

Annual Corporate Plan

2019/20

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Message from the Chief Executive

When talking to market participants I am consistently asked: “what do we need to do to meet the FMA’s expectations of good conduct?”

At its core, conduct is about how market participants behave and how they serve the needs of customers, including the culture and governance that drives that behaviour.

For me, it’s boards and senior managers asking themselves some fundamental questions. Is our culture focused on serving the needs of customers? Are our customers treated fairly at all times? Are our products designed with customers in mind? Are our incentive structures aligned with the interests of customers? Do we have a good understanding of the conduct risks inherent in our business and are we managing these effectively?

These questions affirm the importance of customer treatment and integrity. While they are often difficult to answer, the discipline

of asking them is the first step in lifting standards of behaviour.

This Annual Corporate Plan (ACP) outlines our work for the coming year that aims to lift standards of behaviour. This year we have released our ACP alongside our refreshed [Strategic Risk Outlook \(SRO\)](#). Both publications reflect a new sector-based approach to assessing risks and harm, and identifying the outcomes we want to see.

“Our five new priorities underpin our regulatory approach by ensuring we focus our activity where we have the greatest opportunity of achieving desired outcomes and reducing harm.”

To reflect the maturity of our regime and the broadening of our focus on investor and customer treatment, we have refreshed our strategic priorities in the SRO. Our five new priorities (see page 8) underpin our regulatory approach

by ensuring we focus our activity where we have the greatest opportunity of achieving desired outcomes and reducing harm.



Our ongoing work with the Reserve Bank on the Conduct and Culture reviews of the banking and life insurance sectors reflects these priorities. Our reviews highlighted that retail banks and life insurers have not done enough to address the risks that their conduct poses to investors and consumers. The work also noted the gaps in the regulatory framework.

I acknowledge the Government’s commitment to fast-track measures to protect customers in their dealings with banks and insurers, and I expect preparation for any potential changes to our regulatory remit will be a key focus of our activity this year.

Beyond the Conduct and Culture follow-up, the wide scope of this ACP highlights the importance of other activity within our core mandate. Our work to maintain capital market integrity, ongoing monitoring of advisers and implementation of the new advice regime, AML/CFT monitoring, work with frontline supervisors, and engagement with investors and customers are all critical to delivering fair, efficient and transparent financial markets.

It remains a period of significant change in our financial markets. Our ACP outlines how we intend to navigate this change over the coming year as we deliver our

statutory objectives and promote high levels of trust and confidence.

“...it is primarily the responsibility of the industry to drive the behaviour changes necessary to promoting good conduct and culture.”

However, I want to be clear that it is primarily the responsibility of the industry to drive the behaviour changes necessary to promoting good conduct and culture. The expectations set out in our Conduct Guide and the lessons from the Conduct and Culture reviews apply to the governance,

processes and controls of all financial market participants.

I also expect all market participants to review the risks we have identified for their respective sectors, and assess the relevance of these risks and how they are being mitigated. The industry should not be waiting for legislative change or the regulator to come knocking to do the right thing.



Rob Everett

Chief Executive
Financial Markets Authority

Summary Corporate Plan 2019/20

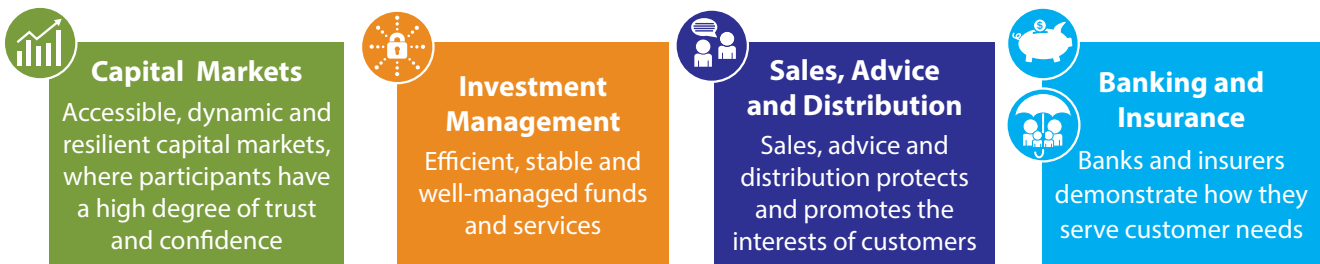
Statutory objective

Fair, efficient and transparent financial markets

Strategic priorities



Sector outcomes



Sector activities



FMA regulatory approach

Introduction

Our purpose and approach

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**.

