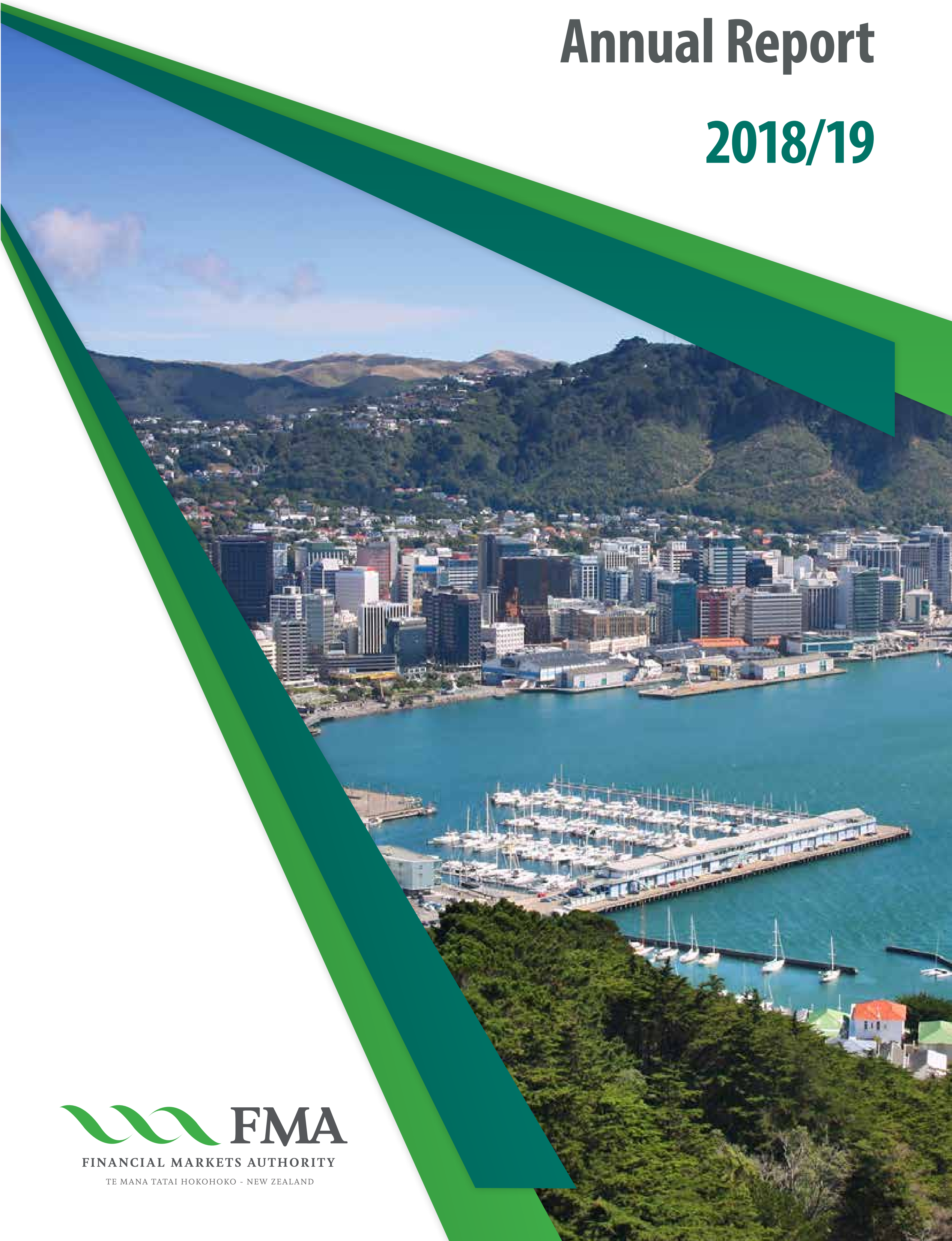
E.25

Annual Report 2018/19



FMA
FINANCIAL MARKETS AUTHORITY
TE MANA TATAI HOKOHOKO - NEW ZEALAND

The FMA in 2018/19

Our purpose

To promote and facilitate fair, efficient and transparent financial markets

Our functions

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.

Monitoring and supervision

To help build investor confidence, we assess and monitor compliance, conduct and competency of market participants.

Policy and guidance

We provide information and guidance that assists firms and professionals to comply with the law.

Education and information

We partner with public and private organisations to develop and promote education resources and messages to help investors make better investment decisions.

Licensing

We license a range of firms and professionals that meet the requirements in law.

Our financial markets landscape

Capital Markets

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

Investment Management

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

Sales, Advice and Distribution

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

Insurance

Provides risk management functions for both individuals and businesses.

Banking

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

Activity

650 interviews with 870 staff, as part of the bank and life insurer Conduct and Culture reviews.

68 alerts published to warn the public about potential scams, unregistered business and entities to be wary of.

930 reports received about alleged financial markets misconduct.

Highlights

Completed the joint FMA and Reserve Bank of New Zealand Conduct and Culture reviews of retail banks and life insurers, finding firms have not given enough consideration to customer outcomes and managing conduct risk.

Following extensive litigation with ANZ, we established the right to share information about ANZ's role as banker to Ross Asset Management during the period David Ross was operating a Ponzi scheme, so investors could make their own informed decisions and pursue their own claim.

Parliament passed the Financial Services Legislation Amendment Act 2019, and we continued planning, guidance and industry engagement in preparation for our licensing and monitoring obligations under the new financial advice regime.

Key performance indicators

86%

of stakeholders agreed that the FMA's actions help raise standards of market conduct and integrity.

Target: 85%

65%

of investors are confident in New Zealand's financial markets.

Target: 70%

96%

of fully completed licence applications processed by the FMA within 60 working days and in accordance with processes.

Target: 90%

Contents

Hon Kris Faafoi
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 2019.

Mark Todd

Chair
Financial Markets Authority
26 September 2019

Elizabeth Longworth

Chair
Audit and Risk Committee
26 September 2019

ISSN No. 2324-1764 (Print) | ISSN No. 2324-1772 (Electronic)
FMA Annual Report 2018/19

Message from the Chair and Chief Executive

This has been a watershed year for the FMA. With the Financial Markets Conduct Act fully implemented, and conduct regulation the new norm for our regulated population, we applied a wider lens to review conduct across the financial sector.

Conduct and Culture

As the Royal Commission was highlighting serious issues in financial services in Australia, similar questions were being asked about the conduct of banks and insurance companies here in New Zealand.

In response, the FMA and Reserve Bank of New Zealand (RBNZ) completed a joint review of conduct and culture within retail banks and life insurers. This was the single largest thematic review we had undertaken, dominating our activity during the 2018/19 year. The review involved close collaboration with the RBNZ, and we are particularly proud of how the staff of both agencies were able to plan and execute this significant undertaking in such a short space of time.

While our reviews did not identify evidence of widespread misconduct or breaches of the law, we did find that retail banks and life insurers had not done enough to address the risks that their conduct poses to customers, or to embed within their organisations a culture of putting customers first. We also noted gaps in the legislation for regulating conduct in these sectors.

We will continue to push the high-level recommendations from our reviews. These are not specific to banks and insurance companies; the recommendations are equally applicable to all financial market participants to help promote fair treatment of customers.

Enforcement and deterrence of misconduct

We had a busy year in terms of enforcement action. We addressed misconduct in a number of ways, including a variety of court proceedings (both civil and criminal), an enforceable undertaking, and public warnings.

A particular success was the

Chair
Mark Todd

Chief Executive
Rob Everett

proceedings versus ANZ, which went all the way to the Supreme Court, and established the right for us to share information about ANZ's role as banker to Ross Asset Management during the period David Ross was operating a Ponzi scheme. This has allowed investors to make their own informed decisions about whether to pursue their own claim against ANZ.

We continue to take a risk-based and proportionate approach to enforcement, using our more robust statutory tools where education, guidance and engagement are not effectively lifting standards, or where an issue warrants a more serious response.

Message from the Chair and Chief Executive

This does not mean we will be soft on misconduct; on the contrary, those who have not improved behaviour in areas we have previously signalled – including continuous disclosure, financial advice, anti-money laundering processes and audit – can expect significant consequences.

We recognise that being more active in the enforcement space is costly. This year we far exceeded our litigation budget, although we were able to cover the overspend from our reserves. We are seeking an increase in the litigation fund for the 2019/20 financial year and onwards, and this discussion is currently underway with the Government.

Our broader activities

As we acknowledge in this report, one or two areas of activity fell behind as we reallocated resources to the Conduct and Culture review. This was reflected in some of our annual performance measure results, but we were back to full strength in most of our functions by the end of the year. We delivered, among other things, a plan for how we will monitor audit quality next year, reviews of the NZX and other licensed market operators, and a report on the compliance of our anti-money laundering reporting entities. We continued our focus on investor education through consumer campaigns and partnerships with other agencies, and launched a comprehensive internal digital transformation programme to make our systems more cost-effective, agile and secure.

Working through the myriad of reviews, plans, issues and cases this year has emphasised the wide variety of conduct obligations and standards across the entire financial markets landscape. This can often make regulation challenging, and cause inconsistency or confusion for customers. However, we do see signs of positive change ahead.

Serving the needs of customers

Prompted by the Conduct and Culture reviews, this year we refined what we mean by 'good customer outcomes'. These messages are applicable to all financial services entities, and will form the basis of our expectations going forward.

At its core, delivering good customer outcomes means serving the needs of customers by:

- 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.

Looking ahead

The Financial Services Legislation Amendment Act and the new Code of Conduct will level the playing field, in terms of regulatory requirements and obligations, for everyone giving financial advice. We have done a lot of work in the past year educating financial advisers about the changes and preparing our systems for the new licensing requirements, which take full effect in June 2020. It will be a big shift for many advisers, but supports a broader effort to ensure access to high-quality financial advice for all New Zealanders.

We look forward to continuing to work with the Government on the conduct of financial institutions review, which has set the goal of ensuring that conduct and culture in the financial sector is delivering good outcomes for all customers.

Previously when the FMA considered 'customers', we were predominantly thinking of investors – users of the financial products and services we regulate. This year has demonstrated that we now need to widen our view to all financial services customers.

While our legal oversight may vary by role, licence or financial product, good conduct is fundamental to all aspects of fair, transparent and efficient financial markets.

Finally, we would like to acknowledge Murray Jack, who ended his term as FMA Board Chair in April 2019. Murray was a member of the Securities Commission, and remained through the establishment of the FMA. As such he was instrumental in setting the strategy and priorities of the organisation. We would also like to thank outgoing Board members Campbell Stuart and Mary Holm for the contribution they made throughout their terms.

Mark Todd
Chair

Rob Everett
Chief Executive

2018/19 highlights

Conduct and Culture reviews

Public trust is paramount to the effective functioning of our large financial institutions. When the conduct and culture of these institutions does not have customers at its heart, this trust erodes quickly.

As the Australian Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry unfolded over the Tasman, the effects of poor conduct and culture were dramatically highlighted, raising questions about whether we had similar concerns in New Zealand.

The FMA's remit covers conduct regulation of some financial market participants, and the RBNZ focuses on maintaining a sound and efficient financial system through prudential regulation. Although neither regulator has direct legislative mandate for regulating banks' and insurers' treatment of customers, conduct standards within financial services are important to the statutory purpose of both regulators. We therefore widened our view and moved quickly to launch a joint review of conduct and culture within 11 retail banks and 16 life insurers.

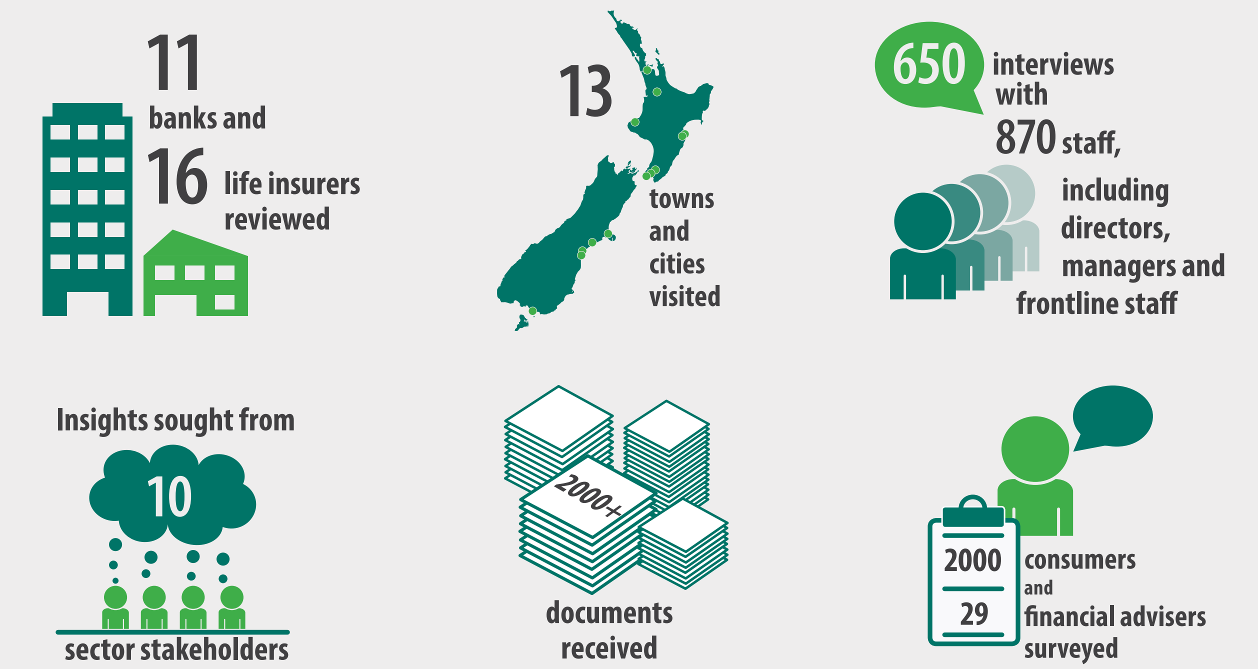
Our approach

We asked firms to engage and share information on a voluntary basis. We also wanted to encourage proactive and swift improvement of customer-related processes and attitudes that needed to change to meet our expectations.

