

Murray Jack
Chair
Financial Markets Authority
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Dear Murray

ANNUAL LETTER OF EXPECTATIONS FOR 2017/18

I am writing to convey my strategic and performance expectations for the Financial Markets Authority for the 2017/18 financial year. My expectations build on previous letters, and supplement those set out by the Ministers of Finance and State Services in the July 2012 Enduring Letter of Expectations, attached as an Annex to this letter.

These expectations are set out in the context that while the Authority is established as an Independent Crown entity and your statutory decisions are rightly made at arm's length from the Government, you are accountable to the Government (through me as the Minister of Commerce & Consumer Affairs) for the performance of your functions. As the representative of the Government, I expect the Authority to:

- apply your expertise to design strategies to achieve agreed objectives, in line with your legislation
- drive management to deliver those strategies and meet your performance expectations
- be the primary monitor of the Authority's performance
- maintain effective relationships with my advisors in the Ministry of Business, Innovation and Employment (the Ministry).

This letter is intended to clarify your Government's views on priorities.

Contributing to Government Priorities and the Business Growth Agenda

The Government's four priorities are to:

- responsibly manage the Government's finances
- build a more competitive and productive economy
- deliver better public services
- rebuild Christchurch.

These priorities are reflected in the strategic intentions set out for the Ministry, together with focusing on affordable housing, and regional and Māori economic development, while responsibly managing the government’s resources. I expect the Authority to contribute to achieving results against these priorities, as appropriate.

I also expect you to continue to consider how you can contribute to the Government’s Business Growth Agenda (BGA). The BGA aims to build a more effective and productive economy for New Zealand by supporting businesses to be more competitive and productive. It focuses on six key input areas: export markets, investment, innovation, skilled and safe workplaces, natural resources, and infrastructure.

The following paragraphs set out my specific expectations for the Authority.

Implementing the agreed strategy and priorities

Few agencies operate entirely independently – most are part of a system and need to work with other organisations in that system to be effective in achieving results for New Zealanders, both now and in the future. Results matter, not agency boundaries, processes, or unquestioned continuation of existing programmes. The Ministry has identified a number of regulatory systems and will be reviewing performance within these systems. The Authority has important roles in in the Financial Markets regulatory system, as shown in Figure 1 below:

Figure 1: Who carries out each regulatory function across MBIE’s regulatory systems?

	POLICY	OPERATIONAL POLICY/ SERVICE DESIGN	SERVICE DELIVERY	ADVICE/EDUCATION/ INFORMATION	COMPLIANCE AND ENFORCEMENT	MONITORING AND EVALUATION
FINANCIAL MARKETS		Financial Markets Authority				
			COMMISSION FOR FINANCIAL CAPABILITY			
		MBIE				MBIE

For the Authority, my particular expectations for 2017/18 are:

- i. Focus on improving conduct within the financial services industry, including by:
 - continuing extensive engagement with market participants about the conduct and governance expectations under the FMC regime;
 - coordinating with MBIE following the completed FMC transition period to monitor the operation of the FMC Act and to address any implementation issues;
 - implementing changes to the regulatory regime for financial advice;
 - building capacity to oversee conduct risks within populations at the regulatory perimeter; and

- actively identify and allocate resources to areas of strategic priority and apply an effective risk-based intelligence-led model of supervision and monitoring.
- ii. Maintain engagement with market participants, investors and government agencies, in particular:
 - engaging with MBIE and market participants to optimise innovation in the financial technology sector;
 - providing proactive policy advice to central government, including around the funding implications of the changes to the financial advice regime; and
 - continuing to engage with overseas regulators.
 - iii. Coordinate with MBIE and the Commission for Financial Capability to build investor capability and confidence, including by encouraging access to information and advice;
 - iv. Maintain the efficiency and integrity of the KiwiSaver system with a strong focus on provider transparency and engagement with investors, particularly those in default funds;
 - v. Promote certainty and reduce costs by enhancing staff capacity to address unnecessary regulatory burdens on financial service providers (for example through regulatory exemptions);
 - vi. Continue to focus on improving internal and external reporting frameworks to ensure transparency and accountability of expenditure;
 - vii. Ensure the ICT project intended to improve the FMA's intelligence gathering capacity is completed in an efficient and effective manner, and that MBIE is kept apprised of all major developments;
 - viii. Understand the direct and indirect costs of the Authority's actions on businesses and the wider economy [and look to maximise the net benefits from your activities wherever possible](#); and
 - ix. Implement regulation effectively and efficiently.

Risks, opportunities, and no surprises

As noted in the Annex, please ensure that an effective “no surprises” regime is in place. But I also ask you to avoid ‘pre-judging’ my potential responses to risks and opportunities. I expect to hear about emerging issues and what major actions the Authority is considering. My reactions will be based on a range of factors, including the benefits of new initiatives and of taking different approaches to achieve our goals.

Agency performance improvement

The Authority is the primary monitor of organisational performance and I expect you to be identifying indicators that support real achievement, and use effective mechanisms to monitor and continuously improve performance. Potential tools to help identify areas to focus on include commissioning a Performance Improvement Framework (PIF)

review, or an alternative review if there are good reasons to do this. Please let me and the Ministry know of your plans for 2017/18.

