received date	85%	**84.93% - Substantially achieved** To help improve compliance with the 9-day timeframe, we have implemented weekly reporting, and follow-ups on cases that are nearing the deadline.	New for 2020/21	Internal tracking of misconduct cases

5: This result is from the previous equivalent sub-measure: 'In accordance with the Conducting an Investigation Policy and Process document, progress of cases is reported every 60 days'

6: Misconduct cases involve an "allegation of financial markets conduct that could result in harm", whereas an investigation requires formal trigger points, including reasonable grounds to suspect a breach of any financial markets legislation. This requires more than mere suspicion or hunch; a basis on objective information is required.

Category Two: Licensing and Compliance Monitoring Functions

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

Actual 12 months to 30 June 2020 $000s		Actual 12 months to 30 June 2021 $000s	Budget 12 months to 30 June 2021 $000s
17,109	Revenue	20,169	20,087
17,141	Expenditure	20,489	19,271
(32)	**Surplus/(Deficit)**	**(320)**	**816**

Major variances against budget: Revenue is above budget due to higher than anticipated licensing fees received during the period. Expenditure is higher than budget due to higher than expected staff hours incurred in the licensing and compliance monitoring activities undertaken during the period.

Measure	Target 2020/21	Actual 2020/21	Actual 2019/20	Information source
SPE 4 Once received by the FMA, fully completed licence applications are processed within 60 working days	93%	**98.73% - Achieved** Of the 1581 fully completed licence applications we processed this year, 20 were not processed within the 60-day timeframe.	99.5%[7]	Internal tracking of relevant documents and activity
SPE 5 New regulated offers are risk-assessed within five working days after a new Product Disclosure Statement (PDS) is registered[8]	100%	**100% - Achieved** 48 registration events were notified to the FMA between 1 July 2020 and 30 June 2021. All 48 PDSs were risk assessed within 5 working days of registration.	100%[9]	Internal tracking of relevant documents and activity
SPE 6 Applications for individual exemptions are processed within 30 working days of receiving all relevant information or as communicated with reasons to the applicant	100%	**100% - Achieved** All 17 applications for individual exemptions we received were completed within the relevant timeframe.	100%[10]	Internal tracking of relevant documents and activity

7: This result is from the previous equivalent sub-measure: 'Once received by the FMA, fully completed licence applications are processed within 60 working days and in accordance with established processes'

8: A risk estimate framework is used to risk assess Product Disclosure Statements to plot the relative risk of an offer on a risk matrix by likelihood of harm and consequence of harm. During a risk assessment, different factors are weighted and a risk estimate of Low, Medium Low, Medium High, or High is produced. Low or Medium Low-scored offers are reviewed further at the discretion of staff. Newly registered offers are overridden to a "High" risk estimate by default and are reviewed by staff.

9: This result is from the previous equivalent sub-measure: 'Regulated offers are risk-assessed within five working days after a new Product Disclosure Statement is lodged or a new prospectus is registered'

10: This result is from the previous equivalent sub-measure: 'Completed applications for exemptions are processed within six weeks of receiving all relevant information or as agreed with applicant'

Measure	Target 2020/21	Actual 2020/21	Actual 2019/20	Information source
SPE 7 The FMA undertakes a range of proactive, reactive and thematic monitoring activity to target risks identified in response to the regulatory risks identified	Achieved	**Achieved** Our Supervision team completed a range of monitoring activity throughout the year. This included carrying out 19 monitoring visits[11] of regulated entities to proactively assess compliance, opening 50 cases in response to monitoring findings or misconduct reports, and publishing the following thematic reviews: • Derivatives Issuer sector risk assessment • Negative interest rates preparedness review • MIS liquidity risk management review • Supervision Insights report • COVID-19 industry response insights.	New for 2020/21	Internal tracking of relevant documents and activity

11: Due to the restrictions we have faced over the past year with COVID lockdowns and limitations on in-person meetings, we had to reduce the number of entities we visited. We focused our attention on those we considered were higher risk.

Category Three: Market Analysis and Guidance, Investor Awareness and Regulatory Engagement Functions

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

Actual 12 months to 30 June 2020 $000s		Actual 12 months to 30 June 2021 $000s	Budget 12 months to 30 June 2021 $000s
13,732	Revenue	19,158	19,158
17,047	Expenditure	15,156	19,369
(3,315)	**Surplus/(Deficit)**	**4,002**	**(211)**

Major variances against budget: Expenditure is well under budget due to lower than budgeted spend across all expense categories. In addition, more resources are allocated to Category One and Category Two as explained on pages 46 & 47.

Measure	Target 2020/21	Actual 2020/21	Actual 2019/20	Information source
SPE 8 The FMA undertakes a range of speeches and presentations (in-person and online) to inform and assist users and providers of financial services	30	**39 – Achieved** This year's presentations covered a range of themes, with a particular focus on the new financial advice regime, fintech, and sustainability-related topics.	29	Count of speeches and presentations that meet the aims of the measure
SPE 9 Participants find FMA communication clear, concise and effective	75%	**76% - Achieved** This result has remained consistently high for the past four years, indicating stakeholders value communication from the FMA.[12]	New for 2020/21	Ease of Doing Business survey[13]
SPE 10 Number of website pageviews of FMA's investor content	Increase on prior year benchmark of 9,007[14] unique pageviews (1 Jul 2019-30 Jun 2020)	**31,968 page views – Achieved** The 2020/21 result still shows a significant increase in page views from the previous year. This is likely due to our increased focus on consumer engagement, and referrals from financial services providers to FMA content that is relevant to their customers.	New for 2020/21	Google Analytics page view data from all pages within relevant investor sections of the FMA website

12: While this is the first year we have reported on this as an SPE measure, we have asked this question in past Ease of Doing Business surveys.