What we found

The review of banks, published in November 2018, did not find widespread issues with how they treated their customers. However, we found weaknesses in governance, conduct risk management and remediation,

Scope of the reviews



and risks associated with sales incentives, which may be contributing to poor outcomes for customers.

Our January 2019 report showed that life insurers' processes and practices were materially worse than those in the banking sector. We identified instances of potential misconduct where customers were misled or sold inappropriate products, or were not treated in accordance with the terms of their policy. There were also deeper problems in the same risk areas identified for banks, showing insurers had a much less mature approach to serving the needs of customers.

We required banks and insurers to provide us with plans to address the issues identified by our reviews. It is now up to the firms to rebuild public trust by doing the work to bring their plans to life. While we will be monitoring progress and taking action where necessary, it is ultimately the responsibility of the banks and insurers to assure the public that they can offer a fair, transparent and mutually beneficial relationship to their customers.

In response to the joint reviews, the Government is considering a range of options for regulating the conduct of financial institutions.

Sales incentives

In June we confirmed that all banks had committed to remove sales incentives for frontline staff and their managers. These incentives were a particular concern during our review, as the prospect of a reward increased the risk of bank staff making inappropriate sales to customers in order to reach targets.

What we think

Banks have started to consider customer treatment issues. This work has generally been slow and relatively recent, and mainly in response to overseas events. Most of the initiatives we have seen only begin to address issues and risks, and do not go deep enough.

Life insurers have been too complacent when it comes to considering conduct risk, too slow to make changes following previous FMA reviews, and not focused enough on developing a culture that recognises the alignment between the long-term interests of shareholders and the interests of customers.

For both sectors, the way that frontline staff and their managers are incentivised needs to be structured to ensure that selling products and meeting targets is not prioritised over providing customers with suitable products and advice.

The high-level recommendations from our Conduct and Culture reports apply not just to the firms we reviewed, but all financial market participants:

- Greater board and senior management ownership and accountability
- Prioritise issue identification and remediation
- Prioritise investment in systems and frameworks
- Focus on longer-term customer outcomes
- Strengthen staff reporting channels
- Remove all incentives linked to sales measures, or take steps to manage the risks associated with incentives

2018/19 highlights

Credible deterrence of misconduct

A critical part of the FMA's work is to identify and deal with market conduct that poses a risk to investors or customers. Credible deterrence relies on the use of a wide range of tools to set standards for conduct and enforce the law.

What's the harm?

Whenever we identify poor conduct, whether it is illegal activity or behaviour that is within the law but still poses risks, we assess the level of harm by looking at the scale, scope and impact of the activity. The level of harm informs the action we take.

How we respond

Enforcement is not just about court action. We use a wide range of functions and powers, selecting the most appropriate regulatory response to achieve the desired outcome.

Our statutory tools include:

- revoking and suspending licences
- criminal prosecution and civil proceedings
- publishing warnings
- imposing conditions
- giving directions
- stopping promotion or distribution of financial products and services.

We also have more flexible regulatory tools (both formal and informal) such as monitoring reports, feedback letters, compliance warning letters and general market guidance. The tools we choose depend on the level of harm and the most effective means of correcting the issue or deterring reoccurrence, by the entity in question or the market as a whole.

Case study: Persevering on behalf of investors

The Ross Asset Management (RAM) Ponzi scheme was a major event for New Zealand's financial markets and had a significant impact on a large number of investors.

For the past three years, ANZ has challenged our right to be able to provide relevant information to RAM investors. The information relates to ANZ's role as banker to Ross Asset Management during the period David Ross was operating a Ponzi scheme.

We invested considerable time and resources in litigating this matter, which went all the way to the Supreme Court. As a result of the Court's decision in April, we established the right to share the information so investors could make their own informed decisions and pursue their own claim.

In July, proceedings were filed against ANZ on behalf of eligible RAM investors.

What we think

FMA Chief Executive Rob Everett said: "This matter raises important questions around bankers' duties and we are pleased they will now be tested in the Court.

"While the FMA has the power to take action on behalf of investors, we are obliged to consider the likelihood of individuals taking their own proceedings and diligently pursuing them.

"This action was long and costly, but it was an important battle to establish the right for investors to exercise their private rights to make a claim."

Case study: Lessons for the market

Mark Stephen Talbot, a former virtual chief financial officer of VMob (now Plexure), admitted this year to insider trading conduct and entered a guilty plea on a representative charge for a breach of disclosure obligations.

He entered into an enforceable undertaking, which will see him pay $150,000 in lieu of a penalty and be barred from acting as a director or manager of a listed business for five years.

What we think

Karen Chang, FMA Head of Enforcement, said: "The FMA is satisfied this resolution is a proportionate and appropriate response to Mr Talbot's misconduct. We have met our regulatory objectives in holding the individual to account for their misconduct, censuring the particular offences and providing important lessons to the market on the application of the law.

"We always consider the public interest in determining the best outcome for enforcement actions. Where it's possible to achieve our objectives without the need to spend time and public resources on lengthy court proceedings, then we will do so on the merits of each case, particularly where the final outcome would be less certain and subject to the risks of a litigation process."

Warnings and alerts

We regularly publish alerts on our website and through our social media channels to warn the public about businesses or individuals to be wary of when making investment decisions. Most of these entities and their activity are unregulated and therefore considered to be on the perimeter of our remit. However, we see value in publicising the warnings to raise public awareness and deter misconduct.

alerts published in 2018/19

Including...

56 suspected scams

29 relating to unregistered businesses

7 instances of a business falsely passing itself off as a regulator

Some alerts relate to multiple categories

2018/19 highlights

We made use of a range of our enforcement tools in the following cases.

June 2019

Morgan DeVere

Morgan DeVere Corporate Finance Limited was fined $40,000 following its conviction on two charges of breaching the Financial Services Providers (Registration and Dispute Resolution) Act 2008. A director of the firm was also sentenced to community service. The breaches related to the company claiming it was registered on the Financial Service Providers Register after it had been deregistered and despite subsequent warnings.

May 2019

AML/CFT warnings

We issued formal warnings to 10 reporting entities for breaches of the Anti-Money Laundering and Countering Financing of Terrorism Act.

Investment scam

We laid 21 charges against an individual related to deceptively obtaining funds that he purported to be investing. The man was neither authorised nor licensed to make investments on behalf of others.

April 2019

Oceania Natural

We filed civil proceedings against four individuals in relation to trading in Oceania Natural Limited, alleging breaches of market manipulation prohibitions and disclosure obligations.

Talbot

Following his admission of insider trading, Mark Stephen Talbot entered into an enforceable undertaking (see previous page).

AML/CFT monitoring report

We published a report summarising what we've observed in our last two years of monitoring the compliance of our reporting entities with their anti-money laundering and countering the financing of terrorism (AML/CFT) obligations, and highlighting areas that require improvement and closer attention.

March 2019

Viaduct Capital & Mutual Finance

Paul Bublitz was jailed, and Bruce McKay and Richard Blackwood were sentenced to home detention after being found guilty for their roles in theft and deliberate misconduct in dealing with funds invested by the public, and abuse of the Crown Retail Deposit Guarantee Scheme.

Outside the reporting period, the Court of Appeal subsequently acquitted Blackwood, and set aside convictions against Bublitz on two charges but upheld a further four convictions. Bublitz's sentence was reduced to 11 months' home detention, taking into account time already served and the long duration of the case.

February 2019	**South and Provan** Robert Ian South and Murray Byron Provan received prison sentences after being found guilty for their roles in an investment scam that involved receiving money from two elderly women for an investment opportunity that did not appear to exist.
January 2019	**Life Insurer Conduct and Culture** We published the findings of the review of life insurer conduct and culture, highlighting areas of weakness and setting out expectations for change (see page 8).
November 2018	**Wynyard** We published the findings of our investigation into Wynyard Group Limited's compliance with continuous disclosure and fair dealing obligations, along with guidance for issuers based on the misconduct we identified. **Ferguson** We issued a public warning about Brian Ferguson, a registered financial adviser, for conduct that involved forging documents. **Bank Incentive Structures** We published a thematic review of how banks incentivise staff, which highlighted the risks of incentive structures and set out expectations for change. **Bank Conduct and Culture** We published the findings of the review of retail banks' conduct and culture, highlighting areas of weakness and setting out expectations for change (see page 8).
October 2018	**Pacific Eagle** We issued an infringement notice to Pacific Eagle Capital for failing to file financial statements by its due date.
July 2018	**Patterson** Garry James Patterson was sentenced to 200 hours' community work and three months' community detention after pleading guilty to two charges related to holding out that he was in the business of providing financial services despite not being registered, and obstructing the FMA's investigation.

2018/19 highlights

Engaging with investors

Capable, confident and well-informed investors are an essential part of healthy financial markets.

We help to improve investors' awareness and access to information by working with financial service providers. This includes ensuring the information they provide to investors in product disclosure statements and other documents is clear, concise and effective, and that risks and fees are appropriately highlighted.

We also communicate directly with investors. Although our main focus is generally KiwiSaver, this year those conversations covered a wider range of topics related to investing, from getting started and making smart decisions, to choosing and using more complex products such as shares.

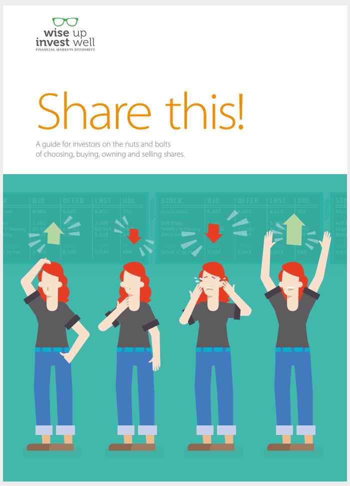
Weathering investment storms

As part of Sorted Money Week 2018 we ran a campaign focusing on helping younger KiwiSaver members prepare for when investment markets fall in value. Central to the campaign was a quiz that tested people's understanding of how to prepare for and react to market volatility.

Each question was followed up with a short video covering the fundamentals of holding a long-term investment, balancing risk and returns, and making measured decisions.

Share this!

Share this! is our guide to the basics of investing in shares. Developed in consultation with industry partners, the guide covers the basics of choosing, buying, owning and selling shares. The guide is available on our website, and copies have been used by the FMA and other organisations at investor education events.



Dipping a toe in the investment waters

As part of IOSCO's World Investor Week, we produced a video covering the basics of investing. The video addressed frequently asked questions such as:

- Do I have enough to invest?
- What are the risks?
- Do I know enough to make smart decisions?

To support the video we refreshed the investor section of our website, which provides resources on a variety of common and emerging investment options such as bonds, shares, property, cryptocurrency and peer-to-peer lending.

Do Kiwis have their heads in the sand?

A recent informal survey found that 80% of Kiwis spend more time choosing a movie than they do reading their KiwiSaver annual statement. To encourage KiwiSaver members to get their heads out of the sand when it comes to looking at and understanding their statements, we ran a campaign to promote our KiwiSaver Health Checker, which covers the key elements of getting your investment set up so that it sets you up for retirement.

Getting smart about decision-making

We collaborated with MBIE and the Commission for Financial Capability on the Smart Investor online tool, which is available through the Sorted website. Smart Investor enables Kiwis to search and compare New Zealand investments such as KiwiSaver, shares, bonds and other types of managed products. The tool supports our focus on ensuring investors make well-informed decisions.

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.

New Zealand's financial markets regulatory system reflects the twin peaks model of conduct and prudential regulation. The FMA is the principal conduct regulator. The Reserve Bank of New Zealand (RBNZ) is the prudential regulator, and is responsible for promoting the maintenance of a sound and efficient financial system.

We work with a number of other agencies that support the functioning of the system. These include:

- the Ministry of Business, Innovation and Employment (MBIE), which develops financial conduct regulation policy and advises the Government on relevant issues
- the Commerce Commission, which enforces laws relating to competition, fair trading and consumer credit contracts
- the Commission for Financial Capability, which works to improve financial capability of New Zealanders
- the Serious Fraud Office, which prosecutes cases of serious fraud or complex financial crime
- the Department of Internal Affairs, which enforces anti-money laundering requirements for designated non-financial businesses.

Approach to regulation

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

- **Conduct regulator**: we focus on protecting investors, customers and the integrity of markets through influencing how participants behave towards their customers, investors and each other.
- **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.

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.

