

Consultation paper
March 2018



Consultation on the content of regulatory returns for licensed DI, MIS managers and DIMS providers

Regulatory returns are required for licensed derivative issuers ('DI'), providers of discretionary investment management service ('DIMS providers') and/or managers of managed investment schemes ('MIS managers') – collectively referred to as 'licensees' – under the Financial Markets Conduct Act 2013 ('FMC Act').

The Financial Markets Authority (FMA) uses the information provided in the regulatory returns to monitor the licensee's ongoing capability to effectively perform their service. The provision of this information on a periodic or ongoing basis for this purpose is known as 'regulatory returns'.

The regulatory returns help us to check that licensees continue to perform licensed market services effectively post-licensing, based on their specific requirements.

We will treat all information obtained from the regulatory returns as commercially sensitive. However, we may report on statistical information on an aggregated non-identifiable basis from time to time.

This consultation:

- outlines the questions we propose to ask in the regulatory returns for DI, MIS manager and DIMS licensees
- invites your feedback on the appropriateness and format of the information we collect.

Submissions close on Wednesday 11 April 2018, at 5pm.

This consultation is for licensed derivative issuers (DI), managers of managed investment schemes (MIS managers), providers of discretionary investment management services (DIMS providers), and other interested parties.

It aims to gain feedback on our proposals for regulatory returns for licensed DI, MIS managers and DIMS providers.

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Background

Why we request regulatory returns

Regulatory returns give us up-to-date, relevant information about your business, which may have changed since your market service licence was granted. The information you provide helps us to consider how you continue to meet the eligibility criteria and your market service licence obligations. It helps us to understand the people and businesses we regulate, and to determine the focus and priority of any monitoring activities.

The information we obtain from licensed populations also helps us to understand the different sectors of the financial markets. It enables us to identify issues or themes across the market that may require further exploration.

Regulatory returns

Standard condition:

You must provide us with the information we need to monitor your ongoing capability to effectively perform your [licensed market] service in accordance with the applicable eligibility criteria in the Act. This will include updated information on the nature, size and complexity of your [licensed market] service. Information must be provided in accordance with any Regulatory Return Framework and Methodology we issue under subpart 4, part 9 of the Act.

Framework and methodology

Frameworks and methodologies are subordinate legislation that detail any applicable technical requirements. We are not required, by law, to introduce either. Our view at this time is that they are not necessary for the type of information we need from this group of market service licensees.

Consultation

As at February 2018, there are 21 licensed DI, 66 licensed MIS managers and 53 DIMS providers in the market. In this consultation, we are interested in the views of licensees, industry advisers, and current or potential licence applicants.

We have provided the questions to be included in the regulatory returns for licensed DI, licensed MIS managers and licensed DIMS providers for comment before publishing the information requirements for the regulatory returns for these licensee groups. We invite your feedback on the questions we are proposing to ask.

We will shortly be conducting another public consultation on the proposal for all licensees to make an annual declaration of compliance as part of their regulatory returns. We will also be asking your views on updating the current standard condition and the process for making minor amendments to the regulatory returns in the future.

Our proposal

Content of the regulatory returns

Information

The purpose of a regulatory return is to:

- gain information about a licensee's business
- give an indication of the size and nature of their business, compliance performance and potential risks.

This paper has three accompanying documents, one each for DI, MIS managers and DIMs providers, outlining the information we propose to ask for from licensees. Please refer to set of questions that relate to your licence type.

Each question includes brief guidance on how to answer, along with the rationale for requiring the information. The questions have been designed to:

- provide insight into the operations of licensees that will enable us to evaluate the risk of material issues
- better understand key stakeholders in the business and where there may be risk concentrations within the industry
- better understand the methods used to consider client needs in the operation of the business.

This information will enable the FMA to be better informed about entity-specific issues and broad industry themes, so that we can better prioritise and focus our monitoring efforts.

We want to know your views on whether the information requested is appropriate. Let us know if you think there is any other useful and relevant information we should include.

Let us know if there are any implications for your business associated with providing the requested information. We are interested in having a better understanding of both the feasibility of obtaining the information and the cost in time and money for development. Please consider both initial and ongoing costs.

We welcome all of your comments. In particular, if you feel an alternative question would achieve the same objectives or if certain information is not readily available to you, please let us know your ideas or concerns.

