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# RIPOATA-Ā-TAU
# ANNUAL REPORT

2019/2020

# Ko ngā whāinga a te FMA kia tino tika, kia whaihua, ā kia mārama ai te tirohanga pūtea

# The FMA aims to ensure fair, efficient and transparent markets

**Mā te pono me te mahi ngātahi, ka wātea te huarahi, ka mahora ngā mōhiotanga, mō te katoa**

Through honesty and teamwork, the path is open and knowledge is open, for all

# Rārangi kōrero

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## Compliance statement

**Minister of Commerce and Consumer Affairs**

This report is provided as required under sections 150 and 151 (3) of the Crown Entities Act 2004. It is the annual report of the Financial Markets Authority for the year ended 30 June 2020

Mark Todd
**Chair**
Financial Markets Authority
3 November 2020

Elizabeth Longworth
**Chair**
Audit and Risk Committee
3 November 2020

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FMA
FINANCIAL MARKETS AUTHORITY
TE MANA TĀTAI HOKOHOKO
AOTEAROA · NEW ZEALAND

# Pūrongo mai i te Heamana me te Tumu Whakarae Matua

## Message from the Chair and Chief Executive

Internally, one of the FMA's core values is agility. Since being established we have challenged ourselves to be adaptable and energetic, and to look for creative and pragmatic responses to opportunities and problems.

Chair
Mark Todd

Chief Executive
Rob Everett

The latter part of the 2019/20 financial year was certainly a test of our agility, as we put parts of our planned work programme on hold to manage our part in the COVID-19 crisis. The environment was one of market volatility, potential business continuity issues for regulated firms, and financial pressure on investors and customers. We worked on all three fronts, increasing engagement, collaborating with other agencies, and providing regulatory relief, guidance and leadership wherever we could, to support the "team of 5 million".

While the situation was extreme, our expectations for conduct throughout the crisis were very much business as usual. The behaviour demanded of financial service providers to serve the needs of their customers was absolutely in line with the messages we have been communicating since the start of the Financial Markets Conduct Act regime in 2014. While the circumstances were extraordinary, the key requirement for firms was to continue following the core principles of prioritising their customers' interests and ensuring they are treated fairly.

Back in September 2019, this was not the kind of environment the FMA was preparing for. It was then that the Government announced it was introducing legislation to create an oversight regime for conduct regulation. This would see banks, insurers and non-bank deposit takers licensed by the FMA for conduct and required to meet high standards of customer treatment, and would ban incentives based on sales targets.

Although likely to be delayed by COVID-19, we are still gearing up for this change, and giving consideration to how we will structure the FMA to support the new legislation.

We have also been focusing on more immediate changes. As part of our bid for funding to support the introduction of the new regime for providing financial advice, through the Financial Services Legislation Amendment Act, PwC completed a comprehensive review of our operations. The outcome of the review was a great endorsement of our effectiveness and efficiency. It paved the way for confirmation of increased funding that will allow us to regulate the new financial advice regime, as well as bolster our resources in some areas where we have been stretched thin.

## The economic landscape in 2019/20

In the first half of 2019/20, the FMA was operating in a period of relative economic stability, with a focus on our regular monitoring and enforcement activity, and preparing for the significant expansion of our regulatory remit.

COVID-19 undermined that stability. The New Zealand economy, including financial markets and services, has been seriously affected by the pandemic.

Capital markets have experienced volatility, investors face significant uncertainty, and financial service providers have faced challenges in servicing their customers. There has been an unprecedented fiscal response by Government and shifts in monetary policy from the Reserve Bank of New Zealand.

The disruption is expected to negatively impact economic growth, employment, and inflation well into 2021. Different regions and parts of the community will be impacted to various degrees, probably leading to increased vulnerability in certain areas, while financial service providers will continue to operate in a period of significant uncertainty.

Although the start of the new financial advice regime has been delayed, it is still a huge priority for us. We have successfully launched transitional licensing, and made great progress designing the full licensing regime, and working out how to monitor and supervise a sector that will have varying levels of conduct and compliance maturity. The overall goal remains to increase New Zealanders' access to quality financial advice, and we are confident of delivering our part towards this outcome, and effectively supporting advisers through the change.

As evidenced by the examples in this report, our momentum in enforcement activity continued. Notably, in December we issued two sets of civil proceedings against CBL Corporation Limited, the six directors and the chief financial officer, alleging multiple breaches of the FMC Act. The proceedings followed a complex investigation that involved the review of substantial amounts of evidence, and came the same day that the Serious Fraud Office filed criminal charges of fraud related to the case.

Our objectives for this case are to hold those responsible to account, send a message of deterrence to the wider market, and seek clarifications on the law to set a precedent. This mirrors our approach to enforcement overall, with the response to each case scaled to the level of harm involved.

But it hasn't been all crisis and misdeeds. 2020 got off to a light-hearted start when we hosted a debate between fund managers on whether investors benefit more from passive or active fund management. Both sides gave a spirited and entertaining defence of their management style. While the FMA has no position on styles, the event certainly provided food for thought as we continue to look at whether fund managers are delivering value for money for investors.

There is evidence KiwiSaver fees here are high compared to similar overseas funds, and questions about whether fund managers are actually as active as they advertise. Sustainability and 'green' investments are in the mix, with investors wanting assurance that if they're paying a premium for a responsible investment, it operates as promised. We will continue our work in this space in the coming year, and challenge providers to demonstrate how they are delivering value for money.

We've also been challenging KiwiSaver members to think about their investment, and whether it's on track for the retirement they want. After championing the idea of showing KiwiSaver members a projection of how much they may receive in retirement, this information was included in annual statements for the first time. We ran a campaign that encouraged members to have a "looksee" at their statement and use our resources to help optimise their investment.

This came soon after our messages to investors during early stages of the COVID-19 crisis to think carefully before applying for a KiwiSaver hardship withdrawal or switching funds in response to market volatility. In our opinion, New Zealanders should be thinking about KiwiSaver as an investment rather than a savings account, and taking a long-term view of how it can help them achieve their financial goals.

Looking to the future, it is clear the imminent changes to financial markets regulation will benefit from lessons learned this past year. Although it hasn't been an easy time, it has been encouraging to see examples of industry applying principles of good conduct and striving to do right by their customers. Where we have seen poor conduct, it is usually not malicious, but the result of a lack of care or attention. This is generally easy to remedy, although in some cases we've had to give more than one prod before we see improvement.

While the changes on the horizon may seem significant when taken at face value, they are essentially about formalising and putting more weight behind the expectations that we already have, and that firms should already be meeting.

Chair
Mark Todd

Chief Executive
Rob Everett

# Mō ā mātou mahi
# About the FMA

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

## What do we do?

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

Our activities include:

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

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

## What do we expect?

When interpreting our statutory objectives we consider:

- Fair to mean providers and participants acting fairly, professionally and with integrity, focusing on serving the needs of customers (see page opposite).
- Efficient to mean dynamic and accessible markets that facilitate growth and innovation.
- Transparent to mean investors and customers get the clear, concise and effective information they need to make informed decisions.

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

We expect all market participants to act fairly and professionally, and be committed to pursuing

## Serving the needs of customers

This means financial service providers focus on:

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

the objectives and spirit of regulation rather than just the letter of the law. We expect financial service providers to engage openly, honestly and proactively with us.

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

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

## How we approach our work

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

- Intelligence-led and harm-based: we use intelligence to identify and assess the areas of greatest harm to investors, customers and financial markets, and the drivers of that harm.
- Outcome-focused: we focus our resources on where we have the greatest opportunity of achieving desired outcomes and reducing harm. We consider the most appropriate action for each situation, recognising the limits of our powers, and considering regulatory burden and potential unintended consequences of our actions.
- Effective and efficient: we regularly review the use of our resources to enhance our effectiveness and efficiency.
- Consistent and transparent: we clearly communicate our intentions and expectations to market participants, and explain our actions.

- Flexible and responsive: we have an operating model that enables us to adapt and respond quickly to changing market conditions. We seek and act on feedback, and learn from our experiences.
- A systems view: we promote an integrated and coordinated approach to financial markets regulation in New Zealand. The FMA is a member of the Council of Financial Regulators (CoFR), together with the RBNZ, MBIE, Treasury and the Commerce Commission. CoFR provides a forum for a continuous, forward-looking focus on system risks and regulatory coordination by members.

The legislation underpinning our work includes:

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

# Ko te anga mō ngā whakaritenga me ngā ripoata

## Planning and reporting framework

### Strategic Risk Outlook

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

### Statement of Intent

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

### Annual Corporate Plan

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

### Statement of Performance Expectations

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

### Annual Report

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

## Checking in on our 2019/20 Annual Corporate Plan

Of the 31 key activities set out in our Annual Corporate Plan, five were not completed or progressed as intended in 2019/20. These are all thematic review projects that were given lower priority during the COVID-19 alert levels. Of these, the derivatives issuer sector risk assessment and the report on KiwiSaver fees and value for money have since been completed. Work on the MIS sector risk assessment, IMF Financial Sector Assessment Program recommendations, and MIS liquidity stress-testing review is ongoing.

# Ā mātou whakautu ki te Kowheori-19, Mate Korona
# Our COVID-19 response

## January-February 2020

- As the severity of the pandemic overseas became apparent, we began gathering intelligence from other jurisdictions, and preparing for similar issues in New Zealand. We set ourselves the objectives of ensuring continuity of markets and services in a way that was fair, efficient and maintained confidence in the financial sector. Our specific priorities for responding to the crisis included:
    - ensuring market participants were prepared to deal with business disruptions and a higher volume of customer interactions
    - providing guidance for KiwiSaver members and other investors in the face of market volatility
    - responding to potential frauds and scams exploiting the situation
    - looking for ways to ease regulatory burden on market participants, while still ensuring protection for investors and customers, with a heightened focus on risks and harms
    - deferring some planned work in order to focus on the crisis.
- As the value of KiwiSaver funds began to drop, we engaged with investors through social media and news outlets, urging a cautious approach to big decisions such as switching funds and applying for hardship withdrawals. We kept up this messaging as market volatility continued.
- We went on the alert for scams and unregulated offers related to COVID-19. We saw examples related to predatory lending and health insurance, and throughout the crisis have issued multiple warnings and taken steps to stop misleading advertising.

## March 2020

21 Mar – Level 2 | 23 Mar – Level 3 | 25 Mar – Level 4

- We established an internal COVID-19 Committee, which met regularly to review developments and emerging risks, and consider regulatory relief options. The committee received updates on our enhanced market engagement activity, which saw us increase the frequency of engagement with regulated entities, including weekly discussions with Supervisors and fund managers.
- We tested our remote working systems in the first half of March, and were prepared for the entire organisation to work from home ahead of the lockdown announcement. Managers and staff were supported to adapt to lockdown working conditions, with a focus on cooperation and wellbeing.
- When the Government confirmed that most financial service providers would be essential services under Level 4, we encouraged providers to prepare and communicate with customers about what this would mean for them.
- We published guidance for FMC reporting entities on managing the impacts of COVID-19 on financial reporting and auditing. This was following up by additional guidance and extensions to some financial reporting deadlines.
- We published guidance for complying with AML/CFT verification requirements during COVID-19 alert levels, when in-person customer interactions would be limited.

## April 2020
28 Apr – Level 3

- Along with the other members of the Council of Financial Regulators, we announced a range of regulatory initiatives that would be deferred to ease regulatory burden on entities.
- In response to market volatility locally and potential misconduct overseas, we published a reminder of inside information restrictions.
- We announced a 'no-action' approach to regulatory relief sought by market participants, where in approved cases we will not take action against a person for breach of a statutory or regulatory obligation. At the end of June, 34 class exemption notifications and 15 class relief notifications had been granted. We also granted two class exemption notices to provide market participants with an additional two months to provide their audited financial statements and comply with certain other regulatory requirements.
- We wrote to the CEOs of firms we license, as well as retail banks, insurers, and industry associations, to outline the FMA's expectations for the fair treatment of customers during the pandemic. We also wrote to insurance industry bodies to outline our specific expectations for insurers.

## May 2020
13 May – Level 2

- We published guidance on the Government's business debt hibernation scheme specific to our regulated population.
- We issued a formal warning to a financial adviser who made recommendations to clients that they urgently move their investments to 'low-risk' funds but failed to clarify that the advice may not be suitable for all clients.

## June 2020
9 Jun – Level 1

- We published an information sheet explaining our expectations for financial services firms to prioritise a review of customer vulnerability practices in light of the COVID-19 crisis.

Impacts on the market, industry and the public will be ongoing, and unexpected impacts may arise in coming months or years. We will continue to monitor and respond to the situation, and maintain our focus on the priorities announced in March.

# Te uruhi me te kaiwaenga hīanga
## Enforcement and deterrence of misconduct

The purpose of enforcement is:

- to hold to account professionals or entities that breach their legal obligations
- to deter others from engaging in misconduct.

Enforcement and deterrence is a critical part of our work. It plays a key role in raising standards and responding to conduct that presents the greatest risk of harm in our financial markets.

We do not have a 'litigation by default' approach to our enforcement response; but rather seek to use a range of tools to achieve appropriate, proactive and targeted enforcement action.

The following timeline covers a selection of enforcement activity from the past year, showing how we responded to misconduct or poor conduct of varying degrees with tools proportionate to the offence or risk of harm.