Annual Corporate Plan
Builds on the Strategic Risk Outlook, outlining activities for the coming year that will promote our strategic priorities, address regulatory risks and deliver sector outcomes.

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.

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.

Checking in on our 2018/19 Annual Corporate Plan

Of the 40 key activities set out in our Annual Corporate Plan, the following five were not completed or progressed as intended in 2018/19. The primary reason for the delays with these pieces of work was resourcing being drawn into the Conduct and Culture reviews.

- **Building a better understanding of fee competition and practices across the KiwiSaver market** – we have initial research to help kickstart this work, which will be ongoing throughout 2019/20.
- **Proactive and reactive monitoring of supervisors** – while a high level of informal engagement with supervisors was maintained throughout the year, two planned monitoring engagements were deferred to 2019/20.
- **Ongoing engagement through the Supervisors forum** – forums were not held quarterly as planned in 2018/19, but resumed in May 2019.
- **Ongoing monitoring of misconduct reporting and environmental scanning to identify perimeter risks, including activity driven by new technology** – we have continued to log misconduct and intelligence reports, but deeper analysis of these has been delayed.
- **Ongoing reviews of Financial Service Providers Register registration, focusing on New Zealand directors representing offshore businesses** – detailed planning for this project is underway as of September 2019.

Focus on the industry

Sector map

Our regulatory landscape is divided into sectors, which provide the basis for our assessment of risks. The map below outlines these sectors and describes some of the roles, activities and product types covered. The extent of our oversight varies across these sectors.

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)
- Alternative capital raising (eg peer-to-peer and crowdfunding)
- Audit
- Market infrastructure (eg settlement systems)

Sales, Advice and Distribution

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

- Qualifying Financial Entities (QFEs)
- Advisers*
- Derivatives issuers
- Retail platforms and aggregators

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
- Health and disability insurance
- General 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

Indirect regulatory relationship with FMA

*Authorised Financial Advisers (AFAs), Registered Financial Advisers (RFAs), Qualifying Financial Entity (QFE) advisers, and, under the new regime, Financial Advice Providers.

**Brokers and custodians are supervised by the FMA under the AML/CFT regime.

Capital Markets

We want to see resilient and dynamic capital markets with broad investor participation and sound infrastructure.

What we did

Along with NZX, we initiated Capital Markets 2029, an industry-led review of New Zealand's capital markets. It is designed to deliver a ten-year vision and growth agenda for the sector.

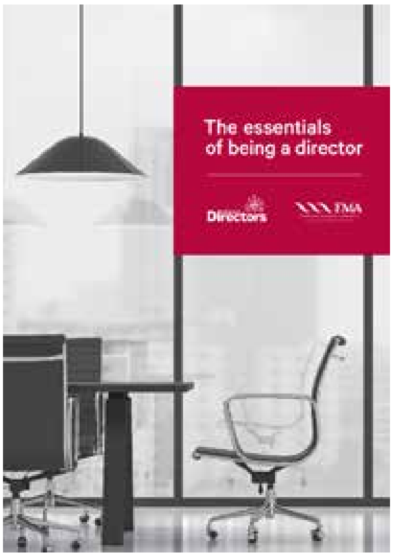
What we think

FMA Chief Executive Rob Everett said: "This review responds to concerns expressed about the overall depth and breadth of our capital markets. From early-stage capital raising and investment opportunities all the way up to main board listings and institutional investor appetite, we felt the time is right to plan for the future. We are keen to see the industry take this forward and take a good look at how the system is working."

We want to see boards and senior management of regulated firms leading organisational culture and placing customer interests at the centre of their business strategies.

What we did

In collaboration with the Institute of Directors, we published a refresh of our guide on the essentials of being a director.



The guide outlines some of the legal requirements, ethical considerations and best practice areas for directors to consider, so they can be effective in their role.

We progressed our investigation into CBL Corporation Limited and its directors relating to a potential breach of disclosure requirements leading up to the company going into liquidation. Our investigation is part of a joint effort that includes the RBNZ and the Serious Fraud Office. While the case is likely to take some time to conclude, we believe the findings will provide valuable lessons for listed companies.

We want to see capable, confident and well-informed investors.

For capital markets, this means investors have access to clear, concise and effective disclosure from issuers, and can be confident in the integrity of audited financial statements.

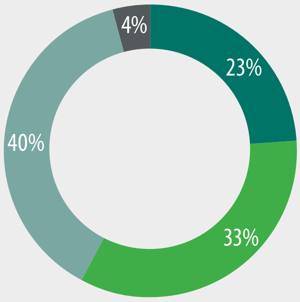
What we did

Audit quality is key to investor confidence in the financial statements of listed entities. We monitor audit quality through reviews of the audits of FMC reporting entities (entities that are subject to certain obligations under the Financial Markets Conduct Act 2013). The results of these reviews are published in the annual Audit Quality Monitoring Report. This year's report noted continued improvement in the overall quality of audits since we started our reviews, but there are

Focus on the industry

still inconsistencies in the quality of individual audits within the same audit firm.

Audit quality – progress made in 2017/18



- **Findings fully addressed**
  Areas where firms implemented effective systems and procedures since our previous review
- **Significant improvement shown**
  Areas where firms implemented changes based on our findings and improvements were noted on the majority of audit files but were not fully effective across all reviewed files
- **Some improvement shown**
  Areas where firms implemented changes based on our findings, but improvements were only noted in some instances and were not fully effective across the majority of all reviewed files
- **No improvements found**
  Areas where the planned system improvements to address our findings were not implemented or were ineffective

What we think

Audit firms need to consider why audit quality varies significantly across individual files even though the same policies and procedures are applied across all of the firm's audits. We expect firms to invest more time to analyse the detail that underpins areas where we have found non-compliance, and determine how to address our key findings most effectively.

Following public consultation, we granted a class exemption to enable companies who offer investments to publish product disclosure statements in both te reo Māori and English. The exemption promotes the confident and informed participation of investors who are more engaged and have a better understanding when information is provided in both te reo Māori and English.

Good quality financial reporting allows investors to have access to the information they need to make well-informed decisions. In May, we published a statement outlining our approach to financial reporting reviews of FMC reporting entities, and highlighting selected areas of interest for our 2019/20 reviews. The statement reiterated our expectation that entities should provide material information and communicate this in a clear, concise and effective manner. It also set out particular areas we will be focusing on, based on issues we have seen in previous reviews, and changes in accounting standards.

We want to see frontline regulators who contribute to well-regulated financial markets.

For capital markets this means audit accredited bodies (that license and oversee auditors) and market operators performing their functions effectively.

What we did

We published reports on our regular obligations reviews of licensed market operators NZX, ASX 24, ICE Europe and ICE US. We found all market operators to be meeting their obligations. We noted that NZX had strengthened its market surveillance function, in response to our finding from the previous year that it was deficient in this area.

We published the results of our annual reviews of how well the New Zealand Institute of Chartered Accountants (also known as CAANZ) and CPA Australia are meeting their obligations for overseeing domestic licensed auditors and registered audit firms. We found both bodies have appropriate policies and processes in place.

Investment Management

We want to see capable, confident and well-informed investors.

For investment management this means seeing evidence that KiwiSaver members are making informed decisions about their investment, and that investors have access to clear, concise and effective disclosure from fund managers.

What we did

The KiwiSaver Annual Report analyses data from providers and outlines financial literacy activity by default providers. Our report for the year to 31 March 2018 noted that 28,603 default members made an active decision about the type of fund they wanted to be in after being contacted by their provider, up from 16,902 a year ago.

What we think

We regard active choices as important, as they are a good indication that the provider's financial literacy efforts have resulted in a member making a meaningful, informed choice in their own interest. FMA Director of Regulation Liam Mason said: "Overall, default providers have improved their efforts to help their members make active decisions about their investment fund type. We still think some providers could do more and we've engaged with firms where we considered they needed to improve."

We released the results of a joint behavioural insights study of how different approaches to communication affect how customers interact with their investments. The trial involved changes to the letter sent to ANZ KiwiSaver members who were turning 56. The letter was rewritten using the criteria of making the content easy, attractive, social and timely. These are principles used internationally to bring about effective and measurable behavioural change. The improved communication yielded encouraging results, including more members making active fund choices and voluntary contributions. We expect all KiwiSaver providers to take account of the findings and consider how they could meaningfully improve communication with their KiwiSaver members.

Focus on the industry

Sales, Advice and Distribution

We want to see sales and advice practices designed to meet the needs of customers.

What we did

We continued preparations for a new licensing regime for financial advisers.

In April 2019, Parliament passed the Financial Services Legislation Amendment Act 2019, which will change the rules for how financial advice is provided to clients. As part of the changes, the three current adviser types – Registered Financial Adviser, Authorised Financial Adviser and QFE adviser – are being removed, and all advisers will need to meet the same standards.

This includes complying with the new Code of Conduct, which sets standards for competence, knowledge and skills, ethical behaviour, conduct and client care. The code, and the financial advice rules and regulations that will be set out in an amended Financial Markets Conduct Act, will help ensure advisers are giving priority to the interests of a client when providing financial advice.

The FMA will be responsible for licensing and monitoring Financial Advice Providers. Our work this year has focused on:

- building systems to support the application process for transitional and full licensing
- creating guidance documents and communicating updates to the current adviser population
- engaging with industry to help them understand their options and obligations under the new regime.

We published the fourth in a series of reports since 2016 in relation to life insurance sales, looking at how Qualifying Financial Entity insurance providers mitigate risks through operational policies and procedures when selling replacement policies. We found that advisers do not sufficiently acknowledge that replacement business creates conflict risks that need to be managed carefully. Given the level of attention we have already devoted to this issue, it was particularly disappointing to see the lack of maturity in managing conduct risk that was highlighted during the Life Insurer Conduct and Culture review.

Banking and Insurance

We want to see sales and advice practices designed to meet the needs of customers, and boards and senior management of regulated firms leading organisational culture and placing customer interests at the centre of their business strategies.

What we did

The Conduct and Culture reviews of retail banks and life insurers (see page 8) were the main focus of our work in this sector. This was the first time we looked at banks and insurers as a whole, rather than in relation to the discrete functions we regulate.

The findings of the Bank Conduct and Culture review were supported by our separate thematic review of bank incentive structures. This report highlighted the risks of incentive structures and set out expectations for change.

What we think

We expect banks to serve the needs of customers and treat them fairly in all interactions. This includes designing and managing incentive schemes that recognise and prioritise the interest of customers. It is for banks to determine the most appropriate way to design and control incentive structures in a way that achieves this. Removing incentives linked to sales measures is a significant step towards this goal, and we are pleased that banks have committed to this. However, the pressure to sell that senior managers place on more junior staff cannot be underestimated, so the design of incentives for senior and middle managers also needs to be carefully considered.

Focus on the industry

Cross-sector

We supervise around 800 reporting entities for compliance with Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) Act 2009 obligations. In April we published our AML/CFT monitoring report, which identifies areas requiring further attention by the management and boards of reporting entities, related to AML/CFT compliance programmes, risk assessment and due diligence. It also highlights the 18 formal warnings we issued to entities during the reporting period (1 July 2016 to 30 June 2018) for significant breaches of the Act.

What we think

Liam Mason, FMA Director of Regulation, said: "The laws surrounding anti-money laundering and countering the financing of terrorism have now been in place for more than five years. We expect to see more mature policies, procedures and controls in place. The FMA is requiring more entities to take remedial action following its monitoring. This is more likely now to be accompanied by formal enforcement action, as we expect reporting entities to understand and meet their obligations."

We are always mindful of the need to minimise unnecessary regulatory burden and costs for our regulated populations. This year, following a targeted consultation, we decided to remove the expiry dates for all licences issued under the Financial Markets Conduct Act 2013. These licences initially had a five-year term. We reconsidered this following the development of our risk-monitoring framework, and decided the costs associated with relicensing were not in proportion to the benefits.

We will continue to monitor licensees and take appropriate action if a licensee fails to meet their licence conditions or legal obligations.

As part of our role in promoting fair, efficient and transparent markets, we want to ensure financial service providers and consumers are aware of and prepared for cyber-risks, and that providers have controls to mitigate risks and ensure cyber-resilience.

This year we completed a thematic review of cyber-resilience in New Zealand financial services, based on providers' assessment of cyber-risk and how prepared they are for a cyber-attack. The average self-assessed level of overall cyber-resilience was 70%, but with lower capability in some aspects such as the ability to detect and respond to threats. We expect all market participants to include assessment of cyber-risk as part of their wider risk-assessment and management programme, and to make use of industry resources when looking to strengthen their cyber-resilience.

Cooperation and collaboration

We are committed to collaborating with other local and international agencies with similar interests, to share information and ensure we take an informed and joined-up approach to our work.