Financial markets means not only traded markets in securities but the broader market for financial services and products.

Fair means providers and participants acting fairly and professionally, and focusing on serving the needs of customers*.

Efficient means dynamic and accessible markets that facilitate growth and innovation.

Transparent means 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.

We expect that fair, efficient and transparent financial markets will promote high levels of trust and confidence.

There are many factors that contribute to achieving our statutory objectives. Working within our statutory framework, our role is twofold.

First, we seek to promote and facilitate developments that enhance fairness, efficiency and transparency in financial markets by working and engaging with industry, investors and customers.

Second, we seek to identify and mitigate risks to achieving these conditions. We do this by:

- setting expectations and influencing industry behaviour
- monitoring adherence to regulatory and legislative requirements
- identifying breaches and taking action
- working to enhance investor and customer engagement and capability.

What's in this plan?

This Annual Corporate Plan sets out our activities for 2019/20 that will promote our strategic priorities, address regulatory risks and harms, and deliver sector outcomes.

This plan should be read alongside our Strategic Risk Outlook (SRO), which provides our medium-term view (three to five years) of the most significant risks to and opportunities for promoting fair, efficient and transparent financial markets.

* **Serving the needs of customers**

This means financial service providers focus on:

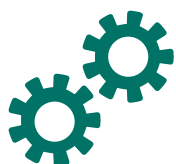
- treating customers fairly in all interactions
- recognising and prioritising the interests of customers and effectively managing the conflicts of interest that arise
- giving customers clear, concise and effective information
- designing and distributing products that are suitable, work as expected 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.

How we monitor performance

Our Statement of Performance Expectations, Statement of Intent, and Annual Report together set targets and then report on how we are performing against the priorities outlined in our SRO and activities outlined in our ACP, as well as how we spend our money, and other performance indicators.

Strategic priorities

In our Strategic Risk Outlook we identified the following strategic priorities. These priorities guide and reflect the activities outlined in this plan.



Governance, culture, systems and controls

Regulated firms exhibit a customer-centric culture that serves the needs of customers. In particular, firms have appropriate governance, incentive structures, sales and advice processes, and systems to manage conduct risk.



Credible deterrence of misconduct

We deter misconduct through effective enforcement action, particularly in relation to trading misconduct (ie insider trading and market manipulation), misconduct on our perimeter, failure to meet AML/CFT requirements, and misleading and deceptive conduct (ie enforcing fair dealing provisions of the Financial Markets Conduct Act 2013).



Successful implementation of potential remit changes

We deliver policy objectives while minimising transitional costs to firms and risks to customers – particularly in relation to the Financial Services Legislation Amendment Act (FSLAA) and potential changes to the conduct regulation of banking and insurance.



Investor and customer decision-making

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



Promoting trust and confidence in capital markets

Through improved quality of audit, disclosure and financial reporting, and effective oversight of NZX and other licensed capital-raising platforms.

Cross-sector activities

While the ACP is based on a sector approach, a number of risks and harms, and consequently the activities to address these, cut across most or all sectors.

2019/20 activities

Banking and Insurance conduct and culture review follow-up – in addition to following up with the entities that were part of the review, we expect all financial market participants to pay close attention to the findings from our conduct and culture work and make the necessary changes to ensure they are serving the needs of investors and customers.

Policy and regulatory reform – we will work with Government on the suite of law reforms that impact financial markets to promote policy outcomes and ensure effective and efficient implementation.

AML/CFT monitoring – we will monitor and enforce reporting entities' compliance with anti-money laundering and countering the financing of terrorism (AML/CFT) requirements. In addition, we will contribute to cross-Government preparations for the upcoming Financial Action Task Force review of New Zealand's AML/CFT policies and practices.

