
Annual corporate plan 2017–2018



Contents

<hr/> Annual corporate plan	2
Introduction	2
<hr/> What's in this annual corporate plan?	2
International Monetary Fund (IMF) recommendations	3
<hr/> Our strategic priorities	4
Governance and culture	6
<hr/> Conflicted conduct	8
Capital market growth and integrity	9
<hr/> Investor decision-making	12
Sales and advice	14
<hr/> Frontline regulators	16
FMA effectiveness and efficiency	18
<hr/> Developing themes in our SRO	20
Regulating for rapid technological innovation	21
<hr/> Who we regulate	23
FMA teams	24
<hr/> Budget	26
<hr/> Glossary	29

Annual corporate plan

Introduction

Our primary purpose as a conduct regulator is to promote and facilitate the development of fair, efficient and transparent financial markets. We regulate financial product markets, the licensing of certain financial services, the broader conduct regulation of financial services, products and providers, and we enforce the law relating to our remit. This means our work is focused on:

- How regulated financial services providers treat their customers
- The conduct of participants (including issuers) in our markets
- How conduct affects market integrity, including activity beyond our regulatory perimeter
- Helping New Zealanders to make confident and well-informed investment decisions
- Using our regulatory and enforcement powers where conduct falls short of our expectations.

In 2016, following public consultation, the Government agreed to increase our funding. This was the first review of our funding since our establishment in 2011. During this consultation, we committed to increase transparency about how our funding applies to our work – with both the Government and those sectors who contribute to our funding through the levies they pay.

This plan – the first published externally – is part of that commitment.

What's in this annual corporate plan?

The purpose of this annual corporate plan is to set out our priorities for the year ahead (July 2017 to June 2018) and the activities our frontline teams intend to pursue to respond to the areas of risk we identified in our Strategic Risk Outlook (SRO), published in February this year.

This plan is one of our core strategic documents. These include our [Strategic risk outlook](#) (SRO), our [Statement of intent](#) (SOI), our [Statement of performance expectations](#) (SPE) and our Annual report.

We will provide an update on the work outlined in this plan in our 2018 Annual report and will also engage with our stakeholders on our progress throughout the year.

The plan sets out:

- Our organisational objectives and planned activities for 2017/18
- The outcomes we seek to achieve through our work
- Future focus areas
- The regulated sectors and financial markets our work will impact
- How we intend to measure our success and progress during the year.

This plan does not represent every aspect of our work. We will keep reviewing our landscape and environment and will respond to any new risks and harms over the course of the year. Many of the risks and harms we are seeking to address are complex and require longer term strategies. We have indicated in the **Future focus** boxes how we intend to build further on the work we do this year, to contribute to these longer term goals.

We welcome feedback on the areas we have chosen to focus on, the activities we plan to undertake and the way we intend to measure our performance. Contact us at communications@fma.co.nz.

International Monetary Fund (IMF) recommendations

During 2016 the IMF conducted a review of New Zealand's financial system, known as a Financial Sector Assessment Program (FSAP). FSAP reviews are designed to identify potential financial sector vulnerabilities and test aspects of our regulatory framework. It is an important external accountability mechanism for both the FMA and the Government. This FSAP review involved the Reserve Bank of New Zealand (RBNZ), the FMA, Treasury and the Ministry of Business, Innovation and Employment (MBIE). It covered aspects of banking and insurance oversight, securities regulation (limited to managed investment schemes) and financial market infrastructure.

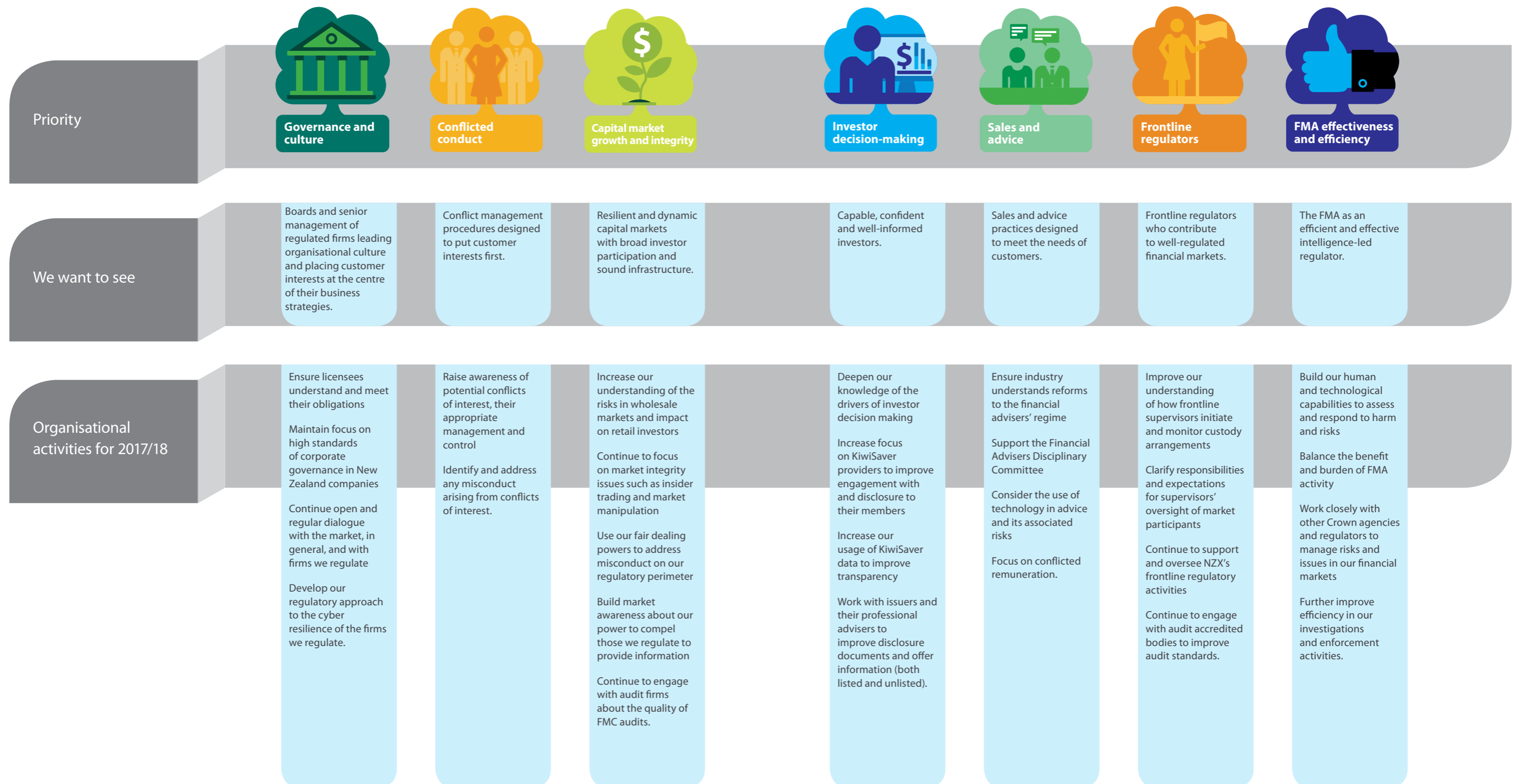
The IMF's FSAP reports, released in May 2017, have recognised the significant improvements in our financial markets regulation since the last review in 2003/4. This is an important validation of the significant work invested in these reforms by the FMA, MBIE and market participants over the last decade.