- 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 Conduct and Culture reviews, which were jointly carried out by the FMA and RBNZ, were a clear demonstration of agencies working together to understand and address system-wide risks.
- We work with the Serious Fraud Office (SFO) on all investigations of joint interest, in accordance with Memorandum of Understanding (MOU) arrangements. Collaboration this year included a joint search warrant and an FMA investigator being seconded to SFO for a complex investigation.
- We continued to have close engagement with the Australian Securities and Investments Commission (ASIC). Senior staff from both agencies attended the bi-annual Trans-Tasman Emerging Risk Committee meetings. We also engaged with ASIC on specific issues of mutual relevance, and participated in an international supervisory college hosted by ASIC and the Australian Prudential Regulation Authority (APRA).
- We attended two Financial Action Task Force (FATF) plenaries. FATF is the international standard-setting and oversight body for anti-money laundering and countering the financing of terrorism regulation. These events gave us the chance to collaborate with representatives from 205 jurisdictions on matters relating to the security of global financial systems.
- One of the objectives of the Auditor Regulation Act 2011 is to enhance the international recognition of New Zealand auditors. In recent years our audit oversight regime has received recognition from the Swiss government and the European Union. We are a member of the International Forum of Independent Audit Regulators (IFIAR), and a signatory of IFIAR's multilateral memorandum of understanding to facilitate information exchange and collaboration between members.

Our organisation

Board

Mark Todd

Chair, LLB Hons

Mark has over 20 years' experience in financial markets regulation, and has held governance roles with both listed and unlisted companies. He co-founded Anti-Money Laundering Solutions and chaired Mint Asset Management. He was also the Customer Advocate at Westpac New Zealand.

Current term expires 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 client relationships 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 expires 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, Chairman of Bethunes Investments Limited, 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, LLM

Elizabeth has over 20 years' commercial legal experience and international governance expertise. She has specialties in information policy and disclosure, risk management, 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 roles include Sector Director at Industry New Zealand and In-house Counsel at the Reserve Bank.

Current term expires June 2020

Prasanna Gai

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

Prasanna is Professor of Macroeconomics at the University of Auckland. He brings over 20 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 a 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 expires April 2023

Vanessa Stoddart

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

Vanessa is a Director of NZ Refinery, Heartland Bank, and OneFortyOne Plantations Holdings Pty Ltd. She is also a member of the Tertiary Education Commission and the Audit and Risk Committee for DOC and MBIE. She was previously a Senior Executive at Air New Zealand and CEO of Carter Holt Harvey Packaging Australia.

Current term expires June 2021

William Stevens

Member, BBS

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

Current term expires June 2020

Outgoing members

Murray Jack (Chair) – term expired 30 April 2019

Campbell Stuart – term expired 30 June 2019

Mary Holm – term expired 30 June 2019

Carol Cheng – term expired August 2018
Carol was a participant in the Future Directors' programme to state sector boards, and joined the FMA Board as an observer for one year from 1 September 2017.

Our organisation

Executive team and organisation structure

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.

Market Engagement

Director: John Botica

John leads the FMA's market engagement activities, with a current focus on preparing advisers and industry for financial advice reforms. He has extensive experience in management and consulting in the financial services sector.

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 and project management functions. His background is in accounting and finance management at an executive level.

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.

Strategy & Stakeholder Relations

Director: Scott McMurray

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

Regulation

Director: Liam Mason

Liam leads and oversees the licensing and supervision of financial markets participants. He is also responsible for the FMA's compliance frameworks and intelligence functions. His background is in securities and financial services law and policy, corporate governance, Crown entity governance and legal compliance.

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.

General Counsel

Director: Nick Kynoch

Nick leads our enforcement and litigation, policy and governance, corporate legal and evidence and investigations teams. His role includes advising our executive committee and Board. He has extensive legal experience in banking and law firms.

Capital Markets

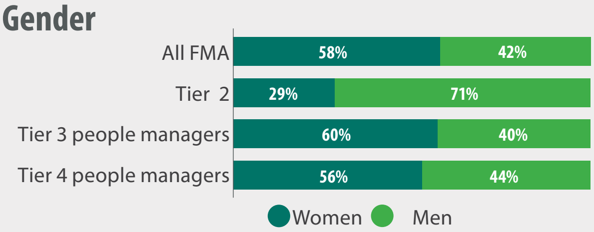
Acting co-directors: Nick Kynoch and Liam Mason

Nick and Liam are currently overseeing the teams responsible for primary and secondary markets, disclosure and financial reporting by issuers, market infrastructure, intermediary platforms, clearing providers, and auditors.

Our organisation

People

Gender



Age

20-29	30-39	40-49	50-59	>60
11%	37%	30%	18%	4%

Ethnicity/nationality*

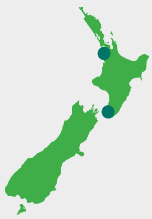
- 54% NZ European/Pakeha
- 21% UK/Northern European/Australian/South African
- 13% Asian (including Indian)
- 4% Māori
- 1% Pacific islander
- 7% Other

Disability*

- 3% Hearing/vision impairment
- 2% Other
- 95% N/A

Location

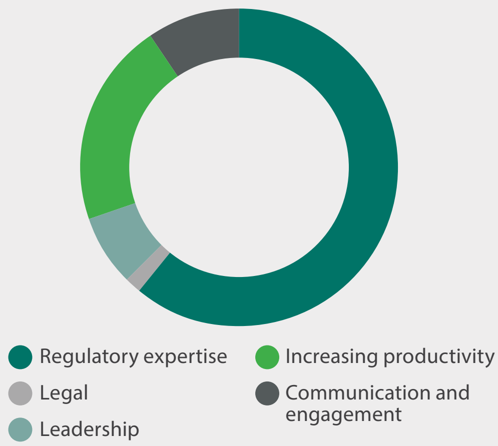
73% Auckland



27% Wellington

Capability framework

Internal training attended, by theme



Employment type

	2019	2018	2017
Total	**212**	194	178
Permanent	**188**	170	154
Fixed-term	**7**	7	7
Casual	**0**	1	0
Contractor/temp	**14**	14	17
Secondee	**3**	2	0
Voluntary turnover**	**22%**	13.8%	17.9%
Average service length	**3.4 years**	2.4 years	3.1 years

Where we find our staff***

	2019	2018	2017
Corporate	**21%**	20%	13%
Financial services	**17%**	25%	9%
Government	**12%**	22%	16%
International	**6%**	10%	19%
Internal	**26%**	17%	38%
Legal	**10%**	3%	3%
Other	**1%**	2%	3%

All data covers permanent, fixed-term, and temporary staff as at 30 June 2019 unless otherwise stated.

* Based on voluntary answers provided by permanent and fixed-term employees.

** 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

During the year we put significant effort into our leadership training programme, to ensure that people managers have the techniques and tools to guide team members toward achieving our strategic priorities.

All staff members work towards a constructive and collaborative culture. From our culture and workplace survey, we identified key areas for improvement, including treating people with respect, understanding how we can work better together, ensuring people are empowered and engaged by their work, and supporting people through improvements in processes and systems.

Recruitment, selection and induction

Our dedicated recruitment team provides support to both candidates and hiring managers, so that we understand staffing requirements, develop the most appropriate strategies to communicate these to the market, and attract and hire the right people for our varied and often unique roles.

This year we ran a small graduate recruitment programme, and planned how we might utilise different recruitment channels.

We also started refreshing our employee value proposition for the first time since 2015, to ensure we understand the combination of work and benefits that is most attractive to current and future employees.

We receive consistently positive feedback from staff about our induction and on-boarding programmes, and work hard to achieve a personal connection with each new recruit.

Diversity and inclusion

Our established Diversity and Inclusion Committee, made up of staff from different backgrounds, has led several initiatives to celebrate and encourage diversity of thought and acceptance of difference. The committee's input into the development and implementation of our diversity programme supports equal opportunity employer practice.

Our recruitment processes have been refined to include diversity and inclusion questions. We hosted a number of cultural celebrations throughout the year, ran focus groups about developing our approach to flexible working, and have engaged a consultant to work on cultural intelligence and Māori capability training.

We are committed to ensuring all employees have equal access to employment opportunities and have the chance to perform and progress to their full potential.

Employee development, promotion and exit

Following the principles of a good employer, we continue to work within an established capability framework that allows managers to identify the skills needed for each role, and support people to reach the necessary skill level.

Our learning and development programme has grown in size and scope throughout the year, to support our capability framework requirements.

Our organisation

We continue our good track record of promoting from within – approximately 26% of roles filled this year were through internal promotions.

For people who leave the organisation, we provide both an exit survey and a one-to-one meeting to understand their reasons for leaving. This information is themed and reported to line managers to help improve people's working experiences.

Flexibility and work design

We look at ways to enable staff to take a flexible approach to their work. We have a number of formal and informal flexible working arrangements in place, which include options such as part-time, staggered start and finish times, condensed working weeks and working from home. Our Digital Transformation programme (see page 34) has supported flexible working with the roll-out of video conferencing, remote video conferencing, Skype for Business and laptops.

Remuneration, recognition and conditions

Our remuneration management system sits within the organisation's broader approach to rewards. 'Reward' encompasses both financial and non-financial benefits that recognise the time and effort people put into their work. Non-financial rewards, part of the FMA's broader employee value proposition, include additional leave, flexible working practices, and our wellness programme.

We also actively monitor and address pay equity and gender pay gap issues.

Harassment and bullying prevention

We have embarked on a significant programme of work to support anti-bullying and harassment prevention. This year we provided further clarity on our anti-bullying, harassment and discrimination policy, and created compulsory e-learning modules with follow-up group workshops to raise staff awareness of workplace bullying. We developed resolution guidelines for staff on how to raise an issue and the steps involved, from an informal conversation to a formal complaint. We have multiple internal and external support channels that staff can access.

Safe and healthy environment

Our Health, Safety and Wellness Committee ensures policies, processes and practices are fit for purpose and promote a mindset of risk identification and proactive management of health, safety and wellness issues. Our Board has oversight of our health and safety work, and reviews our organisational risks, hazards and mitigating actions through a regular reporting cycle.

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, and reviews our draft Statement of Performance Expectations and Statement of Intent. 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, 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 Performance and Remuneration Committee, which assesses performance measures and staff remuneration.

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,

Our organisation

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. 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 page 28), 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.

Internal effectiveness and efficiency

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

This year we launched a comprehensive digital transformation project. The two-year project will shift all of our data and applications to the cloud, allowing us to become more cost-effective, agile and secure. The programme means we will increasingly go paperless, make better use of apps and automation, equip our people with digital tools to collaborate from anywhere, offer more online services to market participants, and integrate better with our partners in Government and the private sector.

This year we also:

- introduced a new evidence management system with capability for automated information analysis, which will allow us to compile and assess evidence more efficiently
- rolled out a significant update to our content management system to improve how we store and access information
- established a new Knowledge Management Committee with responsibility for governance oversight and reporting on our knowledge management maturity.

Independent auditor's report

To the readers of the Financial Markets Authority's financial statements and performance information for the year ended 30 June 2019

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

Opinion

We have audited:

- the financial statements of the Authority on pages 52 to 77, that comprise the statement of financial position as at 30 June 2019, the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements including a summary of significant accounting policies and other explanatory information; and
- the performance information of the Authority on pages 40 to 43 and 45 to 51.

In our opinion:

- the financial statements of the Authority on pages 52 to 77:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2019; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards; and
- the performance information on pages 40 to 43 and 45 to 77:
  - presents fairly, in all material respects, the Authority's performance for the year ended 30 June 2019, 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

Independent auditor's report

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

Our audit was completed on 26 September 2019. This is the date at which our opinion is expressed.

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

Basis for our opinion

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

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

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

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

The Board is responsible on behalf of the Authority for preparing financial statements and performance information that are fairly presented and comply with generally accepted accounting practice in New Zealand. The Board is responsible for such internal control as it 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

Independent auditor's report

modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

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

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

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board is responsible for the other information. The other information comprises the information included on pages 2 to 34, 39 and 44, but does not include the financial statements and the performance information, and our auditor's report thereon.

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

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

Independence

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

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

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

How we performed

Checking in on our Statement of Intent

In 2017, we published our Statement of Intent 2017-2020. Each year we check in to see the progress we've made towards where we stated we want to be by 2020.

Measure	2020 target	2019 result	2018 result	Comment	Information source
Overarching measure					
SOI 1: Investors are confident in New Zealand's financial markets	70-75%	**65%**	66%	This result has been stable for the past two years; over the longer term it has increased from 58% when we started measuring investor confidence in 2013. Investor confidence is impacted by factors such as market volatility and global events. For one-third of New Zealanders surveyed, KiwiSaver is their only investment. The confidence level of this group is 64%, compared to the 85% confidence level for investors with managed funds or their own shares.	Annual investor confidence survey[1]
Governance and culture					
SOI 2: Licensed market participants show how they achieve good customer outcomes[2,3]	Achieved	**Not achieved (20%)**	Achieved (47.8%)	The standard of our findings from monitoring reviews dropped to 20%, from last year's 47.8%, resulting in this measure not being achieved. Following our monitoring reviews, we were only satisfied with two entities out of the 10, where their boards had shown commitment to strong customer proposition and information about customer outcomes was in development. We also completed full assessments on five of the entities' risk and compliance frameworks, and were only satisfied with one entity, which had started to embed good customer outcomes into its practices. Because the entities we reviewed were selected based on risk, we think it is likely that the result for these 10 entities is lower than it would be for the licensed population as a whole.	Findings from monitoring visit reviews of risk and compliance frameworks and disclosure of information to boards

1: This survey was performed by Buzz Channel. The total survey sample was n=1,037 respondents aged 18 and over from across New Zealand, giving a margin of error of +/- 3% at the 95% confidence level. An online survey was conducted using Buzz Channel's research panel, buzzthepeople. Fieldwork took place between 23 April and 7 May 2019.