Perimeter – we will monitor activity on our regulatory perimeter* to identify risks of harm to customers or market integrity, including activity driven by new technology.

Investor capability – we will continue to develop and promote tailored information for investors and customers, covering the themes of understanding risk, making the most of your investment and protecting yourself.

Technology – our Innovation Strategy Group will continue to lead our thinking and response to financial technology (fintech) developments.

Climate change – our recently established Green Working Group will lead our thinking and response to climate change issues.

Enforcement strategy

As a risk-based regulator, we seek to respond to conduct that presents the risk of greatest harm to investors, customers and the integrity of the markets. We have recently reviewed our enforcement approach to ensure we remain focused on the right areas and are using the

appropriate regulatory response when we identify misconduct. We will continue to use the full range of enforcement tools available to us to achieve our regulatory objectives, while remaining proportionate and flexible in the use of our powers. Given the growing maturity of the

regulatory regime and the clear expectations we have set, firms should expect a more robust enforcement response from us if they fail to meet their obligations. This includes seeking court-based sanctions where appropriate.

* Activity that is carried out by entities that are not authorised or licensed by us, or other activity that is not regulated by us, but which relates to financial markets.



Capital Markets

Capital Markets 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. The sector fulfils a broad range of financial needs, including:

- capital raising
- managing investment, financial and other risks

- trading of securities, clearing and settlement
- providing investment opportunities.

Resilient and dynamic capital markets with broad investor participation and sound infrastructure play a fundamental role in supporting New Zealand's economy.

Included in this sector

- 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)

Outcomes sought

Based on the risks and long-term opportunities and challenges, we have identified the following sector outcomes to work towards.

Accessible, dynamic and resilient capital markets, where participants have a high degree of trust and confidence. This will be achieved through:

- improved quality and confidence in corporate disclosure, financial reporting and audit
- high standards of corporate governance
- a regulatory regime that reflects best practice in facilitating innovation where it can benefit investors or customers
- effective deterrence of trading misconduct.

Sector risks and harms we want to address

Governance and culture – ineffective corporate governance, poor culture in publicly listed companies and/or limited capacity and experience of directors.

Disclosure, and financial and non-financial reporting of listed issuers – inadequate, incorrect or misleading disclosure and/or poor-quality financial or non-financial statement information and reporting.

Trading misconduct – participants failing to act with honesty and integrity, including participating in or facilitating insider trading and market manipulation.

Confidence in auditing – poor audit quality (or the perception of poor quality) undermining investor confidence and leading to disclosure failings.

Stability of market infrastructure – the risk to market confidence of a significant or prolonged outage of a key piece of market infrastructure.



Activities for 2019/20

2020 NZX Obligations Review to assess NZX's compliance with its licensed market operator obligations.

Engagement, monitoring, investigation and enforcement activity in relation to:

- insider trading and market manipulation
- crowdfunding and peer-to-peer lending
- AML/CFT.

Disclosure and financial reporting reviews

- Ongoing proactive and reactive engagement with issuers to outline expectations and improve standards of initial and ongoing disclosure.
- Ongoing risk-based monitoring of disclosure documents, including non-filing reviews.
- Investigation and enforcement of disclosure and financial reporting breaches.

Facilitating growth and innovation

- Monitor algorithmic trading.
- Follow up on recommendations from Capital Markets 2029, an industry-led review to deliver a 10-year growth agenda for New Zealand's capital markets.
- Monitor and engage with issuers on innovative offer structures.
- Engage with the industry on environmental, social and governance (ESG) factors, in particular climate-related disclosure.

Audit monitoring and strategy

- Work with industry to enhance investor understanding and confidence in auditing.
- Audit quality reviews and the annual Audit Quality Monitoring Report.
- Monitor international developments impacting the audit sector.



Investment Management

Investment Management 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.

Although we only license retail fund managers and not wholesale, we recognise that wholesale and

retail investment management are interdependent, which is why we are also focused on wholesale funds.