MIS underlying wholesale information

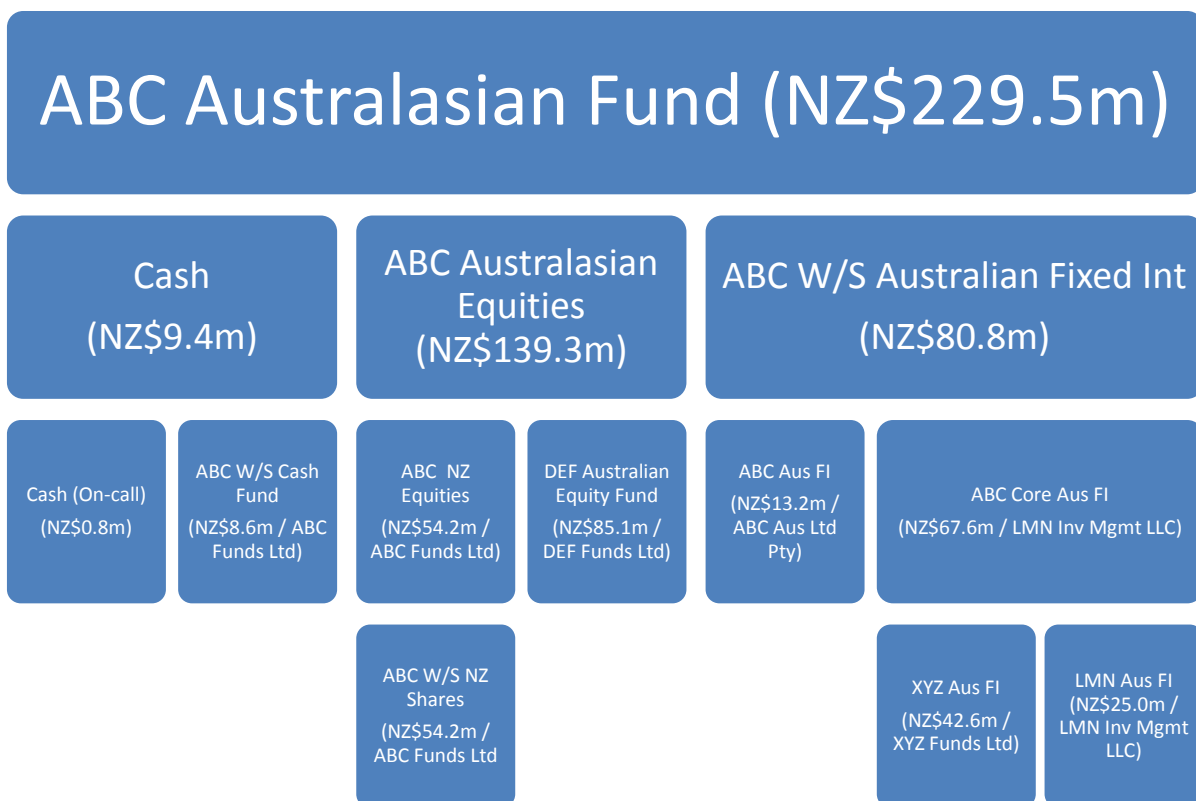
Questions 21-23 in the 'Information about your funds' section of the proposed MIS manager regulatory return form are meant to capture information about the underlying wholesale funds/portfolios, their managers and domiciles. This will enable us to understand concentration risks within the industry as well as to characterise the wholesale population. The questions assume that most underlying portfolios are based on a single asset class.

We recognise that there can be multiple levels of wholesale portfolios managed in-house or by a related party and we will capture this information in different ways.

If a wholesale portfolio is managed in-house, we intend to capture the ultimate portfolio that actually holds individual securities.

- If the retail fund or wholesale portfolio is managed by an unrelated third party, we would then look to capture the details at the first-level portfolio managed by the third party.
- Where there are multiple underlying pools for an asset class, we would look to receive the information for each within the same cell, separated by a semi-colon. Some examples are provided in the diagrams below.

For example, if you managed a scheme with one fund which had multiple underlying wholesale portfolios, like the one below, your tables would look like examples one and two, on the following page.



Example 1: Only relevant columns are shown for display purposes

ABC Australasian Scheme	Cash	International fixed interest	Australasian equities	Total FUM	Unique Investors
ABC Australasian Fund				\$229.5m	8,850
Manager(s)	N/A; ABC funds Ltd	ABC Aus Ltd Pty; XYZ Funds Ltd; LMN Inv Mgmt LLC	ABC Funds Ltd; DEF Funds Ltd		
Pool(s)	On-call accounts; ABC W/S Cash Fund	ABC Aus FI; XYZ Aus FI; LMN Aus FI	ABC W/S NZ Shares; DEF Australian Equity Fund		
\$ Exposure per pool	\$0.8m; \$8.6m	\$13.2m; \$42.6m; \$25.0m	\$54.2m; \$85.1m		
ABC Australasian Scheme TOTAL	\$9.4m	\$80.8m	\$139.3m	\$229.5m	8,850