2: See page 46 for more information about this measure

3: This year's sample size was small (10 entities). Our monitoring resources for a significant portion of the reporting period were focused on the Conduct and Culture reviews of banks and life insurers and Anti-Money Laundering and Countering Financing of Terrorism-related monitoring, which are both beyond the scope of these measures.

Measure	2020 target	2019 result	2018 result	Comment	Information source
Conflicted conduct					
SOI 3: Conflict management procedures are designed to support customer interests[3]	Achieved	**Achieved (70%)**	Achieved (47.1%)	This year, 70% of the relevant market participants we reviewed met the standard for this measure. Our target was to see improvement on last year's result of 47.1%. Entities that achieved the standard tended to have: • fee or commission structures that take customer interests into account • balanced scorecards to measure staff performance (rather than purely sales) • no individual sales targets • conflict of interest policies and registers in place. The entities that did not achieve the standard used sales targets and bonus schemes, and prioritised their own interests over their clients'.	Findings from monitoring visit reviews of conflict management procedures
Capital market growth and integrity					
SOI 4: The FMA stakeholders and consumers of New Zealand financial services believe that FMA's actions help raise standards of market conduct and integrity	Conduct: 65-70% Integrity: 80-85%	**Conduct: 84%** **Integrity: 88%**	Conduct: 82% Integrity: 87%	These results remain strong, and are up slightly from last year, possibly as a result of the high-profile Conduct and Culture reviews. These result from 2018 and 2019 only capture responses from FMA stakeholders and market participants, as we did not ask this question in our survey of consumers.	Annual 'Ease of doing business' survey of stakeholders and market participants[4]
SOI 5: Issuers use new lower-cost opportunities to raise capital in New Zealand	Achieved	**Achieved**	Achieved	Where possible, we facilitate the use of products, channels and processes that provide a lower-cost way to raise capital. This year, that included the following: • We were notified about 78 small offers (offers of equity or debt securities that have reduced disclosure requirements subject to limits on the number of investors and the amount raised). • We were notified about 47 same class offers (offers of equity securities, debt securities, or managed investment products of the same class as quoted financial products, which can be made without normal disclosure requirements). • We issued one new crowdfunding provider licence. Two other crowdfunding licences were cancelled during the year, but we do not consider this will impact overall capacity of the market, as these entities were not actively providing a crowdfunding service.	Observations of relevant market activity

4: This survey was performed by Buzz Channel. 137 completed responses were received to the survey. The margin of error for the sample is +/- 8% (at the 95% confidence level). Fieldwork was carried out between 5 and 30 July 2019. Prior to the fieldwork being conducted, FMA sent out an introductory email introducing the research to stakeholders. In addition, during the fieldwork period two reminder emails were sent to those who had not yet competed the survey.

Checking in on our Statement of Intent

Measure	2020 target	2019 result	2018 result	Comment	Information source
Sales and advice					
SOI 6: Market participants can demonstrate alignment of sales and advice processes resulting in good customer outcomes[5]	Achieved	**Achieved (40%)**	Baseline set (38.7%)	This year, 40% of the relevant market participants we reviewed complied with the standard of this measure. Our target was to see improvement on last year's result of 38.7%. The entities that achieved the standard demonstrated how they focus on understanding customer goals and finding a suitable product or solution to meet their requirement. Among entities that did not meet the standard, we observed problems with the way advice is offered, and a lack of product suitability testing.	Findings from monitoring visit reviews of market participants' sales and advice processes
Investor decision-making					
SOI 7: Investors believe that financial product information given to them helped them to make an informed decision	65-70%	**58%**	55%	This result is an increase on last year's 55%. Investment materials for managed funds and KiwiSaver are the main contributors to this increase. This finding is encouraging, given the recent focus on improving KiwiSaver annual statements.	Annual investor confidence survey
SOI 8: The FMA works with Government agencies and market participants to promote information and materials to improve investor capability	Achieved	**Achieved**	Achieved	Examples of our collaboration with other agencies and market participants include: • Working with MBIE and CFFC on the launch of the Smart Investor tool • Developing the Share this! investor guide with input from NZX and the New Zealand Shareholders' Association • Working with market participants on behavioural insights trials to assess the effect of improved communication to investors on engagement and decision-making • Providing input into MBIE's KiwiSaver default review discussion paper	Relevant FMA activity and joint work with other agencies
Effective frontline regulators					
SOI 9: Investors believe that frontline regulators contribute to well-regulated New Zealand financial markets	70-75%	**60%**	59%	This result is consistent with last year. Our survey found confidence in regulation varied significantly depending on the types of investments held – the confidence level of those with KiwiSaver as their only investment was 58%, while for those with managed funds it was 79%.	Annual investor confidence survey[6]

5: This year's sample size was small (10 entities). Our monitoring resources for a significant portion of the reporting period were focused on the Conduct and Culture reviews of banks and life insurers and Anti-Money Laundering and Countering Financing of Terrorism-related monitoring, which are both beyond the scope of these measures.

6: This survey was performed by Buzz Channel. The total survey sample was n=1,037 respondents aged 18 and over from across New Zealand, giving a margin of error of +/- 3% at the 95% confidence level. An online survey was conducted using Buzz Channel's research panel, buzzthepeople. Fieldwork took place between 23 April and 7 May 2019.

Measure	2020 target	2019 result	2018 result	Comment	Information source
FMA effectiveness and efficiency					
SOI 10: FMA stakeholders are aware of and agree that the FMA's activities target the appropriate strategic risks	70-75%	**63%**	63%	While still below target, this is steady on last year's result. We published and promoted our refreshed Strategic Risk Outlook just outside the reporting period, and expect to see this reflected in next year's result.	Annual 'Ease of doing business' survey of stakeholders and market participants
SOI 11: The FMA uses a range of regulatory tools to alleviate regulatory burden	Achieved	**Achieved**	Achieved	During the reporting period, we granted 18 exemption notices and three levy waiver notices, and agreed to two tailored licence conditions. The use of exemption power is the primary way in which the FMA can address issues of inappropriate compliance costs. Other tools are available in defined situations and have differing thresholds for application, so may not be an option in many cases.	FMA's use of regulatory tools
SOI 12: Stakeholders agree that the regulatory burden of the FMA is proportionate to the value of the FMA's interactions, and to its broader impact on New Zealand's financial markets	Achieved	**Achieved (62%)**	Baseline set (50%)	This year, 62% of the relevant market participants we surveyed agreed that the regulatory burden imposed by FMA is proportionate to its required functions. Our target was to see improvement on last year's result of 50%.	Annual 'Ease of doing business' survey of stakeholders and market participants
SOI 13: The FMA delivers its outputs within its appropriation	Achieved	**Achieved**	Achieved	At year-end, we had an operating surplus of $797K, and a litigation deficit of $969K; an overall deficit of $172K. The litigation deficit was funded by our historical operating surplus reserves, meaning we remained within our appropriation for 2018/19.	Annual financial results
SOI 14: The FMA works with other regulatory and Government agencies to have a positive combined impact on New Zealand financial markets, to reduce regulatory overlap, minimise gaps and increase efficiencies	Achieved	**Achieved**	Achieved	Examples from the past year include the following: • In collaboration with RBNZ we completed the Conduct and Culture reviews of banks and life insurers. • We led the Council of Financial Regulators' work to share information and identify issues that require cross-agency response. • We contributed to various financial markets-related policy reviews, and made a substantial contribution to the drafting of a joint Treasury/MBIE cabinet paper on KiwiSaver. • We collaborated with regulators in Australia, Japan, Thailand and Korea on the implementation of the Asia Region Funds Passport, which will facilitate the offering of investment funds within member nations. • We participated in consumer campaigns led by other agencies, such as CFFC's Money Week, and MBIE's Fraud Awareness Week.	Relevant FMA activity and joint work with other agencies

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 2019.

Mark Todd

Chair
Financial Markets Authority
26 September 2019

Elizabeth Longworth

Chair
Audit and Risk Committee
26 September 2019

Statement of Performance

Performance standards and measures for the output of the FMA for the 12 months ended 30 June 2019

Multi-Category Appropriation (MCA)

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.

Actual 2018 $000s		Actual 2019 $000s	Budget 2019 $000s
37,378	Revenue	37,064	36,856
34,128	Expenditure	36,267	36,936
3,250	**Surplus/(Deficit)**	**797**	**(80)**

SPE 1 measures	Target 2018/19	Actual 2018/19	Actual 2017/18	Comment	Information source
Stakeholders agree that the FMA's actions help raise standards of market conduct and integrity	85%	**86%**	84.5%	This result comprises two survey measures: • Stakeholders agree that the FMA supports market integrity, which scored 88% • Stakeholders agree that the FMA helps raise standards of market conduct, which scored 84% This measure is also one of our SOI measures (SOI 4 – see page 41).	Annual 'Ease of doing business' survey of stakeholders and market participants
Investors are confident in New Zealand's financial markets	70%	**65%**	66%	This result has been stable for the past two years; over the longer term it has increased from 58% when we started measuring investor confidence in 2013. Investor confidence is impacted by factors such as market volatility and global events. For one-third of New Zealanders, KiwiSaver is their only investment. The confidence level of this group is 64%, compared to the 85% confidence level for investors with managed funds or their own shares. This measure is also one of our SOI measures (SOI 1 – see page 40).	Annual investor confidence survey

Statement of Performance

SPE 1 measures	Target 2018/19	Actual 2018/19	Actual 2017/18	Comment	Information source
Licensed market participants show how they achieve good customer outcomes[7]	40%	**20%**	47.8%	This year's sample size was small (10 entities). Our monitoring resources for a significant portion of the reporting period were focused on the Conduct and Culture reviews of banks and life insurers and AML/CFT-related monitoring, which are both beyond the scope of this measure. Following our monitoring reviews, we were only satisfied with two entities out of the 10, where their boards had shown commitment to strong customer proposition and information about customer outcomes was in development. We also completed full assessments on five of the entities' risk and compliance frameworks, and were only satisfied with one entity, which had started to embed good customer outcomes into its practices. Because the entities we reviewed were selected based on risk, we think it is likely that the result for these 10 entities is lower than it would be for the licensed population as a whole. This measure is also one of our SOI measures (SOI 2 – see page 40).	Findings from monitoring visit reviews of risk and compliance frameworks and disclosure of information to boards
Investors are confident in the quality of regulation of New Zealand's financial markets	70%	**60%**	59%	This result has remained stable since last year. Our survey found confidence in regulation varied significantly depending on the types of investments held – the confidence level of those with KiwiSaver as their only investment was 58%, while for those with managed funds it was 79%. This measure is related to one of our SOI measures (SOI 9 – see page 42).	Annual investor confidence survey
Investor confidence index	66%[8]	**57.75%**	64.3%	The index is the equal weighting of the four contributing measures above.	

7: This measure assesses licensed market participants' governance, systems, controls, processes and training related to achieving good customer outcomes, rather than the outcomes themselves. It is intended to measure whether licensed market participants structure and conduct their business in a way that aligns with our expectations as set out in licence conditions, our Good Conduct Guide and other guidance.

For this measure we assess on a pass/fail basis the quality and effectiveness of an entity's frameworks and processes in the following three categories: sales and advice, conflicted conduct and governance and culture. The result is determined by the percentage of passes across all three categories.

We do not review every licensed entity every year; the sample is determined by risk level of the entity/sector, balanced representation of each licence type, and time since last review. These contributing measures have been amended from what was set out in the 2018/19 SPE, to reflect changes in our data capture and reporting processes.

8: This target was stated as 71% in the 2018/19 Treasury Estimates.

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 2018 $000s		Actual 2019 $000s	Budget 2019 $000s
8,315	Revenue	6,298	6,196
5,650	Expenditure	6,957	6,358
2,665	**Surplus/(Deficit)**	**(659)**	**(162)**

Major variances against budget: Revenue is higher than budget as a result of a cost recovery that was awarded on the successful Mark Talbot (VMOB) case. Expenditure is considerably higher than budget due to staff hours involved in a number of large litigation cases undertaken during the year.

Measure	Target 2018/19	Actual 2018/19	Actual 2017/18	Comment	Information source
SPE 2: Investigation and enforcement activities are undertaken and completed according to agreed timeframes and standards	Achieved	**Not achieved**	Achieved	This measure aims to demonstrate the effectiveness and efficiency of FMA's investigation and enforcement activities. Achievement of this measure is based on meeting service level targets for the following measures: • In accordance with the Conducting an Investigation Policy and Process document, progress of cases is reported every 60 days[9] – result: **100%** (target: 90%) • The FMA works with Serious Fraud Office (SFO) on all investigations of joint interest in accordance with Memorandum of Understanding (MOU) arrangements – result: **100%** (target: 100%) • MOU requests for assistance are completed within agreed timeframes to the satisfaction of international regulators – result: **100%** (target: 100%) • Misconduct cases are evaluated within two working days of the information-received date[10] – result: **93%** (target: 95%) • Misconduct cases are closed within 39 working days of the information-received date[11] – result: **73%** (target: 80%) Staffing levels were a factor in these misconduct case targets being missed, with multiple staff who are typically involved in assessing cases being allocated to the Conduct and Culture reviews on a full-time or part-time basis for various lengths of time throughout the year.	Internal tracking of investigation and enforcement activity

9: This contributing measure has been changed from what was set out in the 2018/19 SPE; the enforcement governance framework was replaced with a new policy effective 1 September 2016.