**July 2019**

### Syndicated Trusts Limited

We issued a Stop Order against Syndicated Trusts Limited, ordering the company to stop advertising or accepting money for financial products. This was in response to contraventions of several aspects of the FMC Act relating to advertising and disclosure.

**August 2019**

### Westpac

Westpac New Zealand Limited entered into an enforceable undertaking agreed by the FMA and Commerce Commission, outlining steps to refund fees to some 93,000 customers who were overcharged a total of $7 million.

### AxiCorp Financial Services

We suspended the derivatives issuer licence of AxiCorp Financial Services Pty Limited for material breaches of the FMC Act relating to disclosure, financial statements and auditing, as well as contravention of its licence conditions.

### ANZ related party transaction

We published the results of our inquiry into disclosure by ANZ New Zealand Group of the sale of a property by its subsidiary Arawata Assets Limited to Deborah Veronica Walsh (the wife of former ANZ CEO David Hisco), which determined that ANZ New Zealand Group should have disclosed this as a related party transaction in its 2017 financial statements.

### Eoin Johnson/Promisia Integrative Limited

Eoin Malcolm Miller Johnson admitted to insider trading conduct and breaching director disclosure obligations. He will pay $75,000, in lieu of a penalty, to the FMA, and is barred for five years from acting as a director, senior manager or consultant for a listed company or any entities regulated by the FMA.

| | |
|---|---|
| September 2019 | **Barry Kloogh**<br>We cancelled the authorisation of Dunedin-based Barry Edward Kloogh to act as a financial adviser, following concerns about compliance with his broker obligations under the Financial Advisers Act 2008. The Serious Fraud Office is investigating the activities of Kloogh, after two companies he was the sole director of were placed into liquidation by the Dunedin High Court following an application by the FMA. |
| October 2019 | **Steven Robertson**<br>Steven Robertson was sentenced to six years and eight months in prison, after he was found to have misappropriated funds deposited by clients who believed that those funds were to be traded or invested on their behalf. He was also found to have withdrawn funds from credit card accounts of some clients without their authority and knowledge. The Court of Appeal later dismissed a sentence appeal by Robertson.<br>**Circle Markets Limited**<br>We issued a formal warning to a non-licensed derivatives issuer and forex provider, Circle Markets Limited, for compliance failures under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009. |
| November 2019 | **FXBTG Financial**<br>The High Court ruled to uphold a direction by the FMA to de-register foreign exchange firm FXBTG Financial Limited from the Financial Service Providers Register. We issued the direction as FXBTG was not providing financial services to New Zealand customers. |
| December 2019 | **CBL**<br>We issued two sets of civil proceedings in the Auckland High Court against CBL Corporation Limited (in liquidation), the six directors and the chief financial officer, alleging multiple breaches of the FMC Act.<br>**AFA non-compliance**<br>Following onsite monitoring, we issued a feedback letter to an Authorised Financial Adviser, citing lower-level non-compliance, where requirements were not met but there was no current identifiable financial risk or harm to clients. The AFA was required to remedy issues and provide an update to us. |

| | |
|---|---|
| April 2020 | **AML warnings**<br>We issued a formal warning to Tiger Brokers (NZ) Limited for failing to have several adequate anti-money laundering (AML) protections in place. We also privately warned six other businesses for their AML practices, mainly due to late auditing of their systems and controls. |
| May 2020 | **Warning to Authorised Financial Adviser**<br>We issued a formal warning to a financial adviser who made recommendations to clients that they urgently move their investments to 'low-risk' funds in the wake of COVID-19, and failed to clarify that the advice may not be suitable for all clients. |
| June 2020 | **CLSA Premium New Zealand Limited (formerly KVB Kunlun)**<br>We filed civil High Court proceedings against CLSA Premium New Zealand Limited (formerly KVB Kunlun) for alleged breaches of the Anti-Money Laundering and Countering Financing of Terrorism Act.<br>**Rodney McCall/Morgan Cooper Limited**<br>Rodney McCall pled guilty to charges brought by the FMA related to deceptively obtaining funds that he purported to be investing. He was neither authorised nor licensed to make investments on behalf of others.<br>**ANZ credit card repayment insurance**<br>We filed High Court proceedings against ANZ, alleging the bank charged some customers for credit card repayment insurance policies that offered those customers no cover. |

# Te arotake whaihua tōtika me te whakahou kaupapa pūtea

# Effectiveness and efficiency review and funding update

In recent years, the FMA has faced increasing cost pressures and an expanding regulatory remit and responsibilities, particularly in relation to preparing for the new financial advice regime (see page 23).

As part of our bid for additional funding to support the new regime, the FMA underwent an independent review of its effectiveness and efficiency. PwC was appointed by the Ministry of Business, Innovation and Employment to look at our processes, policies and outputs, and interview FMA staff and external stakeholders.

The resulting report concluded that "the FMA is a high-performing organisation". It highlighted good alignment between our activities and our statutory objective, and that we are "widely viewed as raising standards of market conduct and supporting market integrity". The report stated that overall, "the FMA 'punches above its weight' both in terms of the level of activity and the impact stemming from that activity".

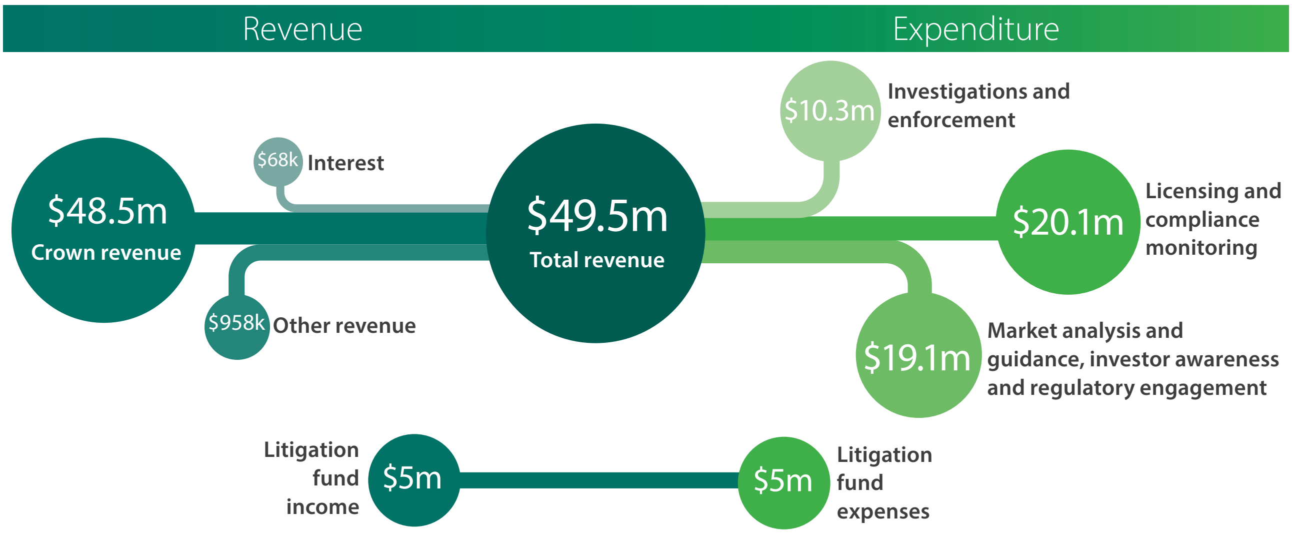
PwC did identify some areas for improvement related to internal business planning, technology and intelligence functions. The report noted that constrained financial resources are an obstacle to making these improvements and to supporting the new financial advice regime and other proposed additions to our regulatory remit.

The report outlined various funding options, which were put out for public consultation along with options for how any increase should be apportioned between the Crown and levy payers.

## Increase to funding

Following the review and consultation, the Government decided in Budget 2020 to increase the FMA's operational funding, taking a phased approach. From $36m in 2019/20, the FMA's appropriation from the Crown will increase to $48.5 million in 2020/21, $53.5m the following year, and $60.8m in the third year. The majority of the increase will come from levy payers.

The diagram below shows the planned budget for 2020/21, the first year of our increased funding. The majority of our expenditure goes towards proactive activity such as monitoring, analysis, guidance and education, and engagement.



# Ngā nea hira ā-rāngai

# Highlights by sector

This section covers selected highlights from throughout the year, based on the sectors outlined below.

In addition to these highlights, we also carried out our regular supervision and oversight of market participants, products and offers. This oversight includes monitoring licensed and authorised entities, and reviewing disclosure documents and financial statements for regulated offers and listed entities.

## 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

- 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
- Non-life insurance

## Banking

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

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

Key:

- Direct regulatory relationship with FMA, including licensed participants
- Other participants/activities that benefit from FMA regulation

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

# Ngā Mākete whakapaipai
# Capital markets

This sector covers both primary and secondary debt and equity markets. It includes alternative capital-raising markets such as equity crowdfunding, peer-to-peer lending, and innovative offerings. Resilient and dynamic capital markets with broad investor participation and sound infrastructure play a fundamental role in supporting New Zealand's economy.

## NZX review

The annual NZX General Obligations Review found that NZX complied with its market operator obligations during the review period. The report noted continued improvements from prior years, as well as identifying areas where we expect to see improvements, notably in relation to continuous disclosure and managing conflicts of interest.

This year's review was completed within the constraints of the COVID-19 lockdown. The timing of the review coincided with record NZX trading volumes, significant market volatility and increased demand for capital raising. However, the ongoing engagement we had with NZX through the reporting period meant we had the detail we needed to be able to form a view.

We also noted NZX suffered technology disruptions. While this occurred outside of the review period, we have launched a review to understand the cause of these technology issues, assess the overall appropriateness of NZX's response, and consider NZX's strategic management of technology more generally. We also engaged closely with NZX when they subsequently experienced cyber-attacks in August and September 2020. We are currently considering how to include a review of the NZX's readiness for and response to those attacks as part of the ongoing technology review.

## ESG and climate-related disclosure

We released a consultation paper seeking views on issues relating to green bonds and other responsible investment products that expressly take into account environmental, social, and/or governance (ESG) considerations. The responses we received will help inform guidance we intend to publish for the market, as well as resources for investors.

In the interim, we published an information sheet clarifying our view on when issuers can use the 'green' label for their product when relying on the same-class offer exclusion. This was in response to possible 'greenwashing' of financial products that could potentially mislead investors.

### What we think

Director of Capital Markets Sarah Vrede said: "It could be confusing for investors to have a green bond described and treated as of the same class as a vanilla bond. If they are of the same class, then what is it that makes the green bond 'green'? This distinction is important in managing the risks for investors from product marketing that could potentially be 'greenwashing'."

## Audit quality

Our annual Audit Quality Monitoring Report, part of a three-year monitoring cycle of licensed auditors, found that audit quality had broadly improved, but auditors continue to apply standards inconsistently. We noted some issues around auditor independence, related party transactions, and the way auditors assess and review the disclosure of accounting estimates. These areas will be a focus in our next round of reviews.

Jointly with the External Reporting Board (XRB), we also released our second review of key audit matters, in the third year after they were added as part of enhanced auditor reporting for FMC entities. Key audit matters (KAMs) are intended to provide transparency to investors on issues that, in the auditor's view, were of most significance to the audit of a company's financial statements, for example valuation of goodwill or revenue recognition.

### What we think

Chief Executive Rob Everett said the report is a timely reminder that the reporting of key audit matters in the current environment should provide useful insights into how auditors see the impact of COVID-19 on businesses.

"Auditing during COVID-19 will be challenging for auditors but we encourage them to see the crisis as an opportunity to illustrate the value of the new standards. The role of an auditor is to provide an independent view on the financial statements so investors will be keenly interested in what auditors see as matters of significance at this time."

# Te whakahaere haumi pūtea
## Investment management

This sector focuses on the management of investor assets. This includes fund management (eg KiwiSaver), discretionary investment management, and associated support services such as custody and administration. High-quality and professional investment management is critical for enabling investors to achieve their long-term savings goals.

### KiwiSaver Annual Report

Our KiwiSaver Annual Report published in September 2019 showed an increase in default member engagement, but few signs of a reduction in fees. We were concerned at the lack of any significant movement in fees paid to KiwiSaver providers. In total, KiwiSaver providers collected almost $480 million in fees, up 14.7% on the previous year. Positively however, the report noted that six out of nine KiwiSaver default providers had improved their percentage of members who had made an active choice on their investment.

**What we think**

Active choices by KiwiSaver members are a good sign that providers' financial literacy initiatives are having the intended effect of helping members make informed and meaningful choices about their investment.

FMA Director of Regulation Liam Mason said: "This has been a key focus for us over the past few years so it is great to see more than 52,000 default members made an active decision about their investment over the past year – up significantly from just over 28,000 in the prior year."

### Value for money

The KiwiSaver Annual Report also signalled our increasing focus on whether KiwiSaver schemes are delivering value for money for investors.

We commissioned a report looking extent to which KiwiSaver providers were active or passive managers of their funds and how this compared with the fees being charged. The findings from this report will inform our future work in this area, which is likely to include asking the providers to demonstrate how they are providing value for money.

### KiwiSaver projections

This year for the first time, KiwiSaver providers were required to include projections in KiwiSaver annual statements, showing members how much they are on track to receive at retirement. The FMA supported this initiative, helped to develop the assumptions the Government uses to calculate the projections, and produced guidance to help investors understand how the projections are calculated.


To coincide with the delivery of annual statements, we created our KiwiSaver "Looksee" campaign. This encouraged members to look at the retirement projections in their KiwiSaver statements, and linked people to case studies and guidance to help people determine if they're on track for the retirement they want.

