

STATEMENT OF INTENT 2011 – 2014



FINANCIAL MARKETS AUTHORITY
TE MANA TATAI HOKOHOKO - NEW ZEALAND

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ISBN: 978-0-478-36877-2 (print)

ISBN: 978-0-478-36878-9 (pdf)

Chairman's foreword



In recent years, the Global Financial Crisis (GFC) has had a severe impact on the wealth and welfare of individuals, corporations and nations. Many nations were forced to take extreme measures to ensure the solvency of their banking systems and major corporations, such as injecting emergency equity or assuming private debt. Solutions are still being sought around global emerging risks such as sovereign debt.

The use of public funds for the apparent benefit of private interests resulted in a public and political outcry. Numerous reviews were undertaken worldwide and, as a consequence, many governments implemented, or plan to implement, fundamental financial market reforms, including the regulatory oversight of financial markets.

Our recent economic history exposed shortcomings in financial market practices. These shortcomings partly reflected inappropriate incentives, conflicts of interest and process failures.

While the New Zealand banking system benefited from the prudential conservatism of the Reserve Bank of New Zealand (RBNZ), there was nonetheless a sector-wide failure of the (previously) unregulated Non-Bank Deposit Takers (NBDTs or finance companies). The destruction of private savings and the impact on those who suffered loss in the finance company sector has been severe. Where finance company investors benefited from the Crown guarantee, the losses of eventual failure were nonetheless borne by the taxpayer.

The fallout from the shortcomings in global markets including New Zealand's financial markets was further exacerbated by a number of factors including:

- poorly diversified investment portfolios that included an overweighting on property and the over-use of debt
- the sale of products where the risks were misrepresented
- deficient financial advice and low levels of financial literacy.

It also exposed areas where improvements could be made in the licensing and oversight of financial markets participants and the regulatory powers available to financial market regulators.

The response in New Zealand has been multi-pronged. RBNZ assumed responsibility for the prudential oversight of NBDTs and insurers. The Financial Markets Authority (FMA) was created to combine the regulatory functions of the Securities Commission with some functions of the Ministry of Economic Development (MED) and the Government Actuary. Securities legislation is under review and licensing regimes are being implemented for financial advisers, auditors, statutory supervisors and trustees.

When announcing the Government's decision to create FMA, the Minister of Commerce, Hon. Simon Power, said:

'Over the past year, it has become increasingly clear to me that one of the missing pieces in the regulatory landscape is a single regulator focused on proactively monitoring and enforcing securities law. A key focus of FMA will be on visible, proactive, and timely enforcement.

'It will enforce securities, financial reporting, and company law as they apply to financial services and securities markets. It will also regulate and oversee trustees, auditors, financial advisers and financial service providers including people who offer investments.'

It is against this backdrop that FMA has been charged with restoring investor confidence in New Zealand's financial markets. No regulator can ever prevent all loss, and it is neither the role nor aim of FMA to assume investment risk decisions and outcomes for individuals. FMA can, however, promote markets that are fair, efficient and transparent.

With this context in mind, the FMA Board has prepared this Statement of Intent. The focus of the first six months is to commence the strategic and organisational reformation necessary to deliver FMA's statutory objectives. FMA's establishment is a significant step in New Zealand's capital markets regulation. Our first day was a starting point. A number of things remain to be done over the coming months and years. This Statement of Intent signals the transition, and the challenges, FMA stands ready to face over that time.

The Chief Executive, operating under the Board's Delegated Authority policy, will lead FMA's team as it develops the organisational model and approach.

A handwritten signature in black ink that reads "scallen". The signature is written in a cursive, lowercase style.

Simon Allen
Chairman

Statement of responsibility

This Statement of Intent has been prepared in accordance with sections 140 to 142 of the Crown Entities Act 2004. The prospective financial statements have been prepared in accordance with NZ IFRS for the purposes of this Statement of Intent, have not been audited, and should not be relied upon for any other purpose. FMA is responsible for the preparation of this Statement of Intent, including the forecast financial statements and the assumptions on which they are based, the statement of forecast service performance, and for the judgments used in them.



Simon Allen

Chairman
FMA

17 October 2011



Murray Jack

Chairman
Audit and Risk Review Committee

17 October 2011

Chief Executive's foreword



FMA's establishment is a significant moment for New Zealand capital markets and a huge opportunity, with high expectations of our success and performance from inception.

I am honoured to be FMA's inaugural Chief Executive and will do my utmost to lead an organisation of which we can all be proud.

The task before us is to leverage the systems, cases and people that we inherited – as well as the substantial new powers, funding and scope we are privileged to acquire – and swiftly build a new-look regulator that addresses both the problems of the past and the challenges of the future.

I commit to leading an open, transparent, dynamic regulator, accountable for its actions and willing to be judged on performance.

Fundamental to our approach is a passion for effective and proactive regulation. We will listen, enquire and compare as we seek feedback about the model and regime that best suits the needs of all market participants and investors.

Culturally, FMA aspires to be outward-looking, connected with and recognised in its markets and focused on the greatest risks. Our culture is crucial in attracting an energetic, high-calibre team that combines regulatory skill with market aptitude.

We want to encourage well-performing and compliant product issuers and advisers while promoting the informed participation of confident, risk-savvy investors.

Legislators, market participants and investors globally are calling for improved performance from their national regulators. FMA is mindful of that challenge, and we will seek to optimise efficiencies from the outset. Wherever possible, FMA will leverage off whole-of-government initiatives and utilise opportunities to share costs, information and initiatives with other public authorities, agencies and the private sector.

There are particular strategic priorities for FMA in its first years of operation. Restoring investor confidence is integral to our success, and will require FMA to strategically address current weaknesses in the market through our regulatory powers. FMA must also manage the list of inquiries and existing litigation passed to it from predecessor regulators.

The Government has recently released a draft of the Financial Markets Conduct Bill and signalled planned enactment of reforms by late 2012. Within this time period, there will be completion of the Financial Advisers Act implementation, as well as anti-money laundering and countering financing of terrorism (AML/CFT) reform implementation, and new licensing regimes for trustees, statutory supervisors and auditors.

FMA can and will deliver to this challenging agenda. My ambition is to create an organisation that is trusted, respected and admired – and deters those tempted to do wrong.

A handwritten signature in black ink, appearing to read 'S. Hughes', written in a cursive style.

Sean Hughes
Chief Executive



**PART ONE:
FMA'S STRATEGIC INTENT**

1. Introduction

A Statement of Intent is the key means by which a public body describes what it aims to achieve over the medium term so it can be held accountable for delivering on these achievements.

A Statement of Intent is therefore critical for public bodies to function well. In the case of FMA, it is particularly important. FMA is a new organisation established in response to the regulatory shortcomings highlighted in the wake of the Global Financial Crisis (GFC). As a result, expectations of FMA are high.

This Statement of Intent provides the first opportunity to state how FMA will make a difference for financial markets and for financial markets participants ('participants').

Financial market participant

This term is used throughout this document. It is used in the same sense as in the Financial Markets Authority Act 2011. A financial markets participant is a person who is, or is required to be, registered, licensed, appointed or authorised under

any financial markets legislation (such as financial advisers, auditors of issuers and financial service providers). The term includes people who participate in financial markets in the following ways:

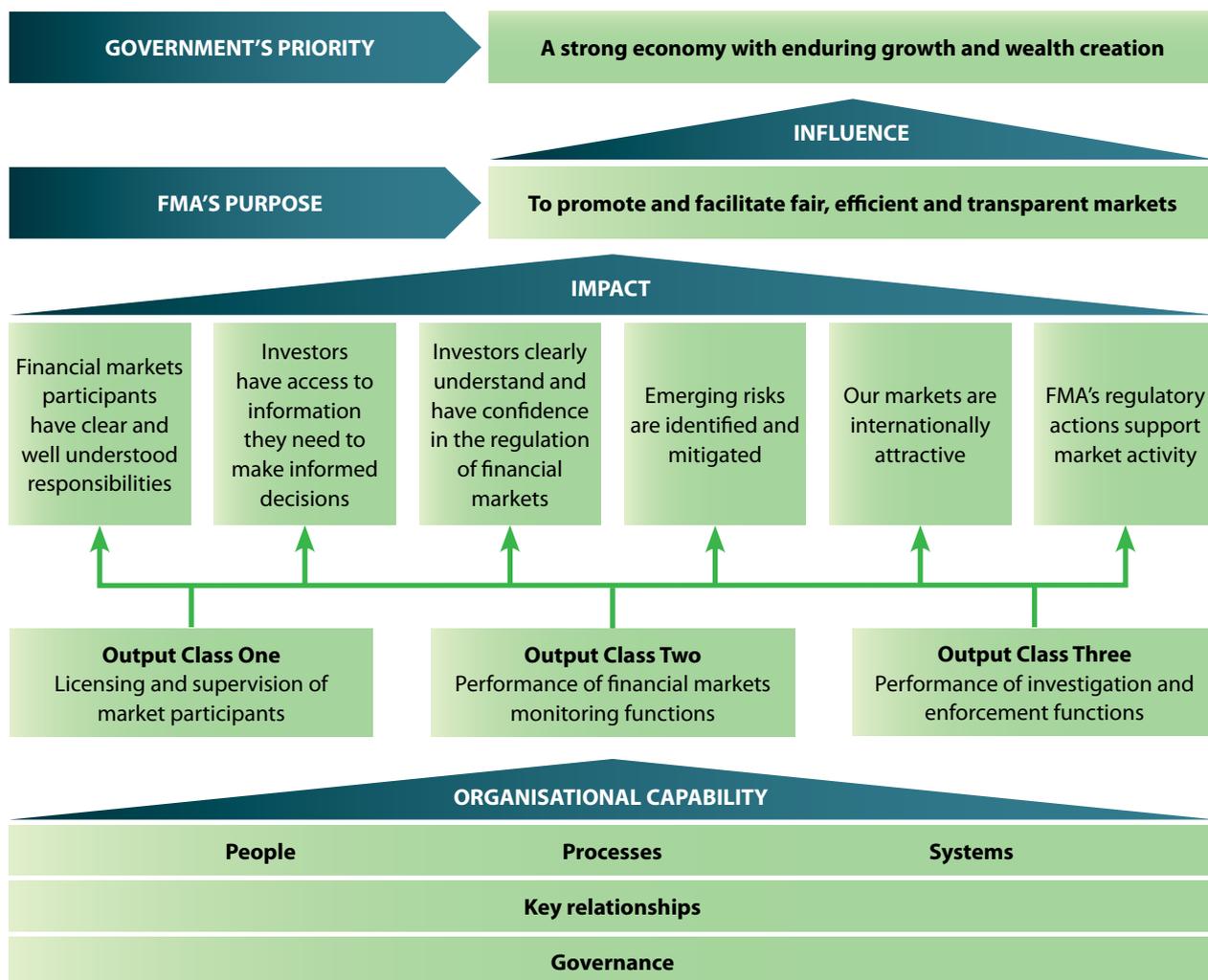
- in the offer of securities to the public as an issuer or a promoter
- in respect of securities offered to the public, as a trustee, a unit trustee, a superannuation trustee, a statutory supervisor, a manager, an expert or a qualified auditor
- an issuer.