10: The wording of this measure has been changed slightly from the 2018/19 SPE; it now specifies the "internal standards" referenced in the SPE.

11: This was set internally as one of the underlying measures for SPE 2, but was not included in the 2018/19 SPE.

Statement of Performance

Measure	Target 2018/19	Actual 2018/19	Actual 2017/18	Comment	Information source
SPE 3: We publish an annual Conduct Outcomes Report on key themes, actions and regulatory outcomes arising from market conduct	Achieved	**Achieved**	Achieved	We reported on significant conduct outcomes through thematic reviews, and media releases and interviews. This year we placed particular emphasis on publicising our non-litigation enforcement actions, to help raise awareness of our full range of regulatory tools and why court action may not be the best option in certain situations. This year we also updated the enforcement section of our website, to improve how case information is displayed and categorised, and to consolidate and update historic case information.	Publication of report

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 2018 $000s		Actual 2019 $000s	Budget 2019 $000s
16,961	Revenue	17,033	16,928
15,426	Expenditure	15,239	16,489
1,535	**Surplus/(Deficit)**	**1,794**	**439**

Major variances against budget: Revenue is higher than budget primarily due to higher interest income earned during the year. Expenditure is considerably lower as a result of an overall underspend in the operating fund and more resources allocated to Category 1 as explained on page 47.

Measure	Target 2018/19	Actual 2018/19	Actual 2017/18	Comment	Information source
SPE 4: Fully completed licence applications, regulated offers and completed applications for exemptions, are processed within agreed timeframes and standards	Achieved	**Achieved**	Achieved	This measure demonstrates the effectiveness and efficiency of FMA's licensing and compliance monitoring processes. Achievement of this measure is based on meeting service level targets for the following measures: • Once received by the FMA, fully completed licence applications are processed within 60 working days and in accordance with established processes – result: **96%** (target 90%) • Regulated offers are risk-assessed within five working days after a new Product Disclosure Statement (PDS) is lodged or a new prospectus is registered – result: **100%** (target 100%) • High-risk regulated offers are reviewed post-registration or lodgement – result: **100%** (target 100%) • Completed applications for exemptions are processed within six weeks of receiving all relevant information or as agreed with applicant – result: **96%** (target 90%)	Internal tracking of investigation and enforcement activity
SPE 5: The FMA conducts and reports on thematic reviews arising from the risks and priorities identified in its Strategic Risk Outlook and which are relevant to market conduct and investor decision-making	5 reports	**6 reports**	6 reports	During the year we published reports based on the following thematic reviews: • QFE insurance providers' replacement business practices • Bank Conduct and Culture • Bank Incentive Structures • MIS manager valuation and pricing practices • Life Insurer Conduct and Culture • Anti-money laundering and countering the financing of terrorism monitoring report 1 July 2016 – 30 June 2018	Publication of reviews (internal or external)
SPE 6: Substantive FMA feedback on licensing applications, regulated offers and disclosures that result in improvements being made or documents withdrawn.	Achieved	**Achieved**	Achieved	This measure demonstrates how well we use our licensing and compliance monitoring functions to contribute to the growth and integrity of capital markets. Achievement of this measure is based on meeting service level targets for the following measures: • Where the FMA has reviewed regulated offers and found issues of material concern, disclosures and offer information are improved or documents withdrawn – result: **100%** (target 100%) • The FMA's licensing decisions are unchallenged or upheld – result: **100%** (target 100%)	Tracking of relevant documents and activity

Statement of Performance

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 2018 $000s		Actual 2019 $000s	Budget 2019 $000s
12,102	Revenue	13,732	13,732
13,052	Expenditure	14,070	14,089
(950)	**Surplus/(Deficit)**	**(338)**	**(357)**

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

Measure	Target 2018/19	Actual 2018/19	Actual 2017/18	Comment	Information source
SPE 7: The FMA undertakes at least 20 industry or business presentations or speeches per year, with the aim of providing better information and insight for regulated populations.	20	**31**	31	FMA staff deliver presentations at a variety of events relevant to financial services and related sectors. This measure counts only those presentations that provided an opportunity to improve understanding of the FMA's mandate, priorities and expectations among regulated populations.	Tracking of relevant activity
SPE 8: Percentage of FMA website visitors surveyed who rate the content they accessed as useful in helping them to comply, or to make informed investment decisions.	95%	**92%**	94%	Over the past year have focused on improving how our web content is structured and displayed, and on enhancements to make information easier to find from search engines and our own site search.	Annual opt-in survey of FMA website visitors
SPE 9: Market participants within the entity-based relationship management (EBRM) programme say they have benefited from the relationship.	100%	**100%**	89%	All 18 stakeholder relationship management entities who responded to our survey said they benefited from their relationship with FMA.	Annual survey of EBRM members

Financial Markets Authority litigation fund

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

Actual 2018 $000s		Actual 2019 $000s	Budget 2019 $000s
1,320	Appropriation revenue*	2,000	2,000
9	Other revenue	9	-
1,329	Total Revenue	2,009	2,000
1,329	Expenditure	2,978	2,000
-	**Surplus/(Deficit)****	**(969)**	-

Major variances against budget: Litigation costs exceeded budget because of a number of large litigation matters 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.

**Litigation expenditure for the year exceeded the annual litigation appropriation and bank interest revenue by $969K. This deficit is not funded from the litigation appropriation, instead it is funded by the FMA's operating fund and its historical reserves. There will be no additional funding or reimbursement sought from MBIE to retrospectively recover the litigation overspend occurred in the 2018/19 financial year. Refer to Note 3 on page 57 for more detail.

Assessment of performance	Budget standard of performance 2018/19	Actual standard of performance 2018/19	Actual standard of performance 2017/18
The Financial Markets Authority delivers a strong and credible monitoring and enforcement regime to uphold the Government's financial and securities markets law. Litigation is one of the tools used in carrying out the FMA's enforcement functions under its enabling statutes.	The FMA undertook litigation using the litigation fund as per the conditions of use.	**The FMA undertook litigation using the litigation fund as per the conditions of use.**	The FMA undertook litigation using the litigation fund as per the conditions of use.

Financial statements

Statement of Comprehensive Revenue and Expense

For the 12 months ended 30 June 2019

Actual 2018 $000s		Note	Actual 2019 $000s	Budget 2019 $000s
	REVENUE FROM NON-EXCHANGE TRANSACTIONS			
36,000	Government grant	2	36,000	36,000
1,320	Litigation fund revenue	3	2,000	2,000
	REVENUE FROM EXCHANGE TRANSACTIONS			
295	Interest		342	210
9	Interest - litigation fund		9	-
1,083	Other revenue	4	721	646
38,708	**Total revenue**		**39,072**	**38,856**
	EXPENDITURE			
23,248	Personnel expenses	5	24,371	25,105
2,809	Depreciation, amortisation and impairment losses	8,9	2,135	2,704
8,071	Other operating expenditure	7	9,760	9,127
1,329	Litigation fund expenditure	3	2,978	2,000
35,457	**Total expenditure**		**39,244**	**38,936**
3,250	Surplus / (deficit)		(172)	(80)
3,250	**Total comprehensive revenue and expenses**		**(172)**	**(80)**
	TOTAL COMPREHENSIVE REVENUE AND EXPENSE COMPRISES:			
3,259	Net operating surplus / (deficit)		797	(80)
(9)	Net litigation fund surplus / (deficit)		(969)	-
3,250	**Total comprehensive revenue and expenses**		**(172)**	**(80)**

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

Statement of Changes in Equity

For the 12 months ended 30 June 2019

Actual 2018 $000s		Note	Actual 2019 $000s	Budget 2019 $000s
	OPENING BALANCE			
(220)	Accumulated funds / (deficit)		3,030	2,352
152	Litigation fund		-	-
9,027	Capital contributions		11,027	10,427
8,959	**Total opening balance**		**14,057**	**12,779**
	COMPREHENSIVE REVENUE AND EXPENSES FOR THE YEAR			
3,259	Net operating surplus / (deficit)		797	(80)
(9)	Net litigation fund surplus / (deficit)		(969)	-
3,250	**Total comprehensive revenue and expense**		**(172)**	**(80)**
	CAPITAL CONTRIBUTIONS / (REPAYMENTS) FOR THE YEAR			
2,000	Current contributions		-	600
(152)	Litigation fund repayment	3	-	
1,848	**Total capital contributions / (repayments)**		**-**	**600**
14,057	**Closing balances**		**13,885**	**13,299**
3,030	Accumulated funds / (deficit)		2,858	2,272
-	Litigation fund		-	-
11,027	Capital contribution		11,027	11,027
14,057	**Total closing balances**		**13,885**	**13,299**

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

Financial statements

Statement of Financial Position

As at 30 June 2019

Actual 2018 $000s		Note	Actual 2019 $000s	Budget 2019 $000s
	ASSETS			
	Current assets			
8,262	Cash and cash equivalents		1,487	4,472
1,217	Cash and cash equivalents - litigation fund		239	680
3,000	Term deposits		7,000	1,006
421	GST receivable		447	263
881	Receivables	13	1,004	680
13,781	**Total current assets**		**10,177**	**7,101**
	Non-current assets			
2,443	Property, plant and equipment	8	2,278	1,839
4,532	Intangible assets	9	7,181	9,489
6,975	**Total non-current assets**		**9,459**	**11,328**
20,756	**Total assets**		**19,636**	**18,429**
	LIABILITIES			
	Current liabilities			
3,869	Creditors and other payables	14	3,054	2,017
1,113	Employee entitlements		1,121	1,482
142	Lease liabilities	11	142	142
5,124	**Total current liabilities**		**4,317**	**3,641**
	Non-current liabilities			
878	Lease liabilities (N)	11	737	792
697	Provisions	12	697	697
1,575	**Total non-current liabilities**		**1,434**	**1,489**
6,699	**Total liabilities**		**5,751**	**5,130**
	EQUITY			
3,030	Accumulated funds / (deficit)		2,858	2,272
-	Litigation fund	3	-	-
11,027	Capital contribution		11,027	11,027
14,057	**Total equity**		**13,885**	**13,299**
20,756	**Total equity and liabilities**		**19,636**	**18,429**

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 2019

Actual 2018 $000s		Note	Actual 2019 $000s	Budget 2019 $000s
	CASH FLOWS FROM OPERATING ACTIVITIES			
	Cash was provided from:			
	Receipts from non-exchange transactions:			
36,000	- government grant		36,000	36,000
1,788	- litigation fund revenue		2,000	2,000
	Receipts from exchange transactions:			
290	- interest		351	210
777	- other revenue		560	642
251	- Litigation cost awarded		102	-
	Cash was disbursed to:			
-	- MBIE repayment of underutilised fund		(145)	(472)
266	- MBIE fees and levies (net)		(241)	-
(8,926)	- suppliers		(14,410)	(12,835)
(23,194)	- employees		(22,570)	(23,338)
(27)	- goods and services tax (net)		(112)	67
7,225	**Net cash flows from operating activities**	15	**1,535**	**2,274**
	CASH FLOWS FROM INVESTING ACTIVITIES			
	Cash was provided from:			
-	- sale of fixed assets		1	-
26,500	- decrease in term deposits		22,000	28,500
	Cash was applied to:			
(501)	- purchase of property, plant and equipment		(717)	(202)
(1,451)	- purchase of intangible assets		(4,572)	(5,894)
(27,000)	- increase in term deposits		(26,000)	(27,000)
(2,452)	**Net cash flows from investing activities**		**(9,288)**	**(4,596)**
	CASH FLOWS FROM FINANCING ACTIVITIES			
2,000	- Capital contribution		-	600
2,000	**Net cash flows from financing activities**		**-**	**600**
6,773	Net increase / (decrease) in cash and cash equivalents		(7,753)	(1,722)
2,706	Cash and cash equivalents and the beginning of the year		9,479	6,874
9,479	**Cash and cash equivalents at the end of the year**		**1,726**	**5,152**
	COMPRISING			
8,262	Cash and cash equivalents		1,487	4,472
1,217	Cash and cash equivalents - litigation fund		239	680
9,479			**1,726**	**5,152**

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

Notes to the financial statements for the 12 months ended 30 June 2019

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 2019, and were approved by the Board on 26 September 2019.

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

Functional and presentational currency

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

Use of estimates and judgments

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

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

Standard early adopted

In line with the Financial Statements of the Government, FMA has elected early adopt PBE IFRS 9 Financial Instruments. PBE IFRS 9 replaces PBE IPSAS 29 Financial Instruments Recognition and Measurement. Information about the adoption of PBE IFRS 9 is provided in Note 22.

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 Statement of Cash Flows 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 annual periods beginning on or after 1 January 2021, with early application permitted. FMA does not intend to early adopt the amendment.

PBE IPSAS 41 Financial Instruments

The XRB issued PBE IPSAS 41 Financial Instruments in March 2019. This standard supersedes PBE IFRS 9 Financial Instruments, which was issued as an interim standard. It is effective for reporting periods beginning on or after 1 January 2022. Although FMA has not assessed the effect of the new standard, it does not expect any significant changes as the requirements are similar to PBE IFRS 9.