13: See page 44 for information about the survey.

14: We have updated the target (prior-year result) from 4,388 page views, as stated in the Statement of Performance Expectations, to 9,007 page views. The original number omitted views of some investor website content outside of the main investor section, including editorial content, scam warnings, the KiwiSaver Risk Quiz sub-site, and related PDFs.

Measure	Target 2020/21	Actual 2020/21	Actual 2019/20	Information source
SPE 11 Market participants within the stakeholder relationship management programme (SHRM), who responded to our survey, say they have benefited from the relationship	95%	**100% – Achieved** 20 out of 26 SHRM participants responded to the 20/21 survey. When asked "Overall, do you believe you have benefitted from being part of our SHRM programme" all 20 respondents agreed.	95%	Survey of SHRM members[15]

15: See page 44 for information about the survey.

Financial Markets Authority Litigation Fund

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

Actual 12 months to 30 June 2020 $000s		Actual 12 months to 30 June 2021 $000s	Budget 12 months to 30 June 2021 $000s
2,149	Appropriation revenue*	2,016	3,000
3	Other revenue	1	-
2,152	Total revenue	2,017	3,000
2,125	Expenditure	2,017	3,000
27	**Surplus/(Deficit)**	**-**	**-**

Major variances against budget: Both litigation revenue and expenditure are below budget due to the timing and volume of caseloads undertaken during the year.
*The appropriation revenue received by the FMA equals the Government's actual expenses incurred in relation to the appropriations, which is a required disclosure from the Public Finance Act.

Assessment of performance

The FMA in the Estimates of Appropriation is required to report the following performance information for this appropriation measure.

Measure	Target 2020/21	Actual 2020/21	Actual 2019/20
Litigation undertaken as per Fund's use conditions	Achieved	**Achieved** The FMA undertook litigation using the litigation fund as per the conditions of use.	Achieved

Ngā Pūrongo Pūtea
Financial statements

Statement of Comprehensive Revenue and Expense

For the 12 months ended 30 June 2021

Actual 2020 $000s		Note	Actual 2021 $000s	Budget 2021 $000s
	REVENUE FROM NON-EXCHANGE TRANSACTIONS			
36,000	Government grant	2	48,500	48,500
2,149	Litigation fund revenue	3	2,016	3,000
	REVENUE FROM EXCHANGE TRANSACTIONS			
154	Interest		44	68
3	Interest - litigation fund	3	1	-
930	Other revenue	4	1,066	958
39,236	**Total revenue**		**51,627**	**52,526**
	EXPENDITURE			
29,581	Personnel expenses	5	32,355	32,956
3,193	Depreciation and amortisations*	8,9	3,525	3,967
9,928	Other operating expenditure*	7	11,918	12,112
2,125	Litigation fund expenditure	3	2,017	3,000
44,827	**Total expenditure**		**49,815**	**52,035**
(5,591)	Surplus / (deficit)		1,812	491
(5,591)	**Total comprehensive revenue and expenses**		**1,812**	**491**
	TOTAL COMPREHENSIVE REVENUE AND EXPENSE COMPRISES:			
(5,618)	Net operating surplus / (deficit)		1,812	491
27	Net litigation fund surplus / (deficit)	3	-	-
(5,591)	**Total comprehensive revenue and expenses**		**1,812**	**491**

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

*Impairment losses of $31k for FY19/20 is reclassified from 'Depreciation and amortisation' to 'Other operating expenditure'

Statement of Changes in Equity

For the 12 months ended 30 June 2021

Actual 2020 $000s		Note	Actual 2021 $000s	Budget 2021 $000s
	OPENING BALANCE			
2,858	Accumulated funds / (deficit)		(2,733)	(2,974)
11,027	Capital contributions		11,027	11,027
13,885	**Total opening balance**		**8,294**	**8,053**
	COMPREHENSIVE REVENUE AND EXPENSES FOR THE YEAR			
(5,618)	Net operating surplus / (deficit)		1,812	491
27	Net litigation fund surplus / (deficit)		-	-
(5,591)	**Total comprehensive revenue and expense**		**1,812**	**491**
	CAPITAL CONTRIBUTIONS / (REPAYMENTS) FOR THE YEAR			
-	Current contributions		1,550	2,550
-	**Total capital contributions / (repayments)**		**1,550**	**2,550**
8,294	**Closing balances**		**11,656**	**11,094**
(2,733)	Accumulated funds / (deficit)		(921)	(2,483)
11,027	Capital contribution		12,577	13,577
8,294	**Total closing balances**		**11,656**	**11,094**

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 2021

Actual 2020 $000s		Note	Actual 2021 $000s	Budget 2021 $000s
	ASSETS			
	Current assets			
2,087	Cash and cash equivalents - operating fund		5,030	1,691
2,545	Cash and cash equivalents - litigation fund		2,812	2,285
-	Term deposits		1,000	-
252	GST receivable		286	260
1,085	Receivables and prepayments	13	1,583	1,005
5,969	**Total current assets**		**10,711**	**5,241**
	Non-current assets			
1,994	Property, plant and equipment	8	3,592	2,832
8,216	Intangible assets	9	7,339	10,535
10,210	**Total non-current assets**		**10,931**	**13,367**
16,179	**Total assets**		**21,642**	**18,608**
	LIABILITIES			
	Current liabilities			
4,082	Creditors and other payables	14	5,093	3,958
2,377	Employee entitlements		2,538	2,270
142	Lease liabilities	11	1	142
6,601	**Total current liabilities**		**7,632**	**6,370**
	Non-current liabilities			
567	Lease liabilities (N)	11	482	447
717	Provisions	12	1,872	697
1,284	**Total non-current liabilities**		**2,354**	**1,144**
7,885	**Total liabilities**		**9,986**	**7,514**
	EQUITY			
(2,733)	Accumulated funds / (deficit)		(921)	(2,483)
11,027	Capital contributions		12,577	13,577
8,294	**Total equity**		**11,656**	**11,094**
16,179	**Total equity and liabilities**		**21,642**	**18,608**