Participant also includes the associated bodies corporate, directors or managers of these people whether they are directly involved themselves as a participant, or not.

Investors, while participating in financial markets, for the purposes of this document are not included in the term participant unless they also offer the services listed above.

A full glossary is included in Appendix 1.

FMA's outcomes framework 2011-2014



2. What FMA aims to achieve

Our context

Well-functioning financial markets are critical to achieving key economic and social goals. They help ensure capital is available, and is allocated efficiently to the most productive firms, helping them to grow and to create employment and wealth. Efficient allocation of capital is important because our nation's wealth will generate better returns if it is channelled into the best available investment opportunities.

FMA's role is not to direct investors' capital or to act as a back-stop for poor investment decision-making. Our role is to promote and foster the conditions under which New Zealand's financial markets are efficient, transparent and fair.

Efficient financial markets give investors the opportunity to create diversified portfolios that can achieve their personal financial goals including a comfortable retirement. Efficient markets effectively match the risk preferences of investors with the risk profile of investments. Capital is allocated to opportunities that represent the best available return for the risk the investor is assuming. This should apply across the range of investments available to investors including income assets such as deposits and bonds, shares and unit trusts, hybrid securities, property, derivatives and complex structured products.

A critical aspect of an efficient financial market is a strong degree of competition and dynamism. A feature of efficient markets is a high level of trust and confidence in the integrity of participants. Investors rely on issuers and intermediaries to act with integrity. Firms competing for access to capital rely on honest behaviour by other firms to maximise their prospects of accessing capital. Poor behaviour by some participants impacts on the reputation of markets and the overall ability of all firms to raise capital. FMA's role includes minimising potential sources of harm to investors, and discouraging those who may be tempted to cause harm by having a strong investigation and enforcement capability.

Mistrust of capital markets can be caused by a number of factors. However, FMA considers the factors likely to have a significant detrimental impact on the reputation of New Zealand's capital markets are:

- misuse of material non-public information
- inadequate, untimely, misleading or false disclosures
- inappropriate governance practices
- incentive misalignment, and poor advice and support from financial advisers and other intermediaries.

We consider that the timeliness, availability, relevance, accuracy and reliability of information disclosures are vital to market fairness, efficiency and transparency.

Our purpose

FMA's establishment legislation states that its main objective is 'to promote and facilitate the development of fair, efficient, and transparent financial markets.'

This objective encapsulates the elements of:

- market fairness
- efficiency
- transparency
- facilitating the development of the market.

Markets involve risk. Some investments fail or lose value not because of a lack of integrity by anyone involved with the investment but because the business venture did not meet a customer demand or a competitor was better able to meet that need. That is the nature of competition and dynamic markets.

FMA's role is not to protect investors from the risks of normal business endeavour. Our role is to provide the public with reasonable assurance that market participants involved with an investment are acting with integrity.

A key role of FMA, therefore, is to help investors understand their own responsibility for their investment decision-making. FMA can play a role in alerting the market to emerging issues that appear to carry risks. This does not mean that FMA is taking the final decision off investors or that if FMA does not draw attention to a particular product then that product is without business risk.

Our functions

FMA will achieve its objective through implementing a sustainable, effective, responsive and proportionate regulatory and legal framework for financial market conduct. This will involve performing the functions that are set out in the Financial Markets Authority Act in an enterprising, proactive and transparent way. This Act establishes FMA as an independent Crown entity and says its functions are:

- to monitor compliance with, investigate contraventions of, and enforce securities and investment law, financial reporting law, and companies law, in respect of financial markets participants
- to promote confident and informed participation in the financial markets
- to license and supervise particular financial markets participants including financial advisers, securities trustees and statutory supervisors, auditors and securities markets
- to monitor and conduct inquiries and investigations into financial markets and financial markets participants
- to keep the law under review.

A detailed list of FMA's functions is in Appendix 2.

Our key stakeholders

Our stakeholders include a wide range of financial markets participants. We provide them with an effective regulatory framework and an environment that supports the development of fair, efficient and transparent financial markets. We recognise that the investor community is diverse including experienced investors, retail investors, issuers and intermediaries based in New Zealand and overseas. We recognise that the appropriateness of the regulatory framework is critical to facilitating market activity.

Other agencies have roles in the financial markets. FMA will cooperate, and maintain close working relationships, with these organisations. Our work as disclosure and markets conduct regulator underpins the information flows that are vital to the work of these other agencies. The media is an important partner in helping FMA to distil and communicate its message across all sectors of the markets and to attract overseas capital.

Key impacts

To perform our functions and deliver on our objective, FMA aims to have the following six key impacts.

1. Financial markets participants have clear and well understood responsibilities.
2. Investors have access to the information they need to make informed decisions.
3. Investors clearly understand and have confidence in the regulation of financial markets.
4. Emerging market risks are identified and mitigated.
5. Our markets are internationally attractive.
6. FMA's regulatory actions support market activity.

Section 3 explains why these impacts have been chosen and how they will be pursued.

Our funding

FMA has received three appropriations from Government for its work 'to promote and facilitate the development of fair, efficient, and transparent financial markets' by which to deliver our key impacts. These cover the following.

- Licensing and supervision of market participants – Output Class One
- Performance of financial markets monitoring functions – Output Class Two
- Performance of investigation and enforcement functions – Output Class Three.

Each output class has a number of sub-output classes which contribute to the funding of our work in one or more of our impacts.

The table below shows how the sub-outputs contribute to the impacts we will achieve.

Reference	Output Class	Impacts					
		Financial markets participants have clear and well a responsibilities	Investors have access to the information they need to make informed decisions	Investors clearly understand and have confidence in the regulation of financial markets	Emerging risks are identified and mitigated	Financial markets are internationally attractive	FMA's regulatory actions support market activity
One: Licensing and supervision of market participants							
1.1	The authorisation, supervision and disciplinary regulatory regimes of financial advisers and QFEs are implemented efficiently and achieve the Government's objectives						
1.2	Capability and capacity are available to fulfil new statutory roles covering market licensees and the conduct of intermediaries						
1.3	Oversight of exchanges and settlement systems to ensure they comply with laws and regulations						
1.4	Disclosure documents, continuous disclosure and financial reports are reviewed to the agreed standards and timeframes						
1.5	Guidelines are produced and other forms of participant education are undertaken to provide a clear understanding of financial and securities law to issuers, intermediaries, financial advisers and market licensees						
1.6	Market activity is monitored for suspected breaches of anti-money laundering and countering financing of terrorism law, and inquiries lead to suitable enforcement action						
Two: Performance of financial markets monitoring functions							
2.1	Market surveillance and intelligence analysis identify deficiencies in meeting standards of conduct in the market and the requirements of the law						
2.2	Complaints and tips and referrals are processed and suitable action is taken						
2.3	Provide robust advice to Government to give priority to reforms needed to address shortcomings in the law identified through FMA's work						
2.4	High-quality advice and assistance are given to the Government's financial services policy development						
2.5	Decisions on exemptions are clearly based on the policy of the law while meeting the needs of the market						
2.6	Investors and potential investors understand financial and securities markets law and practices that are applicable to them and financial literacy is improved						
2.7	The public and news media are aware of the work and views of FMA and these communications maximise regulatory impact						
2.8	FMA contributes to the development of the trans-Tasman Single Economic Market agenda and maintains a strong relationship with ASIC						
2.9	FMA participates in international MOUs that enhance effective cooperation and enforcement of financial and securities law, and facilitate cross-border investments						
Three: Performance of investigation and enforcement functions							
3.1	Investigation and enforcement work are targeted according to the priorities set out in a regulatory discretionary framework and deters bad practice in key areas						
3.2	Enforcement actions are taken in a timely manner and achieve the desired regulatory results						

Note: Sub-output Class 1.2 contributes to section 4, How FMA will sustain and develop its operations

Direct output

Supporting output

3. How FMA will deliver its key impacts

Below is a summary of why each key impact is important and what we will do to deliver each impact over the next three years.

1. Financial markets participants have clear and well understood responsibilities

Why this impact is important

For financial markets to function well, people need to be clear about their roles and responsibilities.

FMA will clearly communicate its expectations to help people comply with the law and standards of conduct. This includes communicating how FMA intends to work with participants, and how it will deal with compliance issues as they arise. FMA has released its enforcement policy. Other policies in this area to follow include a model litigant policy and our policy describing our approach to conducting inquiries and investigations.

FMA compliance philosophy

Our strategy will be to:

- work with industry participants to help them willingly comply with our expectations so there is an improvement in overall behaviour and performance across financial markets
- establish a framework that encourages participants to promptly report and correct errors or regulatory breaches
- proactively identify significant breaches and address these promptly with appropriate action.

We will pay particular attention to ensuring that our education and enforcement activities work effectively together.