PBE FRS 48 Service Performance Reporting

PBE FRS 48 replaces the service performance reporting requirements of PBE IPSAS 1 and is effective for reporting periods beginning on or after 1 January 2021. FMA has not yet determined how application of PBE FRS 48 will affect its statement of performance.

Where do the FMA's funds come from?

Note 2 — Revenue from the Crown

Revenue from the Crown is recognised as revenue when earned and is reported in the financial period when the funding becomes receivable by the FMA. Revenue is measured at the fair value of consideration received or receivable.

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

Note 3 — Litigation fund revenue

According to the new funding agreement with MBIE which came into effect in the 2017/18 financial year, the $2m annual litigation appropriation is paid to the FMA in advance via quarterly instalments. It is non-exchange revenue with conditions as the FMA is required to return any unspent or unapplied funding to the Crown. Amounts received are accounted for as litigation revenue received in advance during the year, and any unspent or unapplied fund at balance date is disclosed as litigation grant repayable to the Crown. The fund is restricted for approved litigation purposes only as criteria set out in the litigation funding agreement.

During the 2018/19 financial year, the total litigation costs incurred in relation to eligible litigation cases are $2.978m against the annual appropriation of $2m and bank interest revenue of $9K. The litigation overspend/deficit of $969K is recognised as a litigation deficit in the statement of comprehensive revenue and expense on page 52. This overspend/deficit has been funded by the FMA's operating fund and its historical reserves. There will be no additional funding or reimbursement sought from MBIE to retrospectively recover the litigation overspend occurred in the 2018/19 financial year. The FMA is seeking an increase in the litigation fund for the 2019/20 financial year and onwards, and this funding discussion is currently underway with the Government.

Notes to the financial statements for the 12 months ended 30 June 2019

	Actual 2019 $000s	Actual 2018 $000s
Litigation fund reserves		
Opening balance	**-**	**152**
Repayment of litigation reserves	-	(152)
Closing balance	**-**	**-**
Litigation fund movement*		
Litigation appropriation received during the year	2,300	2,300
Interest revenue	9	9
Total litigation fund receipts	**2,309**	**2,309**
Expenditure on eligible litigation	(3,567)	(2,169)
Cost awards, reimbursements and settlement funds	143	24
GST on litigation fund movement funded by FMA's operating fund	-	(19)
Total litigation expenditure	**(3,424)**	**(2,164)**
Net litigation movement **	**(1,115)**	**145**
Litigation grant repayable to the Crown	-	**145**
Comprising*		
Litigation cash and cash equivalents	239	1,217
Settlement fund and cost awards belongs to FMA's operating fund	(52)	-
Trade and other payables to be funded from litigation fund	-	(341)
Settlement fund and cost awards repayable to MBIE and FMA	-	(488)
Litigation expenditure funded by FMA's operating fund repayable back to FMA's operating fund	(187)	(243)
Litigation expenditure funded by FMA's operating fund	-	-
Litigation grant repayable to the Crown	**-**	**145**

* Figures presented in the above table are all inclusive of GST.

** overspend of $1,115K is being funded by the FMA's operating fund - $189K is already paid and $926K is in trade and other payables as at the balance date.

ANZ/RAM: On 5 March 2019, the Court of Appeal allowed an appeal by the FMA against ANZ, overturning the High Court decision of 17 April 2018. As a consequence of the successful appeal, the FMA was awarded costs and disbursements totalling $95K. This was made up of the reversal of costs previously paid by the FMA for the High Court proceeding of $43K, the FMA's costs and disbursements for the High Court proceeding of $34K and the FMA's costs and disbursements for the Court of Appeal proceeding of $18K.

Mark Talbot (VMOB): On 3 April 2019, Mr Talbot offered an enforceable undertaking as part of an agreed resolution for an insider trading prosecution. The enforceable undertaking included an agreement to pay $150K in lieu of pecuniary payment in three $50K instalments. The first two instalments were received during the 2018/19 financial year, and the final instalment is due in September 2019. In accordance with the FMA Act and the provisions of the enforceable undertaking, the FMA was entitled to deduct its actual costs from the payment before paying any net amounts to the Crown Bank Account. In this case, the FMA retained $102K to cover internal costs incurred and the balance of $48K was put back into the litigation fund as a cost reimbursement.

Note 4 — Other revenue

	Actual 2019 $000s	Actual 2018 $000s
Audit quality review fees	263	215
Licence fees*	323	530
Sundry revenue	119	329
Superannuation fees	16	9
Total other revenue	**721**	**1,083**

*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 expenses

Employee benefits

Short-term employee benefits, including holidays, are recognised as an expense over the period in which they accrue. Benefits that are due to be settled within 12 months after the end of the period in which the employee renders the related service are accrued based on the higher of ordinary weekly pay as at the beginning of the annual holiday or average weekly earnings for the 12 months immediately before the end of the last pay period before the annual holiday.

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 plan employer contributions and are recognised as an expense in the statement of comprehensive revenue and expense as incurred.

	Actual 2019 $000s	Actual 2018 $000s
Salaries and wages	21,459	20,428
Defined contribution plan employer contributions	607	569
ACC	30	37
Member and committee fess	521	502
Contract staff	1,475	1,385
Recruitment costs and transitional costs	279	291
Redundancy	-	36
Total personnel costs	**24,371**	**23,248**

During the 12-month period ended 30 June 2019, no employee received compensation and other benefits in relation to cessation
$0 (2018: one employee, $35,821).

Notes to the financial statements for the 12 months ended 30 June 2019

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 2019	Number of employees 2018
630,001 to 640,000	1	-
610,001 to 620,000	-	1
370,001 to 380,000	1	-
360,001 to 370,000	1	1
350,001 to 360,000	-	1
290,001 to 300,000	1	1
280,001 to 290,000	1	2
270,001 to 280,000	-	1
240,001 to 250,000	2	-
230,001 to 240,000	1	1
220,001 to 230,000	1	-
210,001 to 220,000	3	1
200,001 to 210,000	2	4
190,001 to 200,000	3	-
180,001 to 190,000	3	3
170,001 to 180,000	4	4
160,001 to 170,000	3	2
150,001 to 160,000	9	7
140,001 to 150,000	7	9
130,001 to 140,000	9	11
120,001 to 130,000	18	9
110,001 to 120,000	14	16
100,001 to 110,000	8	16
Total	**92**	**90**

Composition of Board Members' remuneration

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

	Actual 2019 $000s	Actual 2018 $000s
P. Gai	42	11
A. Grimes	-	12
M. Holm	34	35
M. Jack	135	148
E. Longworth	44	41
A. McLaren	41	39
W. Stevens	41	42
V. Stoddart	41	38
C. Stuart	35	39
M. Todd	73	48
C. Swasbrook	12	-
Total Board Members' remuneration	**498**	**453**

A total payment of $2,500 was made to one Board observer who was part of the Future Director programme in the period.

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 (2018: $nil).

New member:

Member name	Membership term start date
C. Swasbrook	March 2019

Leaving member:

Member name	Membership term expiry date
M. Jack	April 2019
M. Holm	June 2019
C. Stuart	June 2019

Notes to the financial statements for the 12 months ended 30 June 2019

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 2019 $000s	Actual 2018 $000s
M. Biss	-	1
R. Butler	-	2
J. Duffy	-	1
S. Edmond	-	1
M. Hawes	-	1
D. Ireland	2	10
S. O'Connor	-	1
G. Young	-	1
Total Code Committee remuneration	**2**	**18**

Composition of Financial Advisers Disciplinary Committee remuneration

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

	Actual 2019 $000s	Actual 2018 $000s
T. Berry	1	1
G. Clews	5	8
S. Hassan	-	2
P. Houghton	2	2
D. MacDonald	5	-
J. Robertson (Sir Bruce Robertson)	6	5
Total Financial Advisers Disciplinary Committee remuneration	**19**	**18**

Professional indemnity insurance

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

Note 6 — Transactions with related parties

The FMA is a wholly owned entity of the Crown.

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

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

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

For the purposes of disclosure, the FMA notes:

Murray Jack chaired the FMA board until April 2019. He was also the chair of Chartered Accountants Australia and New Zealand until March 2019. This amalgamated body has regulatory responsibilities for New Zealand resident-issuer auditors, for which the FMA has oversight.

Supplier	Purpose of transactions	Transaction value	
		Actual 2019 $000s	Actual 2018 $000s
Chartered Accountants Australia and New Zealand	Training and annual membership fees	12	10

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

	Actual 2019 $000s	Actual 2018 $000s
SHORT TERM EMPLOYEE BENEFITS		
Board member's remuneration	498	453
Full time equivalent members	1.11	1.04
Code Committee remuneration	2	18
Full time equivalent members	0.01	0.07
Disciplinary Committee remuneration	19	18
Full time equivalent members	0.06	0.06
Executive team remuneration	2,945	2,856
Full time equivalent members	8.57	8.18
Key management personnel compensation	**3,464**	**3,345**
Total key management personnel compensation	**3,464**	**3,345**
Total full-time equivalent personnel	**9.75**	**9.37**

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.

Notes to the financial statements for the 12 months ended 30 June 2019

Note 7 — Other operating expenses

	Actual 2019 $000s	Actual 2018 $000s
Fees to Audit New Zealand for financial statements audit	91	84
Loss on disposal of fixed assets	17	35
Operating lease expenses	1,871	1,832
Professional services	2,564	1,796
Services and supplies	4,338	3,598
Travel and accommodation	879	726
Total other operating expenses	**9,760**	**8,071**

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 CSE 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. When revalued assets are sold, the amounts included in revaluation reserves in respect of those assets are transferred to the accumulated surplus/(deficit) within equity.

Depreciation
Depreciation is provided on a straight-line basis on all property, plant, and equipment other than land, at rates that will write off the cost (or valuation) 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:

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

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

	Office equipment $000s	Office furniture $000s	Leasehold improvements $000s	Total $000s
COST				
Property, plant and equipment at 1 July 2017	1,446	736	3,551	5,733
Additions	350	22	64	436
Disposals	(37)	(2)	-	(39)
Balance at 30 June 2018	**1,759**	**756**	**3,615**	**6,130**
Additions	504	33	26	563
Disposals/adjustments	(25)	(26)	(14)	(65)
Impairment	-	-	-	-
Balance at 30 June 2019	**2,238**	**763**	**3,627**	**6,628**
ACCUMULATED DEPRECIATION				
Property, plant and equipment at 1 July 2017	(1,224)	(421)	(1,477)	(3,122)
Depreciation expense	(143)	(61)	(399)	(603)
Elimination on disposal	37	1	-	38
Balance at 30 June 2018	**(1,330)**	**(481)**	**(1,876)**	**(3,687)**
Depreciation expense	(238)	(53)	(407)	(698)
Elimination on disposal	19	16	-	35
Balance at 30 June 2019	**(1,549)**	**(518)**	**(2,283)**	**(4,350)**
CARRYING AMOUNTS				
At 30 June 2018	429	275	1,739	2,443
At 30 June 2019	689	245	1,344	2,278

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.

Notes to the financial statements for the 12 months ended 30 June 2019

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.

Computer software is amortised as follows:

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

	Computer software $000s	Capital work in progress $000s	Total $000s
COST			
Intangible assets at 1 July 2017	11,875	613	12,488
Additions	140	2,344	2,484
Disposals/adjustments	(364)	-	(364)
Transfers from capital work in progress	491	(491)	-
Balance at 30 June 2018	**12,142**	**2,466**	**14,608**
Additions	33	3,725	3,757
Disposals/adjustments	-	-	-
Transfers from capital work in progress	4,354	(4,354)	-
Balance at 30 June 2019	**16,529**	**1,837**	**18,366**
ACCUMULATED DEPRECIATION			
Intangible assets at 1 July 2017	(7,939)	-	(7,939)
Amortisation expense	(2,060)	-	(2,060)
Elimination on disposal	213		213
Balance at 30 June 2018	**(9,786)**	**-**	**(9,786)**
Amortisation expense	(1,399)	-	(1,399)
Elimination on disposal	-	-	-
Balance at 30 June 2019	**(11,185)**	**-**	**(11,185)**
IMPAIRMENT PROVISION			
Costs provided at 1 July 2018	-	(290)	(290)
Additional costs provided	-	(38)	(38)
Write off	-	328	328
Balance at 30 June 2019	**-**	**-**	**-**
CARRYING AMOUNTS			
At 30 June 2018	2,356	2,176	4,532
At 30 June 2019	5,344	1,837	7,181

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

Impairment of property, plant and equipment, and intangible assets

During the current year an impairment of $38K (2018: $146K) has been recognised in respect of intangible assets.

Notes to the financial statements for the 12 months ended 30 June 2019

Note 10 — Operating leases and capital commitments

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

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

Operating leases as lessee

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

	Quay Street $000s	Grey Street $000s	Takutai Square $000s	Total $000s
2019				
Not later than one year	41	465	1,475	1,981
Later than one year and not later than five years	37	465	10,175	10,677
Later than five years	-	-	15,796	15,796
Total non-cancellable operating leases	**78**	**930**	**27,446**	**28,454**
2018				
Not later than one year	-	465	1,429	1,894
Later than one year and not later than five years	-	930	5,776	6,706
Later than five years	-	-	-	-
Total non-cancellable operating leases	**-**	**1,395**	**7,205**	**8,600**

The FMA has Three leased properties as at 30 June 2019.