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

Statement of Cash Flows

For the 12 months ended 30 June 2021

Actual 2020 $000s		Note	Actual 2021 $000s	Budget 2021 $000s
	CASH FLOWS FROM OPERATING ACTIVITIES			
	Cash was provided from:			
	Receipts from non-exchange transactions:			
36,000	government grant		48,500	48,500
4,000	litigation fund revenue		4,000	5,000
	Receipts from exchange transactions:			
200	interest		40	68
861	other revenue		994	959
35	litigation cost awarded (net)		58	-
	Cash was disbursed to:			
	MBIE repayment of underutilised fund		(2,159)	(1,878)
(35)	MBIE fees and levies (net)		(22)	-
(13,067)	suppliers		(15,522)	(16,897)
(28,393)	employees		(30,000)	(30,788)
405	goods and services tax (net)		257	214
6	**Net cash flows from operating activities**	15	**6,146**	**5,178**
	CASH FLOWS FROM INVESTING ACTIVITIES			
	Cash was provided from:			
7	sale of fixed assets		5	-
10,000	decrease in term deposits		7,000	17,000
	Cash was applied to:			
(407)	purchase of property, plant and equipment		(876)	(1,777)
(3,700)	purchase of intangible assets		(2,615)	(5,589)
(3,000)	increase in term deposits		(8,000)	(17,000)
2,900	**Net cash flows from investing activities**		**(4,486)**	**(7,366)**
	CASH FLOWS FROM FINANCING ACTIVITIES			
-	Capital contribution		1,550	2,550
-	**Net cash flows from financing activities**		**1,550**	**2,550**
2,906	Net increase / (decrease) in cash and cash equivalents		3,210	362
1,726	Cash and cash equivalents at the beginning of the year		4,632	3,614
4,632	**Cash and cash equivalents at the end of the year**		**7,842**	**3,976**
	COMPRISING			
2,087	Cash and cash equivalents - operating fund		5,030	1,691
2,545	Cash and cash equivalents - litigation fund		2,812	2,285
4,632			**7,842**	**3,976**

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

Ngā tūhinga mo ngā pūrongo putea
Notes to the financial statements

For the 12 months ended 30 June 2021

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 2021, and were approved by the Board on 16 December 2021.

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 and useful lives of property, plant and equipment and intangible assets. 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.

Standards issued and not yet effective and not early adopted

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

Amendment to PBE IPSAS 2 Statement of Cash Flows

An amendment to PBE IPSAS 2 requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This amendment is effective for the year ending 30 June 2022, with early application permitted. The FMA does not intend to early adopt the amendment.

PBE IPSAS 41 Financial Instruments

PBE IPSAS 41 replaces PBE IFRS 9 Financial Instruments and is effective for the year ending 30 June 2023, with earlier adoption permitted. The FMA has assessed that there will be little change as a result of adopting the new standard, as the requirements are similar to those contained in PBE IFRS 9. The FMA does not intend to early adopt the standard.

PBE FRS 48 Service Performance Reporting

PBE FRS 48 replaces the service performance reporting requirements of PBE IPSAS 1 Presentation of Financial Statements and is effective for the year ending 30 June 2023, with earlier adoption permitted. The FMA has not yet determined how application of PBE FRS 48 will affect its statement of performance. It does not plan to early adopt the standard.

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.

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.

Equity

The FMA's equity comprises the following reserves:

- Accumulated funds / (deficit) arising from normal operating activities, funded by a government appropriation and other revenue.
- Capital contribution reserve comprising closing accumulated funds transfers from the Securities Commission and capital contributions made to fund specific capital investment.

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

A new litigation funding agreement was signed with MBIE in July 2020. The approved litigation funding for the 2020/21 financial year is $5 million. Under the new funding agreement, the FMA can retain up to $3 million in the litigation fund account on its balance sheet at any point in time. As and when the amount held in the litigation fund account falls below $2 million, the FMA can request a top up to an amount not exceeding $3 million. In addition, FMA can retain any underspend in the litigation fund appropriation across financial year. During the 2020/21 financial year, FMA received a total of $4 million litigation funding and spent $2.02 million.

It is non-exchange revenue. Amounts received are accounted for as litigation revenue received in advance and the revenue is recognised as the expenditure is incurred. Any unspent or unapplied fund not exceeding $3 million at balance date are retained by the FMA and disclosed as litigation revenue received in advance. The fund is restricted for approved litigation purposes only as criteria set out in the litigation funding agreement.