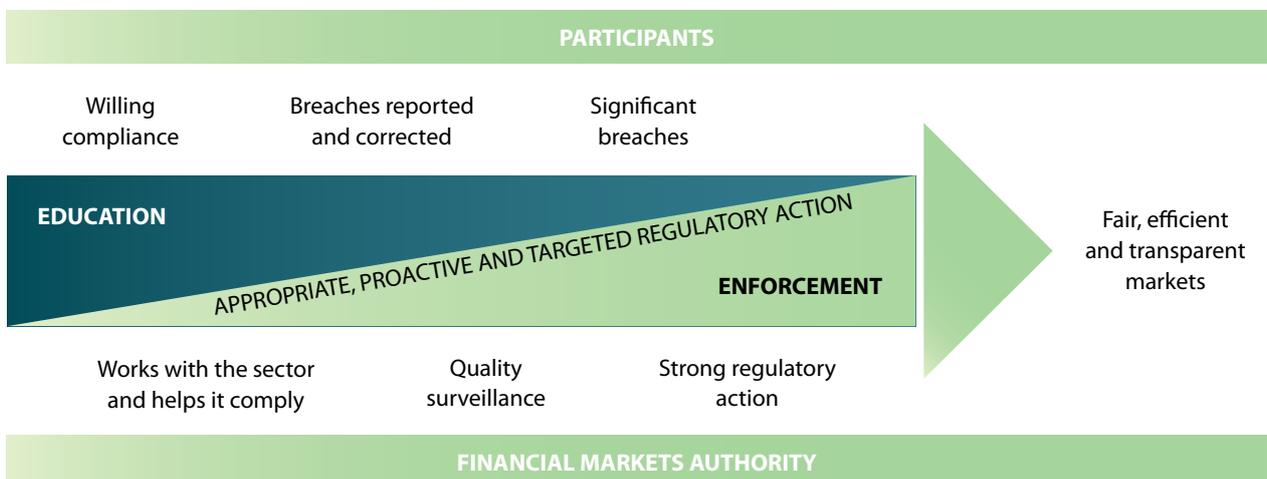
Even with strong oversight of participants and good market intelligence, there will always be some participants who attempt, and sometimes succeed in, serious wrong doing.

FMA's role here is to identify this behaviour as early as possible and take appropriate enforcement action. The quality of our surveillance and enforcement function will be a critical factor in ensuring a strong deterrent effect.

FMA will seek to achieve the best 'whole of system' approach to enforcement. This means it will cooperate with other regulatory agencies, and will promptly refer any matters best investigated or enforced by those agencies.

What we will focus on to achieve this impact

- **Direct engagement with participants:** We will work with participants to help them understand and comply with their responsibilities, the role and functions of FMA and our compliance, monitoring and enforcement policies.
- **Guidance:** We will provide guidance to participants and the wider market where we believe important aspects of their direct responsibilities are not well understood or where standards of market conduct could be improved.
- **Surveillance:** We will work to identify breaches of participants' duties and responsibilities.
- **Enforcement:** Where we identify a possible breach of a participant's responsibilities, we will investigate promptly and take prompt, effective and proportionate enforcement action.
 - We will identify priority areas of market activity and practices. These priorities may be selected, for example, because they pose significant risks to our objectives, are serious in nature, involve actual or potential loss for investors, or there is evidence or a risk of financial crime or market abuse.
 - We will allocate investigation and enforcement resources accordingly and will develop an enforcement policy that will include selection of appropriate cases to clarify the boundaries of the law.
 - We will encourage participants to quickly report and correct errors or regulatory breaches.



- **Communication:** We will be transparent by publishing the outcome of significant surveillance, monitoring, investigation and enforcement actions to deter other potential offenders and to inform investors and potential investors.
 - We will explain any constraints preventing us from doing this, such as legal or privacy requirements.

How we will measure this impact

We will measure performance on this impact through:

- surveys of participants to establish:
 - their level of understanding of their responsibilities as determined under the market conduct and compliance framework of FMA
 - the percentage of participants whose understanding was assisted by engaging with FMA.

In the longer term, the ratio of self-remediated errors to enforcement action over time may provide a measure of the understanding by market participants of their obligations and willingness to comply.

Indicator	2011/12	2012/13	2013/14
Level of understanding of responsibilities	Establish baseline	Improve - Target to be determined once baseline established	Target to be determined once baseline established
Percentage of participants who perceived they were assisted through engagement with FMA	Establish baseline	Improve - Target to be determined once baseline established	Target to be determined once baseline established

Along with these impact measures are output measures that contribute to market participants having clear and well understood responsibilities. The following table describes the sub-outputs that contribute directly to this impact. The measures for these outputs are described in the statement of service performance (Part Two, p20)

Sub-output reference	Outputs directly linked to Impact One
1.1	The authorisation, supervision and disciplinary regimes of financial advisers and QFEs are implemented efficiently and achieve the Government's objectives
1.3	Oversight of exchanges and settlement systems to ensure they comply with the laws and regulations
1.5	Guidelines are produced and other forms of participant education are undertaken to provide a clear understanding of financial and securities law to issuers, intermediaries, financial advisers and market licensees
3.1	Investigation and enforcement work is targeted according to the priorities set out in the regulatory and discretionary framework and deters bad practice in key areas
3.2	Enforcement actions are taken in a timely manner and achieve the desired regulatory results

2. Investors have access to the information they need to make informed decisions

Why this impact is important

Financial market efficiency and fairness depend on investors having accurate and relevant information provided to them about investment opportunities.

The GFC exposed shortcomings in asset allocation, product/manager selection and the quality of advice provided (where this was sought). In numerous instances, this resulted in investment portfolios that held inappropriate amounts of some investments and had excessive risk. A common flaw in portfolios was high exposure to highly correlated investments, such as a selection of finance companies that had more or less similar levels of underlying economic security.

There is also evidence that New Zealand household balance sheets are significantly overweight in residential and investment property relative to comparable OECD nations. The preference for property as an investment resulted in a high level of private debt which potentially exposes individuals and the nation to global liquidity shocks.

This situation partly reflects shortcomings in the nature and usefulness of disclosures by issuers, as well as deficiencies in the knowledge and skills needed for investors to participate confidently in capital markets.

It would be unrealistic for FMA to aim to raise the understanding of non-professional investors to that of professional investors. However, confidence in capital markets will be enhanced by ensuring that issuers communicate important information in a timely manner, that intermediaries are competent, qualified and have incentives aligned to the interests of their clients, and that investors are encouraged to boost their literacy.

What we will focus on to achieve this impact

- **Offer document review:** After a transition period, prospectuses will be automatically registered with the Companies Office and may be reviewed by FMA after registration. We will implement a new regime for reviewing prospectuses post-registration to reduce the likelihood that investments are made on the basis of false or misleading statements. We will review offer documents where we assess there is a high risk that they omit key information or contain false or misleading statements.
- **Exemptions:** Where regulatory requirements are inappropriate, we will respond to market needs by granting exemptions. Conditions will be placed on exemptions to ensure investors still receive the information they need.
- **Promoting investor education:** We will partner with other public and private organisations to develop and promote education resources and messages to help investors make better decisions. We will promote the use of clear, concise and effective communication through the financial markets, having regard for investors' levels of understanding.

- **Investor warnings and guidance:** Where we identify a trend or material concentration of breaches of responsibilities by participants, we will provide public warnings or guidance in a way that can be received and understood by investors and market participants.
- **Reviewing the quality and usefulness of financial reporting:** We will perform robust, risk-based checks on the financial reports filed by issuers. As with offer documents, financial accounts will receive particular scrutiny where the quality of financial reporting by issuers is important to public confidence or there is a high risk of non-compliance.
- **Improving the quality of financial advice:** We will monitor compliance with the Code of Professional Conduct for Authorised Financial Advisers (AFAs) and with the other obligations that apply to advisers. This is to ensure they exercise the standard of care, diligence and skill that is appropriate given the nature of each client and the services offered.

How we will measure this impact

We will measure performance on this impact through:

- having a risk-based framework for post-registration review of prospectuses (Sub-output 1.4)
- survey of investors to determine their experience of, and satisfaction with, the standard and accessibility of the market information that they need
- percentage of reviewed issuer disclosure documents that meet quality standards
- percentage of reviewed issuer financial reports that meet legal standards.

Indicator	2011/12	2012/13	2013/14
Level of investor satisfaction with market information	Establish baseline for standard and accessibility	Improve - Target to be determined once baseline established	Improve - Target to be determined once baseline established
Quality of issuer disclosure documents	Establish baseline	Improve - target to be determined once baseline established	Improve - target to be determined once baseline established
Quality of issuer financial reports	Establish baseline	Improve - Target to be determined once baseline established	Improve - Target to be determined once baseline established

Along with these impact measures are output measures that contribute to investors having access to the information they need to make informed decisions. The following table describes the sub-outputs that contribute directly to this impact. The measures for these outputs are described in the statement of service performance (Part Two, p20).

Sub-output reference	Outputs directly linked to Impact Two
1.4	Disclosure documents, continuous disclosure and financial reports are reviewed to the agreed standards and timeframes
2.6	Investors and potential investors understand financial and securities market law and practices applicable to them and financial literacy is improved

3. Investors clearly understand and have confidence in the regulation of financial markets

Why this impact is important

Investors depend on the integrity of intermediaries including financial advisers, exchanges, auditors, statutory supervisors and securities trustees. In New Zealand, the lack of a licensing and quality assurance regime for financial advisers, auditors, statutory supervisors and securities trustees contributed to the recent large losses incurred by investors. It resulted in a level of confusion and mistrust as to the role and reliability of these professions. In turn, this has adversely affected confident participation in New Zealand's capital markets.

What we will focus on to achieve this impact

- **Supervision of market infrastructure:** FMA will have an expanded oversight role of registered securities markets, and in relation to derivatives markets and designated settlement systems. FMA's oversight of these markets will include approving market rules, undertaking an annual oversight review of registered markets and – with RBNZ – carrying out regular oversight reviews of designated settlement systems. Where deficiencies in the regulatory functions of markets are identified, FMA will work with market operators to remedy these issues and use its other supervisory powers as appropriate.
- **Implement and monitor new licensing and supervision functions:** FMA will have primary responsibility for the licensing and oversight of auditors, statutory supervisors, securities trustees, financial advisers and exchanges. Many of these oversight regimes will be new. By developing credible oversight regimes for intermediaries, FMA can build investor confidence in intermediaries.
- **Supervision of financial advisers:** Under the Financial Advisers Act, we will license AFAs and Qualifying Financial Entities (QFEs) and, through the Code Committee, promote the continued development of adviser standards. We will achieve regulatory visibility across the advisory sector by implementing an adviser monitoring programme, targeting areas that pose material regulatory risk. Similarly, our response to complaints, notification of breaches and suspected non-compliance with adviser licence terms and conditions will focus on areas of greatest harm.