High-quality and professional investment management is critical for enabling investors to achieve their long-term savings goals.

Included in this sector

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

Outcomes sought

Based on the risks and long-term opportunities and challenges, we have identified the following sector outcomes to work towards.

Efficient, stable and well-managed funds and services that prioritise customer-centric outcomes through:

- quality of service and value for money
- firms considering investor needs in product design and throughout the product lifecycle
- improved investor engagement, understanding and capability
- informed investor decision-making based on clear and relevant disclosure
- quality and proactive frontline supervision.

Sector risks and harms we want to address

Fees and charges – high and/or complex fees and charges that are not reasonable and commensurate.

Investor and customer engagement and capability – low investor engagement and understanding may lead to the uptake of unsuitable products or inappropriate investment decisions, resulting in poor long-term outcomes.

Stability of funds – Managed Investment Scheme (MIS) managers have insufficient processes and controls to respond to a liquidity crisis event, which could lead to investor losses.

Product suitability – poor product design, insufficient or ineffective disclosure of risks, costs or strategies, particularly for complex products, resulting in investors holding unsuitable products.

Supervisors' capacity and capability – a lack of resource and proactive monitoring, risk identification maturity and capability could undermine effective frontline regulatory oversight by supervisors.



Activities for 2019/20

Managed Investment Schemes (MIS) sector risk assessment – work with MIS supervisors to develop a MIS sector risk assessment and any follow-up actions.

KiwiSaver

- Monitor providers, including default funds, to ensure they meet their regulatory requirements.
- Work with providers to enhance customer engagement.
- Input into Government policy reviews that aim to improve the policy outcomes of KiwiSaver, including the review of KiwiSaver default providers.

Fees and charges – ongoing work to promote transparency and improved understanding of fees and charges, and value for money.

IMF Financial Sector Assessment Program – continuing to follow up on the 2017 IMF recommendations for further enhancement of the regulatory regime, including considering whether there is a case for recommending the establishment of a regulatory regime for custodians.

MIS stress testing – work with supervisors to test the readiness of MIS managers to respond to a liquidity crisis event.



Sales, Advice and Distribution

Through the Sales, Advice and Distribution 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.

Included in this sector

- Anyone providing financial advice
- Derivatives issuers
- Retail platforms, aggregators (eg foreign exchange providers)

Outcomes sought

Based on the risks and long-term opportunities and challenges, we have identified the following sector outcomes to work towards.

We want to see **sales, advice and distribution practices that protect and promote the interests of customers** through:

- a new advice regime that improves access to quality advice
- firms and advisers meeting the new advice requirements, and having sales and advice practices and remuneration structures that promote customer-centric outcomes
- credible regulatory deterrence of misconduct on the perimeter (including those offering unlicensed advice or other unregulated investment services).

Sector risks and harms we want to address

Governance and culture – weak governance and poor culture increasing the likelihood of mis-selling and harm to customers.

Sales and advice processes and practices – sales and advice processes and practices are not aligned to the needs of customers.

Incentives and conflicted conduct – inappropriate incentive structures and/or practices, poor disclosure of incentives to customers, and ineffective management of associated conflicts.

AML/CFT – entities fail to meet AML/CFT obligations, undermining confidence in New Zealand markets.

Perimeter – risks associated with unlicensed entities undertaking regulated activity; entities registering on the FSPR without intending to offer services here; or entities offering services into foreign jurisdictions illegally.

Investor and customer engagement and capability – low investor engagement and understanding may result in the uptake of unsuitable products or inappropriate investment decisions.

Scams and fraud – investors are subject to frauds and scams.



Activities for 2019/20

Financial Services Legislation Amendment Act implementation and monitoring – implement a new advice regime for regulating financial advice, including developing a monitoring and enforcement approach for transitional and full licensing.

Derivative issuers risk assessment – undertake a sector risk assessment to gain a more detailed understanding of how licensed derivative issuers manage their risk and compliance.

Investor capability – develop and promote information for investors and customers, covering the themes of understanding investment risk, making the most of your investment and protecting yourself.

Responding to frauds and scams – raise awareness of scams, including publishing warnings and participating in fraud-awareness activities.