Litigation fund reconciliation from opening to closing balance

	Actual 2021 $000s	Actual 2020 $000s
Litigation fund movement		
Litigation grant repayable to the Crown - opening balance	**2,159**	
Litigation fund repaid to MBIE	(2,159)	
Litigation appropriation received during the year	4,000	4,000
GST on litigation appropriation received	600	600
Interest revenue	1	3
Total litigation fund receipts including GST	**4,601**	**4,603**
Expenditure on eligible litigation	(2,017)	(2,125)
GST on expenditure on eligible litigation	(285)	(292)
Reversal of over accrual brought forward from prior year	-	(27)
Total litigation expenditure including GST	**(2,302)**	**(2,444)**
Net litigation movement	**2,299**	**2,159**
Litigation grant received in advance	**2,299**	**2,159**[16]
Comprising		
Litigation cash and cash equivalents	**2,812**	**2,545**
Trade and other payables to be funded from litigation fund	(481)	(380)
Litigation expenditure funded by FMA's operating fund repayable back to FMA's operating fund	(32)	(6)
Litigation grant received in advance	**2,299**	**2,159**[16]

ANZ CCRI - ANZ made in court admissions to the FMA's statement of claim relating to contraventions of Part 2 of the Financial Markets Conduct Act 2013 (FMC Act) which arose from credit card repayment insurance sold to customers and the High Court found who already had it or who were not eligible for it. ANZ and the FMA agreed on a civil pecuniary penalty of $280,000 ANZ was in contravention of the FMC Act and ordered them to pay a penalty of $280,000. ANZ paid $280,000 to the FMA in May 2021. Of that amount, the FMA retained $58,353 to cover internal costs and the balance of $221,647 was paid to the Crown.

CLSA – The FMA filed civil pecuniary penalty proceedings against CLSA in July 2020 for breaches of the AML/CFT Act 2009. The parties reached agreement and filed an agreed statement of facts in May 2021 and CLSA filed a statement of admissions in respect of that. The penalty hearing was held on 5 July 2021 in the Auckland High Court. We were still awaiting judgment and the pecuniary penalty set by the court as at the balance date. In September 2021, CLSA was ordered to pay a pecuniary penalty of $770,000 and $14,340 as a cost award to FMA. Both payments were received by FMA in October 2021 and they were subsequently transferred to the Crown.

16: Litigation grant repayable to the Crown

Note 4 - Other revenue

	Actual 2021 $000s	Actual 2020 $000s
Audit quality review fees	255	249
Licence fees*	719	610
Sundry revenue	74	60
Superannuation fees	18	11
Total other revenue	**1,066**	**930**

*Revenue for licence fees comprises application fees and hours charged for additional work performed. Revenue is recognised by reference to the stage of completion of the application at the reporting date and the probability of economic benefits accruing to the FMA.

How does the FMA spend the funds?

Note 5 - Personnel costs

Employee entitlements

Short-term employee entitlements, including holidays, are recognised as an expense over the period in which they accrue. Employee entitlements that are expected to be settled wholly before 12 months after the end of the reporting period in which the employees render the related service are measured based on accrued entitlements at current rates 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 and the Government Superannuation Fund are accounted for as defined contribution superannuation schemes and are recognised as an expense in the statement of comprehensive revenue and expense as incurred.

	Actual 2021 $000s	Actual 2020 $000s
Salaries and wages	28,285	24,847
Defined contribution plan employer contributions	854	712
ACC	28	31
Member and committee fess	503	559
Contract staff	2,133	1,612
Recruitment, retention and transitional costs	391	476
Redundancy and other termination payments	-	88
Increase/(decrease) in employee entitlements	161	1,256
Total personnel costs	**32,355**	**29,581**

During the 12-month period ended 30 June 2021, no employee received compensation and other benefits in relation to cessation (2020: three, $88,050).

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 2021	Number of employees 2020
590,001 to 600,000	-	1
570,001 to 580,000	1	-
390,001 to 400,000	1	-
380,001 to 390,000	-	1
370,001 to 380,000	-	1
330,001 to 340,000	1	-
310,001 to 320,000	1	-
300,001 to 310,000	3	1
290,001 to 300,000	-	1
280,001 to 290,000	2	2
270,001 to 280,000	1	-
250,001 to 260,000	1	1
240,001 to 250,000	-	1
230,001 to 240,000	1	1
220,001 to 230,000	1	1
210,001 to 220,000	2	2
200,001 to 210,000	3	2
190,001 to 200,000	5	3
180,001 to 190,000	5	3
170,001 to 180,000	2	3
160,001 to 170,000	7	10
150,001 to 160,000	9	6
140,001 to 150,000	14	18
130,001 to 140,000	24	19
120,001 to 130,000	16	9
110,001 to 120,000	22	20
100,001 to 110,000	20	16
Total	**142**	**122**

In line with other public sector agencies, the FMA's Chief Executive took a voluntary 20% reduction in salary for six months from 1 June 2020.

Composition of Board Members' remuneration

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

	Actual 2021 $000s	Actual 2020 $000s
S. Chetwin	42	30
P. Gai	43	46
E. Longworth	58	73
A. McLaren	48	47
W. Stevens	-	35
M. Stiassny	11	37
V. Stoddart	45	40
C. Swasbrook	37	39
M. Todd	178	198
Total Board Members' remuneration	**462**	**545**

A total payment of $15,000 was made to one board observer in the period (2020: $6,250).

There have been no payments made to committee members appointed by the Board who are not Board members during the financial year.

No Board members received compensation or other benefits in relation to cessation (2020: $nil).

Leaving member:	
Member name	**Membership term expiry date**
M. Stiassny	October 2020

In accordance with the Remuneration Authority (COVID-19 Measures) Amendment Act 2020, for the period from 9 July 2020 to 6 January 2021, the FMA Board Chair's remuneration rate was reduced by 20% and the Board members' remuneration rate was reduced by 10%.

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 2021 $000s	Actual 2020[17] $000s
B. Benson	0.3	-
J. Berry	0.4	-
M. Biss	-	-
R. Butler	-	0.3
A. Dale-Jones	8	-
J. Duffy	-	0.3
S. Edmond	-	-
G. Edwards	1	-
M. Hawes	-	0.4
D. Ireland	1	2
B. McCleland	0.3	-
B. McCulloch	1	-
P. Mersi	0.4	-
S. O' Connor	-	0.4
T. Singleton	0.3	-
G. Young	-	0.4
Total Code Committee remuneration	**12.7**	**3.8**

17: Decimal points have been included this year. Amounts remain the same as prior year.