The IMF has also recommended further enhancements to the New Zealand regime. These recommendations touch on a number of areas, including frontline supervisors, custodians, the wholesale asset management sector and conduct oversight of the insurance industry.

In this plan, we attach 'IMF FSAP' in brackets – **(IMF FSAP)** – to show which activities result from the FSAP recommendations (or which are consistent with FSAP recommendations and we were already doing or intending to do). At the time of publication, we are still considering the remaining recommendations, together with MBIE, RBNZ and the Treasury.

Our strategic priorities

The seven strategic priorities from our SRO inform the objectives and activities outlined in this plan.



Governance and culture



Governance and culture

We want to see:

Boards and senior management of regulated firms leading organisational culture and placing customer interests at the centre of their business strategies.

Sectors impacted:

- Product providers
- Infrastructure providers
- Financial advisers and discretionary managers
- Issuers
- Brokers and custodians

Background

Standards of governance and culture within licensed financial services firms was a key focus for us in 2016/17 and will continue this year.

Organisational objectives 2017/18

Under the FMC legislation our objective is to ensure licencees understand and can meet their obligations. We want to see firms who put their customers' interests first through:

- Product design
- Distribution
- Value for fees charged
- Product selection and advice.

Corporate Governance will remain a focus area for us this year. Our work under Capital markets growth and integrity, on audit standards and the quality of financial information provided to the market, will contribute to our work in this area.

Listed issuers are encouraged to comply with the new NZX Corporate Governance Code and lead by

example by demonstrating high standards of corporate governance in New Zealand.

We will continue our entity based relationship management programme to ensure we have a regular and open dialogue with the firms we regulate that have multiple touch points with us and who could have the biggest impact on our objectives. We will ensure that senior FMA staff are available to entities. This direct market interaction helps us to reduce uncertainty (as to our regulatory expectations) and assess regulatory benefit and burden. The selection of entities in this programme is risk based and reviewed regularly. We also maintain an open-door policy for any other firms that have useful insights (or concerns) to share with us, so they can also speak directly to senior FMA staff. This year we will integrate our supervision staff more fully into the programme to ensure firms have early sight of our thematic focus areas and to deepen our strategic knowledge of the firms we regulate.

We will also continue to build relationships and share regulatory

insights across the market and with industry groups through presenting, attending and hosting market and industry events.

We will articulate our regulatory approach to the cyber resilience of the firms and financial markets infrastructures we regulate and oversee. We will clarify the assurances we need from these entities, about what process, systems and controls they have in place to enhance their cyber resilience. We will take into account their differing nature, and the interests and activities of other agencies that may have a role to play. This ensures our focus is complementary to other agencies and does not place undue burden on our regulated entities. We will also contribute to Government and market discussions and initiatives that promote system-wide cyber resilience.

Activities to support objectives

- Asking FMC Act licence holders to show us how their internal controls, information flows, and governance (including compliance assurance programmes) demonstrate their commitment to good customer outcomes
- Review our Principles of Corporate Governance Handbook to minimise duplication for listed issuers, following implementation of the NZX Corporate Governance Code
- Commence thematic reviews of the governing documents of Managed Investment Schemes and Statements of Investment Policy and Objectives (SIPOs), as well as outsourcing arrangements and use of wholesale investment managers (IMF FSAP)
- Licensing activity, including the renewal of Supervisor licences and licensing of derivative issuers (as a result of the recent inclusion of providers of certain derivative products into the licensing regime)
- Engage in Government and market discussions and initiatives that promote system-wide cyber resilience.

Milestones

- Complete our review of the Principles of Corporate Governance Handbook and provide market guidance if required
- Commence thematic reviews on governing documents of SIPOs, outsourcing arrangements and use of wholesale investment managers.

Future focus

- Engaging with newly licensed firms on how they can demonstrate commitment to good customer outcomes
- Working with academics and others on how to empirically assess risk culture in regulated firms.

Performance indicators

Ongoing performance metrics we expect to impact:

- **SPE 7** – The FMA undertakes at least 20 industry or business presentations or speeches per year, with the aim of providing better information and insight for regulated populations
- **SPE 9** – Market participants within the entity-based relationship management (EBRM) programme say they have benefited from the relationship
- **SOI 2** – Licensed market participants show how they achieve good customer outcomes.

Note

SPE is the annual Statement of Performance Expectations.

SOI is the medium-term Statement of Intent.

Conflicted conduct



We want to see:

Conflict management procedures designed to put customer interests first.

Sectors impacted:

- Product providers
- Financial advisers
- Licensed insurers

Background

Conflicted conduct and conflicts of interest are key drivers of risk across many of our strategic priorities. In this section we have focused on some of the initiatives to address this risk; however, many of the activities in this plan also seek to raise awareness of potential conflicts and ensure these are appropriately managed.

Conflicts of interest in wholesale markets can impact retail investor confidence. Therefore our work under Capital markets growth and integrity will inform our work under this priority as well.

Activities to support objectives

- Continue our work on insurance replacement business (churn) and address any instances of adviser misconduct
- Commence thematic review on incentive structures and conflicts management in vertically integrated firms (such as qualifying financial entities).

Milestones

- Report on adviser conduct in insurance replacement business.

Future focus

- Continue to prioritise incentive and remuneration practices that may influence conduct. This will include issues identified in this year's activities.