Example 2: The related table for question 3 of “Information about your funds” in the MIS questions

Pool name	Manager	Domicile	Related party?
ABS W/S Cash Fund	ABC Funds Ltd	NZ	Yes
ABC Aus FI	ABC Aus Ltd Pty	Australia	Yes
XYZ Aus FI	XYZ Funds Ltd	NZ	No
LMN Aus FI	LMN Inv Mgmt LLC	Jersey	No
ABC W/S NZ Shares	ABC Funds Ltd	NZ	Yes
DEF Australian Equity Fund	DEF Funds Ltd	NZ	No

We recognise that the Reserve Bank of New Zealand (RBNZ) captures similar information in their quarterly and annual surveys. However, this data is put together differently – it captures aggregate entity-level data; we are looking to capture information to recreate the wholesale market, and how it

relates to the retail market. More importantly, we are aware that the RBNZ survey requests data in a way that is significantly different from how most MIS managers record this information.

We are in discussions with RBNZ to design a survey that would meet the needs of both RBNZ and the FMA while being simpler for MIS managers to report. If a combined survey is created, it may become a part of the regulatory return. Alternatively, we may adapt the regulatory return to eliminate duplication of effort. While this information is lengthy, it is fundamental to understanding the construction of, and risks in, the industry. We invite your comments on both the questions here, and how to integrate these reports in a way that will reduce regulatory burden.

Reporting period

Regulatory returns will need to be filed annually. We propose that regulatory returns be completed within a two-month window from 1 July, with data provided as follows:

- DI and DIMS providers: for the year 1 July to 30 June
- MIS managers: for the financial reporting year.

The first regulatory return would be due by 31 August 2019, for the year 1 July 2018 to 30 June 2019 (DI and DIMS providers) and for the financial reporting year ending in 2019 for MIS managers. However, we would appreciate if you could provide what information is available (i.e. partially completed return), on a **voluntary/best-effort** basis for the 2018 data.

Please use the feedback form provided with this document and the additional form appropriate to your service (one for each of DI, MIS and DIMS) associated with this paper to answer all questions.

Questions

1. Do you agree with the proposed reporting period for the regulatory returns? If you disagree, what is your preferred reporting period, and why?
2. Do you think the requested information is appropriate and sufficiently well defined? Is there any information that we should not ask for, or any clarifications we should make? Please give your reasons for this.
3. Do you think there is any other information we should ask for? If so, what information? What would be the benefit of that information?
4. Where information requested has ranges, do you agree with the proposed ranges for reporting? If not, which ranges should we use?
5. Does providing the suggested information involve any systems changes or major cost of compliance for your organisation? If so, please outline these costs or changes. Please estimate which of these costs would be initial costs and which would be recurring costs, and note if these costs would be specific to the licensee or would be a cost shared with other entities (e.g. the costs for an administrator or registry to implement systems or reporting changes).
6. Do you agree with the concept of requesting available information in 2018 on a voluntary / best-efforts basis?
7. Where information is not currently available, do you agree that providing that information by 2019 is reasonable? If not, please explain why, and note when it would be reasonable to require.
8. We are considering the concept of accepting approximate good-faith responses, on the assumption that it could provide meaningful information at a much lower burden on the market and would welcome your opinion. Do you agree with that approach? Do you believe it would significantly reduce the regulatory burden? If so, what percentage of the preparation time could be reduced? Are there any areas where you would need further guidance or assurance from the FMA to make this feasible? Please provide any other comments or concerns you have with this concept.
9. Is the intent of MIS questions 21-23 in “Information about your funds” clear? Do you need any additional guidance to make clear what is requested? Please provide any comments as to how to make this clearer. Is there an ID (e.g. ISIN, LEI, Morningstar, Bloomberg) that would be most suitable for uniquely identifying wholesale pools?
10. We want the market to benefit from this information as well as the FMA. Are there aggregate reports that could be generated from this data that would be useful for the industry (while maintaining confidentiality of commercially sensitive data)?
11. Do you have any other comments on the proposed regulatory returns?

Next steps

[How do I make a submission?](#)

This paper has three accompanying documents, one each for DI, MIS managers and DIMs providers, outlining the information we propose to ask for from licensees. Please refer to set of questions that relate to your licence type and use the feedback form to respond to the questions in this consultation document.

Submissions close Wednesday, 11 April 2018 at 5pm.

[Where can I find out more information?](#)

If you have any questions about this consultation, please contact Michael Maich on 09 300 0482.

AUCKLAND OFFICE
Level 5, Ernst & Young Building
2 Takutai Square, Britomart
PO Box 106 672
Auckland 1143

WELLINGTON OFFICE
Level 2
1 Grey Street
PO Box 1179
Wellington 6140