New member:	
Member name	**Membership term start date**
B. Benson	March 2021
J. Berry	March 2021
A. Dale-Jones	March 2021
G. Edwards	March 2021
B. McCleland	March 2021
B. McCulloch	March 2021
P. Mersi	March 2021
T. Singleton	March 2021

Leaving member:	
Member name	**Membership term expiry date**
M. Biss	March 2021
R. Butler	March 2021
J. Duffy	March 2021
M. Hawes	March 2021
D. Ireland	March 2021
S. O' Connor	March 2021

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 2021 $000s	Actual 2020 $000s
T. Berry	4	1
G. Clews	-	1
S. Hassan	2	1
P. Houghton	-	-
D. MacDonald	-	-
J. Matthews	1	-
J. Robertson (Sir Bruce Robertson)	6	1
D. Tulloch	1	1
S. Weir	6	1
Total Financial Advisers Disciplinary Committee remuneration	**20**	**6**

New member:	
Member name	**Membership term start date**
J. Matthews	August 2020

Leaving member:	
Member name	**Membership term expiry date**
G. Clews	August 2019[17]
P. Houghton	July 2020
D. MacDonald	August 2019[17]

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.

17: These two members left the committee in the 2019/20 financial year but this information was not disclosed in the 2019/20 annual report.

Note 6 - Transactions with related parties

The FMA is controlled by the Crown.

Related party disclosures have not been made for transactions with related parties that are:

- within a normal supplier or client/recipient relationship; and
- on terms and conditions no more or less favourable than those that it is reasonable to expect the FMA would have adopted in dealing with the party at arm's length in the same circumstances.

Transactions with other government agencies (for example, government departments and Crown entities) are not disclosed as related party transactions when they are on normal terms and conditions consistent with the normal operating arrangements between government agencies.

Audit New Zealand performs the 2021 annual audit of the FMA. The FMA will undertake a quality review of Audit New Zealand in accordance with the Memorandum of Understanding between the FMA and the Auditor-General dated 21 July 2016. The review will not include any audit files where Jo Smaill, appointed by the Auditor-General to audit the FMA, acted as the appointed auditor. The findings of this review will be provided to the Auditor General.

There are no related party transactions required to be disclosed.

Key management personnel compensation

	Actual 2021	Actual 2020
SHORT TERM EMPLOYEE BENEFITS		
Board member's remuneration ($000s)	462	545
Full time equivalent members	1.26	1.17
Code Committee remuneration ($000s)	13	4
Full time equivalent members	0.05	0.02
Disciplinary Committee remuneration ($000s)	20	6
Full time equivalent members	0.06	0.02
Executive team remuneration ($000s)	3,705	3,159
Full time equivalent members	10.80	9.04
Total key management personnel remuneration ($000s)	**4,200**	**3,714**
Total full-time equivalent personnel	**12.17**	**10.25**

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.

An analysis of Board member remuneration is provided in Note 5.

Note 7 - Other operating expenses

	Actual 2021 $000s	Actual 2020 $000s
Fees to Audit New Zealand for financial statements audit	127	104
Impairment losses	850	31
Loss on disposal of fixed assets	2	14
Operating lease expenses	2,308	2,097
Professional services	2,314	2,182
Services and supplies	5,894	4,923
Travel and accommodation	423	577
Total other operating expenses	**11,918**	**9,928**

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.

Additions

The cost of an item of property, plant, and equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to FMA and the cost of the item can be measured reliably.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the surplus or deficit.

Impairment of property, plant and equipment

Property, plant and equipment 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 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.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant, and equipment, at rates that will write off the cost of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of property, plant, and equipment have been estimated as follows:

Office equipment	*Straight line over a period of 3 to 8 years based on the estimated useful lives of each category of asset*
Office furniture	*Straight line over a period of 4 to 10 years based on the estimated useful lives of each category of asset*
Leasehold improvements	*Straight line over remaining life of lease*

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

	Office equipment $000s	Office furniture $000s	Leasehold improvements $000s	Capital work in progress $000s	Total $000s
COST					
Property, plant and equipment at 1 July 2019	2,238	763	3,627	-	6,628
Additions	237	112	27	174	550
Disposals	(816)	-	-	-	(816)
Balance at 30 June 2020 / 1 July 2020	**1,659**	**875**	**3,654**	**174**	**6,362**
Additions	190	161	1,718	485	2,554
Disposals/adjustments	(168)	-	(20)	-	(188)
Reclassification to ICT Costs	-	-	-	(18)	(18)
Transfers from capital work in progress	4	119	33	(156)	-
Balance at 30 June 2021	**1,685**	**1,155**	**5,385**	**485**	**8,710**
ACCUMULATED DEPRECIATION					
Property, plant and equipment at 1 July 2019	(1,549)	(518)	(2,283)	-	(4,350)
Depreciation expense	(346)	(61)	(413)	-	(820)
Elimination on disposal	802	-	-	-	802
Balance at 30 June 2020 / 1 July 2020	**(1,093)**	**(579)**	**(2,696)**	**-**	**(4,368)**
Depreciation expense	(348)	(90)	(496)	-	(934)
Elimination on disposal	166	-	18	-	184
Balance at 30 June 2021	**(1,275)**	**(669)**	**(3,174)**	**-**	**(5,118)**
CARRYING AMOUNTS					
At 30 June 2020	566	296	958	174	1,994
At 30 June 2021	410	486	2,211	485	3,592

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.

Capital commitments

The amount of contractual commitments for the acquisition of property, plant and equipment is $nil (2020: $nil).

Note 9 - Intangible assets

Software acquisition and development

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

Costs that are directly associated with the development of software for internal use are recognised as an intangible asset.

Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Staff training costs are recognised as an expense when incurred.

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.

Amortisation

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 when the asset is derecognised.

The amortisation charge for each financial year is expensed in the surplus or deficit.

Impairment of intangible assets

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 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.

Computer software is amortised as follows:

Computer software	*to be amortised over three to ten years (10% -33.33%), based on the expected useful life of each asset.*

	Computer software $000s	Capital work in progress $000s	Total $000s
COST			
Intangible assets at 1 July 2019	16,529	1,837	18,366
Additions	45	3,361	3,406
Disposals/adjustments	(2,219)	-	(2,219)
Transfers from capital work in progress	3,976	(3,976)	-
Balance at 30 June 2020 / 1 July 2020	**18,331**	**1,222**	**19,553**
Additions	-	2,565	2,565
Disposals/adjustments	(27)	-	(27)
Transfers from capital work in progress	3,075	(3,075)	-
Balance at 30 June 2021	**21,379**	**712**	**22,091**
ACCUMULATED AMORTISATION			
Intangible assets at 1 July 2019	(11,185)	-	(11,185)
Amortisation expense	(2,371)	-	(2,371)
Elimination on disposal	2,219	-	2,219
Balance at 30 June 2020 / 1 July 2020	**(11,337)**	**-**	**(11,337)**
Amortisation expense	(2,592)	-	(2,592)
Elimination on disposal	27	-	27
Balance at 30 June 2021	**(13,902)**	**-**	**(13,902)**
IMPAIRMENT PROVISION			
Costs provided at 1 July 2019	-	-	-
Additional costs provided	-	(31)	(31)
Write off	-	31	31
Balance at 30 June 2020 / 1 July 2020	**-**	**-**	**-**
IMPAIRMENT PROVISION			
Costs provided at 1 July 2020	-	-	-
Additional costs provided	(850)	-	(850)
Write off	-	-	-
Balance at 30 June 2021	**(850)**	**-**	**(850)**
CARRYING AMOUNTS			
At 30 June 2020	6,994	1,222	8,216
At 30 June 2021	6,627	712	7,339

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

The IASB's Interpretations Committee issued an agenda decision during April 2021 that clarifies the accounting treatment expected under International Financial Reporting Standards for customisation and configuration costs associated with software as a service (SAAS) arrangements. The PBE IPSAS-based standards do not provide specific guidance on SAAS arrangements. However, PBE IPSAS 3 explains that in the absence of a PBE standard specifically dealing with a transaction, management may consider the most recent pronouncements of other standard setting bodies. An example of such pronouncements include interpretations issued by the IASB's Interpretations Committee.

During the 2020/21 financial year, the FMA has recorded an intangible asset of $147k related to SAAS arrangements. The FMA is currently assessing how the principals of the agenda decision could be applied to its SAAS arrangements. Due to the material amount of costs involved that have been incurred over several years and the judgements required, the FMA has not had sufficient time to fully consider this. Any changes to our historical accounting treatment will be accounted for as a change in accounting policy in our next financial statements for the year ended 30 June 2022.

Impairment of property, plant and equipment, and intangible assets

During the current year, an impairment provision of $850K (2020: $31K written off) has been recognised in respect of intangible assets.

Capital commitments

The amount of contractual commitments for the acquisition of intangible assets is $318K (2020: $nil).

Note 10 - Operating leases

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

The future aggregate minimum lease payments to be paid under non-cancellable operating leases are as follows:

	Quay Street $000s	Grey Street L2 $000s	Takutai Square $000s	Grey Street L7 $000s	Shortland Street $000s	Total $000s
2021						
Not later than one year	37	465	2,122	191	-	2,815
Later than one year and not later than five years	-	1,435	11,123	599	-	13,157
Later than five years	-	-	11,236	-	-	11,236
Total non-cancellable operating leases	**37**	**1,900**	**24,481**	**790**	**-**	**27,208**
2020						
Not later than one year	37	465	2,004	186	116	2,808
Later than one year and not later than five years	-	1,861	10,652	790	-	13,303
Later than five years	-	39	13,692	-	-	13,731
Total non-cancellable operating leases	**37**	**2,365**	**26,348**	**976**	**116**	**29,842**

The FMA has four leased properties as at 30 June 2021.

Grey Street in Wellington: (Two lease agreements with two different landlords)

Level 2
This lease commenced on 1 July 2012 and expires on 30 June 2021. In June 2020, the FMA signed a deed of variation of lease for level 2 and the new lease term is commencing on 01 July 2021 and expiring on 01 August 2025. For the lease make-good provision, the FMA has assumed it will vacate the premises at the end of the lease term being 2025.

Level 7
In March 2020, the FMA signed a new lease for part of level 7 within the same building in order to support headcount growth in the Wellington office. The lease commenced on 01 March 2020 and expires on 01 July 2025. For the lease make-good provision, it is assumed that it will vacate the premises at the end of the lease term being 2025.

Auckland offices:

Takutai Square:
In February 2021, the FMA signed a deed of variation of lease for the Takutai Square office. The variation of lease covers leasing an additional floor on level 4, extends lease period on all floors (levels 4, 5 and 6) for a new nine year lease term from the variation date, and a reduced per sqm lease rate that applies to all three floors. The new lease term is from 01 February 2021 to 31 January 2030. For the lease make-good provision, it is assumed that it will vacate the premises at the end of the new lease term being 2030.

Quay Street:
In April 2021, the FMA has signed the lease extension agreement for a further lease term of one year: 15 May 2021 -14 May 2022. There is no make-good provision made for this lease as the work done to the premises is minimal.

Shortland Street:
FMA vacated the premise in May 2021.