Performance indicators

Ongoing performance metrics we expect to impact:

- **SPE 5** – 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
- **SOI 3** – Conflict management procedures are designed to support customer interests.

Organisational objectives 2017/18

This year we will continue to build our view on harms in the insurance market that impact on our strategic objectives, such as conflicted sales practices.

We want to continue to raise standards of conduct and encourage customer-centric practices in sales and advice of insurance products, highlighting deficiencies in practices.

We also intend to carry out thematic work focused on vertically integrated firms and conflicted business models. This will include looking at incentives and sales processes. We will also look at conflict management policies and procedures.

Capital market growth and integrity



We want to see:

Resilient and dynamic capital markets with broad investor participation and sound infrastructure.

Sectors impacted:

- Product providers
- Infrastructure providers
- Issuers
- Banks
- Brokers and custodians
- Businesses in the unregulated perimeter of New Zealand's capital markets

Background

This area is central to our remit. We want to raise standards of conduct of participants and promote the development of fairness, efficiency and transparency in our core capital markets. We also focus on our perimeter, which is outside our core regulated area and poses a threat to investors and the integrity of our capital markets.

- Understand where wholesale market risks impact or intersect with retail investors and retail funds
- Consider options for addressing identified gaps in the conduct oversight of the insurance sector
- Jointly with RBNZ, build our capacity to focus on oversight of financial market infrastructures.

We have broad powers under the Fair Dealing parts of the FMC Act and will use these where we see instances of misconduct in relation to perimeter activities. We will take an enforcement-oriented approach to those who seek to operate under the regulatory radar or to take advantage of New Zealand's system and reputation. This includes our enforcement activity in relation to the Financial Services Providers' Register (FSPPR).

The FMA is one of three Anti-Money Laundering and Countering Financing of Terrorism (AML/CTF) Supervisors. Our work in this area contributes to the integrity of the system as a whole and is vital to the credibility of our international reputation as a safe

Organisational objectives 2017/18

This year we will continue to focus on market integrity issues such as identification and prosecution of insider trading and market manipulation offences. We also want to understand more about areas of unlicensed activity on our regulatory perimeter. Building on the recommendations made by the IMF in their FSAP review, we will:

- Deepen our understanding of risks in wholesale markets and establish conduct expectations that support growth and integrity

place to do business. This year we will continue to engage on Phase 2 of the AML/CTF reforms and undertake annual monitoring, risk assessment work and market guidance.

We want to build market participants' awareness and understanding of the importance of our section 25 FMA Act information requests and other compulsion powers. Broad market support for our early intervention work is critical to effective and timely deterrence, and the ability to require relevant information on a prompt and accurate basis is vital in enabling us to be proactive.

We will continue our engagement with audit firms, including our reviews of their quality control systems and individual FMC audit files. Our reviews are intended to promote high quality FMC audits and to raise the quality of financial information provided to the market. We are required to report annually on our quality reviews of audit firms. We will also encourage directors to engage fully with their auditors and will publish information for directors to help them get the most out of their audits.

Our regulatory perimeter

Many activities in the perimeter have common features. They include businesses or individuals that are not licensed, activities located offshore, and there is a higher risk of scams. Because the activities are offshore, or otherwise outside our mandate, we have a reduced ability to address harms and risk to consumers and our capital markets.

Activities to support objectives

Core capital markets:

- Establish conduct expectations for trading conduct in the wholesale and listed markets, produce guidance where appropriate and undertake monitoring to assess compliance
- Complete our engagement with banks on New Zealand's bank bill benchmark rate (BKBM) and closing rates and publish a report on controls and conduct expectations
- Work with NZX on their review of market rules, focusing on opportunities to facilitate capital markets' growth
- Raise awareness of our scrutiny of market conduct and consequences of market manipulation and insider trading
- Build capacity for oversight of financial market infrastructures (IMF FSAP)
- Assess compliance with conduct expectations of peer-to-peer and crowdfunding platforms through risk based monitoring
- Continue our work on encouraging prompt filing of financial statements
- Deliver our AML/CFT Sector Risk Assessment and continue to raise standards of AML/CFT frameworks within the sectors we supervise
- Continue our work to implement the Asia region managed funds passport regime
- Work with those who influence audit standards to achieve an effective and efficient audit regime.

Perimeter:

- Build our understanding of wholesale market risks (including wholesale asset management and custody) by undertaking further research and engaging with institutional market participants (IMF FSAP)
- Increase our enforcement-focused activities in relation to the FSPR and/or other unlicensed activity
- Consider our response to any identified gaps in conduct oversight of the insurance sector (IMF FSAP).

Milestones

- We will record and provide examples of where we have deterred or stopped unlicensed or harmful activity through use of our FMC Act regulatory tools or fair dealing provisions
- Implementation of Asia region managed funds passport regime
- Produce guidance on trading conduct in wholesale and listed markets where appropriate
- Publish report on BKBM and closing-rate controls and conduct expectations
- Publish report on our activities in relation to the FSPR
- Publicise any enforcement activity associated with late or non-filing of financial statements
- Produce summary/report on results of regulatory returns from crowdfunding and peer-to-peer platform providers.

Future focus

- Consider any further guidance needs for companies/directors to follow 'Going Public, a Director's Guide'
- Monitor compliance with capital markets guidance such as BKBM and trading conduct
- Consider/scope review of market cleanliness and integrity in conjunction with NZX
- Prepare for the Financial Action Task Force (FATF) evaluation of the effectiveness of New Zealand's AML/CFT systems and broader compliance with FATF recommendations.

Performance indicators

Ongoing performance metrics we expect to impact:

- **SPE 3** – Publication of annual Conduct Review on key themes, actions and regulatory outcomes arising from market conduct
- **SOI 4** – FMA stakeholders and consumers of New Zealand financial services believe that FMA actions help raise standards of market conduct and integrity
- **SOI 5** – Issuers use new lower-cost opportunities to raise capital in New Zealand.

Investor decision-making



Investor decision-making

We want to see:

Capable, confident and well informed investors.

Sectors impacted:

- Product providers
- Financial advisers
- Licensed insurers
- Issuers

Background

Investor capability is a multi-agency activity. Our investor-focused work seeks to respond to the ‘investor understanding’ and ‘investor behaviour’ drivers of risk we have identified in our SRO. It encompasses our direct communications with investors about areas of investment risk, as well as ensuring providers of investment products and services support investor understanding and behaviour.