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

Takutai Square: In April 2019, the FMA signed a deed of variation of lease for the Takutai Square office. Currently, the FMA leases level 5 and part level 6 with a lease expiry date of 31 March 2023. The variation of lease covers leasing an additional floor on level 4, extends the lease period on all floors 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 variation date is yet to be agreed with the lessor but we anticipate it will start from 1 October 2020. For the operating lease commitment calculation, the FMA has assumed the variation of lease will be effective from 1 October 2020. For the lease make-good provision, it is assumed that it will vacate the premises at the end of the new lease term being 2029.

Quay Street: In May 2019, the FMA signed a new lease on Quay Street to address pressure in office space. The lease commenced on 15 May 2019 and expires on 14 May 2021 with no rights of renewal. There is no make-good provision made for this lease as the work done to the premises is minimal.

Capital commitments

There are no capital commitments at balance date (2018: $Nil).

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 is to be amortised over the life of the lease.*

Occupancy incentives

Lease incentive payments received are recorded as a liability and amortised over the life of the lease.

Deferred rental liability:

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

Movements for each type of lease liability are as follows:

	Gifted assets $000s	Occupancy incentives $000s	Deferred rental $000s	Total $000s
Balance at 1 July 2017	645	172	307	1,124
Amortisation	(112)	(30)	38	(104)
Balance at 30 June 2018	**533**	**142**	**345**	**1,020**
Balance at 1 July 2018	533	142	345	1,020
Amortisation	(112)	(30)	1	(141)
Balance at 30 June 2019	**421**	**112**	**346**	**879**

	Actual 2019 $000s	Actual 2018 $000s
NON-CURRENT PORTION		
Occupancy incentives	391	533
Deferred rental	346	345
Total non-current portion	**737**	**878**
CURRENT PORTION		
Occupancy incentives	142	142
Deferred rental	-	-
Total current portion	**142**	**142**
Total lease liabilities	**879**	**1,020**

Notes to the financial statements for the 12 months ended 30 June 2019

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 2019 $000s	Actual 2018 $000s
NON-CURRENT PORTION		
Lease make-good	697	697
Total non-current portion	697	697
Total provisions	**697**	**697**

Lease make-good provision

In respect of certain leases, the FMA is required at the expiry of the lease term to make good any damage caused to the premises and to remove any fixtures or fittings installed by the FMA. Information about the FMA's leasing arrangements is disclosed in Note 10.

Movements for each class of provision are as follows:

	Lease make-good provision $000s
Balance at 1 July 2017	697
Additional provisions made	-
Unused amounts reversed	-
Balance at 30 June 2018	**697**
Balance at 1 July 2018	697
Additional provisions made	-
Unused amounts reversed	-
Balance at 30 June 2019	**697**

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

Other notes

Note 13 — Receivables

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.

Previous accounting policy for impairment of receivables
In the previous year, the allowance for credit losses was based on the incurred credit loss model. An allowance for credit losses was recognised only when there was objective evidence that the amount due would not be fully collected.

The expected credit loss rates for receivables at 30 June 2019 and 1 July 2018 are based on the payment profile of revenue on credit over the prior 2 years at the measurement date and the corresponding historical credit losses experienced for that period. The historical loss rats are adjusted for current and forward-looking macroeconomic factors that might affect the recoverability of receivables. Given the short period of credit risk exposure, the impact of macroeconomic factors is not considered significant.

	Actual 2019 $000s	Actual 2018 $000s
Trade debtors	66	61
Other receivables	225	181
Total debtors and other receivables	**291**	**242**
Prepayments	713	639
Total receivables	**1,004**	**881**
TOTAL DEBTORS AND OTHER RECEIVABLES COMPRISE:		
Receivables from services provided (exchange transactions)	263	219
Receivables from grants (non-exchange transactions)	28	23
Total debtors and other receivables	**291**	**242**

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

	2019 $000s	2018 $000s
Not past due	10	19
Past due one to 30 days	54	30
Past due 31 to 60 day	-	-
Past due 61 to 90 days	-	5
Past due over 90 days	2	7
Total trade debtors	**66**	**61**

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 (2018: $Nil).

Notes to the financial statements for the 12 months ended 30 June 2019

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 2019 $000s	Actual 2018 $000s
CURRENT		
Trade creditors	2,338	2,707
Accrued expenses and other payables	708	1,006
Revenue in advance	8	11
Litigation grant repayable to the Crown	-	145
Total current creditors and other payables	**3,054**	**3,869**
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	3,054	3,724
Creditors and other payables under non-exchange transactions	-	145
Total current creditors and other payables	**3,054**	**3,869**

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

	Actual 2019 $000s	Actual 2018 $000s
REPORTING SURPLUS / (DEFICIT)	**(172)**	**3,250**
Add non-cash items:		
- allocation of lease incentives	(142)	(142)
- allocation of deferred rental	1	38
- depreciation, amortisation and impairment losses	2,135	2,809
- (gain) / loss on disposal of fixed assets	8	35
- non cash other income	(3)	-
Add / (less) movement in working capital:		
- increase / (decrease) in creditors	(814)	2,115
- (increase) / decrease in receivables	(149)	(45)
- increase / (decrease) in employee entitlements	8	168
Add / (less) movement in investing activities:		
- increase / (decrease) in creditors relating to investing activities	663	(851)
Add / (less) movement in financing activities:		
- litigation fund (reserve) converted to litigation fund revenue	-	(152)
Net cash flows from operating activities	**1,535**	**7,225**

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 (2018: $Nil).

Contingent assets

There are no contingent assets at balance date (2018: $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

Amortised cost (2018: Loans and receivables) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Amortised cost are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method. All financial assets being cash and cash equivalents, term deposits, trade and other receivables have been categorised as Amortised cost.

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

Financial instrument risks

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

Market risk

The only market risk to which the FMA is subject is interest rate risk. Interest rate risk is the risk that the fair value or future 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. FMA does not actively manage its exposure to fair value interest rate risk.

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

Kiwibank's credit rating with Standard & Poors currently falls below our required minimum credit rating of A+ for the placement of funds on term deposit. As such, no term deposits were 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.

Notes to the financial statements for the 12 months ended 30 June 2019

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 2018–2019 as approved by the Board in May 2018. The budget figures are for the 12 months to 30 June 2019 and have been prepared in accordance with PBE FRS-42, using accounting policies that are consistent with those adopted by the Board in preparing these financial statements.

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

Statement of comprehensive revenue and expense

1. Revenue

- Interest income was above budget from having consistently higher bank and term deposit balances during the period.
- Other income is higher than budget expectations as a result of a cost recovery that was awarded on the successful VMOB case.

2. Expenditure

- Personnel costs were lower than budget, due to the vacancy gap exceeding the budget assumptions, as well as underspends in contract staff, recruitment and transitional costs.
- Depreciation and amortisation costs were lower than budget largely due to underspend in capital expenditure against budget expectations in Q4 of prior year and throughout FY18/19.
- Other operating expenses exceeded budget as a result of additional costs incurred in the operation of a new evidence management system, increased computer costs associated with running a new intelligence system and the FMA's migration into cloud technology, and costs incurred in carrying out the Conduct & Culture review work.
- Litigation costs exceeded budget as a result of a number of large litigation cases undertaken during the year. The cost overrun of $969K is being funded by the underspend in the FMA's operating fund and its historical operating reserves. The FMA is seeking an increase in the litigation fund for FY19/20 and onwards.

Statement of Financial Position

1. Assets

- Current assets:

i. Higher closing term deposit balances are a result of lower-than-expected capital and operating expenditure in Q4 of prior year and lower-than-budgeted capital expenditure in FY18/19.

ii. Receivables are higher than budget due to higher then budgeted prepayment balance at year end.

- Non-current assets:

i. Property, plant and equipment are higher than budget is a result of the timing of purchases of new hardware in FY18/19.

ii. Intangible assets are lower than budget due to the change in scope and timing of project work being undertaken in Q4 of prior year and FY18/19.

2. Liabilities

The higher trade and other payables balance is primarily due to litigation invoices and accruals due at year end while funding discussion was ongoing with MBIE.

3. Equity

Accumulated funds
Higher than budget as a result of higher revenues and lower expenditure during the latter part of the prior financial year.

Statement of Cash flows

1. Cash flows from operating activities

- Cash disbursed to suppliers was higher than budget primarily due to higher operating expenditure incurred during the year and accounts payable and accrual balance movement being different to budget expectations in both opening and closing balances.
- Cash disbursed to employees was less than budget due to staff vacancies and savings in transitional costs.

2. Cash flows from investing activities

- Cash applied to purchase property, plant and equipment was higher than budget due to the timing of purchase of new hardware in FY18/19.
- Cash applied to purchase intangible asset was substantially lower due to the change in scope and timing of project work being undertaken during the year.

Notes to the financial statements for the 12 months ended 30 June 2019

Note 22 — Adoption of PBE IFRS 9 Financial Instruments

In accordance with the transitional provisions of PBE IFRS 9, FMA has elected not to restate the information for previous years to comply with PBE IFRS 9. Adjustments arising from the adoption of PBE IFRS 9 are recognised in opening equity at 1 July 2018.

PBE IPSAS 3.33(c) Accounting policies have been updated to comply with PBE IFRS 9. The main updates are:

- Note 13 Receivables: This policy has been updated to reflect that the impairment of short-term receivables is now determined by applying an expected credit loss model.

On the date of initial application of PBE IFRS 9, being 1 July 2018, the classification of financial instruments under PBE IPSAS 29 and PBE IFRS 9 is as follows:

	Measurement Category		Carrying amount		
	Original PBE IPSAS 29 category	New PBE IFRS 9 category	Closing balance 30 June 2019 (PBE IPSAS 29) $000	Adoption of PBE IFRS 9 adjustment $000	Opening balance 1 July 2019 (PBE IFRS 9) $000
Cash on bank	Loans and Receivables	Amortised cost	1,729	-	1,729
Term Deposits	Loans and Receivables	Amortised cost	7,000	-	7,000
Receivables	Loans and Receivables	Amortised cost	291	-	291
Total financial assets			**9,020**	**-**	**9,020**

Appendix: Other accounting policies

Significant accounting policies

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. This policy has been updated to explain that a loss allowance for expected credit losses is recognised only if the estimated loss allowance is not trivial.

Term deposits

This category includes only term deposits with maturities greater than three months. This policy has been updated to explain that a loss allowance for expected credit losses is recognised only if the estimated loss allowance is not trivial.

Impairment of property, plant and equipment, and intangible assets

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

Given that the FMA's property, plant and equipment and intangible assets are not held with the primary objective of generating a commercial return, these assets are classified as non-cash generating assets, and therefore the value in use of these assets is measured on the basis of depreciated replacement cost.

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

Goods and services tax

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

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

Commitments and contingencies are disclosed exclusive of GST.

Income tax

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

Cost allocation policy

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

– Direct costs are those costs directly attributed to an output. Indirect costs are those costs that cannot be identified in an economically feasible manner with a specific output.

– Direct costs are charged directly to outputs. Indirect costs are charged to outputs based on cost drivers and related activity or usage information. Personnel costs are charged on the basis of actual time incurred. Other indirect costs are assigned to outputs based on the proportion of direct staff time for each output.

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.

– Litigation Fund reserve is no longer to be utilised for the purpose of covering costs and expenses incurred by the FMA in taking or defending eligible cases. See note 3-Litigation fund revenue.

Contacting us

When to contact us

We investigate a range of complaints about the conduct of individuals and businesses that operate in our financial markets. We may be able to help if your complaint is about:

- conduct of the businesses and individuals we license and authorise
- illegal investment offers and schemes
- New Zealand incorporated 'shell' companies
- fair dealing in the conduct and advertising of financial product and service providers
- unregistered financial service providers
- misleading advertising about investments
- complaints about the FMA.

We also rely on 'whistleblowers' to help us to maintain market integrity. We would like to hear any concerns about misconduct you may have seen in your workplace.

Areas we don't cover

The following organisations are the first point of contact for the areas listed.

- Citizens Advice Bureau – legal advice
- Commerce Commission – competition law and fair trading, credit (including hire purchase) and debt
- New Zealand Companies Office – registered companies and other entities, Financial Service Providers Register
- Sorted (Commission for Financial Capability) – advice on personal finance, planning and budgeting, and financial wellbeing
- Consumer Protection (MBIE) – consumer scams
- NZ Police; Serious Fraud Office – identifying theft, financial crimes or fraud
- Reserve Bank of New Zealand – prudential supervision of banks and insurers
- Advertising Standards Authority – media advertising

How to get in touch

General enquiries: 0800 434 567 | Complaints: 0800 434 566 | Overseas callers: 00 64 3 962 2698
Our lines are open Monday to Thursday 8.30am to 5pm and Friday 9am to 5pm

Online: fma.govt.nz | Email: questions@fma.govt.nz

Auckland

Level 5, Ernst & Young Building
2 Takutai Square, Britomart
PO Box 106 672, Auckland 1143

Phone: +64 9 300 0400

Wellington

Level 2, 1 Grey Street
PO Box 1179, Wellington 6140

Phone: +64 4 472 9830

fma.govt.nz

FMA

FINANCIAL MARKETS AUTHORITY

TE MANA TATAI HOKOHOKO - NEW ZEALAND