KiwiSaver Looksee was one of our most successful investor campaigns to date, reaching a combined 2.5 million New Zealanders across all channels. Activity included an interview with FMA Investor Capability Manager Gillian Boyes on TVNZ 1's Seven Sharp, partnerships with radio and news outlets, joint media activity with the Commission for Financial Capability, and resources on our own website and social media channels.


A survey following the campaign showed that of those who saw the projections in their annual statement, 37% planned to increase their KiwiSaver contributions.

### What we think

The FMA supports the move to showing projections information in KiwiSaver statements. Chief Executive Rob Everett said: "KiwiSaver is a long-term investment proposition and it can be difficult for people to visualise how much the money they contribute today will, or could, amount to at retirement. While some may be pleasantly surprised at how much they could potentially have at age 65, others might want to make some changes to boost their retirement savings."

## MIS liquidity and stress-testing

In our 2019/20 Annual Corporate Plan, we stated our intention to test the readiness of MIS (managed investment scheme) Managers to respond to a liquidity crisis event. We postponed our planned survey of MIS Managers due to COVID-19-related pressures and responsibilities for the sector. As an interim measure, we published a good practice guide on risk management, and in particular managing liquidity risk at times of heightened market uncertainty and volatility. We intend to pick up the planned review later in 2020, meaning we will have the advantage of being able to learn how MIS Managers' risk management frameworks held up in practice during the crisis.

## Asia Region Funds Passport

The Asia Region Funds Passport, signed by New Zealand, Australia, Japan, Thailand and Korea, facilitates the offering of liquid and well diversified managed funds among the signatory economies.

We officially opened the scheme in New Zealand in July 2019, allowing local investment schemes to apply to be registered as a passport fund and foreign passport funds to apply for permission to offer their funds in New Zealand. This means that fund managers from participating countries can offer eligible products to investors in each other's economies, bringing more choice and competition to managed fund markets in the Asia-Pacific region.

# Ngā hokohoko, ngā tohutohu me te tohatoha
## Sales, advice and distribution

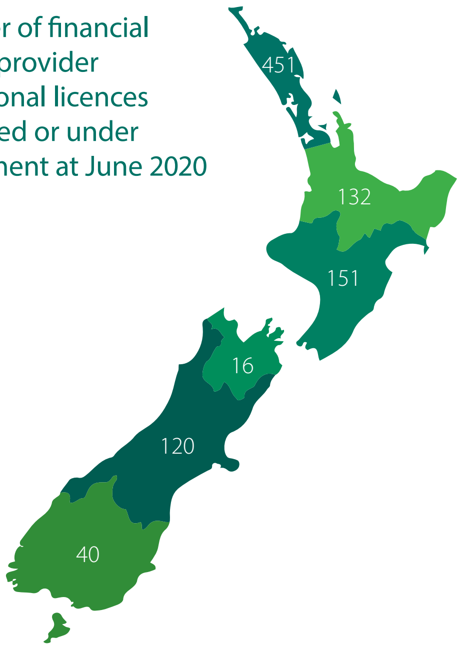
Through this sector, retail customers access products such as investments and insurance on an advised or non-advised basis, including directly through online platforms. Efficient and customer-centric sales, advice and distribution is essential for ensuring investors and customers end up with the right products to meet their financial needs.

### New financial advice regime

The Financial Services Legislation Amendment Act will mean significant changes to the way financial advice can be provided in New Zealand. Advice will need to be given by or on behalf of a licensed financial advice provider, and advisers will be subject to a new code of conduct, and new rules and regulations that will be part of the FMC Act.

There is a phased approach to introducing the new regime, with a transitional period prior to full licensing. Applications for transitional licences opened in November 2019. As well as the technical development of the licensing portal, preparations included engagement with the adviser industry and other stakeholders on options and obligations under the new regime, and consultation on the standard conditions that will be attached to transitional licences. At June 2020, 910 transitional licence applications had been approved or were under assessment.

Number of financial advice provider transitional licences approved or under assessment at June 2020




Due to COVID-19, the start of the new regime was deferred from June 2020 until 15 March 2021. FMA's planning and development for full licensing was already well underway as the Government made the announcement, including consultation on the proposed classes of licence and the standard conditions to be imposed on full licences.

Our ongoing engagement with the sector included presentations delivered via a FANZ webinar, following COVID-19 physical distancing guidelines.

The Government also announced disclosure requirements for the new regime, which specify the information financial advisers will have to provide to their clients. This information includes fees, the range of products they advise on, whether they have any conflicts of interest or earn commissions, and how to access dispute resolution services.

#### What we think

Director of Market Engagement John Botica said: "The disclosure requirements are an important component of the new regime as they will ensure consumers have clarity and transparency around the financial advice they're receiving".

## Investor capability

Prompted by the low interest rate environment and consumers seeking alternatives to term deposits, we developed and published Funds for everyone. The guide, launched during IOSCO World Investor Week, provides simple explanations of how managed funds work, including an overview of the fast-growing exchange-traded funds market.

Over 100 women attended our Sorted Money Week seminar in Tauranga, to hear money expert Mary Holm speak about investing, financial security, and risks that especially impact women. We reached a further 52,000 New Zealanders on social media promoting and reporting on the event.

## Frauds and scams

Our work on the perimeter of our regulatory remit includes responding to financial frauds and scams, and working to protect members of the public from harm. Pacific communities in New Zealand are often targeted by investment scams through community groups. To help raise awareness and encourage people to protect themselves, we created resources in Samoan, Tongan and English that outline the warning signs of a scam and what to do if you are the victim of a scam. The joint FMA and Commerce Commission launch of these resources reached over 600,000 New Zealanders.


We also regularly issue warnings through our website and social media, about schemes or entities that have the hallmarks of a scam, or may be offering unregulated products or services. In two cases this year – MBI International/MFC Club, and Skyway Capital – we sought additional coverage through external media channels due to the risk posed to New Zealanders. Both cases were targeting members of the public through seminars to promote unregulated investment opportunities.

### Warnings and alerts published

| Alert category | 2019 | 2020 |
|---|---|---|
| Suspected scam | 56 | 75 |
| Unregistered business | 29 | 19 |
| Fake regulator | 7 | 2 |
| Total warnings and alerts | 68 | 83 |

Some alerts relate to multiple categories

# Te pēke me te inihua
## Banking and insurance

Banking provides customers access to deposit taking, payment services and lending facilities (secured and unsecured). Insurance provides risk management for both individuals and businesses. The banking and insurance sector is critical for enabling customers to effectively participate in the economy and manage financial and other risks.

### Conduct and Culture follow-up work

After the FMA and RBNZ published the Bank Conduct and Culture Review in 2018, we required banks to develop a plan to address our feedback and report progress to us. Since then we have reviewed the plans, seeking revisions and further information where necessary. Themes and findings from this ongoing work are being used to inform our regular monitoring.

Follow-up from the 2019 Life Insurer Conduct and Culture review also continued. In collaboration with RBNZ, we made a statement on our disappointment with insurers' responses to the review, with significant work still needed to address the issues of weak governance and ineffective management of conduct risk.

#### What we think

Chief Executive Rob Everett said: "While we're disappointed, we're not surprised as the [life insurers'] responses confirm what we found in our original review. It's clear that progress has been slow and not as far-reaching as required. Some providers have started work to identify the customer and conduct issues they face, others have not provided any detail on this."

### Breaches of fair dealing provisions

A number of banks and insurers have self-reported potential breaches of Part 2 of the FMC Act (Fair dealing), relating to misleading and deceptive conduct. The issues generally involve customers paying for products for no benefit, or discounts and fee waivers not being applied.

In many cases the issues continued for significant periods of time, and the entities were slow to notify the FMA. In all cases we consider the entities have been too slow to provide remediation to customers.

We have already pursued legal action related to one case, filing High Court charges against ANZ alleging the bank charged some customers for credit card repayment insurance policies that offered those customers no cover. Investigations into the other cases are ongoing.

Concluding a similar case self-reported by Westpac in 2017, the bank entered into an enforceable undertaking agreed by the FMA and Commerce Commission, outlining steps to refund fees to around 93,000 customers overcharged a total of $7 million.

#### What we think

Although self-reported to the FMA, these cases still point to possible failures in internal systems and controls, resulting in customer harm. Speaking on the ANZ case, FMA General Counsel Nick Kynoch said: "Self-reporting is expected, and is taken into account by the FMA when determining the appropriate regulatory outcome. In this instance, we felt it appropriate to put the matter before the courts."

# Rāngai whakawhiti

## Cross-sector

### Treatment of vulnerable customers

The issue of how financial service providers treat customers whose personal circumstances may put them at increased risk of harm has gained prominence recently, particularly in light of COVID-19. We published an information sheet setting out our expectations for how firms should develop and operate their key aspects of their vulnerability policies and processes, to ensure customers have their needs met in a way that is appropriate for their individual circumstances.

### Ngā mea waiwai o te tūranga whakataka

In collaboration with the Institute of Directors, we released Ngā mea waiwai o te tūranga whakataka, a te reo Māori translation of our guide The essentials of being a director during Te Wiki o Te Reo Māori (Māori Language Week). The guide provides a quick reference and overview of some of key elements of being a director, including legal obligations, ethical considerations and best practice areas.

#### What we think

Chief Executive Rob Everett said: "The translation of the guide supports our vision of high standards of corporate governance through fostering diversity and inclusion in New Zealand's boards. We believe it's important to raise the profile of te reo Māori in New Zealand's business community and boardrooms."

### Financial Action Task Force mutual evaluation

The FMA is one of the three main supervisors of the Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) Act 2009, along with the Department of Internal Affairs and RBNZ.

This year, the Financial Action Task Force (FATF) tested the effectiveness of New Zealand's AML/CFT compliance regime. FATF is the global standards-setter for AML/CFT and the results of their reviews are looked at carefully by those looking to do business in New Zealand.

The review involved 18 months of collaborative preparation, and three weeks of FATF interviews with approximately 16 Government agencies as well as meetings with private sector reporting entities and industry bodies. The final outcome of the review was delayed by COVID-19.

# Mahi ngātahi

# Cooperation and collaboration

## Influence on policy

We continuously engage with other regulators on legislation, regulations and other policy reviews. Of particular note this year was the Conduct of Financial Institutions Bill, which is currently before Select Committee. The Bill, created as a response to the joint FMA and RBNZ Conduct and Culture review of banks and life insurers, proposes licensing banks and insurers for conduct.

Other significant policy work included the review of KiwiSaver default providers, the review of the Reserve Bank Act, climate-related financial disclosure, benchmark regulation, the review of insurance contracts law and the Financial Markets Infrastructure Bill.

## Response to COVID-19

During COVID-19, the FMA was delegated to oversee and determine which financial services businesses were essential services during Level 4, and provide guidance to the sector. We worked closely with RBNZ during this time, to produce guidance documents and information about regulatory relief, and consider applications for border exemptions from financial services firms. See page 12 for more on our response.

## Council of Financial Regulators

The Council of Financial Regulators (CoFR) expanded this year, with the FMA, Treasury, RBNZ and MBIE being joined by the Commerce Commission. CoFR set out a new vision along with a number of workstreams it will be focusing on. The workstreams aim to co-ordinate agencies efforts to tackle issues that reach across the financial system and to increase efficiency and coordination of regulation, reduce regulatory overlap, minimise gaps and expose areas of potential concern. The FMA leads the Conduct and Governance, and FinTech workstreams, and contributes to the workstreams for Climate change, Financial inclusion and consumer engagement, Residential property insurance, Credit unions and Review of the regulatory system charter.

## Enabling new markets

We worked with MBIE to enable an exemption for Australian-based Imperium Markets required due to a potential delay in regulations, which promotes innovation and flexibility in financial markets by facilitating the establishment of a new financial product market.

## Consumer protection

We participate in a number of interagency groups, including the Consumer Protection Partnership, Fraud Interagency Group and Cross-Government Financial Capability Group. These connections made helped establish an ad-hoc financial consumer protection group that operated during the COVID-19 crisis. This group shared intelligence, messaging and communications channels to ensure messages developed by each agency went out as widely as possible.

We also have a Consumer Advisory Network made up of dispute resolution firms, Consumer NZ, Fincap and the NZSA. This group shares our messages and provides us with input to guidance and policy development.

# Poari

# Board

## Mark Todd

Chairman, 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 an independent director of Westpac Life and subsequently the Customer Advocate at Westpac New Zealand.

Current term ends May 2024

## Ainsley McLaren

Member, BCom

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

Current term ends September 2021

## Christopher Swasbrook

Member, BCom

Christopher has more than 25 years' experience in stockbroking and funds management. He is currently the Managing Director of Elevation Capital Management Limited, 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 ends July 2023

## 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 Member of the Advisory Scientific Committee of the European Systemic Risk Board. He was also Professor of Economics at the Australian National University and a Visiting Fellow of All Souls College, Oxford.

Current term ends April 2023

## Sue Chetwin

Member

Sue has 12 years' experience working for and on behalf of consumers and is the former CEO of Consumer New Zealand. She is a strong supporter of financial regulations that encourage innovation while protecting consumer interests. She is a member of the Law Society Independent Steering Group Committee considering the terms of reference for the statutory framework for legal services. She is also a member of Food Standards Australia NZ and is currently chairing a review of .nz domain names policies for InternetNZ. She is studying law at Victoria University. Her experience includes 25 years in journalism including editing the Sunday News, Sunday Star Times and Herald on Sunday.