Organisational objectives 2017/18

This year we will refresh our Investor Capability Strategy. The review will take into account current and developing research, insights into the behavioural drivers of decision-making, and lessons learnt from work we have done in the first three years of the existing strategy.

KiwiSaver remains a significant focus area for us. We want to see KiwiSaver providers adopting the sales practices outlined in our updated guidance.

We are also looking for a significant uplift in providers’ communications to default members, to help them understand the importance of making an active fund choice. We will focus our monitoring efforts on default KiwiSaver providers and will increasingly use data and behavioural insights to improve transparency (for example, of fees) across all providers to assist consumer choice and comparability. We want to ensure all aspects of disclosure are being used effectively for the benefit of members.

We will continue our work with issuers and their professional advisers to improve financial product disclosures and reduce low levels of understanding when making investment decisions. This includes pre-registration reviews where appropriate, assisting on the process and providing guidance on the documentation for offering financial products, both listed and unlisted. For example, supporting issuers through initial public offerings and beyond, to working with NZX to raise awareness of disclosure and other obligations

once listed. We will also ensure there is accurate and timely information provided to investors and the public by continuing our work in improving the quality of financial information.

Activities to support objectives

- Participate in joint initiatives, including Money Week with the Commission for Financial Capability (CFFC), IOSCO’s World Investor Week and Fraud Awareness Week with MBIE’s Consumer Protection team
- Undertake consumer research on how easy it is for investors to read and understand product disclosure statements (PDS)
- Deliver the results of our second behavioural insights trial with industry
- Report on the financial literacy activities of KiwiSaver default providers in the KiwiSaver annual report

- Deliver a targeted consumer campaign to communicate the risks of investing through companies, typically off-shore that operate in the FMA’s regulatory perimeter
- Update consumer resources, particularly those focused on consumer warnings, as part of a review of the FMA website
- Contribute to the development of FMA and wider Government policy by sharing results of our own and relevant international research on investor decision-making
- Continue our work with issuers on disclosure documents and offer information more broadly. This includes ensuring high standards of financial information and ensuring companies understand their ongoing disclosure obligations
- Monitor the use of innovative and non-traditional offer structures for potential harms to investors
- Support regulatory and Government initiatives to improve investor engagement with KiwiSaver (such as new annual statements and fees disclosure).

Milestones

- Publish our refreshed Investor Capability Strategy
- Produce guidance on financial product disclosure issues such as non-GAAP financial information and improving financial information in an equity PDS
- Market engagement to discuss lessons from FMC Act disclosure
- Review quarterly fund updates and engage with the market on our findings.

Future focus

- Continue to partner with industry on behavioural insights trials
- Make greater use of KiwiSaver and other data we collect, to assist investor decision-making about fees, returns and benchmarks.
- Working with CFFC, provide support for Government initiatives to improve retirement income policy settings.

Performance indicators

Ongoing performance metrics we expect to impact:

- **SPE 1** – Overarching investor confidence measure
- **SPE 6** – Substantive FMA feedback on licensing applications, regulated offers and disclosures that result in improvements being made or documents withdrawn
- **SPE 8** – Percentage of FMA website visitors surveyed who rate the content they accessed as useful in helping them to comply, or to make informed investment decisions
- **SOI 1** – Investors are confident in New Zealand’s financial markets
- **SOI 7** – Investors believe that financial product information given to them helped them make an informed decision
- **SOI 8** – The FMA works with Government agencies and market participants to promote information and materials to improve investor capability.

Sales and advice



We want to see:

Sales and advice practices designed to meet the needs of customers.

Sectors impacted:

- Product providers
- Financial advisers and discretionary managers
- Licensed insurers
- Issuers
- Businesses operating in the unregulated perimeter of New Zealand’s capital markets

Background

Activities under the Sales and advice priority naturally overlap with the work under both our Investor decision-making and Conflicted conduct priorities.

We will review our referrals process to the Financial Advisers’ disciplinary committee (FADC) to better support its core objectives and increase visibility of precedent and adviser conduct guidance from its decisions.

We will consider the use of technology in advice processes and potential risks to consumers where non-traditional methods are used to disseminate advice. We will review how incentive structures impact conduct around sales and advice within vertically integrated firms. We will focus on raising the standards of conduct of KiwiSaver providers by encouraging them to place the interests of their scheme members and customers first in their product design, distribution, sales, advice and retention strategies.

Organisational objectives 2017/18

This year we will support the design of the legislative framework for the new financial advisers’ regime. This is a multi-year project and we have a significant programme of work to implement the new framework, settle transitional proposals and ensure licensing is fit-for-purpose. We want to ensure industry has a good understanding of the requirements and is ready for implementation. We will devote significant resource to market engagement activities (including holding workshops and publishing relevant guidance) in support of these aims.

Activities to support objectives

- Map out transitional arrangements for financial adviser licences, undertake initiatives to support industry in getting ready for the new regime
- Undertake a thematic review on the impact of conflicted remuneration (including soft commissions) on advice – this will influence our focus areas for monitoring authorised financial advisers (AFAs) and QFEs
- Understand more about the registered financial advisers (RFAs) population as part of preparedness for financial adviser reforms
- Input to policy settings and resulting legislative framework for financial adviser reforms
- Continue to improve the efficiency of the referrals process to the FADC
- Review whether categorisation methods for ‘wholesale’ customers are appropriate, with a view to following up with individual firms and producing guidance if required.

Milestones

- Strategy and approach developed for transitional licensing of financial advisers for the new regime
- Relevant guidance and consultation underway for core aspects of both the transitional and full financial advisers’ regime.

Future focus

- Organisation and market readiness for new financial adviser licensing requirements.

Performance indicators

Ongoing performance metrics we expect to impact:

- **SPE 5** – 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
- **SOI 6** – Market participants can demonstrate alignment of sales and advice processes resulting in good customer outcomes.

Frontline regulators



Frontline regulators

We want to see:

Frontline regulators who contribute to well-regulated financial markets.

Sectors impacted:

- Frontline regulators

Background

Frontline regulators include accredited audit bodies, supervisors of debt securities, managed investment schemes and retirement villages, and NZX in its regulatory capacity. They make a critical contribution to the integrity of our capital markets, and to the confidence of investors to participate in our markets.