- **Oversight of auditors:** Under the Auditor Regulation Act 2011, FMA will supervise accredited accounting bodies (initially New Zealand Institute of Chartered Accountants (NZICA)) and the auditing profession. During 2011/12, FMA will develop arrangements for reviewing auditing practices and investigating misconduct by auditors. The regime will come into force by 1 July 2012. A well-functioning auditing market will help to ensure issuers' financial statements are reliable, and investors and their advisers can have confidence in them.

We will encourage a depth of capacity and competition in the audit market to promote audit quality and to ensure the costs to issuers of audit remain internationally competitive.

- **Supervision of statutory supervisors and securities trustees:** We will establish new systems for licensing and supervising securities trustees under the Securities Trustees and Statutory Supervisors Act 2011. Securities trustees and statutory supervisors are the key frontline supervisors of finance companies, corporate debt issuers and managed funds, and are charged with acting on behalf of investors. We will require them to be capable and independent, and to perform their functions effectively. We will hold them accountable for any failure to act according to the expected standards.

The trustee supervisory regime will come into force from 1 October 2011. The legislation provides for us to issue temporary licences to trustees authorised at that date. All trustees will have to be fully licensed by October 2012. From then onwards, we will license, relicense and supervise trustees on an ongoing basis.

- **Communication:** We will be transparent by publishing the outcome of significant surveillance, monitoring, investigation and enforcement actions to show investors that we will hold participants to account where appropriate.

How we will measure this impact

We will measure performance on this impact through:

- survey of investors to determine their:
 - understanding of the regulatory framework and objectives
 - satisfaction with the responsiveness and helpfulness of FMA
 - confidence in the effectiveness of the regulatory framework.

Indicator	2011/12	2012/13	2013/14
Level of understanding of the regulatory framework and objectives	Establish baseline	Improve - Target to be determined once baseline established	Improve - Target to be determined once baseline established
Level of satisfaction with FMA's responsiveness and helpfulness	Establish baseline	Improve - Target to be determined once baseline established	Improve - Target to be determined once baseline established
Level of effectiveness of the regulatory framework	Establish baseline	Improve - Target to be determined once baseline established	Improve - Target to be determined once baseline established

Along with these impact measures are output measures that contribute to investors clearly understanding and having confidence in the regulation of financial markets. The following table describes the sub-outputs that contribute directly to this impact. The measures for these outputs are described in the statement of service performance (Part Two, p20)

Sub-output reference	Outputs directly linked to Impact Three
1.1	The authorisation, supervision and disciplinary regimes of financial advisers and QFEs are implemented efficiently and achieve the Government's objectives
1.3	Oversight of exchanges and settlement systems to ensure they comply with the laws and regulations
2.6	Investors and potential investors understand financial and securities market law and practices applicable to them and financial literacy is improved
2.7	The public and news media are aware of the work and views of FMA and these communications maximise regulatory impact

4. Emerging risks are identified and mitigated

Why this impact is important

Continued confidence in financial markets depends on identifying risks to market integrity early and taking steps to reduce the chances of the risk escalating to the point where widespread losses occur and investor confidence is damaged.

Another lesson from the GFC was that market practices and products evolved at a faster pace than regulators could match, in terms of their capacity or perceived mandate to assess the risks to investors or to take remedial action. Conflicts of interest right along the chain from product origination (e.g. sub-prime debt packaging) through to credit assessment (credit rating agencies) and distribution (incentive misalignment) resulted in poor outcomes for investors. Additionally, the risks to the broader regulated capital markets from previously 'unlit' markets such as over-the-counter (OTC) derivatives highlights the need for FMA to continually assess emerging risk factors.

It is important that FMA develops capability so that market practices, products and innovations are identified and understood quickly. The emphasis here will be on understanding the economic substance as opposed to the legal form of investment products. This activity will also help FMA by providing input into the decision-making process on the use of 'call-in' or product reclassification powers.

What we will focus on to achieve this impact

- Developing a market intelligence hub:** We will develop a market intelligence hub to disseminate information through the organisation. This will enable FMA to continually test the scope of regulation and to identify systemic risk issues. The market intelligence hub will inform FMA about macro and micro, local and global developments that may affect capital markets or investors. We intend to develop this intelligence hub during our first year and ensure it is fully integrated into the new organisation.
- Information gathering and analysis:** We will gather and analyse relevant information to ensure FMA stays abreast of market developments and innovations. This will include regular, rigorous review of financial markets and participants' activities to identify and assess possible risks to investors, market fairness, efficiency and transparency, or risks to the financial system.

It will also extend to FMA's new responsibilities for anti-money laundering involving financial markets participants. Annual sector risk assessments will be undertaken to contribute to New Zealand Police (NZ Police) National Risk Assessments.
- Referral management:** Tips, referrals, complaints and whistleblowers have the potential to play a critical role in enabling FMA to identify risks to market integrity. Systems will be developed to ensure these sources of information are effectively assessed and responses managed in a coordinated manner that contributes to organisation-wide intelligence-gathering and decision-making. We will also work collaboratively with disputes resolution bodies to address referrals and systemic issues.
- Monitor the perimeter of regulation:** There will always be uncertainty about how the law applies to some activities that sit at the 'edges' of regulation. FMA will pay particular attention to activities structured to fall outside regulatory requirements and will make policy recommendations to eliminate opportunities for regulatory arbitrage where this could harm investors. This will include, for example, requesting new regulations to declare a product to be a 'security' under the Securities Act 1978.

How we will measure this impact

We will measure performance on this impact through:

- the number, and scale, of instances of future investor losses that reveal previously unrecognised emerging risks, or inadequate strategic responses to them by FMA.

Indicator	2011/12	2012/13	2013/14
Percentage of significant emerging risks identified as high risk, where FMA takes appropriate action	100%	100%	100%
Number of cases of investor losses where there was evidence of unrecognised significant emerging market risk	Information not available	0	0

Along with these impact measures are output measures that contribute to emerging risks being identified and mitigated. The following table describes the sub-outputs that contribute directly to this impact. The measures for these outputs are described in the statement of service performance (Part Two, p20).

Sub-output reference	Outputs directly linked to Impact Four
1.6	Market activity is monitored for suspected breaches of anti-money laundering and countering financing of terrorism law, and inquiries lead to suitable enforcement action
2.1	Market surveillance and intelligence analysis identifies deficiencies in meeting standards of conduct in the market and the requirements of the law
2.2	Complaints, tips and referrals are processed and suitable action is taken
2.4	High-quality advice and assistance is given to the Government's financial services policy development

5. Our markets are internationally attractive

Why this impact is important

Financial markets play a critical role in the New Zealand economy and their performance is vital to the well-being of New Zealanders. To maximise their contribution, financial markets must maintain their reputation and attractiveness to local and overseas participants. An important element in this is the perception that the regulatory framework is integrated, internationally benchmarked, and that the various agencies work cooperatively at minimum cost.

What we will focus on to achieve this impact

- **International coordination and mutual recognition:** We will collaborate and coordinate with other regulatory agencies locally and internationally to eliminate duplication, inefficiency and delay. With Australia, we will engage with the Australian Securities and Investment Commission (ASIC) on enforcement, surveillance, the ongoing Mutual Recognition of Securities Offerings regime, and the trans-Tasman mutual recognition of financial advisers, auditors and trustees.
- **Law reform:** We will work with participants and government to build a shared understanding of the desired scope and content of financial markets legislation. Where issues are identified that cannot be efficiently dealt with by our powers, we will make recommendations to government for changes to laws or regulations. FMA will be a key contributor to, and enabler of, the Financial Markets Conduct Bill. We will then implement the new legislation from its expected enactment in 2012.
- **Regulatory cooperation:** We will work closely with other regulators and professional associations. Details of regulatory relationships, and the establishment of Memoranda of Understanding (MOUs) are discussed in Section 4.

How we will measure this impact

We will measure performance on this impact through:

- surveys of participants and key stakeholders on their perceptions of the relative performance of New Zealand financial markets and their regulation compared with international benchmarks.
- trends in foreign direct investment.

Indicator	2011/12	2012/13	2013/14
Level of relative performance of NZ markets, internationally	Establish baseline	Increase - Target to be determined once baseline established	Increase - Target to be determined once baseline established

Along with these impact measures are output measures that contribute to New Zealand's financial markets being internationally attractive. The following table describes the sub-outputs that contribute directly to this impact. The measures for these outputs are described in the statement of service performance (Part Two p20).

Sub-output reference	Outputs directly linked to Impact Five
2.3	Provide robust advice to Government to give priority to reforms needed to address shortcomings in the law identified through FMA's work
2.8	FMA contributes to the development of the trans-Tasman Single Economic Market agenda and maintains a strong relationship with ASIC
2.9	FMA participates in international MOUs that enhance the effective cooperation and enforcement of financial and securities law, and facilitates cross-border investment

6. FMA's regulatory actions support market activity

Why this impact is important

FMA will work to ensure standards set for participants and actions taken are cost effective and proportionate to the benefits gained through increased market integrity and investor confidence. Regulatory activity should not unduly impede financial market activity and capital formation.

What we will focus on to achieve this impact

- **Using the full range of enforcement tools:** FMA will be proportionate when taking enforcement action. We will use notices, warnings and directions where appropriate and will proceed to suspensions, removal of licences and litigation where serious wrongdoing is detected.
- **Exemptions:** FMA will have a range of exemption powers under the Securities Act, Securities Markets Act, Financial Reporting Act and Financial Advisers Act. Class exemptions will be developed to provide relief where the costs of compliance are not matched by improved outcomes for investors or participants.
- **Cost effectiveness:** Over the next three years, we will develop, in consultation with other regulators and participants, a framework for assessing the cost effectiveness of the regulatory framework.