Current term ends September 2022

## Vanessa Stoddart

Member, BCom/LLB (Hons), PGDip Professional Ethics, GAICD, MNZICD

Vanessa is currently an Independent Director for NZ Refinery and OneFortyOne Plantations Holdings Pty Limited, and Deputy Chair of King's College. Prior to her governance career Vanessa was Group General Manager of Technical Operations and People at Air New Zealand and Chief Executive Packaging Australia for Carter Holt Harvey – having started her career in the legal profession. Vanessa is an honorary fellow of HRINZ, a Companion of Engineering NZ and a member of Global Women.

Current term expires June 2021.

## Tia Greenaway

Future Director - Observing

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

### Outgoing members

## 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.

Term ended June 2020

## Michael Stiassny

Member, BCom, LLB

Michael has over 40 years' experience as a Chartered Accountant, specialising in strategic advice, insolvency, and turnaround activities. He is currently Chair of Ngāti Whātua Ōrākei Whai Rawa Limited and Tower Limited, and a director of a number of other companies. He is a Fellow of Chartered Accountants Australia and New Zealand (retired), a life member of RITANZ, a Chartered Fellow of the Institute of Directors and a past President of the Institute.

Resigned from Board October 2020

# Komiti Whakahaere

# Executive committee

## Chief Executive

### Rob Everett

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

## Market Engagement

### Director: John Botica

John leads the FMA's market engagement activities, with a current focus on preparing advisers and industry for the upcoming 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, procurement, business planning 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.

## Capital Markets

### Director: Sarah Vrede

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

## 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.

## 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.

## 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.

## Strategy & Stakeholder Relations

### Director: Scott McMurray

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

## Banking and Insurance

### Director: Clare Bolingford

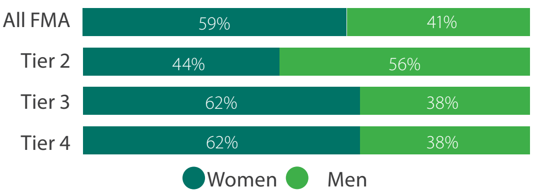
Clare leads the coordination and market engagement for expected conduct licensing regime for banks and insurance firms. She has international regulatory experience in financial markets conduct, capital markets and prudential policy.

# Tō mātou rōpū | Our organisation

## Tāngata

## People

### Gender




### Age

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

### Ethnicity/nationality

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

### Health issues

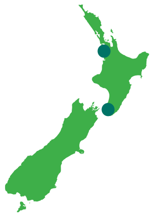
7% Mental health

2% Hearing/vision impairment

4% Other

### Location

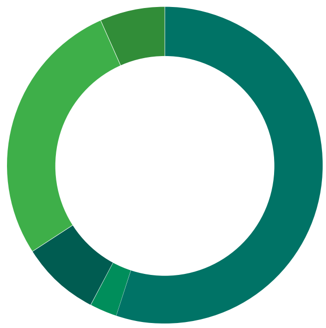
72% Auckland



28% Wellington

### Capability framework

Training attended by theme




### Employment type

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| **Total** | **241** | 212 | 194 |
| Permanent | **213** | 188 | 170 |
| Fixed-term | **5** | 7 | 7 |
| Casual | **3** | 0 | 1 |
| Contractor/temp | **18** | 14 | 14 |
| Secondee | **2** | 3 | 2 |
| Voluntary turnover* | **13.8** | 22% | 13.8% |
| Average service length | **3.3 years** | 3.4 years | 2.4 years |

### Where we find our staff**

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Corporate | **23%** | 21% | 20% |
| Financial services | **9%** | 17% | 25% |
| Government | **25%** | 12% | 22% |
| International | **4%** | 6% | 10% |
| Internal | **16%** | 33% | 17% |
| Legal | **10%** | 10% | 3% |
| Other | **13%** | 1% | 2% |

* 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

Following the principles of a good employer, our emphasis on strong and stable leadership continues by supporting our people managers to lead their team members and work functions with respect and empathy to deliver against our stated priorities.  We continue to provide training and guidance to both managers and team members on working in a collaborative way, and our move to a coaching culture supports this goal. Our culture and workplace survey results for this year showed improvement across the board in key areas of respect, empowerment, engagement and processes and systems.

## Recruitment, selection and induction

We have an ongoing focus on streamlining our recruitment process, to ensure we are able to spend quality time with both hiring managers and candidates continues. We successfully inducted a small number of graduates during the year, and our Diversity & Inclusion Committee has provided the organisation with a fresh strategy and work programme to ensure a diverse selection of candidates are considered for all vacancies. We have moved to a combined online and face-to-face induction model. The first phase of our employee value proposition branding work has concluded, and we continue to receive positive feedback from new recruits about our induction and on-boarding programmes.

## Diversity and inclusion

Our Diversity & Inclusion (D&I) working group has concentrated on the refresh of the committee's overall governance, terms of reference, strategy and work programme for the next three years. Our approach to D&I will be data-driven, goal-focused and embedded in our practices. We hosted a number of cultural celebrations throughout the year, and we remain 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

Our L&D programme supports our capability framework by aiding managers and team members to identify skill gaps.  We have developed a blended learning platform of online modules and face-to-face learning. Roles are advertised internally to allow for promotion opportunities. In 2019/20 there were 18% of internal promotions throughout the year. For people who leave the organisation, we continue to provide both an exit survey and a one-to-one meeting to understand their reasons for leaving. This information is themed, with the permission of the employee, and reported to line managers to help improve people's working experiences.

# Tō mātou rōpū | Our organisation

## Flexibility and work design

With COVID-19 developments in the last quarter of the financial year, our organisation swiftly adapted to all staff working remotely. The number of staff who reported they have flexibility increased from 17% in FY18/29 to 41% in FY 19/20 (the FY19/20 result is pre-COVID-19). We have a dedicated 'New Ways of Working' group made up of staff members and senior leadership who are exploring how we can further embed flexible working within the organisation.

## Remuneration, recognition and conditions

Our remuneration management system sits within the organisation's broader approach to rewards, which encompasses both financial and non-financial benefits. Non-financial rewards, part of the FMA's broader employee value proposition, include additional leave, flexible working practices, and our wellbeing programme. We also actively monitor and address pay equity and gender pay gap issues. We have followed State Services Commission guidance of pay restraint across the public sector for the 1 July 2020 pay review.

In line with other public sector agencies, the FMA's Chief Executive took a voluntary 20% reduction in salary for six months from 1 June 2020 as well as a further voluntary reduction in performance pay for the 2019/20 financial year. In accordance with the Remuneration Authority (COVID-19 Measures) Amendment Act 2020, for the period from 9 July 2020 to 6 January 2021 the FMA Board Chair's remuneration rate will be reduced by 20%, the Board members' remuneration rate will be reduced by 10%, and the Disciplinary Committee Chair's remuneration rate will be reduced by 10%.

## Harassment and bullying prevention

We have continued to roll out a number of initiatives targeted at anti-bullying and harassment prevention. We have established an external escalation point, and have run workshops to promote this service and further support the multiple internal and external support channels that staff can access. From the culture and workplace survey this year, there has been an improvement in ratings for questions relating at bullying behaviour.

## Safe and healthy environment

Our Health, Safety and Wellbeing Committee ensures policies, processes and practices are fit for purpose and promote a mindset of risk identification and proactive management of health, safety and wellbeing issues. Our Board has oversight of our health and safety work, and reviews our organisational risks, hazards and mitigating actions through a regular reporting cycle. In response to the COVID-19 pandemic our focus has been on the creation of an infectious disease protocol with a strong focus on protecting our staff and ensuring physical and mental wellbeing throughout the crisis.

# Ngā Kaupapa Here me ngā mahi Kāwanatanga

# Governance, policies and operations

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

## FMA Board

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

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

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

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

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

The Board has two subcommittees:

- the Audit and Risk Committee, which considers internal controls, accounting policies, and risk management. It also approves financial statements, and helps with the scope, objectives and functions of external and internal audits
- the People, Performance and Remuneration Committee, which oversees FMA's performance, remuneration, development and engagement systems, including setting the Chief Executive's remuneration and key performance indicators,

# Tō mātou rōpū | Our organisation

and considering talent management and succession planning strategies.

| Group | Number of meetings 2019/20 |
|---|---|
| FMA Board | 12 |
| Audit and Risk Committee | 8 |
| People, Performance and Remuneration Committee | 5 |
| Exemptions Division | 4 |
| Enforcement Division | 8 |

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

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

## Internal governance

The Chief Executive's role is to manage the FMA on behalf of the Board and exercise the powers of the Board that the Board delegates to him. 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 30), 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 and Intelligence teams support this goal internally by managing the development and operation of systems and digital tools.

This year we continued with our digital transformation project, which aims to make the FMA's information technology functions more cost-effective, agile and secure. We made progress on our move to cloud technology, improving efficiency and enabling more flexible working.

In time for the start of the 2020/21 financial year, we launched a new financial management system that consolidates and streamlines our processes for timesheets, invoicing and payments, and related approvals. The system provides more automation and reporting capability, improving accuracy and efficiency across the FMA.

We developed solutions to support the information management aspects of regulatory projects such as the Financial Action Task Force mutual evaluation and licensing for the new financial advice regime. We also implemented new analytics capability to make better use of our data.

In late 2019 we discovered a problem with our website where complaints documents sent to us online between 2015 and 2017 were potentially accessible via internet searches. We contacted people whose privacy was breached, and immediately took steps to rectify the problem.

Audit New Zealand
Mana Arotake Aotearoa

## Independent Auditor's Report

## To the readers of the Financial Markets Authority's Annual Report for the year ended 30 June 2020

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

### Opinion

We have audited:

- the financial statements of the Authority on pages 56 to 81, that comprise the statement of financial position as at 30 June 2020, 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 43 to 46 and 48 to 55.

In our opinion:

- the financial statements of the Authority on pages 56 to 81:
    - present fairly, in all material respects:
        - its financial position as at 30 June 2020; and
        - its financial performance and cash flows for the year then ended; and
    - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards; and
- the performance information on pages 43 to 46 and 48 to 55:
    - presents fairly, in all material respects, the Authority's performance for the year ended 30 June 2020, 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;
            - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year;

    - what has been achieved with the appropriation; and
    - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure; and
  - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 3 November 2020. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw attention to the impact of Covid-19 on the Authority. 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.

## Emphasis of matter – Impact of Covid-19

Without modifying our opinion, we draw attention to the disclosures about the impact of Covid-19 on the Authority as set out in Note 22 to the financial statements and pages 43 to 46 and 48 to 55 of the performance information.

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

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

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

Our responsibilities arise from the Public Audit Act 2001.

## Other information

The Board is responsible for the other information. The other information comprises the information included on pages 1 to 37, 42, 47 and 82 to 83, but does not include the financial statements and the performance information, and our auditor's report thereon.

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

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

## Independence

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

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

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

# Te paearu o ā mātou mahi

# How we performed

# Titiro anō ki tā mātou Pānui Whāinga

# 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.

| Measure of success | 2020 result | 2020 target | Commentary | Information source |
|---|---|---|---|---|
| SOI 1: Investors are confident in New Zealand's financial markets | **66% Not achieved** | 70-75% | The survey was conducted between 5 and 14 May 2020. While the target was not achieved, the result is consistent with last year's 65%, and unsurprising given the significant market turmoil caused by COVID-19. | Annual Investor Confidence survey |
| SOI 2: Licensed market participants show how they achieve good customer outcomes[1] | **Achieved (55%)** | Achieved (improve on prior year's 20%) | This result is derived from two aspects of our monitoring:<br>• Boards of licensed market participants receive information on customer outcomes: 2 out of 4 entities met the standard<br>• Licensed market participants have risk and compliance frameworks in place that are relevant to their business activities: 3 out of 5 entities met the standard<br>The small sample size is due to a greater focus on monitoring that is not related to this measure (such as Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) and advice sector reviews). Additionally, some planned engagements were postponed due to COVID-19. Although the sample was small and focused on higher-risk entities, it is evident that there is still a lack of conduct maturity in managing risk and compliance frameworks and board reporting for conduct governance. | Findings from monitoring visit reviews of risk and compliance frameworks and disclosure of information to boards |
| SOI 3: Conflict management procedures are designed to support customer interests | **Not achieved (60%)** | Achieved (improve on prior year's 70%) | 3 of the 5 relevant entities we reviewed for conflict management procedures achieved a satisfactory result. Issues noted during our monitoring included a lack of reporting to the board, and an incentive structure that did not adequately manage the conflict between profitability and customer interests.<br>The small sample size is due to a greater focus on monitoring that is not related to this measure (such as AML/CFT and advice sector reviews). Additionally, some planned engagements were postponed due to COVID-19. | Findings from monitoring visit reviews of conflict management procedures |