Note 11 — Occupancy lease liabilities

Occupancy Incentives:

Gifted assets

Office furniture and leasehold improvements gifted by the sublessor in FY 2015 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 was being amortised over the life of the lease. With the latest variation of lease signed for the Takutai Square office, the gifted asset value of $243k as at February 2021 has now been written off to reflect the fact that we no longer carry these liabilities that belonged to the old lease agreement.

Occupancy incentives

Lease incentive payments received are recorded as a liability and amortised over the life of the lease. The lease incentives relating to the old lease agreement with the sublessor for the Takutai Square office with a carrying value of $65k as at February 2021 has been written off when the variation of lease was signed with the lessor.

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 10 month rent free from the beginning of the new lease term and future rent increases. The deferred rental provision relating to the old lease agreement with the sublessor for the Takutai Square office with a carrying value of $269k as at February 2021 has been written off when the variation of lease was signed with the lessor.

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 2019	421	112	346	879
Amortisation	(112)	(30)	(28)	(170)
Balance at 30 June 2020	**309**	**82**	**318**	**709**
Balance at 1 July 2020	309	82	318	709
Reclassification	-	7	(7)	-
Additional provision made	-	-	474	474
Amortisation	(66)	(19)	(38)	(123)
Unused amounts reversed	(243)	(65)	(269)	(577)
Balance at 30 June 2021	**-**	**5**	**478**	**483**

	Actual 2021 $000s	Actual 2020 $000s
NON-CURRENT PORTION		
Occupancy incentives	4	249
Deferred rental	478	318
Total non-current portion	**482**	**567**
CURRENT PORTION		
Occupancy incentives	1	142
Deferred rental	-	-
Total current portion	**1**	**142**
Total lease liabilities	**483**	**709**

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 2021 $000s	Actual 2020 $000s
NON-CURRENT PORTION		
Lease make-good	1,872	717
Total non-current portion	**1,872**	**717**
Total provisions	**1,872**	**717**

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 2019	697
Additional provisions made	20
Amounts used	
Unused amounts reversed	-
Balance at 30 June 2020	**717**
Balance at 1 July 2020	717
Additional provisions made	1,175
Amounts used	(10)
Unused amounts reversed	(10)
Balance at 30 June 2021	**1,872**

The anticipated costs required to make-good all leased properties have been provided for in full.

Note 13 – Receivables and prepayments

Short-term receivables are recorded at the amount due, less an allowance for credit losses. The FMA applies the simplified expected credit loss model of recognising lifetime expected credit losses for receivables.

In measuring expected credit losses, short-term receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due.

Short-term receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include the debtor being in liquidation.

	Actual 2021 $000s	Actual 2020 $000s
Trade debtors	233	131
Other receivables	179	252
Total debtors and other receivables	**412**	**383**
Prepayments	1,171	702
Total receivables	**1,583**	**1,085**
TOTAL DEBTORS AND OTHER RECEIVABLES COMPRISE:		
Receivables from services provided (exchange transactions)	262	296
Receivables from grants (non-exchange transactions)	150	87
Total debtors and other receivables	**412**	**383**

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

	2021 $000s	2020 $000s
Not past due	154	49
Past due one to 30 days	24	79
Past due 31 to 60 days	-	-
Past due 61 to 90 days	13	-
Past due over 90 days	42	3
Total trade debtors	**233**	**131**

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

No individual impairment has been recognised during the current year (2020: $Nil).

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 2021 $000s	Actual 2020 $000s
CURRENT		
Trade creditors	951	47
Accrued expenses and other payables	1,820	1,863
Revenue in advance	23	13
Litigation grant received in advance	2,299	2,159
Total current creditors and other payables	**5,093**	**4,082**
NON-CURRENT		
Accrued expenses and other payables	-	-
Total non-current creditors and other payables	**-**	**-**
TOTAL CURRENT CREDITORS AND OTHER PAYABLES COMPRISE:		
Creditors and other payables under exchange transactions	2,794	1,923
Creditors and other payables under non-exchange transactions	2,299	2,159
Total current creditors and other payables	**5,093**	**4,082**

Note 15 - Reconciliation of the net surplus / (deficit) from operations with the net cash flows from operating activities

	Actual 2021 $000s	Actual 2020 $000s
REPORTING SURPLUS / (DEFICIT)	**1,812**	**(5,591)**
Add non-cash items:		
allocation of lease incentives	(392)	(142)
allocation of deferred rental	166	(27)
Allocation of make good provision	10	
Depreciation and amortisation	3,525	3,193
Impairment losses	850	31
(gain)/loss on disposal of fixed assets	(6)	14
non cash other income	-	-
Add / (less) movement in working capital:		
increase / (decrease) in creditors	2,166	1,122
(increase) / decrease in receivables	(531)	114
increase / (decrease) in employee entitlements	161	1,162
Add / (less) movement in investing activities:		
Net loss / (gain) on sale of fixed assets	(5)	(7)
increase / (decrease) in creditors relating to investing activities	(1,610)	137
Add / (less) movement in financing activities:		
litigation fund (reserve) converted to litigation fund revenue	-	-
Net cash flows from operating activities	**6,146**	**6**

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 (2020: $Nil).

Contingent assets

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

The FMA may also seek pecuniary penalties. Any monies paid to the FMA by way of costs or penalties are returned to the Crown, after deduction of FMA's costs in bringing proceedings.

No actions as at reporting date are likely to have a material effect on the FMA's financial position (2020: $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 that would affect the FMA's ability to continue as a going concern.