How we will measure this impact

We will measure performance on this impact through:

- survey of participants on their perceptions of the relative costs and benefits, and proportionality, of the regulatory arrangements established by FMA.

Indicator	2011/12	2012/13	2013/14
Perception of relative costs and benefits	Establish baseline	Target to be determined once baseline established	Target to be determined once baseline established

Along with these impact measures are output measures that contribute to FMA's regulatory actions supporting market activity. The following table describes the sub-outputs that contribute directly to this impact. The measures for these outputs are described in the statement of service performance (Part Two, p20).

Sub-output reference	Outputs directly linked to Impact Six
1.1	The authorisation, supervision and disciplinary regimes of financial advisers and QFEs are implemented efficiently and achieve the Government's objectives
2.5	Decisions on exemptions are clearly based on the policy of the law while meeting the needs of the market
3.1	Investigation and enforcement work is targeted according to the priorities set out in the regulatory and discretionary framework, and deters bad practice in key areas

4. How FMA will develop and sustain its operations

Below are the steps FMA will take to ensure it has the capacity and capability to deliver its outputs and impacts, beginning with the transition of operations inherited from other entities. It is particularly important that this is managed effectively because FMA is an organisation in transition. It is acquiring new functions and must develop new systems and a new culture to perform its functions to maximum effect.

Approach to transition

The overall approach FMA will take to transition is to:

- provide continuity of service to, and regulatory oversight of, market participants that FMA inherits or assumes responsibility for
- ensure inquiries, investigations and ongoing legal processes are maintained throughout the transition period
- establish and implement a comprehensive Transition Plan to move the organisation to full capacity over time.

Key principles underpinning the Transition Plan include FMA:

- having a clear internal and external accountability framework that supports the delivery of FMA's objective
- demonstrating to investors and participants that FMA has the capability, resources and will to monitor, promptly investigate and take enforcement action in a consistent manner
- flexibly accommodating additional powers and oversight functions that may result from the current securities law review
- developing timely, well-informed and effective policy.

Below is a summary of the key elements of the Transition Plan including goals, behavioural drivers, governance, capability, risk management and key relationships.

Developing and sustaining performance

Goals

Over the three-year period of the Statement of Intent, FMA will:

- successfully transition to a fully operational and effective entity by building the systems, culture and capability to efficiently perform our functions
- broaden its reach and effectiveness as it takes on new licensing and oversight functions for statutory supervisors, securities trustees and auditors (and any other parties as a result of the securities law review)
- build a strong investigation and enforcement team that can respond quickly and effectively to market intelligence, referrals and complaints
- develop effective relationships with other regulators to ensure market information is shared, and monitoring and enforcement is comprehensive and complementary across regulators.

- Close coordination with other regulators will be important to ensure information is shared and cases do not fall into gaps between regulators. MOUs will be established with the Registrar of Companies, NZX Limited (NZX), the Serious Fraud Office (SFO), the Commerce Commission, NZICA, RBNZ, Inland Revenue Department (IRD), dispute resolution scheme providers and foreign regulators, including ASIC, the Australian Transaction Reports and Analysis Centre (AUSTRAC) and the Australian Prudential Regulation Authority (APRA).

Organisational behavioural drivers

To deliver on our goals, in all our activities, we are driven by the following organisational behaviours and attitudes.

- **Proactive:** We are focused on our key impacts and seek to be forward thinking, influencing and engaging early, with a can-do mentality. We understand the value of preventative intervention. We are strategically focused, knowing how the activities we undertake will advance those impacts and targeting those matters that are important.
- **Connected:** We are actively engaged as part of the market. We understand that being heard, seen and in-the-know is an important contributor to our key impacts. We also want the market to engage with us. We are constantly seeking to understand what is going on in the market and what trends are emerging. We use that knowledge to inform our priorities and our activities and positively influence market robustness and resilience.
- **Respected:** We are astute, consistent and fair in making decisions. Good decisions can take time and we will ensure, where possible, there is transparency about our decision-making processes. We are accountable for our decisions and build our credibility through the integrity of our people and processes. As a mature regulator, we are able to make judgments and articulate and defend those judgments.
- **Agile:** We understand that delay can undermine public confidence. We are comfortable about balancing competing demands and articulating to the market what we see as the appropriate balance. As the market changes, we are nimble to adapt and respond to maintain market integrity.
- **Bold:** We need to be enterprising to deliver a robust regulatory framework while supporting market growth and wealth creation. We are not deterred from taking action when required. We are prepared to be intrepid in our endeavours, balancing the risks associated with our actions with the need to be effective and efficient.

BOLD ENTERPRISING
INTREPID
DARING

PROACTIVE STRATEGIC
CAN-DO
FORWARD-THINKING

RESPECTED ASTUTE ACCOUNTABLE
CREDIBLE CONSISTENT
FAIR TRANSPARENT

CONNECTED VISIBLE
IN-THE-KNOW
INFLUENTIAL

AGILE NIMBLE
ADAPTABLE
ENERGETIC

Governance

Effective governance is critical to FMA delivering on its mission. It covers every aspect of how an organisation behaves in order to assure alignment of decision making.

FMA Board

FMA will maintain a non-executive Board of nine directors. Appointments to the Board will be made by the Governor-General on the recommendation of the Minister of Commerce.

Up to five associate Board members may be appointed by the Minister, as required.

The Board will operate in accord with a governance manual that ensures the Board follows best-practice principles.

Capability

People

FMA will depend on the capability and commitment of its staff to have maximum impact on key outcomes. To this end, we will:

- actively manage any transitional issues arising from the change to a new employer
- strive to maintain an appropriate mix of skills to meet our strategic and legislative priorities. We will recruit appropriately skilled people and promote continuing education and private sector experience
- ensure that information within and available to FMA becomes an FMA-wide shared resource, appropriately protected, that enables a collaborative and knowledge-based working environment.

Systems

The FMA Establishment Board conducted a stock take of the existing information and communications technology (ICT) capabilities of relevant agencies and concluded there was a significant gap between current ICT capabilities and those required for FMA. We have identified the business drivers influencing our future needs, along with clear priorities and the ICT roadmap needed to bridge the gap between current provision and future need.

Finance

FMA will carry out the strategies necessary to achieve the six impacts, on time and within budget and resources, by the following means.

- **Crown appropriations:** We will work with MED and Treasury to ensure adequate resourcing to support the implementation of our strategies.
- **Fees and levies:** These will be set initially by MED.
- **Fiscal accountability:** We will provide quarterly and annual reports to the Minister of Commerce and MED.

Risk management framework

We will develop a risk management framework to help us identify risks to the key areas of our capability. It will provide a basis for managing capability risks over time, from the transition of operations inherited from other agencies through to the acquisition of additional powers and functions during the period covered by this Statement of Intent.

The risk management framework will be based on the following principles.

Risk management is:

- aligned with, and supports, the effective achievement of FMA's goals and values
- a core accountability of all managers
- an essential component of decision making
- a continuous, dynamic and timely process
- based on the best information available.

Risk management will be an inclusive and transparent process within FMA involving all relevant stakeholders. The efficacy of FMA's risk management framework will be underpinned by FMA's:

- internal audit function
- Audit and Risk Committee
- risk plan and register.

Key relationships

The Responsible Minister and MED

FMA will work constructively with the Minister and MED in accordance with our output agreement.

FMA will keep both the Minister and MED informed through regular meetings between the Chairman, the Minister, the Chief Executive and officials from MED, of any key risks or matters that may impact FMA achieving its objectives and any other issues of relevance.

FMA will report to the Minister and MED on the following matters:

- annual report as required by the Crown Entities Act 2004
- quarterly reports outlining performance against the Statement of Intent.

The Board will endeavour at all times to maintain a ‘no surprises’ policy with the Minister, and to keep the Minister and MED informed, in a manner consistent with FMA’s obligations as an independent Crown entity, of matters likely to affect Government interests or to attract political comment.

Other agencies

A key driver for the formation of FMA was the fragmentation of market regulators and the consequent risk of duplication or gaps. The formation of FMA will go some way towards ameliorating these concerns but it remains important that FMA has effective procedures for collaborating with other agencies.

We will work to eliminate duplication, inefficiency and delay with the overriding goal of developing the best ‘whole of system’ outcome across the regulatory spectrum. We will seek collaborative, constructive engagement with other regulatory agencies locally and internationally, as well as dispute resolution bodies.

In keeping with the principles of consistency, transparency and accountability, FMA will seek to enter into memoranda of understanding with the following agencies.

Agency	Focus of relationship
RBNZ	Building on existing relationships to strengthen cooperation and information sharing to enable more effective prudential and conduct regulation of New Zealand’s financial markets and, where appropriate, coordination of response to emerging risks. To this end, FMA and RBNZ have co-sponsored the development of a Council of Financial Regulators, to which MED and Treasury will contribute as associate members. The purpose of the Council is to foster cooperation between financial and prudential regulators in New Zealand.
NZX	FMA has responsibilities for oversight of NZX and enforcement of the Securities Markets Act and associated regulations. This includes: <ul style="list-style-type: none"> • approval of rule changes • facilitation of surveillance and requests for real-time trading data, if required • notice of significant contraventions of market rules, and referrals for suspected contravention of market integrity regulations or the Securities Markets Act • formal oversight.
Registrar of Companies	The boundary between the Registrar and FMA is much clearer than it was in the past. We will nonetheless work closely with the Registrar, with whom we share some responsibilities, to ensure there is an appropriate level of information sharing especially where misconduct is detected by either agency which is relevant to the other.
SFO & Commerce Commission	FMA recognises the importance of achieving the optimal deterrent effect from enforcement actions. Advice will be sought, and where appropriate referrals made, if FMA suspects offences may have been committed relating to Acts overseen by either regulator.
IRD	FMA will strengthen and formalise our relationship with IRD to ensure, where possible and appropriate, information is shared to uphold the integrity and robustness of financial markets.