1: See page 49 for more information about this measure

| Measure of success | 2020 result | 2020 target | Commentary | Information source |
|---|---|---|---|---|
| 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: 85%**<br>**Achieved**<br><br>**Integrity: 68%**<br>**Not achieved** | Conduct: 65-70%<br><br>Integrity: 80-85% | The conduct result remains strong, and consistent with last year's 84%. This result is based on responses from the Ease of Doing Business survey only; we do not ask this question in the Investor Confidence survey.<br>The result for integrity combines results from both surveys. The result from the Ease of Doing Business survey was 89% (stakeholders), and from the Investor Confidence survey was 47% (investors). This probably reflects that investors are less likely to understand the concept of market integrity and the actions the FMA takes to help raise standards. | Annual 'Ease of doing business' survey of stakeholders and market participants, and annual Investor Confidence survey |
| SOI 5: Issuers use new lower-cost opportunities to raise capital in New Zealand | **Achieved** | Achieved | Where possible, we facilitate the use of products, channels and processes that provide a lower-cost way to raise capital. This included the following activity:<br>• We were notified about 68 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).<br>• We were notified about 27 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).<br>• The most recent data available for peer-to-peer lending and crowdfunding is for the year ended 30 June 2019. It shows outstanding peer-to-peer loans for $443m (an increase on the prior year), and a total for the year of $13.6m raised through crowdfunding offers. One peer-to-peer lender exited the market during the period. | Observations of relevant market activity |
| SOI 6: Market participants can demonstrate alignment of sales and advice processes resulting in good customer outcomes | **Not achieved (33%)** | Achieved (improve on prior year's 40%) | 1 of the 3 relevant entities we reviewed for sales and advice processes achieved a satisfactory result. Both entities that did not meet the standard did not have good customer outcomes built into their sales and advice processes.<br>The small sample size is due to a greater focus on monitoring that is not related to this measure (such as AML/CFT). Additionally, some planned engagements were postponed due to COVID-19, and some resource was reallocated to support the implementation of the new financial advice regime. | Findings from monitoring visit reviews of market participants' sales and advice processes |
| SOI 7: Investors believe that financial product information given to them helped them to make an informed decision | **62%**<br>**Not achieved** | 65-70% | While the target was not achieved, investment materials are increasingly valued, with annual results for this measure rising steadily from 50% in 2016.<br>Those who stated they are confident in New Zealand's financial markets and their regulation were significantly more likely to have responded positively to this question. | Annual Investor Confidence survey |

| Measure of success | 2020 result | 2020 target | Commentary | Information source |
|---|---|---|---|---|
| SOI 8: The FMA works with Government agencies and market participants to promote information and materials to improve investor capability | **Achieved** | Achieved | This year we collaborated with the Commission for Financial Capability, the Commerce Commission, the New Zealand Shareholders Association and various market participants on investor capability campaigns, events and resources. | Relevant FMA activity and joint work with other agencies |
| SOI 9: Investors believe that frontline regulators contribute to well-regulated New Zealand financial markets | **68% Not achieved** | 70-75% | While below the target, this result is a significant improvement on last year's 60%. Underpinning this result is a 10% increase in KiwiSaver investors' confidence in frontline regulation. | Annual Investor Confidence survey |
| SOI 10: FMA stakeholders are aware of and agree that the FMA's activities target the appropriate strategic risks | **69% Not achieved** | 70-75% | This result is based on the following elements from responses to survey questions:<br>• 70% of respondents agreed that FMA targets appropriate strategic risks.<br>• 68% were aware of and had read our Strategic Risk Outlook. | 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 | Following consultation in July 2018 on whether any FMA exemptions (or other legislative notices) failed to minimise costs they aim to address, caused unintended costs, or could go further to address costs, we have been considering whether and how it may be appropriate to address the issues raised.<br>20 exemption notices granted during the period recorded the avoidance of unnecessary compliance costs as one of the reasons for the notice.<br>We also applied tailored licence conditions to three market services licences following consultation with the applicants.<br>As part of our response to COVID-19 we offered 'no-action' relief and granted two exemption notices to assist with operational and compliance burden where appropriate to do so. | 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 (67%)** | Achieved (improve on prior year's 62%) | This improvement continues the upward trend from the 50% in 2018. We saw encouraging results in other survey questions about our interactions with stakeholders, with two-thirds of respondents saying they believe FMA is easy to do business with, and 71% agreeing that the FMA is effective and efficient in implementing changes to its mandate and remit. | Annual 'Ease of doing business' survey of stakeholders and market participants |

| Measure of success | 2020 result | 2020 target | Commentary | Information source |
|---|---|---|---|---|
| SOI 13: The FMA delivers its outputs within its appropriation | **Achieved** | Achieved | The FMA finished the FY19/20 financial year with a large operating deficit of $5.59m. This operating deficit is in line with our expectations and it was fully funded by our appropriations and retained earnings accumulated from prior years, therefore the FMA operated and delivered its outputs within its appropriations. The FMA is receiving increased funding for FY20/21 and outyears. | 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 | • Significant input into policy work and collaboration with other agencies, particularly on the Conduct of Financial Institutions Bill, which is currently before Select Committee. Other significant policy work includes the review of KiwiSaver default providers, climate-related financial disclosure and benchmark regulation.<br>• High level of engagement with the Council of Financial Regulators (CoFR) which expanded this year, with FMA, Treasury, RBNZ and MBIE being joined by the Commerce Commission. The FMA leads the Conduct/Governance and FinTech workstreams. CoFR aims to increase the efficiency and coordination of financial market regulation, reducing regulatory overlaps, minimising gaps and identifying issues across the system.<br>• COFR agencies worked intensively together on a range of initiatives and regulatory guidance and relief in response the COVID-19 lockdown to ensure operation and integrity of the financial system. The FMA was delegated by MBIE to oversee and determine which financial services businesses were essential services during COVID-19 Level 4 in March/April 2020. The FMA worked with the RBNZ on applications for border exemptions, and provided information for businesses and the Government.<br>• The FMA also sought to reduce regulatory burden to facilitate the development of new markets, increasing efficiencies. The FMA worked to enable the licensing of a new exchange for small and medium sized businesses, which required exemptions and modifications to the FMC Act. The FMA also enabled an exemption for a new financial product market to avoid a potential delay in regulations.<br>• Participated in a financial consumer protection group established during the COVID-19 lockdown based on previous interagency work with the Consumer Protection Partnership, Fraud Interagency Group and Cross-Government Financial Capability Group. A joint anti-scam campaign aiming to reach Pasifika audiences was carried out with the Commerce Commission, while other campaigns took place around Money Week (jointly with CFFC) and World Investor Week. | Relevant FMA activity and joint work with other agencies |

# Pūrongo o te Kawenga

## Statement of Responsibility

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

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

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

In the Board's opinion, these financial statements and statement of performance fairly reflect the financial position and operation of the FMA for the year ended 30 June 2020.

Mark Todd
**Chair**
Financial Markets Authority
3 November 2020

E Longworth

Elizabeth Longworth
**Chair**
Audit and Risk Committee
3 November 2020

# Pūrongo o te Mahi

# Statement of Performance

This section describes the progress made by the FMA in achieving the levels of performance outlined in the Statement of Performance Expectations (SPE) for 2019/20.

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

Under the SPE the FMA has performance standards and measures for each of the two output classes for the 12 months ended 30 June 2020. The output class Services and Advice to Support Well-functioning Financial Markets is reported under 3 categories which align to the classifications within this multi category appropriation. The financial results for each output class and each category for the multi category appropriation are reported on throughout this section.

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

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

## Performance standards and measures for the output of the FMA for the 12 months ended 30 June 2020

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

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

For aggregated measures (SPEs 2, 4 and 6), an equal weighted average calculation is applied.

| Actual 12 months to 30 June 2019 $000s | | Actual 12 months to 30 June 2020 $000s | Budget 12 months to 30 June 2020 $000s |
|---|---|---|---|
| 37,064 | Revenue | 37,084 | 38,193 |
| 36,267 | Expenditure | 42,702 | 42,438 |
| **797** | **Surplus/(Deficit)** | **(5,618)** | **(4,245)** |

| SPE 1 measures | Target 2019/20 | Actual 2019/20 | Actual 2018/19 | Comment | Information source |
|---|---|---|---|---|---|
| Stakeholders agree that the FMA's actions help raise standards of market conduct and integrity | 85% | **87% Achieved** | 86% | This result comprises two survey measures:<br>• Stakeholders agree that the FMA supports market integrity: 89%<br>• Stakeholders agree that the FMA helps raise standards of market conduct: 85%<br>The stability of this result during a period of significant market volatility is a positive indication of stakeholder support for the FMA's activity. | Annual 'Ease of doing business' survey of stakeholders and market participants |
| Investors are confident in New Zealand's financial markets | 70% | **66% Not achieved** | 65% | The survey was conducted between 5 and 14 May 2020. While the target was not achieved, the result is unsurprising given the significant market turmoil caused by COVID-19. | Annual Investor Confidence survey |
| Licensed market participants show how they achieve good customer outcomes[2] | 55% | **55% Achieved** | 20% | This result is derived from two aspects of our monitoring:<br>• Boards of licensed market participants receive information on customer outcomes: 2 out of 4 entities met the standard<br>• Licensed market participants have risk and compliance frameworks in place that are relevant to their business activities: 3 out of 5 entities met the standard<br>The small sample size is due to a greater focus on monitoring that is not related to this measure (such as AML/CFT and advice sector reviews). Additionally, some planned engagements were postponed due to COVID-19. Although the sample was small and focused on higher-risk entities, it is evident that there is still a lack of conduct maturity in managing risk and compliance frameworks and board reporting for conduct governance. | Findings from monitoring visit reviews of risk and compliance frameworks and disclosure of information to boards |

2: 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.

| SPE 1 measures | Target 2019/20 | Actual 2019/20 | Actual 2018/19 | Comment | Information source |
|---|---|---|---|---|---|
| Investors are confident in the quality of regulation of New Zealand's financial markets | 65% | **68% Achieved** | 60% | It is encouraging to see this result increase from last year, especially in the current environment. The survey was conducted between 5 and 14 May, so takes into account the regulatory response to COVID-19. The number of respondents who answered 'don't know' to this question decreased, which may indicate increased awareness of financial markets regulation along with increased confidence | Annual Investor Confidence survey |
| Investor confidence index | 69%[3] | **69% Achieved** | 57.75% | The index is the equal weighting of the four contributing measures above. | |

## Category One: Investigation and Enforcement Functions

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

| Actual 12 months to 30 June 2019 $000s | | Actual 12 months to 30 June 2020 $000s | Budget 12 months to 30 June 2020 $000s |
|---|---|---|---|
| 6,298 | Revenue | 6,243 | 6,196 |
| 6,957 | Expenditure | 8,514 | 7,304 |
| **(659)** | **Surplus/(Deficit)** | **(2,271)** | **(1,108)** |

**Major variances against budget:** Revenue is higher than budget as a result of cost recoveries received on the successful Promisia and FXBTG Financial Limited cases. Expenditure is higher than budget due to higher than expected staff hours for a number of large litigation cases undertaken during the year.

3: This target was stated as 71% in the 2019/20 Treasury Estimates.

| Measure | Target 2019/20 | Actual 2019/20 | Actual 2018/19 | Comment | Information source |
|---|---|---|---|---|---|
| SPE 2 Investigation and enforcement activities are undertaken and completed according to agreed timeframes and standards | Achieved | **Substantially achieved** | Not achieved[4] | 2.1: In accordance with the Conducting an Investigation Policy and Process document, progress of cases is reported every 60 days: **100%** (target 100%)<br>The progress of all cases was reported as required. This measure has changed slightly from what was set out in the SPE, due to changes in the policy document. The Type 1 and Type 2 classification is no longer used.<br>2.2: The FMA works with Serious Fraud Office (SFO) on all investigations of joint interest in accordance with the Memorandum of Understanding (MOU) arrangements: **100%** (target 100%)<br>2.3: MOU requests for assistance are completed within timeframes agreed with international regulators: see below (target 100%)<br>26 requests were completed within the period. Specific timeframes were generally not agreed when requests were received. Timeliness has therefore been assessed on the basis of whether any complaints or multiple follow ups were received from the international regulators during the period the request for assistance was being completed. No complaints were received about timeliness during the period the requests were being completed. However, we are aware of one regulator who has subsequently indicated that they would have preferred a quicker response.<br>2.4: Misconduct cases are evaluated within two working days of the information-received date: **94%** (target 95%)<br>We will be improving our internal tracking of these cases to ensure our targets are met in future.<br>2.5: Misconduct cases are closed within 39 working days of the information-received date: **76%** (target 80%)<br>We will be improving our internal tracking of these cases to ensure our targets are met in future. | Internal tracking of investigation and enforcement activity |

4: Under our new results framework this result would be calculated as 'Substantially achieved' (see page 48).

| Measure | Target 2019/20 | Actual 2019/20 | Actual 2018/19 | Comment | Information source |
|---|---|---|---|---|---|
| SPE 3<br>The FMA reports on significant conduct outcomes achieved including key themes, actions and regulatory outcomes arising from market conduct | Achieved | **Achieved** | Achieved | We report on significant conduct outcomes through channels such as thematic reviews, and media releases/updates about high-profile court cases and other enforcement actions.<br>Additionally, we used the publication of our 2018/19 Annual Report and the announcement of the increase in our litigation funding to publicly highlight our recent enforcement activity. We also developed a new section of our website that features a timeline of high-profile cases. | Reporting of information |

## Category Two: Licensing and Compliance Monitoring Functions

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

| Actual 12 months to 30 June 2019 $000s | | Actual 12 months to 30 June 2020 $000s | Budget 12 months to 30 June 2020 $000s |
|---|---|---|---|
| 17,033 | Revenue | 17,109 | 18,265 |
| 15,239 | Expenditure | 17,141 | 18,946 |
| **1,794** | **Surplus/(Deficit)** | **(32)** | **(681)** |