Note 19 - Financial instruments

Financial instrument categories

The carrying amounts of financial assets and liabilities in each of the financial instrument categories are as follows:

	Actual 2021 $000s	Actual 2020 $000s
Financial liabilities measured at amortised cost		
Payables (excluding deferred revenue, taxes payable and grants received subject to conditions)	2,794	1,923
Total financial liabilities measured at amortised cost	2,794	1,923
Financial assets measured at amortised cost		
Cash and cash equivalents	7,842	4,632
Receivables	412	383
Investment - term deposits	1,000	-
Total financial assets measured at amortised cost	9,254	5,015

Financial instrument risks

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

Market risk

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

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

Interest rate risk

The FMA's exposure to fair value interest rate risk is limited to its term deposits which are held at fixed rates of interest and, the FMA does not hold any term deposits with a variable interest rate. The FMA does not actively manage its exposure to fair value interest rate risk.

The FMA's investment policy requires a spread of investment maturity dates to limit exposure to short-term interest rate movements.

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 that 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
ANZ Bank New Zealand Limited	A1	AA-
ASB Bank Limited	A1	AA-
Bank of New Zealand	A1	AA-
Kiwibank Limited	A1	-
Westpac New Zealand Limited	A1	AA-

Kiwibank's credit rating is currently not available on Standard & Poors. There were no term deposits held with Kiwibank during the year.

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.

The FMA holds a credit card facility of a $220k credit limit with MasterCard through Westpac New Zealand Limited.

Liquidity risk

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

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

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

Contractual maturity analysis of financial liabilities:

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

Note 20 - Capital management

The FMA's capital is its equity, which is comprised of accumulated funds 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 byproduct 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.

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 2020–2021 as approved by the Board in June 2020. The budget figures are for the 12 months to 30 June 2021 and have been prepared in accordance with PBE FRS-42, using accounting policies that are consistent with those adopted by the Board in preparing these financial statements.

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

Statement of comprehensive revenue and expense

1. Revenue

- The FMA's litigation fund revenue for the year is lower than budget due to the unpredictability of expenditure on open cases.
- Interest income for the year is lower than budget due to interest rates being lower than budget assumptions.
- Other income is higher than budget due to overall over-achievement in regulatory income streams and other income which includes $58k cost recoveries received on the ANZ case as mentioned in Note 3.

2. Expenditure

- Personnel costs are lower than budget because the FMA carried more vacancies than budget expectations during the year, and underspent in board/committee member fees, transitional costs, recruitment fees and ACC.
- Depreciation, amortisation and impairment losses are overspent which is driven by a $850k impairment expense that was recognised on the 'Viya' component of our SAS system.
- Other operating expenditure is lower than budget due to savings in travel (both domestic and international), staff training and office administration related expenditure as a result of the COVID-19 travel restrictions and work from home arrangements. In addition, there is also a wash up adjustment on the previous Britomart office lease agreement that was replaced by the latest lease agreement. These are provisions built under the old lease agreement for deferred rent, lease incentives and gifted assets totalling +$577k which we have written off (as a reduction in lease expenses) to reflect the fact that we no longer carry these liabilities that belonged to the old lease agreement.
- Litigation costs are lower than budget due to the unpredictability of the incurrence of expenditure on open cases.

Statement of Financial Position

1. Assets

- Current assets:
  i. Operating fund cash and term deposit balances are higher than budget at year end due to underspends in both OPEX and CAPEX along with movements in other assets and liabilities.

  ii. Litigation fund cash balance is higher than budget at year-end due to litigation creditors and accrual balances held at year end being higher than budget assumptions.
- Non-current assets:
  i. The property, plant and equipment balance are higher than budget due to the capitalisation of the new make good provision for the new office space in the Takutai Square office (level 4) and the re-assessment of make good provisions for level 5 and 6.

ii. Intangible assets are lower than budget due to the change in scope, timing and the mix of OPEX and CAPEX project work being undertaken during the year.

2. Liabilities

i. Higher trade and other payables balance is due to having higher creditor and accrual balances (including annual leave balances owed to staff) at year end than budget assumptions.

ii. Provisions are higher than budget due to the additional make good provisions provided for the Takutai Square office as explained above.

3. Equity

- Accumulated funds

  Accumulated funds are higher than budget as a result of higher than budgeted surplus incurred during the year.

- Capital contributions

  Capital contributions are lower than budget due to the timing of FMA requesting approved capital injections. With the delays in Christchurch office set up and the Banking and Insurance system build, we requested less funding than budget assumptions.

Statement of Cash flows

1. Cash flows from operating activities

- Litigation fund revenue is lower than budget due to changes in the litigation funding agreement, hence we have received $1m less litigation revenue than budget assumptions during the year.
- Cash disbursed to suppliers is less than budget due to underspends in overall operating expenditure.
- Cash disbursed to employees is less than budget due to higher staff vacancies and underspends in board/ committee member fees and transitional costs.

2. Cash flows from investing activities

- Purchase of intangible assets is lower than budget due to the change in scope and timing of project work being undertaken.

3. Cash flows from financing activities

- Capital contributions was lower than budget due to the timing of FMA requesting approved capital injections. With the delays in Christchurch office set up and the Banking and Insurance system build, we requested less funding than budget assumptions.

Note 22 - COVID-19 Impact Assessment

Impact of COVID-19

During August and September 2020 and February and March 2021, the Auckland region moved into Alert Levels 3 and 2 and other parts of the country moved into Alert Level 2. Towards the end of June 2021, the Wellington region moved into Alert Level 2 for one week.

Impact on operations

The FMA has offices in Auckland and Wellington, so this meant that, where possible, staff worked from home when the regions were at Alert Level 3. The FMA was still able to carry out all its services.

Financial Impact

There are no significant impacts on financials as a result of COVID-19 other than underspends in other operating expenditure (namely travel, staff training and other office administration related expenditure) mentioned in Note 21 above.

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