High Performing Board

Ensuring the Authority is, and remains, high-performing is essential. A high-performing and visionary board focuses on the long term while overseeing the present, anticipates disruption by looking for 'weak signals' as well as big patterns, and encourages and monitors a culture of innovation and empowerment. There are many tools to help boards assess and improve performance. I expect you to use a robust process, and advise me and the Ministry that this has been done and what steps you are taking to respond to the findings of your annual self-review. The Ministry can provide support in undertaking this work.

Your input into succession planning for the Authority is also sought. Again, please discuss this with the Ministry as you develop your thoughts on maintaining a strong Board for the Authority.

Contribution to delivery of Better Public Services Result 9

The Ministry is leading *Better Public Services Result 9: Better for Business*. This focuses on increasing public service efficiency and reducing compliance costs for business. We must maintain our momentum in making it easier for businesses and the public to engage online with the government and with government agencies. As part of this programme, a whole of government direction on implementation of the New Zealand Business Number (NZBN) came into force on 8 July 2016. This is a priority for the Government and I expect you to incorporate this into your business-facing systems, in accordance with the obligations for your agency as set out in the direction here:

<http://www.mbie.govt.nz/info-services/business/better-for-business/nzbn/document-image-library/signed-s107-ministerial-direction-nzbn.pdf>

Please ensure that your reports on progress under requirement 10, and on any emerging issues that could delay or frustrate implementation, are provided to both the NZBN Registrar at NZBN@mbie.govt.nz, and your usual contacts at the Ministry.

Strategy and performance information

All Crown entities must prepare an annual Statement of Performance Expectations (SPE) and have an approved Statement of Intent (SoI) in place. The annual SPE should provide a clear performance framework and support excellent reporting to Parliament and the public on results.

I want to ensure there are effective reporting arrangements to provide me and the Ministry with the right kind of information about your progress against your strategies,

and your management of risks and issues, at the right times. This may not be the same schedule that has applied in the past. As you can see in the Annex, the Government also expects publication of non-sensitive performance information throughout the year via your website.

Please discuss an appropriate reporting regime with the Ministry as your plans become confirmed for 2017/18. Once agreed, this should be reflected in the SPE, which must be provided to me by **1 May 2017**. This should be based on discussion with the Ministry prior to completion of the draft. I understand that the Authority intends to produce a new SoI for 2017-21 and I look forward to discussing that with you as it develops. The new draft SoI should also be provided to the Ministry by **1 May 2017**.

Response

Your advice by 28 February 2017 on how you propose to respond to the expectations set out in this letter and its Annex would be appreciated. The appropriate response may vary between entities and I would be happy to consider approaches that best achieve our collective aims and work well for the Authority. In the first instance, please discuss your proposed response with the Ministry.

Finally, I thank you, and the Board, management, and staff, for your efforts in 2016/17 and I look forward to working with you in the coming year.

Yours sincerely

Hon Jacqui Dean
Minister of Commerce & Consumer Affairs

Copy to: Rob Everett, Chief Executive, Financial Markets Authority

Brad Ward, GM Commerce Consumers and Communications, MBIE

Annex: Enduring letter from the Ministers of Finance and State Services



Office of Hon Bill English

Deputy Prime Minister
Minister of Finance
MP for Clutha-Southland

26 July 2012

Dear Board Chairs of Statutory Crown Entities

Enduring Letter of Expectations

This letter replaces the previous letter of expectations that was sent on 22 December 2008 to the chairs of boards of statutory Crown entities. The "no surprises" policy remains in place. No surprises means that the Government expects a board to:

- be aware of any possible implications of their decisions and actions for wider government policy issues
- advise the responsible Minister of issues that may be discussed in the public arena or that may require a ministerial response, preferably ahead of time or otherwise as soon as possible, and
- inform the Minister in advance of any major strategic initiative.

Crown entities must comply with the good employer provisions set out in the Crown Entities Act and maintain standards of integrity and conduct set out in the code of conduct for the State Services at www.ssc.govt.nz/code. We also expect entities to take account of the Government's expectations for Pay and Employment Conditions in the State Sector.

This Government requires effective self monitoring by boards

Your board is the most important monitor of entity performance. We expect boards to provide to responsible Ministers high quality information and analysis on entity performance against plan, implications for future performance, and risks and opportunities facing the entity. We also expect you to have a constructive working relationship with your monitoring department.

.... increased transparency of performance

We want to see boards operate transparently by disclosing non-sensitive entity performance information throughout the year via your websites, following discussion with your responsible Minister.

...and expects State agencies to deliver Better Public Services

The Better Public Services programme (www.ssc.govt.nz/better-public-services) focuses on delivering better results and improved services for New Zealanders. In that context, we expect boards to:

- maintain a thorough understanding of the business and cost drivers of your entities, and look for service improvements within tight fiscal constraints
- take opportunities to work with other agencies on joint procurement, shared services and delivering key results to maximise system-wide efficiency and effectiveness
- look for opportunities to share your ideas on how the State Services can operate more effectively and efficiently.

Yours sincerely

Hon Bill English
Minister of Finance

Hon Dr Jonathan Coleman
Minister of State Services

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