**Major variances against budget:** Revenue is lower than budget primarily due to the delay in the commencement of the new financial advisers regime. This resulted in less than budgeted transitional licensing fees being collected during the year, as the transitional application window has been extended to March 2021. Expenditure is considerably lower as a result of more resources being allocated to Category One and Three as explained on pages 50 & 54.

| Measure | Target 2019/20 | Actual 2019/20 | Actual 2018/19 | Comment | Information source |
|---|---|---|---|---|---|
| SPE 4<br>Fully completed licence applications, regulated offers and completed applications for exemptions, are processed within agreed timeframes and standards | Achieved | **Achieved** | Achieved | 4.1: Once received by the FMA, fully completed licence applications are processed within 60 working days and in accordance with established processes: **99.5%** (target 93%)<br>4.2: Regulated offers are risk-assessed within five working days after a new Product Disclosure Statement is lodged or a new prospectus is registered[5]: **100%** (target 100%).<br>All 41 PDSs notified to the FMA in the period were risk assessed within 5 working days of registration. | Internal tracking of investigation and enforcement activity |

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

| Measure | Target 2019/20 | Actual 2019/20 | Actual 2018/19 | Comment | Information source |
|---|---|---|---|---|---|
| | | | | 4.3: High-risk regulated offers are reviewed post-registration or lodgement: **100%** (target 100%)<br>All 41 PDSs notified to the FMA in the period were assessed as 'high-risk' and were reviewed. | |
| | | | | 4.4: Completed applications for exemptions are processed within six weeks of receiving all relevant information or as agreed with applicant: **100%** (target 100%)<br>Of the 16 relevant exemption applications received, 12 were processed within six weeks, and 4 within an extended timeframe as agreed with the applicant. | |
| SPE 5<br>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 | **3 reports Not achieved** | 6 reports | This year we completed and reported on the following thematic reviews:<br>1. MIS custody arrangements<br>2. Cyber-resilience in FMA-regulated financial services<br>3. Enhanced auditor reporting (review of key audit matters)<br>Two additional reviews, on active vs passive management in KiwiSaver, and key risks in the derivatives issuer sector, were not completed before the end of the year as we reprioritised activity due to COVID-19, but were published early in FY21. We also deferred our planned review of MIS liquidity risk management due to COVID-19; work on this resumed in July 2020. | Publication of reviews (internal or external) |
| SPE 6<br>Substantive FMA feedback on licensing applications, regulated offers and disclosures that result in improvements being made or documents withdrawn | Achieved | **Achieved** | Achieved | 6.1: Where the FMA has reviewed regulated offers and found issues of material concern, disclosures and offer information are improved or documents withdrawn: **100%** (target 100%)<br>The FMA intervened in eight offers, and five of these had issues "of material concern". All of these issues were rectified through intervention with the issuer and registration of replacement PDSs. | Tracking of relevant documents and activity |
| | | | | 6.2: The FMA's licensing decisions are unchallenged or upheld: **100%** (target 100%) | |

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

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

| Actual 12 months to 30 June 2019 $000s | | Actual 12 months to 30 June 2020 $000s | Budget 12 months to 30 June 2020 $000s |
|---|---|---|---|
| 13,732 | Revenue | 13,732 | 13,732 |
| 14,070 | Expenditure | 17,047 | 16,188 |
| **(338)** | **Surplus/(Deficit)** | **(3,315)** | **(2,456)** |

**Major variances against budget:** Expenditure is higher than budget due to higher than expected staff hours for guidance and policy, market engagement and market intelligence activity.

| Measure | Target 2019/20 | Actual 2019/20 | Actual 2018/19 | Comment | Information source |
|---|---|---|---|---|---|
| SPE 7<br>The FMA undertakes at least 30[6] industry or business presentations or speeches per year, with the aim of providing better information and insight for regulated populations | 30[7] | **29 Substantially achieved** | 31 | Some planned engagements were cancelled due to the COVID-19 lockdown and physical distancing requirements, resulting in us not reaching the target.<br>Changes to the financial advice regime have been a key theme of our industry engagements during the year, with a focus on helping advisers understand their obligations and options ahead of transitional licensing. | Tracking of relevant activity |
| SPE 8<br>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% | **74% Not achieved** | 92% | We cannot definitively account for the drop from the previous year. Various factors may have contributed. Our website analytics show a very large increase in the number of first-time visitors to the website during the time covered by the survey, which was during the COVID-19 lockdown. This was during a period of heightened investor interest in market volatility with more investors visiting the FMA website for information. Additionally, the FMA hosted information on essential services in Level 4, attracting visitors from sectors it does not regulate.<br>Further, the FMA's social media activity has increased significantly since January 2020, driving investors and consumers to the site. First-time visitors would be unfamiliar with how the website is organised.<br>The FMA has been granted budget to build a new website whose content will reflect the FMA's changing audiences. | Annual opt-in survey of FMA website visitors |

6: This was incorrectly stated as 20 in our 2019/20 Statement of Performance Expectations
7: This target was stated as 20 in the 2019/20 Treasury Estimates.

| Measure | Target 2019/20 | Actual 2019/20 | Actual 2018/19 | Comment | Information source |
|---|---|---|---|---|---|
| SPE 9 Market participants who are part of the FMA's stakeholder and relationship management programme say they have benefited from the relationship[8] | 95% | **94.4% Substantially achieved** | 100% | Of the 18 stakeholder relationship management entities that responded to our survey, one entity indicated they did not believe they had benefited from being part of the programme, as they only had one meeting with the FMA in 2019. The FMA is considering changes to the programme in order to respond to this, and other feedback. | Annual survey of relevant market participants |

## Financial Markets Authority litigation fund

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

| Actual 12 months to 30 June 2019 $000s | | Actual 12 months to 30 June 2020 $000s | Budget 12 months to 30 June 2020 $000s |
|---|---|---|---|
| 2,000 | Appropriation revenue* | 2,149 | 2,000 |
| 9 | Other revenue | 3 | - |
| 2,009 | Total Revenue | 2,152 | 2,000 |
| 2,978 | Expenditure | 2,125 | 2,000 |
| **(969)** | **Surplus / (Deficit)**** | **27** | - |

**Major variances against budget:** Litigation costs exceeded budget due to the timing and volume of caseloads during the year.

* The litigation appropriation increased from $2.0m to $6.0m due to increases in costs associated with the Financial Markets Authority's regulatory responsibilities as well as increases in the cost and complexity of investigations.

*This reported 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.

**In FY2019 the FMA had a litigation deficit of $969K that was funded by the FMA's operating fund. This $969K deficit included an accrual of $27K that did not crystallise. With the over-accrued expenditure reversing in FY2020, the litigation expenditure is $27K lower than litigation income, resulting in a litigation surplus of $27K. This surplus will roll back into the FMA's operating fund.

### Assessment of performance

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

| Measure | Target 2019/20 | Actual 2019/20 | Actual 2018/19 | Comment |
|---|---|---|---|---|
| Litigation undertaken as per Fund's use conditions | Achieved | **Achieved** | Achieved | The FMA undertook litigation using the litigation fund as per the conditions of use. |

8: This wording of this measure differs from the 2019/20 Treasury Estimates.

# Ngā Pūrongo Pūtea
# Financial statements

## Statement of Comprehensive Revenue and Expense

For the 12 months ended 30 June 2020

| Actual 2019 $000s | | Note | Actual 2020 $000s | Budget 2020 $000s |
|---|---|---|---|---|
| | **REVENUE FROM NON-EXCHANGE TRANSACTIONS** | | | |
| 36,000 | Government grant | 2 | 36,000 | 36,000 |
| 2,000 | Litigation fund revenue | 3 | 2,149 | 2,000 |
| | **REVENUE FROM EXCHANGE TRANSACTIONS** | | | |
| 342 | Interest | | 154 | 177 |
| 9 | Interest - litigation fund | | 3 | - |
| 721 | Other revenue | 4 | 930 | 2,016 |
| **39,072** | **Total revenue** | | **39,236** | **40,193** |
| | **EXPENDITURE** | | | |
| 24,371 | Personnel expenses | 5 | 29,581 | 28,644 |
| 2,135 | Depreciation, amortisation and impairment losses | 8,9 | 3,224 | 3,309 |
| 9,760 | Other operating expenditure | 7 | 9,897 | 10,485 |
| 2,978 | Litigation fund expenditure | 3 | 2,125 | 2,500 |
| **39,244** | **Total expenditure** | | **44,827** | **44,938** |
| (172) | Surplus / (deficit) | | (5,591) | (4,745) |
| **(172)** | **Total comprehensive revenue and expenses** | | **(5,591)** | **(4,745)** |
| | **TOTAL COMPREHENSIVE REVENUE AND EXPENSE COMPRISES:** | | | |
| 797 | Net operating surplus / (deficit) | | (5,618) | (4,245) |
| (969) | Net litigation fund surplus / (deficit) | 3 | 27 | (500) |
| **(172)** | **Total comprehensive revenue and expenses** | | **(5,591)** | **(4,745)** |

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 2020

| Actual 2019 $000s | | Note | Actual 2020 $000s | Budget 2020 $000s |
|---|---|---|---|---|
| | OPENING BALANCE | | | |
| 3,030 | Accumulated funds / (deficit) | | 2,858 | 2,227 |
| 11,027 | Capital contributions | | 11,027 | 11,027 |
| **14,057** | **Total opening balance** | | **13,885** | **13,254** |
| | COMPREHENSIVE REVENUE AND EXPENSES FOR THE YEAR | | | |
| 797 | Net operating surplus / (deficit) | | (5,618) | (4,245) |
| (969) | Net litigation fund surplus / (deficit) | | 27 | (500) |
| **(172)** | **Total comprehensive revenue and expense** | | **(5,591)** | **(4,745)** |
| | CAPITAL CONTRIBUTIONS / (REPAYMENTS) FOR THE YEAR | | | |
| - | Current contributions | | - | - |
| - | Total capital contributions / (repayments) | | - | - |
| **13,885** | **Closing balances** | | **8,294** | **8,509** |
| 2,858 | Accumulated funds / (deficit) | | (2,733) | (2,518) |
| 11,027 | Capital contribution | | 11,027 | 11,027 |
| **13,885** | **Total closing balances** | | **8,294** | **8,509** |

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

## Statement of Financial Position

As at 30 June 2020

| Actual 2019 $000s | | Note | Actual 2020 $000s | Budget 2020 $000s |
|---|---|---|---|---|
| | **ASSETS** | | | |
| | **Current assets** | | | |
| 1,487 | Cash and cash equivalents - operating fund | | 2,087 | 3,403 |
| 239 | Cash and cash equivalents - litigation fund | | 2,545 | - |
| 7,000 | Term deposits | | - | - |
| 447 | GST receivable | | 252 | 229 |
| 1,004 | Receivables | 13 | 1,085 | 883 |
| **10,177** | **Total current assets** | | **5,969** | **4,515** |
| | **Non-current assets** | | | |
| 2,278 | Property, plant and equipment | 8 | 1,994 | 1,678 |
| 7,181 | Intangible assets | 9 | 8,216 | 7,345 |
| **9,459** | **Total non-current assets** | | **10,210** | **9,023** |
| **19,636** | **Total assets** | | **16,179** | **13,538** |
| | **LIABILITIES** | | | |
| | **Current liabilities** | | | |
| 3,054 | Creditors and other payables | 14 | 4,082 | 1,247 |
| 1,121 | Employee entitlements | | 2,377 | 2,329 |
| 142 | Lease liabilities | 11 | 142 | 142 |
| **4,317** | **Total current liabilities** | | **6,601** | **3,718** |
| | **Non-current liabilities** | | | |
| 737 | Lease liabilities (N) | 11 | 567 | 696 |
| 697 | Provisions | 12 | 717 | 615 |
| **1,434** | **Total non-current liabilities** | | **1,284** | **1,311** |
| **5,751** | **Total liabilities** | | **7,885** | **5,029** |
| | **EQUITY** | | | |
| 2,858 | Accumulated funds / (deficit) | | (2,733) | (2,518) |
| 11,027 | Capital contribution | | 11,027 | 11,027 |
| **13,885** | **Total equity** | | **8,294** | **8,509** |
| **19,636** | **Total equity and liabilities** | | **16,179** | **13,538** |

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 2020

| Actual 2019 $000s | | Note | Actual 2020 $000s | Budget 2020 $000s |
|---|---|---|---|---|
| | CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| | **Cash was provided from:** | | | |
| | Receipts from non-exchange transactions: | | | |
| 36,000 | government grant | | 36,000 | 36,000 |
| 2,000 | litigation fund revenue | | 4,000 | 2,000 |
| | Receipts from exchange transactions: | | | |
| 351 | interest | | 200 | 177 |
| 560 | other revenue | | 861 | 2,000 |
| 102 | litigation cost awarded (net) | | 35 | - |
| | **Cash was disbursed to:** | | | |
| (145) | MBIE repayment of underutilised fund | | - | - |
| (241) | MBIE fees and levies (net) | | (35) | - |
| (14,410) | suppliers | | (13,067) | (13,166) |
| (22,570) | employees | | (28,393) | (28,375) |
| (112) | goods and services tax (net) | | 405 | 39 |
| **1,535** | **Net cash flows from operating activities** | 15 | **6** | **(1,325)** |
| | CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| | **Cash was provided from:** | | | |
| 1 | sale of fixed assets | | 7 | - |
| 22,000 | decrease in term deposits | | 10,000 | 10,000 |
| | **Cash was applied to:** | | | |
| (717) | purchase of property, plant and equipment | | (407) | (428) |
| (4,572) | purchase of intangible assets | | (3,700) | (2,249) |
| (26,000) | increase in term deposits | | (3,000) | (5,000) |
| **(9,288)** | **Net cash flows from investing activities** | | **2,900** | **2,323** |
| | CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| - | Capital contribution | | - | - |
| **-** | **Net cash flows from financing activities** | | **-** | **-** |
| (7,753) | Net increase / (decrease) in cash and cash equivalents | | 2,906 | 998 |
| 9,479 | Cash and cash equivalents and the beginning of the year | | 1,726 | 2,405 |
| **1,726** | **Cash and cash equivalents at the end of the year** | | **4,632** | **3,403** |
| | COMPRISING | | | |
| 1,487 | Cash and cash equivalents - operating fund | | 2,087 | 3,403 |
| 239 | Cash and cash equivalents - litigation fund | | 2,545 | - |
| **1,726** | | | **4,632** | **3,403** |

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 2020

## 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 2020, and were approved by the Board on 3 November 2020.

**Basis of preparation**

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

**Statement of compliance and measurement base**

These financial statements for the FMA have been prepared in accordance with the requirements of the Crown Entities Act 2004, which includes the requirements to comply with generally accepted accounting practice in New Zealand (NZ GAAP). The financial statements have been prepared in accordance with Tier 1 PBE accounting standards.