Agency	Focus of relationship
International Organisation of Securities Commissions (IOSCO) and foreign regulators	FMA is a member of IOSCO and signatory of the Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information. FMA intends building on existing strong relationships with its international counterparts to ensure that skills, information and knowledge are world class.
NZICA	NZICA will be an accredited body under the Auditor Regulation Act. FMA will work with NZICA to ensure appropriate standards are set for the licensing of auditors and registration of audit firms. FMA will have oversight of NZICA as an accredited body.
Trustee Corporations Association (TCA)	FMA will liaise with TCA to promote cooperation and coordination between it and securities trustees and statutory supervisors.
Dispute resolution schemes	FMA will build relationships with dispute resolution scheme providers to ensure FMA’s expectations of their role are clearly understood to increase investor confidence.
ASIC	FMA intends building on existing strong relationships with ASIC to continue to share intelligence and resources to achieve the New Zealand and Australian Governments’ aspirations for a Single Economic Market that is robust and resilient.
AUSTRAC	FMA will facilitate the strengthening of the relationship between it and AUSTRAC, and with other New Zealand co-regulators including RBNZ, Department of Internal Affairs (DIA) and New Zealand Police to uphold market integrity and minimise fraud and corruption across Australasia.
APRA	FMA will explore the need for an MOU with a focus on KiwiSaver and portability of superannuation funds.



**PART TWO:
STATEMENT OF SERVICE PERFORMANCE**

FMA is funded by the Government to achieve its objective through three principal output classes. These are:

- Output Class One: Licensing and supervision of market participants
- Output Class Two: Performance of financial markets monitoring functions
- Output Class Three: Performance of investigation and enforcement functions

Each of these output classes has sub-outputs that define the Government's expectations of the services we will provide and contribute to our six impacts. These are referenced in the table on page 9. To ensure we and our stakeholders know how we are performing against these expectations, we have developed key measures for each output class. These are described in the following tables.

Output Class One: Licensing and supervision of market participants		2011/12 Forecast
Total appropriation (\$000)		11,688
Outputs	2011/12 Forecast standard	
1.1 The authorisation, supervision and disciplinary regulatory regimes of financial advisers and QFEs are implemented efficiently and achieve the Government's objectives	<ul style="list-style-type: none"> • A risk-based supervision framework developed by 31 March 2012 for AFAs and QFEs • Results of two monitoring projects undertaken pursuant to the risk-based supervision framework published by 30 June 2012 for AFAs and QFEs • Guidance on licensing standards for trustees and statutory supervisors published by 31 October 2011 • Processing of licence applications of securities trustees and statutory supervisors commenced by 31 October 2011 • Standards and conditions for licensing of auditors and registration of audit firms developed by 30 June 2012 	
1.2 Capability and capacity are available to fulfil new statutory roles covering market licensees, and the conduct of intermediaries	<ul style="list-style-type: none"> • Standards and guidelines are developed for the monitoring framework of AFAs and QFEs by 30 June 2012 • FMA has a full complement of trained staff in place to implement new regulatory regimes as they come into force by 30 June 2012 • FMA has the systems and processes in place to monitor fully implemented regulatory regimes by 30 June 2012 • FMA has a capability framework and skills matrix in place by 30 June 2012 	
1.3 Oversight of exchanges and settlement systems to ensure they comply with laws and regulations	<ul style="list-style-type: none"> • Annual review of NZX's futures market completed and published by 30 June 2012 • General obligations review of NZX is completed and published by 30 June 2012 • NZ Clear is authorised as a designated settlement system by 30 June 2012 • All active futures markets are re-authorised under amended Securities Markets Act provisions by 31 January 2012 	
1.4 Disclosure documents, continuous disclosure and financial reports are reviewed to the agreed standards and timeframes	<ul style="list-style-type: none"> • Risk-based framework for reviewing prospectuses post-registration in place by 31 December 2011 • Guidance on standards for registered prospectuses and investment statements published by 1 March 2012 • 100 percent of high-risk prospectuses are reviewed post-registration • Five percent of other prospectuses are reviewed post-registration • Disclosures improved or documents withdrawn in 100 percent of cases where FMA intervenes 	
1.5 Guidelines are produced and other forms of participant education are undertaken to provide a clear understanding of financial and securities law to issuers, intermediaries, financial advisers and market licensees	<ul style="list-style-type: none"> • Priority areas for guidance identified and a programme of work established for publications from September 2011 to June 2012 	
1.6 Market activity is monitored for suspected breaches of anti-money laundering and countering financing of terrorism law, and inquiries lead to suitable enforcement action	<ul style="list-style-type: none"> • FMA has a capability framework and skills matrix in place for AML / CFT monitoring by June 2012 • Co-regulators are at least 85 percent satisfied with our performance, outputs and cooperation 	

Output Class Two: Performance of financial markets monitoring functions 2011/12 Forecast

Total appropriation (\$000)

6,837

Outputs

2011/12 Forecast standard

Monitor financial and securities markets activity

2.1

Market surveillance and intelligence analysis identifies deficiencies in meeting standards of conduct in the market and the requirements of the law

- Framework established to identify emerging risks by 30 June 2012
- 100 percent of referrals from front-line regulators acknowledged and prioritised for action within one business day
- Two feedback reports on referrals received issued to front-line regulators by 30 June 2012

2.2

Complaints and tips and referrals are processed and suitable action is taken

- Complaints management framework and processes developed by 31 December 2011
- Complaints, tips and referrals are acknowledged within two working days of receipt
- 100 percent of complainants receive a substantive response from FMA within 28 days of receiving all relevant information

Review securities law and practice and make recommendations for reform

2.3

Provide robust advice to Government to give priority to reforms needed to address shortcomings in the law identified through FMA's work

- Establish a central issues register across FMA by 31 December 2011
- Quarterly report to Minister highlighting key priorities for reform delivered

2.4

High-quality advice and assistance are given to the Government's financial services policy development

- Other relevant government agencies are at least 85 percent satisfied with the quality of advice provided by FMA
- Co-sponsor development of a Council of Financial Regulators by 30 September 2011

Process applications for exemptions from provisions in securities law and regulation and keep existing exemptions under review

2.5

Decisions on exemptions are clearly based on the policy of the law while meeting the needs of the market

- 90 percent of complete applications for exemptions are processed within six weeks or as agreed with applicant
- Two reports on significant issues arising from exemption applications published by 30 June 2012
- 100 percent of exemptions and statements of reason published on FMA website or provided to pre-publication unit of Parliamentary Counsel Office (PCO) within two working days of signing

Promote public understanding of the law and practice relating to finance and securities markets

2.6

Investors and potential investors understand financial and securities markets law and practices that are applicable to them and financial literacy is improved

- Key areas of deficiency in understanding are identified and prioritised by 31 December 2011
- Three consumer and investor advocacy publications providing independent information developed by 30 June 2012
- Consumer advisory panel established by 31 December 2011 with quarterly meetings
- Baseline of number and nature of website visits established by 30 June 2012

2.7

The public and news media are aware of the work and views of FMA and these communications maximise regulatory impact

- Stakeholder survey demonstrates growing awareness and understanding of FMA and its actions
- Details of public enforcement actions published on our website
- Annual report on key issues and themes arising from inquiries, investigations and enforcement activities published by 30 June 2012
- 75 public engagements in 2011/12

International liaison

2.8

FMA contributes to the development of the trans-Tasman Single Economic Market agenda and maintains a strong relationship with ASIC

- Stakeholder feedback indicates that FMA's engagement with trans-Tasman regulators has contributed toward the development of a Single Economic Market
- Collaborative work with ASIC completed to agreed standards and timeframes

2.9

FMA participates in international MOUs that enhance effective cooperation and enforcement of financial and securities law, and facilitate cross-border investments

- Standards for FMA's interaction with IOSCO for cooperation, timeliness and quality are met
- 90 percent of requests for international assistance completed within agreed timeframes to the satisfaction of co-regulators

**Output Class Three:
Performance of investigation
and enforcement functions**

2011/12 Forecast

Total appropriation (\$000)

5,749

Outputs

2011/12 Forecast standard

Investigate suspected breaches of financial and securities law and take enforcement action

3.1

Investigation and enforcement work are targeted according to the priorities set out in a regulatory discretionary framework and deters bad practice in key areas

- An enforcement strategy established by 30 September 2011
- A governance framework for prioritisation of inquiries and investigations established by 31 December 2011

3.2

Enforcement actions are taken in a timely manner and achieve the desired regulatory results

- 100 percent of inquiries and investigations completed in the timeframes and standards defined in the governance framework
- Positive stakeholder feedback that FMA's enforcement actions are appropriate



**PART THREE:
FORECAST FINANCIAL STATEMENTS
FOR THE YEAR ENDING 30 JUNE 2012**

Expected revenue and proposed expenses – for class of outputs

Vote Commerce

		2011/12 Forecast \$000s
Non-departmental output expense appropriation, Part 2.2:		
Licensing and supervision of market participants		
Crown revenue		11,688
Interest		390
Other revenue		415
Total revenue		12,493
Expenditure		12,605
Operating deficit		(112)
Performance of financial market monitoring functions		
Crown revenue	Operating funding	5,807
	Transition cost funding	1,030
Other revenue		175
Total revenue		7,012
Expenditure	Operating expenditure	6,408
	Transition costs	1,675
Operating deficit		(1,071)
Performance of investigation and enforcement functions		
Crown revenue		5,749
Expenditure		4,282
Operating surplus		1,467
Total for Part 2.2		284
Non-departmental other expenses, Part 5.2:		
FMA litigation fund		
Crown and interest revenue		2,500
Expenditure		2,500
Litigation surplus		-
Non-departmental capital expenditure, Part 6.2:		
Investment in Financial Markets Authority		
Investment in FMA (estimate pending external opening balance review)		4,007
Capital expenditure		5,000

Forecast financial statements

Statement of forecast comprehensive income

For the year ending 30 June 2012

	2011/12 Forecast \$000s
Income	
Crown revenue	24,274
Interest	390
Other income	590
Litigation fund income – Crown revenue & bank interest	2,500
Total income	27,754
Expense	
Personnel expenses	14,760
Occupancy expenses	1,422
Depreciation	1,488
Other operating expenses	7,300
Litigation fund expense	2,500
Total expense	27,470
Surplus and total comprehensive income	284
Comprising	
Operating (deficit) surplus	284
Litigation surplus	-
	284