Organisational objectives 2017/18

Ensuring high standards and setting clear expectations of supervisors remains a priority area for us this year. We will clarify our role in overseeing governance, systems and controls for firms and other entities required to have a supervisor.

Our aim is to ensure the FMA has sufficient direct visibility and oversight in areas relevant to our strategic priorities to allow us to discharge our functions, whilst minimising duplication and unnecessary regulatory burden.

An input to this work will be a thematic review on custody arrangements for retail managed funds to improve our understanding of how frontline supervisors are discharging their responsibilities, both where the function is carried out by supervisors themselves and where it is delegated.

Accredited audit bodies are a frontline regulator of conduct for audit firms. We work closely with accredited bodies to maintain high standards of professional conduct in the audit industry, with the aim of improving investor confidence in financial information provided by financial product and service providers.

NZX operates key licensed markets for debt, equity and derivative products in New Zealand. We will work closely with NZX to encourage innovation and improvements that will help capital markets growth and integrity. We will also continue to support and oversee NZX's frontline regulatory activity, such as its role in monitoring compliance with the listing rules and continuous disclosure rules, and ensure it complies with its market operator obligations.

Activities to support objectives

- Provide information to help clarify roles, boundaries and expectations for Supervisors (IMF FSAP)
- Work with Supervisors to improve the efficiency of their regular reporting (IMF FSAP)
- Commence a thematic review of supervisors' oversight of custody arrangements (IMF FSAP)
- Continue to engage with audit accredited bodies to improve audit standards and review accredited bodies' performance
- Work with NZX in relation to their rules review to facilitate changes to New Zealand's licensed capital markets structure
- Assess applications for renewal of licences for supervisor firms.

Milestones

- Publish reports on the performance of each audit accredited body
- Publish annual NZX review
- Review of Supervisors' monitoring practices.

Future focus

- Consider case for licensing and supervision of custodians.

Performance indicators

Ongoing performance metrics we expect to impact:

- SO1 9 – Investors believe that frontline regulators contribute to well-regulated NZ financial markets.

FMA effectiveness and efficiency



We want to see:

The FMA as an efficient and effective intelligence-led regulator.

Background

We will continue to implement recommendations identified in the review of our efficiency and effectiveness, carried out by Deloitte in 2016. Our response to the recommendations and the current status of initiatives can be found in our 2016/17 annual report.

This year, our work under this priority has two core aspects:

- activities we need to undertake as an organisation to ensure we maximise our capability and effectiveness
- working with others in the regulatory system to minimise gaps and overlaps.

Organisational objectives – being intelligence-led

We want to more effectively collect and analyse information and use the resulting intelligence to direct our activities. This will improve our ability to assess and respond to harms and risks. To do this we will need to attract and retain highly capable staff that are supported by

sound business processes including data infrastructure and knowledge-management systems. Analytical and knowledge management capability is largely internal and behavioural. It is a longer-term strategy with significant impact on the way we carry out our work.

Organisational objectives – balancing benefit and burden

We want to exercise cost-effective regulation and to consider regulatory burden against benefit and the cost (to businesses, stakeholders, investors) of our interactions. This involves regular and face-to-face engagement with our market participants to help us understand regulatory burden and alleviate unnecessary costs.

We recently refreshed our enforcement governance framework – we will ensure this is well embedded and is delivering the right outcomes. We want to improve our internal efficiencies – ensuring our approach supports efficient processing of investigations and referrals and timely

clearing of cases. We will further embed a culture of continuous improvement in our investigations and enforcement areas, increasing our focus on post-case reviews to assess whether regulatory outcomes have been met and process improvements have been captured.

Organisational objectives – valued contributor

We also want to ensure we are a valued ‘system’ participant, contributing to the Government’s broader business growth agenda, collaborating well across Government and leading where appropriate. We are a signatory to the Financial Markets Regulatory System charter along with MBIE, RBNZ and Treasury. We will continue to work closely with these agencies to actively manage risks and issues in the financial markets regulatory system through the Council of Financial Regulators forum.

Activities to support objectives

- Continue to focus on developing our culture and people
- Develop our attraction, reward and retention strategies
- Implement our capability strategy to identify capabilities we require to fulfil our mandate and guide our learning and development offerings
- Improve our ability to record where we spend our effort across levy sectors
- Improve our performance and reporting framework
- Continue to refine our risk assessment tools to help us with a more targeted supervisory approach
- Continue to use legislative tools to support market development and remove unnecessary regulatory burden
- Review our enforcement governance process to ensure efficient decision making on investigations and timely progress on enforcement matters
- Continue to develop close working relationships with other agencies such as SFO, DIA and the Commerce Commission.

Milestones

- Implement our people capability strategy including core capability framework and new learning and development programme
- Publish a report on our initiatives to assess, respond to and reduce regulatory burden
- Complete the design and scope of our data analytics operating model and systems requirements
- Implementation of knowledge management strategy
- Complete the review of our investigation and enforcement processes, identify and implement any improvements.

Future focus

- Continue to refine our approach to knowledge management and data analytics to ensure we remain agile as technology, our environment and our operations change
- Over time we want market participants to actively contribute to the identification of risks to help us refine and direct our resources to address the most significant harms and threats
- Explore how we can use behavioural insights more broadly to improve how we work with market participants.

Performance indicators

Ongoing performance metrics we expect to impact:

- **SPE 1** – Overarching investor confidence measure
- **SPE 2** – Investigations and enforcement activities are undertaken and completed according to agreed timeframes and standards
- **SPE 4** – Fully completed licence applications, regulated offers and completed applications for exemptions are processed within agreed timeframes and standards
- **SOI 11** – FMA uses a range of regulatory tools to alleviate regulatory burden
- **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
- **SOI 14** – 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.



Developing themes in our SRO

Our SRO provided background to four developing themes on our risk radar. We want to explore these themes and use each as a platform to openly engage with those we regulate.



Regulating for rapid technological innovation

See page 21



Reviewing our perimeter

See under *Capital markets growth and integrity*, pages 9-11



Retail investor uptake of complex and risky products

See under *Capital markets growth and integrity*, pages 9-11 and *Investor decision-making* pages 12-13



Helping investor decision-making in changing market conditions

See under *Investor decision-making*, pages 12-13



Capital market growth and integrity



Capital market growth and integrity



Investor decision-making



Investor decision-making

Regulating for rapid technological innovation

We want to see:

Innovative financial products and services coming to market, delivering customer benefits and supporting the integrity of our capital markets.
Innovation being encouraged (by us and others) where it improves the range or quality of financial services in NZ.