**Functional and presentational currency**

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

**Use of estimates and judgments**

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

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

**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 2022. FMA has not yet determined how application of PBE FRS 48 will affect its statement of performance.

**Other accounting policies**

**Significant accounting policies**

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

**Cash and cash equivalents**

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

**Term deposits**

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

**Goods and services tax**

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

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

Commitments and contingencies are disclosed exclusive of GST.

**Income tax**

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

**Cost allocation policy**

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

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

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

**Equity**

The FMA's equity comprises the following reserves:

– Accumulated funds / (deficit) arising from normal operating activities, funded by a government appropriation and other revenue.

– Capital contribution reserve comprising closing accumulated funds transfers from the Securities Commission and capital contributions made to fund specific capital investment.

## Where do FMA's funds come from?

### Note 2 — Revenue from the Crown

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

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

### Note 3 — Litigation fund revenue

According to the litigation funding agreement with Ministry of Business, Innovation and Employment 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.

In October 2019, the Government approved an increase of $4m litigation funding for 2019/20 financial year to ensure the FMA has access to the resources required to bring legal proceedings when it needs to. The total litigation fund available for 2019/20 financial year was $6m; the FMA received $4m during the year and $2.149m has been spent for the year.

In FY2019 the FMA had a litigation deficit of $969K that was funded by the FMA's operating fund. This $969K deficit included an accrual of $27K that did not crystallise. With the over-accrued expenditure reversing in FY2020, the litigation expenditure is $27K lower than litigation income, resulting in a litigation surplus of $27K. This surplus will roll back into the FMA's operating fund.

### Litigation fund reconciliation from opening to closing balance (including GST)

| | Actual 2020 $000s | Actual 2019 $000s |
|---|---|---|
| **Litigation fund movement*** | | |
| **Litigation grant repayable to the Crown – opening balance** | - | **145** |
| Litigation fund repaid to MBIE | - | (145) |
| Litigation appropriation received during the year | 4,600 | 2,300 |
| Interest revenue | 3 | 9 |
| Expenditure on eligible litigation | (2,444) | (3,567) |
| Cost awards, reimbursements and settlement funds used for litigation expenditure | - | 143 |
| **Net litigation movement** | **2,159** | **(1,260)** |
| **Litigation grant repayable to the Crown – closing balance/ (Litigation overspend funded by the FMA's operating fund)**** | **2,159** | **(1,115)** |
| **Comprising*** | | |
| Litigation cash and cash equivalents | 2,545 | 239 |
| Trade and other payables to be funded from litigation fund | (380) | - |
| Settlement fund and cost awards belongs to FMA's operating fund | - | (52) |
| Litigation expenditure funded by FMA's operating fund repayable back to FMA's operating fund | (6) | (187) |
| **Litigation grant repayable to the Crown** | **2,159** | - |

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

**An overspend of $1,115K in FY2019 was funded by the FMA's operating fund.

**Promisia:** On 28 August 2019 Eoin Malcolm Miller Johnson, a former director of Promisia Integrative Limited admitted to insider trading conduct and breaching director's disclosure obligations. Mr Johnson paid $75,000 to the FMA in October 2019 in lieu of a pecuniary penalty. Of this amount, the FMA retained $31,257 to cover internal costs incurred and the balance of $43,743 was paid back to the Crown in October 2019.

**FXBTG:** Financial Limited in November 2019 the FMA successfully defended an appeal by FXBTG Financial Limited (FXBTG) of the FMA's direction to de-register it from the financial service providers register. Following the High Court decision dismissing the appeal, FXBTG was required to pay costs to the FMA of $18,403. Of this amount, the FMA retained $4,028 to cover internal costs, with the remaining balance of $14,375 paid back to the Crown in February 2020.

**Note 4 — Other revenue**

| | Actual 2020 $000s | Actual 2019 $000s |
|---|---|---|
| Audit quality review fees | 249 | 263 |
| Licence fees* | 610 | 323 |
| Sundry revenue | 60 | 119 |
| Superannuation fees | 11 | 16 |
| **Total other revenue** | **930** | **721** |

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

## How does the FMA spend the funds?

**Note 5 — Personnel costs**

**Employee benefits**

Short-term employee benefits, including holidays, are recognised as an expense over the period in which they accrue. Benefits that are expected to be settled wholly before 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 superannuation schemes and are recognised as an expense in the statement of comprehensive revenue and expense as incurred.

| | Actual 2020 $000s | Actual 2019 $000s |
|---|---|---|
| Salaries and wages | 25,823 | 21,459 |
| Defined contribution plan employer contributions | 712 | 607 |
| ACC | 31 | 30 |
| Member and committee fess | 559 | 521 |
| Contract staff | 1,892 | 1,475 |
| Recruitment, retention and transitional costs | 476 | 279 |
| Redundancy and other termination payments | 88 | - |
| **Total personnel costs** | **29,581** | **24,371** |

During the 12-month period ended 30 June 2020, three employees received compensation and other benefits in relation to cessation $88,050 (2019: None, $Nil).

**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 2020 | Number of employees 2019 |
|---|---|---|
| 630,001 to 640,000 | - | 1 |
| 590,001 to 600,000 | 1 | - |
| 380,001 to 390,000 | 1 | - |
| 370,001 to 380,000 | 1 | 1 |
| 360,001 to 370,000 | - | 1 |
| 300,001 to 310,000 | 1 | - |
| 290,001 to 300,000 | 1 | 1 |
| 280,001 to 290,000 | 2 | 1 |
| 250,001 to 260,000 | 1 | - |
| 240,001 to 250,000 | 1 | 2 |
| 230,001 to 240,000 | 1 | 1 |
| 220,001 to 230,000 | 1 | 1 |
| 210,001 to 220,000 | 2 | 3 |
| 200,001 to 210,000 | 2 | 2 |
| 190,001 to 200,000 | 3 | 3 |
| 180,001 to 190,000 | 3 | 3 |
| 170,001 to 180,000 | 3 | 4 |
| 160,001 to 170,000 | 10 | 3 |
| 150,001 to 160,000 | 6 | 9 |
| 140,001 to 150,000 | 18 | 7 |
| 130,001 to 140,000 | 19 | 9 |
| 120,001 to 130,000 | 9 | 18 |
| 110,001 to 120,000 | 20 | 14 |
| 100,001 to 110,000 | 16 | 8 |
| **Total** | **122** | **92** |

In line with other public sector agencies, the FMA's Chief Executive took a voluntary 20% reduction in salary for six months from 1 June 2020 as well as a further voluntary reduction in performance pay for the 2019/20 financial year.

**Composition of Board Members' remuneration**

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

| | Actual 2020 $000s | Actual 2019 $000s |
|---|---|---|
| S. Chetwin | 30 | - |
| P. Gai | 46 | 42 |
| M. Holm | - | 34 |
| M. Jack | - | 135 |
| E. Longworth | 73 | 44 |
| A. McLaren | 47 | 41 |
| W. Stevens | 35 | 41 |
| M. Stiassny | 37 | - |
| V. Stoddart | 40 | 41 |
| C. Stuart | - | 35 |
| C. Swasbrook | 39 | 12 |
| M. Todd | 198 | 73 |
| **Total Board Members' remuneration** | **545** | **498** |

A total payment of $6,250 was made to one board observer in the period (2019: $2,500).

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 (2019: $nil).

**New members**

| Member name | Membership term start date |
|---|---|
| S. Chetwin | September 2019 |
| M. Stiassny | September 2019 |
| T. Greenaway (Observer) | February 2020 |

**Leaving member**

| Member name | Membership term expiry date |
|---|---|
| W. Stevens | June 2020 |

**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 2020 $000s | Actual 2019 $000s |
|---|---|---|
| M. Biss | - | - |
| R. Butler | - | - |
| J. Duffy | - | - |
| S. Edmond | - | - |
| M. Hawes | - | - |
| D. Ireland | 2 | 2 |
| S. O'Connor | - | - |
| G. Young | - | - |
| **Total Code Committee remuneration** | **2** | **2** |

**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 2020 $000s | Actual 2019 $000s |
|---|---|---|
| T. Berry | 1 | 1 |
| G. Clews | 1 | 5 |
| S. Hassan | 1 | - |
| P. Houghton | - | 2 |
| D. MacDonald | - | 5 |
| J. Robertson (Sir Bruce Robertson) | 1 | 6 |
| D. Tulloch | 1 | - |
| S. Weir | 1 | - |
| **Total Financial Advisers Disciplinary Committee remuneration** | **6** | **19** |

**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 controlled by the Crown.

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

- within a normal supplier or client/recipient relationship; and

- on terms and conditions no more or less favourable than those that it is reasonable to expect the FMA would have adopted in dealing with the party at arm's length in the same circumstances.

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

There are no related party transactions required to be disclosed.

**Key management personnel compensation**

| | Actual 2020 | Actual 2019 |
|---|---|---|
| SHORT TERM EMPLOYEE BENEFITS | | |
| Board member's remuneration ($000s) | 545 | 498 |
| Full time equivalent members | 1.17 | 1.11 |
| Code Committee remuneration ($000s) | 2 | 2 |
| Full time equivalent members | 0.02 | 0.01 |
| Disciplinary Committee remuneration ($000s) | 6 | 19 |
| Full time equivalent members | 0.02 | 0.06 |
| Executive team remuneration ($000s) | 3,159 | 2,945 |
| Full time equivalent members | 9.04 | 8.57 |
| **Total key management personnel remuneration ($000s)** | **3,712** | **3,464** |
| **Total full-time equivalent personnel** | **10.25** | **9.75** |

Key management personnel include all board and committee members and the executive team. The full-time equivalent for board and committee members has been determined based on the frequency and length of board and committee meetings, and the estimated time to prepare for such meetings.

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

### Note 7 — Other operating expenses

| | Actual 2020 $000s | Actual 2019 $000s |
|---|---|---|
| Fees to Audit New Zealand for financial statements audit | 104 | 91 |
| Loss on disposal of fixed assets | 14 | 17 |
| Operating lease expenses | 2,097 | 1,871 |
| Professional services | 2,182 | 2,564 |
| Services and supplies | 4,923 | 4,338 |
| Travel and accommodation | 577 | 879 |
| **Total other operating expenses** | **9,897** | **9,760** |

Services and supplies are mainly ICT expenses.

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

### Note 8 — Property, plant and equipment

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

Where an item of property, plant and equipment is acquired in a non-exchange transaction for $nil or nominal consideration, the asset is initially measured at its fair value.