Statement of forecast financial position

For the year ending 30 June 2012

	2011/12 Forecast \$000s	2010/11 Estimated \$000s
Equity		
Accumulated funds	1,893	1,609
Litigation fund	844	844
Capital contributions	9,007	4,007
Total equity	11,744	6,460
Assets		
Current assets	10,801	7,570
Non-current assets	4,659	1,260
Total assets	15,460	8,830
Liabilities		
Current liabilities	3,716	2,362
Non-current liabilities	-	8
Total liabilities	3,716	2,370
Net assets	11,744	6,460

Statement of forecast changes in equity

For the year ending 30 June 2012

	Accumulated funds \$000s	Litigation fund \$000s	Total equity \$000s
Estimate as at 1 May 2011	4,007	844	4,851
Total estimated comprehensive income for the 2 months to 30 June 2011	1,609	-	1,609
Estimate as at 30 June 2011	5,616	844	6,460
Total forecast comprehensive income for the 12 months to 30 June 2012	284	-	284
Capital contributions	5,000	-	5,000
Forecast as at 30 June 2012	10,900	844	11,744

Statement of forecast cash flows

For the year ending 30 June 2012

	2011/12 Forecast \$000s
Cash flows from operating activities	
Cash was provided from	
- Crown revenue	24,274
- Crown revenue - litigation fund	2,500
- Interest	390
- Other Income	590
Cash was applied to	
- Suppliers	(11,260)
- Employees	(14,156)
- Net GST	350
Net cash flows from operating activities	2,688
Cash flows from investing activities	
Cash was provided from	
- Sale of fixed assets	-
- Net decrease in term deposits	-
- Net decrease in term deposits (litigation)	-
Cash was applied to	
- Purchase of fixed assets	(4,418)
- Net increase in term deposit	(6,000)
- Net increase in term deposit (litigation)	-
Net cash flows from investing activities	(10,418)
Cash flows from financing activities	
Cash was provided from	
- Capital contributions	5,000
	5,000
Net increase/(decrease) in cash balances	(2,730)
Add opening cash and cash equivalents balance	6,731
Closing cash and cash equivalents balance carried forward	4,001
Comprising	
Current account cash and cash equivalents	3,782
Litigation fund cash and cash equivalents	219
	4,001

Statement of significant assumptions

The assumptions used in preparing the forecast information were adopted by FMA on 1 May 2011 and are as follows.

Crown revenue

We assume a Crown revenue of \$24,274,000 (excl GST), being appropriations for our operating activities. Additionally, there is \$5,000,000 (GST not applicable) for capital expenditure and \$2,500,000 (excl GST) for the litigation fund. FMA's appropriations are further described on page 30.

Exemptions and authorisation income

We have determined the level of income from fees and the recovery of costs under current regulations from the available information as at the date of preparation of these statements.

Personnel expenses

FMA has an establishment of 105 full-time equivalent staff.

Litigation expense and fund

We assume expenditure on approved litigation of \$2,500,000. This is based on our most likely litigation portfolio, arising from anticipated cases to be actioned. We note the volatility inherent in predicting litigation activity. Actual litigation activity and expenditure may be materially different from forecast.

Occupancy and other operating costs

We assume that new premises will be secured in Auckland and that the Wellington office will be relocated to more suitable premises. The expanded role of FMA has caused some uncertainties in the precise cost structure of the new organisation and the estimated operating expenditure is based on the best available information.

Appropriations

During 2011/12, FMA is appropriated to supply services under Vote Commerce for the following classes of outputs.

VOTE COMMERCE

	2011/12 Forecast \$000s
Part 2.2. Non-departmental output expense appropriation	
Licensing and supervision of market participants. This appropriation is limited to the performance of statutory functions relating to regulation of financial markets participants including issuers, market licensees, intermediaries and exchanges, and financial advisers and QFEs by FMA.	11,688
Performance of financial markets monitoring functions. This appropriation is limited to the performance of statutory functions relating to monitoring of financial and securities markets including the provision of investor education, the granting of exemptions and other general counsel duties by FMA.	6,837
Performance of investigation and enforcement functions. This appropriation is limited to the performance of statutory functions relating to the investigation and enforcement of financial markets and securities markets law by FMA.	5,749
	24,274
Part 5.2. Non-departmental other expenses	
FMA 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 by FMA.	2,500
Part 6.2. Non-departmental capital expenditure	
Investment in FMA. This appropriation is limited to meeting the cost of capital requirements for the regulation of investment and securities markets and the financial industry by FMA.	5,000

Further information is available in B5 of *Budget 2011 – Estimates of Appropriation for the Government of New Zealand for the year ending 30 June 2012*.

Statement of significant accounting policies

Reporting entity

The forecast financial statements presented here for the reporting entity, FMA, are prepared pursuant to section 154 of the Crown Entities Act 2004. FMA is a Crown entity for legislative purposes and a public benefit entity for financial reporting purposes.

These forecast financial statements were authorised for issue by FMA on 3 October 2011.

These forecast financial statements have been prepared for the special purpose of the 2011/12 Statement of Intent of FMA to the Minister of Commerce. They are not prepared for any other purpose and should not be relied upon for any other purpose.

These forecast financial statements have not been reviewed or audited by our auditors, Audit New Zealand.

Basis of preparation

Statement of compliance

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards, as appropriate for public benefit entities.

Basis of measurement

The accounting principles recognised as appropriate for the measurement and reporting of results and financial position on a historic cost basis have been applied.

Functional and presentational currency

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

Use of estimates and judgments

The preparation of forecast financial statements in conformity with FRS-42 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual financial results achieved for the period covered are likely to vary from the information presented, and the variations may be material.

FMA is undertaking an external review of the opening balances of its balance sheet.

Significant accounting policies

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

a) Property, plant and equipment

Property, plant and equipment are shown at cost or deemed cost less depreciation, and less any impairment losses (see note (p)).

The library collections are subject to an opening balance review.

The following classes of property, plant and equipment have been depreciated over their economic lives on the following basis:

- office furniture – 20 percent of diminishing value
- office equipment – straight-line over three years
- leasehold improvements – straight-line over remaining life of lease
- library collections – straight-line over 10 years
- motor vehicle – straight-line over five years.

b) Intangible assets

Computer software that is not integral to the operation of the hardware is recorded as an intangible asset and amortised on a straight-line basis over three years.

c) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, held in bank accounts, and short-term deposits that form part of FMA's day-to-day cash management. They are short-term, highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in values. They are held for the purpose of meeting short-term cash commitments and have short maturities of three months or less.

d) Term deposits

This category includes only term deposits with maturities greater than three months. These deposits are loans and receivables under NZ IFRS. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method.

e) Trade and other receivables

Trade and other receivables and GST receivables are stated at cost less impairment losses.

f) Short-term employee benefits

Employee entitlements represent FMA's liability for employee annual leave entitlements. This has been calculated on an accrued entitlement basis which involves recognising the undiscounted amount of short-term employee benefits expected to be paid in exchange for service that an employee has already rendered. This is calculated at current remuneration rates.

g) *Superannuation schemes*

Obligations for contributions to KiwiSaver and the State Sector Retirement Savings Scheme are accounted for as defined contribution superannuation schemes and are recognised as an expense in the statement of financial performance as incurred.

h) *Operating leases*

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term after taking into account any lease inducements.

i) *GST*

All items in financial statements are exclusive of GST with the exception of trade and other receivables, and trade and other payables which are stated with GST included.

The statement of cash flows has been prepared on a net GST basis. That is, cash receipts and payments are presented exclusive of GST. A net GST presentation has been chosen to be consistent with the presentation of the statement of financial performance and statement of financial position. The net GST component of operating activities reflects the net GST paid to and received from IRD. The GST component has been presented on a net basis as the gross amounts would not provide meaningful information for financial statement purposes.

j) *Trade and other payables*

Trade and other payables and GST payable are stated at cost.

k) *Financial instruments*

A financial instrument is recognised when FMA becomes party to a financial contract. All financial instruments are recognised in the statement of financial position and all revenues and expenses in relation to financial instruments are recognised in the statement of financial performance.

Financial instruments comprise trade and other receivables, cash and cash equivalents, term deposits and trade and other payables.

l) *Income tax*

FMA is exempt from income tax under the Income Tax Act 2004.

m) *Revenue recognition*

Crown revenue is recognised as revenue in the year in which it is appropriated.

Revenue from application fees and recovery of related costs is recognised when the relevant services are provided.

Interest income is recognised as it accrues, based on the effective interest rate inherent in the respective financial instrument. The effective interest rate exactly discounts estimated future cash receipts through the expected life

of the financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest income each period.

n) *Cost allocation policy*

For the purposes of the statement of service performance, direct costs are charged directly to outputs. Indirect costs are allocated on the basis of direct labour hours spent on each output.

o) *Litigation fund*

Reimbursements from the Crown to top up the fund are shown as income in the period to which FMA's claim for reimbursement relates.

The balance of the fund is disclosed as a component of equity in the statement of financial position. The fund is restricted for approved litigation purposes only.

p) *Impairment*

FMA considers at each reporting date whether there is any indication that a non-financial asset may be impaired. If any such indication exists, the asset's recoverable amount is estimated.

Given that the future economic benefits of FMA's assets are not directly related to the ability to generate net cash flows, the value in use of these assets is measured on the basis of depreciated replacement cost.

At each balance date, financial assets such as receivables are assessed for impairment. Trade and other receivables are individually assessed for impairment. This assessment is also made with reference to previous experience with debtors. The recoverable amount is the present value of the estimated future cash flows.

An impairment loss is recognised in the statement of financial performance whenever the carrying amount of an asset exceeds its recoverable amount. Any reversal of impairment losses is also recognised in the statement of financial performance.

q) *Contingent assets and contingent liabilities*

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.

r) *Changes in accounting policy*

There have been no changes in accounting policies since the establishment of FMA.