AML/CFT monitoring

- Ongoing monitoring of reporting entities to ensure compliance with the AML/CFT Act and enforcement for AML/CFT breaches.
- Contribute to preparation for the upcoming Financial Action Task Force review of New Zealand's AML/CFT policies and practices.

Monitoring the perimeter – monitor activity on our regulatory perimeter to identify risks of harm to customers or market integrity, including activity driven by new technology.



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.

Included in this sector

- Banking
- Insurance

Outcomes sought

Based on the risks and long-term opportunities and challenges, we have identified the following sector outcomes to work towards.

Banks and insurers demonstrate how they serve customer needs through:

- appropriate governance, systems and controls for managing conduct risk
- design and management of incentive schemes that promote good customer outcomes
- appropriate prioritisation of remediation when things go wrong
- effective implementation of any new conduct regulation.

Sector risks and harms we want to address

Governance and culture – the governance and culture of banks and insurers does not give sufficient weight to serving customer needs and managing conduct risks.

Incentives and conflicted conduct – incentives drive sales outcomes to the detriment of customer outcomes, and conflicts are poorly managed.

Systems and controls – inadequate systems, controls and processes for identifying, managing and reporting misconduct.

Product suitability – insufficient consideration of customer needs in the design and ongoing performance of products.

Remediation of conduct issues – remediation is too slow or insufficient, and lacks senior management focus.

Technology and business transformation risks – IT system constraints, underinvestment, reliance on manual processes, poor implementation and consistency in system use, and the rise of cyber-threats.

Remit risks – absence of conduct powers and therefore FMA regulatory oversight in relation to banking and insurance.



Activities for 2019/20

Bank Conduct and Culture, and incentives – follow up on joint work with RBNZ on our expectations for banks' conduct and culture, and for incentives structures.



Insurance Conduct and Culture – follow up on joint work with RBNZ on our conduct and culture expectations for life insurers.

Preparation and implementation of remit change – we will work closely with the Government and industry to prepare for and implement any changes to the conduct regulation of banks and insurers.

FMA's regulatory approach

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

- **Conduct regulator:** we focus on protecting investors, customers and the integrity of markets through influencing how participants behave towards their customers, investors and each other.
- **Intelligence-led and harm-based:** we use intelligence to identify and assess the areas of greatest harm to investors, customers and financial markets, and the drivers of that harm.
- **Outcome-focused:** we focus our resources on where we have the greatest opportunity of achieving desired outcomes and reducing harm. We consider the most appropriate action for each situation, recognising the limits of our powers, and considering regulatory burden and potential unintended consequences of our actions.
- **Effective and efficient:** we regularly review the use of our resources to enhance our effectiveness and efficiency.
- **Consistent and transparent:** we clearly communicate our intentions and expectations to market participants, and explain our actions.
- **Flexible and responsive:** we have an operating model that enables us to adapt and respond quickly to changing market conditions. We seek and act on feedback, and learn from our experiences.
- **A systems view:** we promote an integrated and coordinated approach to financial markets regulation in New Zealand.

2019/20 activities

To support both the principles above and our focus on continuous improvement, we will focus on the following activities.

Ongoing implementation of knowledge management projects – improve knowledge management and data analytics to enhance our intelligence capabilities.

Remit change – review our preparedness to effectively implement the new advice regime and any other proposed remit change.

Systems leadership through CoFR – the Council of Financial Regulators (comprised of the FMA, the Reserve Bank of New Zealand, the Ministry of Business, Innovation and Employment, Treasury and the Commerce Commission) has recently reviewed its vision and functions to better assess risks, share information and where necessary agree to joint or coordinated action across the financial markets regulatory system.

Stakeholder relationship management programme and sector views – we have streamlined our internal processes to ensure we get the best, most useful information from our engagement with the market as well as better leverage external and internal insights through our sector view framework.

Reducing regulatory burden – we use a suite of regulatory tools to minimise unnecessary regulatory burden including legislative notices and guidance. To monitor our performance in this area we undertake an annual Ease of Doing Business survey.

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