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

***Additions***

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

***Disposals***

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

***Impairment of property, plant and equipment***

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

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

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

***Depreciation***

*Depreciation is provided on a straight-line basis on all property, plant, and equipment 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 | Capital work in progress $000s | Total $000s |
|---|---|---|---|---|---|
| COST | | | | | |
| Property, plant and equipment at 1 July 2018 | 1,759 | 756 | 3,615 | - | 6,130 |
| Additions | 504 | 33 | 26 | - | 563 |
| Disposals | (25) | (26) | (14) | - | (65) |
| **Balance at 30 June 2019 / 1 July 2019** | **2,238** | **763** | **3,627** | **-** | **6,628** |
| Additions | 237 | 112 | 27 | 174 | 550 |
| Disposals/adjustments | (816) | - | - | - | (816) |
| Impairment | - | - | - | - | - |
| **Balance at 30 June 2020** | **1,659** | **875** | **3,654** | **174** | **6,362** |
| ACCUMULATED DEPRECIATION | | | | | |
| Property, plant and equipment at 1 July 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 July 2019** | **(1,549)** | **(518)** | **(2,283)** | **-** | **(4,350)** |
| Depreciation expense | (346) | (61) | (413) | - | (820) |
| Elimination on disposal | 802 | - | - | - | 802 |
| **Balance at 30 June 2020** | **(1,093)** | **(579)** | **(2,696)** | **-** | **(4,368)** |
| CARRYING AMOUNTS | | | | | |
| At 30 June 2019 | 689 | 245 | 1,344 | - | 2,278 |
| At 30 June 2020 | 566 | 296 | 958 | 174 | 1,994 |

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

## Note 9 — Intangible assets

***Software acquisition and development***

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

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

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

*Staff training costs are recognised as an expense when incurred.*

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

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

***Amortisation***

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

***Impairment of intangible assets***

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

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

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

*Computer software is amortised as follows:*

| | 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 2018 | 12,142 | 2,466 | 14,608 |
| Additions | 33 | 3,725 | 3,758 |
| Disposals/adjustments | - | - | - |
| Transfers from capital work in progress | 4,354 | (4,354) | - |
| **Balance at 30 June 2019 / 1 July 2019** | **16,529** | **1,837** | **18,366** |
| Additions | 45 | 3,361 | 3,406 |
| Disposals/adjustments | (2,219) | - | (2,219) |
| Transfers from capital work in progress | 3,976 | (3,976) | - |
| **Balance at 30 June 2020** | **18,331** | **1,222** | **19,553** |
| ACCUMULATED DEPRECIATION | | | |
| Intangible assets at 1 July 2018 | (9,786) | - | (9,786) |
| Amortisation expense | (1,399) | - | (1,399) |
| Elimination on disposal | - | - | - |
| **Balance at 30 June 2019 / 1 July 2019** | **(11,185)** | **-** | **(11,185)** |
| Amortisation expense | (2,371) | - | (2,371) |
| Elimination on disposal | 2,219 | - | 2,219 |
| **Balance at 30 June 2020** | **(11,337)** | **-** | **(11,337)** |
| IMPAIRMENT PROVISION | | | |
| Costs provided at 1 July 2018 | - | (290) | (290) |
| Additional costs provided | - | (38) | (38) |
| Write off | - | 328 | 328 |
| **Balance at 30 June 2019 / 1 July 2019** | **-** | **-** | **-** |
| IMPAIRMENT PROVISION | | | |
| Costs provided at 1 July 2019 | - | - | - |
| Additional costs provided | - | (31) | (31) |
| Write off | - | 31 | 31 |
| **Balance at 30 June 2020** | **-** | **-** | **-** |
| CARRYING AMOUNTS | | | |
| At 30 June 2019 | 5,344 | 1,837 | 7,181 |
| At 30 June 2020 | 6,994 | 1,222 | 8,216 |

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 $31K (2019: $38K) has been recognised in respect of intangible assets.

## Note 10 — Operating leases and capital commitments

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

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

### Operating leases as lessee

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

| | Quay Street $000s | Grey Street L2 $000s | Takutai Square $000s | Grey Street L7 $000s | Shortland Street $000s | Total $000s |
|---|---|---|---|---|---|---|
| **2020** | | | | | | |
| Not later than one year | 37 | 465 | 2,004 | 186 | 116 | 2,808 |
| Later than one year and not later than five years | - | 1,861 | 10,652 | 790 | - | 13,303 |
| Later than five years | - | 39 | 13,692 | - | - | 13,731 |
| **Total non-cancellable operating leases** | **37** | **2,365** | **26,348** | **976** | **116** | **29,842** |
| **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** |

The FMA has Five leased properties as at 30 June 2020.

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

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

**Level 7**
In March 2020, the FMA signed a new lease for part of level 7 within the same building in order to support headcount growth in the Wellington office. The lease commenced on 01 March 2020 and expires on 1 July 2025. For the lease make-good provision, it is assumed that it will vacate the premises at the end of the lease term being 2025.

**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 1 April 2023. The variation of lease covers leasing an additional floor on level 4, extends 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 January 2021. For the operating lease commitment calculation, the FMA has assumed the variation of lease will be effective from 1 January 2021. 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.

**Shortland Street:**
In October 2019, the FMA signed a new lease on Shortland Street to address pressure in office space. The lease commenced on 01 November 2019 and expires on 01 March 2021. For the lease make-good provision, it is assumed that it will vacate the premises at the end of the lease term being 2021.

### Capital commitments

There are no capital commitments at balance date (2019: $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 2018 | 533 | 142 | 345 | 1,020 |
| Amortisation | (112) | (30) | 1 | (141) |
| **Balance at 30 June 2019** | **421** | **112** | **346** | **879** |
| Balance at 1 July 2019 | 421 | 112 | 346 | 879 |
| Amortisation | (112) | (30) | (28) | (170) |
| **Balance at 30 June 2020** | **309** | **82** | **318** | **709** |

| | Actual 2020 $000s | Actual 2019 $000s |
|---|---|---|
| NON-CURRENT PORTION | | |
| Occupancy incentives | 249 | 391 |
| Deferred rental | 318 | 346 |
| **Total non-current portion** | **567** | **737** |
| CURRENT PORTION | | |
| Occupancy incentives | 142 | 142 |
| Deferred rental | - | - |
| **Total current portion** | **142** | **142** |
| **Total lease liabilities** | **709** | **879** |

### 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 2020 $000s | Actual 2019 $000s |
|---|---|---|
| NON-CURRENT PORTION | | |
| Lease make-good | 717 | 697 |
| Total non-current portion | 717 | 697 |
| **Total provisions** | **717** | **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 2018 | 697 |
| Additional provisions made | - |
| Unused amounts reversed | - |
| **Balance at 30 June 2019** | **697** |
| Balance at 1 July 2019 | 697 |
| Additional provisions made | 20 |
| Unused amounts reversed | - |
| **Balance at 30 June 2020** | **717** |

The anticipated costs required to make-good all leased properties except for level 7 Grey Street have been provided for in full. The leasehold work for level 7 Grey Street was not completed until late August 2020 therefore its make-good provision will be provided for in the 2020/21 annual report.

## 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.*

| | Actual 2020 $000s | Actual 2019 $000s |
|---|---|---|
| Trade debtors | 131 | 66 |
| Other receivables | 252 | 225 |
| **Total debtors and other receivables** | **383** | **291** |
| Prepayments | 702 | 713 |
| **Total receivables** | **1,085** | **1,004** |
| TOTAL DEBTORS AND OTHER RECEIVABLES COMPRISE: | | |
| Receivables from services provided (exchange transactions) | 296 | 263 |
| Receivables from grants (non-exchange transactions) | 87 | 28 |
| **Total debtors and other receivables** | **383** | **291** |

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

| | 2020 $000s | 2019 $000s |
|---|---|---|
| Not past due | 49 | 10 |
| Past due one to 30 days | 79 | 54 |
| Past due 31 to 60 day | - | - |
| Past due 61 to 90 days | - | - |
| Past due over 90 days | 3 | 2 |
| **Total trade debtors** | **131** | **66** |

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 (2019: $Nil).

## Note 14 — Creditors and other payables

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

| | Actual 2020 $000s | Actual 2019 $000s |
|---|---|---|
| CURRENT | | |
| Trade creditors | 47 | 2,338 |
| Accrued expenses and other payables | 1,863 | 708 |
| Revenue in advance | 13 | 8 |
| Litigation grant repayable to the Crown | 2,159 | - |
| **Total current creditors and other payables** | **4,082** | **3,054** |
| 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 | 1,923 | 3,054 |
| Creditors and other payables under non-exchange transactions | 2,159 | - |
| **Total current creditors and other payables** | **4,082** | **3,054** |

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

| | Actual 2020 $000s | Actual 2019 $000s |
|---|---|---|
| REPORTING SURPLUS / (DEFICIT) | **(5,591)** | **(172)** |
| **Add non-cash items:** | | |
| allocation of lease incentives | (142) | (142) |
| allocation of deferred rental | (27) | 1 |
| depreciation, amortisation and impairment losses | 3,224 | 2,135 |
| (gain)/loss on disposal of fixed assets | 14 | 8 |
| non cash other income | - | (3) |
| **Add / (less) movement in working capital:** | | |
| increase / (decrease) in creditors | 1,122 | (814) |
| (increase) / decrease in receivables | 114 | (149) |
| increase / (decrease) in employee entitlements | 1,162 | 8 |
| **Add / (less) movement in investing activities:** | | |
| Net loss / (gain) on sale of fixed assets | (7) | - |
| increase / (decrease) in creditors relating to investing activities | 137 | 663 |
| **Add / (less) movement in financing activities:** | | |
| litigation fund (reserve) converted to litigation fund revenue | - | - |
| **Net cash flows from operating activities** | **6** | **1,535** |

## 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 (2019: $Nil).

### Contingent assets

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

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

No actions as at reporting date are likely to have a material effect on the FMA's financial position (2019: $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 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 |
|---|---|---|
| ANZ Bank New Zealand Limited | A1 | AA- |
| ASB Bank 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.

**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 2019–2020 as approved by the Board in June 2019. The budget figures are for the 12 months to 30 June 2020 and have been prepared in accordance with PBE FRS-42, using accounting policies that are consistent with those adopted by the Board in preparing these financial statements.

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

**Statement of comprehensive revenue and expense**

**1. Revenue**

- The FMA's litigation fund was set at $2 million per annum – hence the 2019/20 budget was set at $2 million. In October 2019, the Government approved an increase of $4 million for 2019/20 to ensure the FMA has access to the resources required to bring legal proceedings when it needs to. The total litigation fund available for 2019/20 was $6 million; the FMA received $4 million during the year and $2.122 million has been spent for the year.
- Interest income for the year is lower than budget due to the decreased cash and term deposit balances and lower interest rates.
- Other income is significantly less than budget due to the delay in the commencement of the new financial advisers regime from 29 June 2020 to 15 March 2021. As such, the financial advice provider transitional licensing application window has been extended until then.

**2. Expenditure**

- Personnel costs were higher than budget because the FMA carried fewer vacancies than budget expectations during the year. In addition, COVID-19 has had a significant impact on staff holiday plans, so the annual leave balances accumulated is much higher than budget.
- Depreciation and amortisation costs were less than budget due to the timing of capitalisation of some capex projects during the year, and the change in

the useful lifetime of the financial advice provider transitional licensing portal, reflecting the delay in the implementation of the full regime.

- Other operating expenditure was lower than budget due to savings in travel (both domestic and international) and office administration-related expenditures as a result of the COVID-19 travel restrictions and work from home arrangements.
- Litigation costs were lower than budget due to the unpredictability of the incurrence of expenditure on open cases.

**Statement of Financial Position**

**1. Assets**

— Current assets:

i. Operating fund cash balance is lower than budget at year-end due to under-achievement in revenue and higher than budgeted operating expenditure in both opex and capex.

ii. Litigation fund cash balance is higher than budget at year-end due to the additional litigation funding received in quarter four, which was unbudgeted for and remains unspent at year-end.

— Non-current assets:

i. The property, plant and equipment balance is higher than budget largely due to the establishment of new offices and the purchase of new hardware and furniture to support the headcount growth during the period.

i. Intangible assets are higher than budget due to the change in scope and timing of project work being undertaken during the period.

**2. Liabilities**

Higher trade and other payables balance is due to higher than budgeted accumulated annual leave balances, higher than budgeted trade accounts payable balance at year-end as a result of higher expenditure incurred in both opex and capex, and the additional litigation funding of $2 million plus GST received in quarter four, which mostly remains unspent at year-end and is repayable to MBIE.

**3. Equity**

Accumulated funds

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

**Statement of Cash flows**

**1. Cash flows from operating activities**

- Litigation fund revenue received was higher than budget due to the additional funding of $2 million received in quarter four.
- Other revenue was significantly lower than budget primarily due to the extension of the new financial advice regime transitional licensing application window, which resulted in a reduced number of applications being received during the year.

**2. Cash flows from investing activities**

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

**Note 22 — COVID-19 financial Impact Assessment**

The FMA made the following assessments on the financial implications of COVID-19.

**Revenue**

- There was no impact on Crown revenue.
- Financial advisers transitional licensing fee revenue: the Government announced a delay in the commencement of the new financial advisers regime from 29 June 2020 to 15 March 2021 due to COVID-19. As such, the financial advice provider transitional licensing application window has been extended until then, which resulted in a reduced number of applications being received during the year.

**Expenditure**

- Overall personnel costs were higher due to having fewer than expected vacancies during the year, which is partly driven by COVID-19. The accumulated annual leave balance was also significantly higher than budget as staff holiday plans were impacted by COVID-19.
- Other operating expenditure was lower than budget due to savings in travel (both domestic and international) and office administration-related expenditures as a result of the COVID-19 travel restrictions and work from home arrangements.
- There was a small number of IT peripheral purchases during the lockdown period to support staff to adapt to working from home arrangements.
- The underspend within depreciation and amortisation is partly due to the change in the useful lifetime of the financial advice provider transitional licensing portal, reflecting the delay in the implementation of the full

regime caused by COVID-19.

**Others and significant assumptions**

- There are no provisions made for COVID-19 impact within the FMA's balance sheet including debtors. Total trade debtors balance (including work in progress accruals) at year-end was $327K. After a review of all our debtors, we believe there is no impairment on the collectability of debtors caused by COVID-19.
- There are no other significant assumptions being made concerning the future and no other key sources of estimation uncertainty at the reporting date that pose significant risk of causing material adjustments to the carrying balances of assets and liabilities within the next financial year.

# Te whakapā mai ki a mātou

# 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

Phone: 0800 434 566 | Overseas callers: 00 64 3 962 2698
Our lines are open Monday to Friday 8.30am to 5pm

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

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2 Takutai Square, Britomart
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**Wellington**

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FINANCIAL MARKETS AUTHORITY
TE MANA TĀTAI HOKOHOKO
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