Sectors impacted:

All – but especially those seeking to bring to market innovative financial services.

Organisational objective for 2017/18

Innovation in financial services is moving at a rapid pace and will likely touch all aspects of our work. This year we will continue to facilitate innovation that brings benefits to investors and customers of financial services, and will be flexible where we can. We will balance this with protecting investors and the integrity of our capital markets. We will provide tailored guidance material to those new to financial markets and regulation to help them navigate our requirements. We will increase engagement with public and private groups active in promoting innovation and financial technology ('FinTech') both here and overseas to keep abreast of trends, risks and challenges, and to help us develop 'fit-for-purpose' responses for New Zealand. This includes our engagement with Government on FinTech initiatives. We will maintain an open and flexible approach for businesses that wish to engage with us at an early stage on innovation in financial services and ensure we support an appropriate environment for innovation to flourish.

Activities to support objective in 2017/18

- Consulting on, and if appropriate, finalising the parameters for a potential class exemption for businesses interested in providing personalised robo-advice in New Zealand ahead of reforms to the Financial Advisers Act 2008
- Using our internal forum (Innovation Strategy Group) to lead our thinking and coordination on innovation related issues
- Keeping abreast of developments in FinTech, including ongoing engagement with domestic and overseas regulators
- Increasing our engagement on innovation with industry and individual participants.

Future focus

- We will review the cumulative effect of the regulatory burden on innovation and consider the need for any further legislative reform
- We will deepen our understanding of the application of technology to regulatory compliance issues (RegTech).

Performance indicators

- Provide tailored website material for businesses wishing to bring new ideas and offerings to market
- Positive feedback on our ability to promote and facilitate innovation.

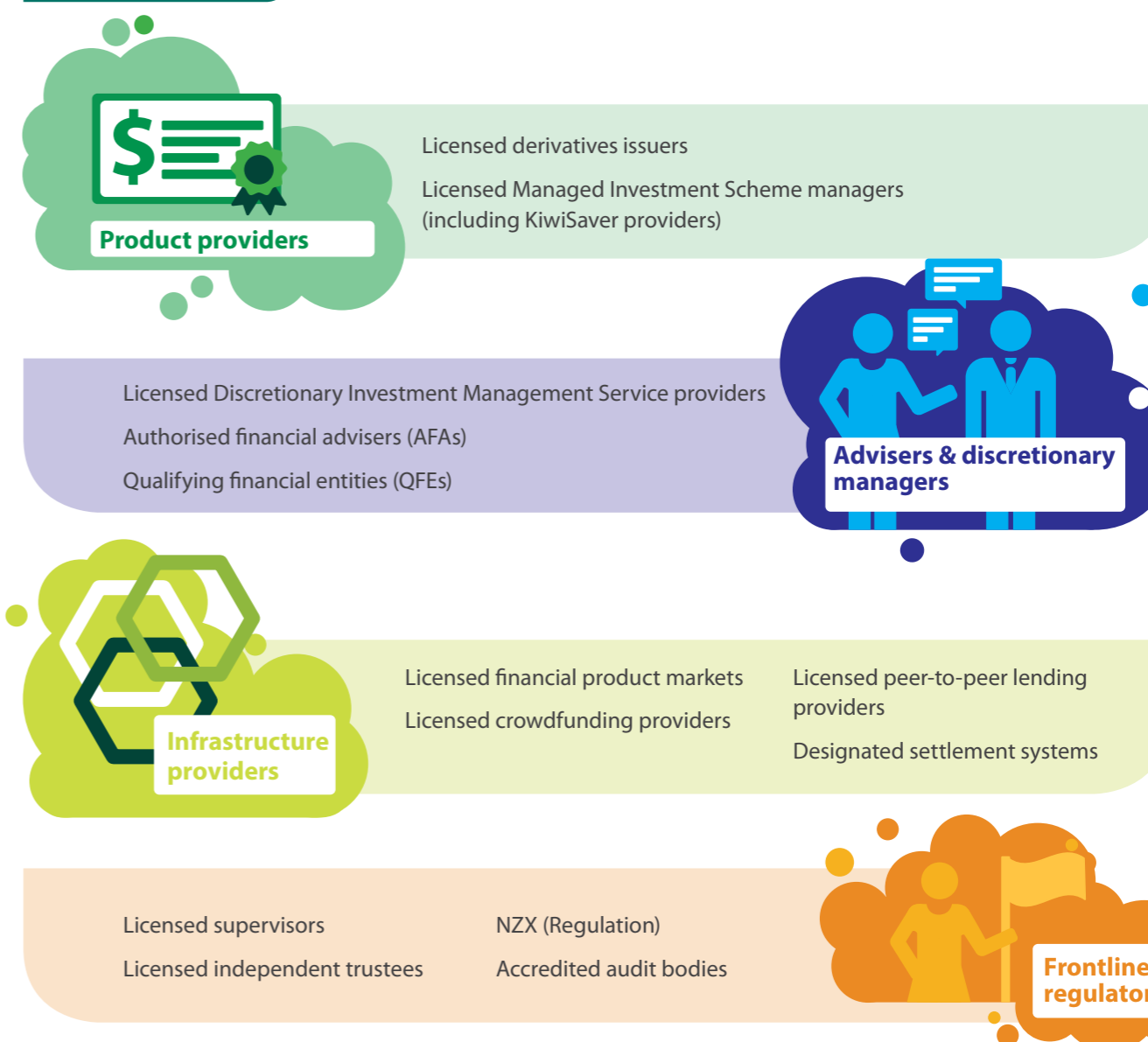
Ongoing performance metrics we expect to impact

- **SOI 5** – Issuers use new lower-cost opportunities to raise capital in New Zealand
- **SOI 11** – FMA uses a range of tools to alleviate regulatory burden
- **SOI 12** – Stakeholders agree that regulatory burden of FMA is proportionate to the value of the FMA’s interactions and to its broader impact on New Zealand’s financial markets
- **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.

Who we regulate

We engage closely with the market participants we regulate, and particularly seek to engage with Boards and senior management. Our regulated population is shown below.