Capital intentions

	2011/12 \$000s	2012/13 \$000s	2013/14 \$000s
Computer hardware	65	955	-
Computer software	1,580	2,850	-
Leasehold improvements	2,800	-	-
Furniture and fittings	-	150	-
Total	4,445	3,955	-

Appendix 1: Glossary

AFA	Authorised Financial Adviser – a financial adviser who is authorised in accordance with the Financial Advisers Act 2008
AML/CFT	Anti-Money Laundering/ Countering Financing of Terrorism – controls required to prevent, detect and report money laundering activities and financing of terrorist activities
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
AUSTRAC	Australian Transaction Reports and Analysis Centre
Credit rating agency	An agency that provides an independent assessment of credit risk associated with debt securities eg bonds
FMA	Financial Markets Authority
GFC	Global Financial Crisis – the collapse of the financial markets commencing in the US in 2007
Intermediary	An entity or person who provides financial advice or who markets and promotes financial products and services to consumers
Investor	A person who invests in assets, such as securities, property or commodities with the intention of financial gain; this may include experienced investors who regularly invest, retail investors, issuers and intermediaries
Issuer	A legal entity such as a company, trust, state-owned enterprise, territorial local authority or government that issues securities
MED	Ministry of Economic Development
NBDT	Non-Bank Deposit Takers – entities that are not registered banks but offer to the public one or more of the following services: debt securities; borrowing and lending facilities; and financial services, for example, finance companies, building societies and credit unions
NZICA	New Zealand Institute of Chartered Accountants
NZX	NZX Limited, New Zealand's only registered securities exchange operator
OTC derivatives	Over-the-counter derivative is an instrument that is traded directly between two parties without going through an intermediary or an exchange
QFE	Qualifying Financial Entity – an entity that is registered as such by FMA in accordance with the Financial Advisers Act
Statutory supervisor	An entity appointed under the Securities Act to oversee an issue of participatory securities
Trustee or securities trustee	A securities trustee appointed under the Securities Act to oversee a retail issue of debt securities

Appendix 2: Functions of FMA

FMA was established by the Financial Markets Authority Act. The Act establishes FMA as an independent Crown entity, and sets out its function and powers. The Act says FMA is to:

- promote the confident and informed participation of businesses, investors and consumers in the financial markets, including (without limitation) by:
 - collecting and disseminating information or research about any matter relating to those markets
 - issuing warnings, reports or guidelines, or making comments about any matter relating to those markets, financial markets participants or other persons engaged in conduct relating to those markets
 - providing information about its functions, powers, and duties under this Act and other enactments (including promoting awareness by investors that all investments involve risks and that it is not the role of FMA to remove those risks)
 - providing, or facilitating the provision of, public information and education about any matter relating to those markets
- perform and exercise the functions, powers and duties conferred or imposed on it by or under financial markets legislation and any other enactments
- monitor compliance with, investigate conduct that constitutes or may constitute a contravention of, and enforce financial markets legislation. In the case of core financial markets legislation (for example, the Securities Act, the Securities Markets Act 1988, and the Financial Advisers Act), FMA will perform this function in respect of all persons. In the case of broader corporate governance law (for example, the Companies Act and the Financial Reporting Act 1993), FMA will perform this function in respect of financial markets participants. Financial markets participants include all financial service providers under the Financial Service Providers (Registration and Dispute Resolution) Act 2008

- monitor, and conduct inquiries and investigations into any matter relating to, financial markets or the activities of financial markets participants or of other persons engaged in conduct relating to those markets
- keep under review the law and practices relating to financial markets, financial markets participants, and other persons engaged in conduct relating to those markets
- cooperate with any other law enforcement or regulatory agency or overseas regulators.

In addition to its functions under the Financial Markets Authority Act, FMA has specific regulatory functions under:

- Auditor Regulation Act
- Securities Trustees and Statutory Supervisors Act
- Anti-Money Laundering and Countering Financing of Terrorism Act
- Reserve Bank of New Zealand Act (designation of settlement systems – jointly with RBNZ).

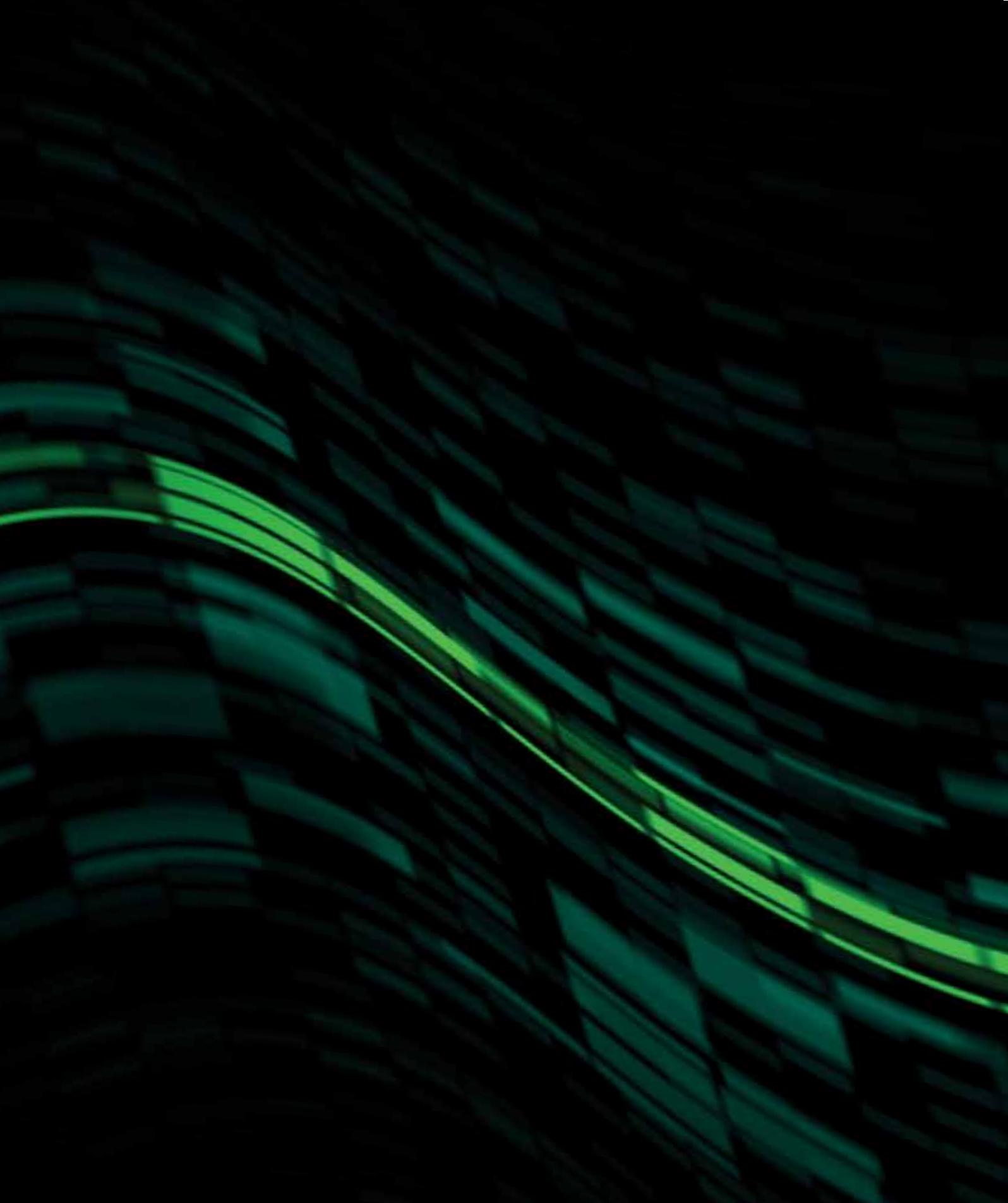
FMA will not monitor or enforce compliance of:

- prudential regulation which falls under the Reserve Bank of New Zealand Act and the Insurance (Prudential Supervision) Act (once enacted)
- laws enforced by the Commerce Commission (the Fair Trading Act 1986 and the Commerce Act 1986)
- laws monitored and enforced by MED (company and other governance laws for non-financial service providers, insolvency and personal property securities laws)
- registrar and associated functions under any of the relevant Acts, with the exception of the superannuation and KiwiSaver registration and supervision functions previously performed by the Government Actuary (including monitoring, on a quarterly basis, the current default KiwiSaver providers)
- Takeovers Code compliance
- occupational regulation of professions involved in the provision of financial services including lawyers, accountants, tax agents and real estate agents.

These specialist functions will continue to be fulfilled by the specialist organisations entrusted with them. FMA will, however, cooperate with and maintain close working relationships with these and other organisations.

FMA's creation comes at a time of legislative review. In particular, the review of securities law is expected to have changes in place during 2012. FMA will work closely with policy makers to progress these reviews and implement changes arising from them.

FMA performs functions in respect of all persons	FMA performs in respect of financial markets participants
<ul style="list-style-type: none"> • Financial Advisers Act • Financial Service Providers (Registration and Dispute Resolution) Act • Parts 4 and 5 and Schedules 1 and 2 of the KiwiSaver Act 2006 • Securities Act • Securities Markets Act • Securities Transfer Act 1991 • Superannuation Schemes Act 1989 • Unit Trusts Act 1960 • Auditor Regulation Act 2011 • Securities Trustees and Statutory Supervisors Act 	<ul style="list-style-type: none"> • Anti-Money Laundering and Countering Financing of Terrorism Act 2009 • Building Societies Act 1965 • Companies Act • Corporations (Investigation and Management) Act 1989 • Sections 228, 229, 240, 242, and 256 to 260 of the Crimes Act 1961 • Financial Reporting Act • Friendly Societies and Credit Unions Act 1982 • Industrial and Provident Societies Act 1908 • Part 5C of the Reserve Bank of New Zealand Act 1989 • Trustee Companies Act 1967 • Co-operative Companies Act 1996 • Limited Partnerships Act 2008



FINANCIAL MARKETS AUTHORITY
TE MANA TATAI HOKOHOKO - NEW ZEALAND