FMA Licensed



Not FMA licensed

- These market participants are licensed or registered elsewhere. We oversee them to some extent, but do not licence them.*
- Debt issuers
 - Equity issuers
 - Registered audit firms
 - Licensed auditors
 - Registered financial advisers (RFAs)
 - Brokers and custodians
 - Managed Investment Scheme custodians
 - Registered banks
 - Licensed insurers
 - Wholesale service providers
 - Foreign exchange providers

FMA teams

Below we describe the main activities for each of the FMA's functions. We have named the Director who leads each function and the senior managers within each supporting team.

Regulation Director Liam Mason	licensing and supervision of MIS managers, discretionary investment managers and advisers; Supervisors data analysis and intelligence gathering evidence gathering and investigations complaints Anti-Money Laundering (AML/CFT)	Supervision – James Greig Monitoring Frameworks – Michael Maich Conduct Assessment – Michelle Peden Evidence and Investigations – PJ Visser Compliance Services – Anita Frazer
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Capital Markets Director Garth Stanish	conduct in relation to dealings in financial products licensing and supervision of infrastructure providers (market operators, settlement systems, crowdfunding and peer-to-peer platforms) disclosure and financial reporting audit oversight	Conduct and Audit Oversight – Colin Magee Disclosure – Robert Sloan
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Operations Director Brad Edley	finance project management technology operational management	Finance – Julia Ko Technology – Kevin Glynn
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People and Capability Director (acting) Sarah Feehan	human resources recruitment organisational development capability and culture	Human Resources – Frances Bearne Recruitment – Anna McGaffin Learning and Development – Sagun Khurana Internal Communications – Trina Saffioti
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General Counsel Director Nick Kynoch	enforcement policy and internal governance internal audit corporate legal services	Enforcement – Karen Chang Policy and Governance – Jo Davis-Calvert Corporate Legal – Vanessa Simons
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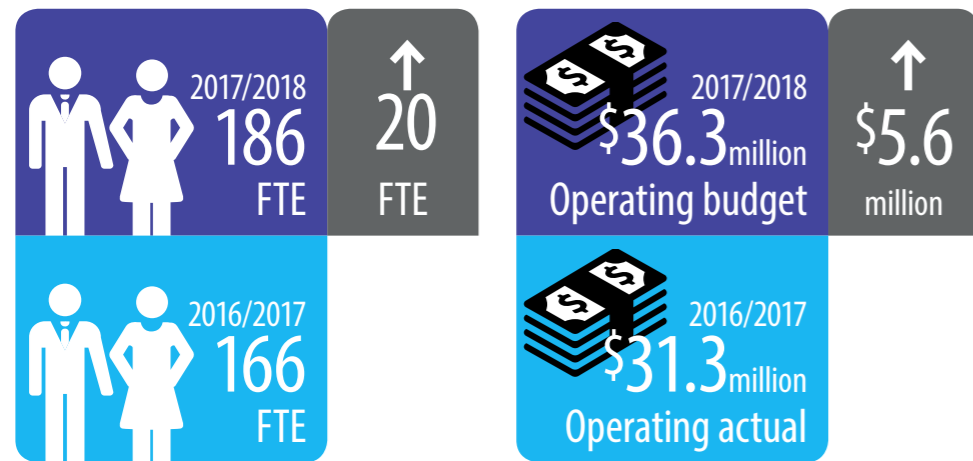
External Comms and Investor Capability Director Paul Gregory	investor capability media, publications promoting and protecting FMA's reputation	Investor Capability – Gillian Boyes Strategic Communications – Kate Woodruffe Media Relations – Andrew Park Publications – Justina Frost
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Strategy and Risk Director Simone Robbers	FMA regulatory strategy risk management Government and industry relations corporate governance	Strategy – Bronwyn Bayne Risk – Gary Taylor Government and Industry Relations – Scott McMurray
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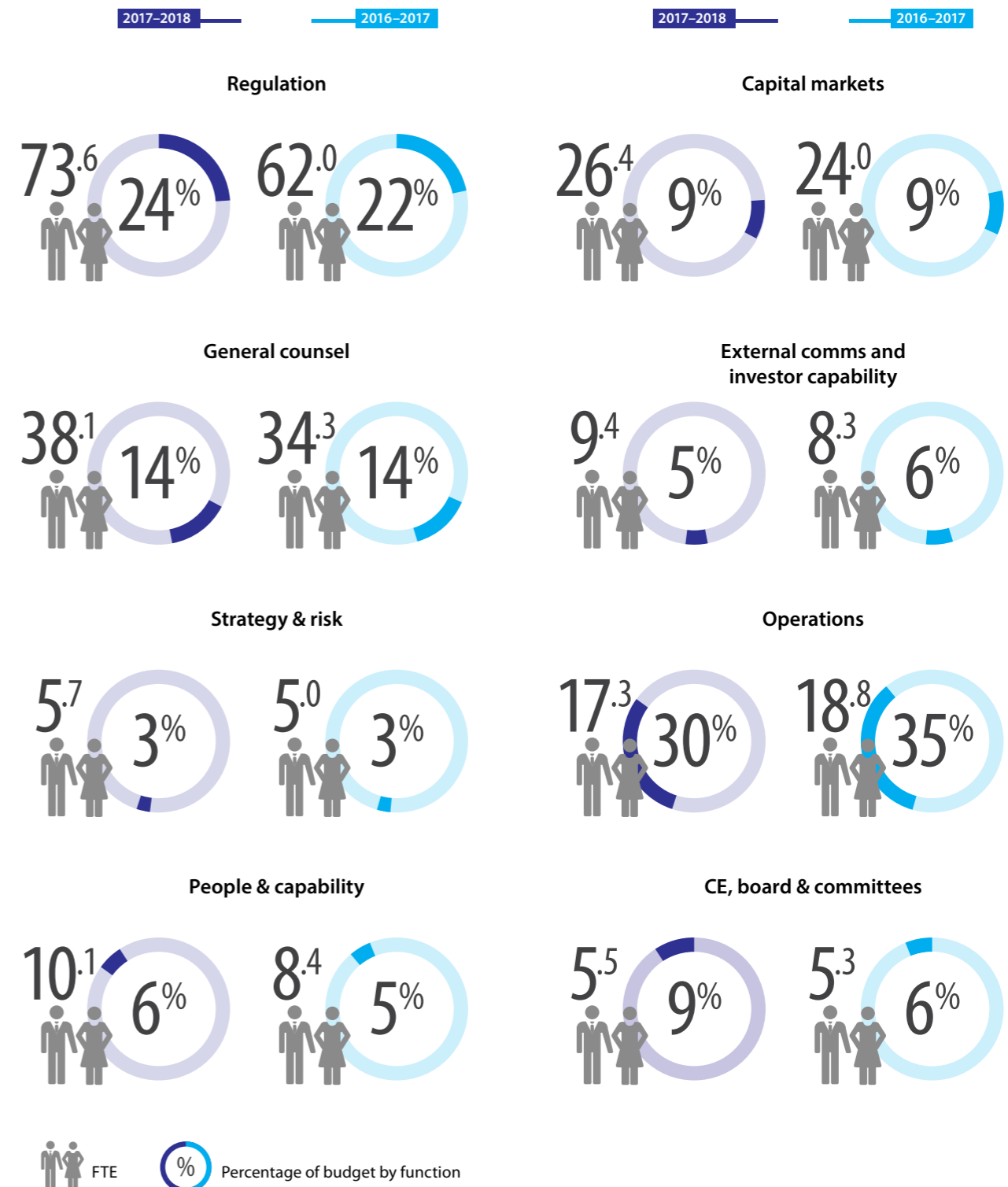
Market Engagement Director John Botica	market outreach preparing advisers and industry for financial advice reforms	Project Manager – Louise Gibson This work involves drawing resource as necessary from other teams, as the reforms affect most FMA functions.
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Budget

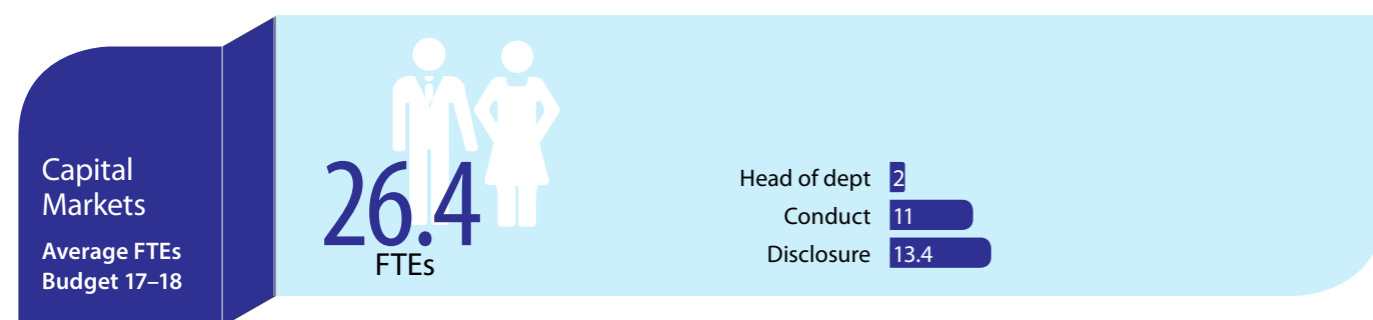
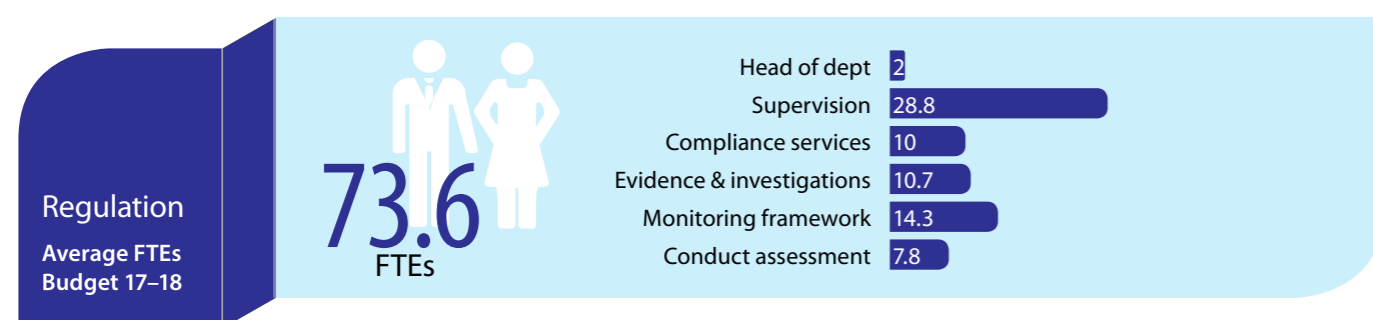
Our operating budget for 2017/18 is \$36.3 million with average full-time-equivalent (FTE) staff of 186 across the year. This is an increase of \$5.6 million over 2016/17 and 20 FTEs. The breakdown of FTEs and proportion of the operating budget by functional area is shown below. The divergence in the relationship between operating budget and FTE numbers for the Operations function is explained by this function carrying FMA wide costs for information technology, occupancy, depreciation, services and supplies. Similarly the Chief Executive function carries FMA wide costs for expert fees, corporate memberships, FMA conference, and overseas travel.



2017–2018 and 2016–2017 average FTEs and percentage of operating budget by function



We also show below FTEs by team for our three largest functions, Regulation, Capital Markets and General Counsel. Head of department refers to the Director leading the function and their assistant.



Glossary

AFA	Authorised financial adviser
AML/CFT	Anti-Money laundering and countering financing of terrorism
BAU	Business as usual
BKBM	New Zealand’s Bank bill benchmark rate
CFFC	Commission for Financial Capability
DIMS	Discretionary investment management services
FADC	Financial Advisers Disciplinary Committee
FinTech	Financial technology
FMC Act	Financial Markets Conduct Act
FSAP	Financial sector assessment program
FTE	Full-time equivalent – the hours worked by one employee on a full-time basis
GAAP	Generally accepted accounting principles
IMF	International Monetary Fund
(IMF FSAP)	Relating to the IMF’s Financial Sector Assessment Program – a review of NZ’s financial system
IOSCO	International Organisation of Securities Commissions
MBIE	Ministry of Business, Innovation and Employment
MIS	Managed investment scheme
NZX	NZ securities and futures exchange
PDS	Product disclosure statement
QFE	Qualifying financial entity
RBNZ	Reserve Bank of New Zealand
RegTech	Regulatory technology (subclass of FinTech)
RFA	Registered financial adviser
Robo-advice	Online digital financial advice based on mathematical rules or algorithms
SIPO	Statements of investment policy and objectives
SOI	Statement of intent
SPE	Statement of performance expectations
SRO	Strategic risk outlook



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