

ANNUAL REPORT 2012



FINANCIAL MARKETS AUTHORITY
TE MANA TATAI HOKOHOKO - NEW ZEALAND

Financial Markets Authority

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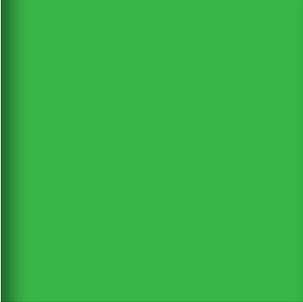
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OUR VISION & VALUES

WE ASPIRE TO BE

An organisation that delivers a robust regulatory framework and visible, proactive and timely enforcement to promote fair, efficient and transparent financial markets that restore and inspire investor confidence.

OUR VALUES

BOLD

› Enterprising; Intrepid; Daring

PROACTIVE

› Strategic; Can-do; Forward-thinking

RESPECTED

› Astute; Credible; Fair; Accountable;
Consistent; Transparent

CONNECTED

› Visible; In-the-know; Influential

AGILE

› Nimble; Adaptable; Energetic

Our Purpose

To promote and facilitate the development of fair, efficient, and transparent financial markets. Our mandate is to strengthen the public's confidence in New Zealand financial markets, promote innovation and grow New Zealand's capital base.

What we do

The Financial Markets Authority (FMA) is New Zealand's financial conduct regulator. FMA was established on 1 May 2011 by the Financial Markets Authority Act 2011 (FMA Act), in response to the need to address failures in New Zealand's financial markets, which were exacerbated by the global financial crisis.

The Government recognised that New Zealand required a single conduct regulator to proactively monitor and enforce securities legislation, as well as work with the Reserve Bank of New Zealand (RBNZ), the prudential regulator, and other regulatory and public sector enforcement bodies.

The FMA Act established FMA as an independent Crown entity. FMA's functions include:

- 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 New Zealand's financial markets
- to license and supervise particular financial markets participants, including financial advisers, 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.





CHAIRMAN'S REPORT

This first annual report on FMA's operation covers the 14-month period since its establishment on 1 May 2011. It has been an intensive time of building governance and organisational frameworks and capacity.

As the new conduct and disclosure regulator, FMA has made significant progress in setting expectations for financial markets participants, assisting compliance, taking appropriate enforcement action and building a new regulatory approach through engagement with stakeholders. The FMA Act 2011 requires us to act independently in performing our statutory functions.

FMA's key strategic outcome set out in our Statement of Intent is to 'increase confidence and participation in New Zealand's financial markets'. This is no small task given the turbulent period New Zealand has experienced following a domestic recession, the global financial crisis and finance company failures.

Our enabling legislation has provided the mandate to build fair, efficient and transparent markets and greater ability to act. FMA has greater powers of surveillance, regulation and enforcement than its predecessor. We also have wider scope in terms of people and entities we oversee, ranging from registered securities exchanges, superannuation schemes, issuers and brokers, to financial advisers.

Subject to passage of the Financial Markets Conduct Bill now before Parliament, FMA's sphere of regulatory oversight is expected to increase. The Board welcomes this expansion of responsibilities and regards it as necessary to give effect to the recommendations of the Capital Markets Development Taskforce, as well as increasing standards required of securities regulators globally.

FMA has effectively implemented a new engagement model and sent a clear message to the market, investors and the public that we are serious about our task and playing our role to help grow New Zealand's capital markets. Vibrant and well-functioning financial markets are essential to achieving our economic and social goals.

Efficient markets ensure investment finance reaches our productive sector to help it to grow, along with creating employment and wealth. Healthy markets also provide investors the opportunity to create diversified portfolios that can help achieve their financial goals.

FMA's strategy to help develop financial markets that efficiently allocate capital, operate with integrity and provide more diverse investment opportunities has been focused around:

- ensuring market participants are clear about FMA's expectations while providing the market the scope to develop the way it meets these expectations
- actively assisting and monitoring the extent to which compliance is achieved and markets are successful
- exercising the full scope of our regulatory powers in a prudent manner, ensuring proportionality of our response and maximum value from the use of our resources
- addressing the asymmetry of information, so investors can make more informed decisions on risk and return.

It is not FMA's role to remove risk, nor hinder innovation. Our mandate is to provide a well-functioning and regulated framework which requires working closely with market participants.

FMA cannot achieve its objectives alone. We need creativity, competition and integrity to underpin productivity and increased confidence in our markets. We are hopeful that the new regulatory landscape and approach will bring about a new era of professionalism, good governance and growth for New Zealand's economy.

Simon Allen



CHIEF EXECUTIVE'S REPORT

FMA is pleased to present this first annual report outlining its performance since our launch on 1 May 2011.

Creating a new approach and culture in our financial markets has been a key theme of our first year. We have deliberately set about defining the role of FMA as the new conduct and disclosure financial markets regulator, with vigour and determination. This has involved a new level of openness and engagement with market participants, and we have been encouraged by their largely positive response and welcome to our oversight role.

FMA has made communication its primary focus over the last 14 months. We have been out explaining our role and functions, along with our vision for increasing the level of confidence and integrity in our markets.

What we are seeking to foster is a culture in which all market participants take the new rules and responsibilities of conduct, governance and disclosure seriously. Importantly, we have emphasised our preference for compliance over enforcement. This top of the cliff approach is essential to building trust and maximising return on the use of our resources. Knee-jerk, reactive regulation is not our preference, especially where little can be done to restore investor confidence, and where the only outcome is punitive.

We have also done a lot of listening. This has involved a significant amount of consultation that has been overwhelmingly welcomed. Informed by our market dialogue and best practice, we have issued extensive market guidance to help set expectations. We commit to a mature, balanced approach to setting the boundaries and framework within which the market can operate.

FMA introduced a licensing regime through the Securities Trustees and Statutory Supervisors Act, to ensure all trustees and statutory supervisors are capable of performing their functions and meeting their obligations. This is a significant milestone in improving standards of supervision to help protect the interests of security holders and residents of retirement villages.

An important role for FMA is ensuring that, once established, boundaries are well monitored and continually assessed for effectiveness. We have put significant effort into establishing a strong and credible framework within which our market operates, but this requires all participants to recognise that unregulated behaviour, or acting outside the regulated markets will invite action from FMA, wherever our powers permit.

In the case of Perpetual Trust Limited, FMA moved proactively in the interests of investors and the action resulted in the repayment of \$25 million to funds for which Perpetual is trustee. In our view the loans were not in the best interests of investors in the funds and reflected a lack of understanding by Perpetual of its role as trustee. FMA's inquiries into Perpetual and related entities are ongoing.

As a whole, the market is now better informed about their obligations and how to meet them. On the demand side of the market, investors will be better served with improved information and disclosure so they can make more informed decisions. We expect that as a result of our ongoing and planned work on improved guidance and disclosure, along with an increased level of attention to investor education initiatives, there will be a further tangible increase in confidence and participation in our financial markets.

Casting a spotlight on market activity where it is in the interests of investors is critical in rebuilding investor confidence and giving investors a sense of fair play. These actions have served to prevent or minimise loss and generated a significant amount of support. Our focus is on conduct that harms or presents the greatest likelihood of harm to the function of fair, efficient and transparent markets. As a consequence, FMA does not seek to pursue every suggestion of misconduct or possibility of a breach, where it is neither in the public interest to do so, nor an appropriate use of our resources.

Visible, proactive and timely enforcement will always be a critical part of our mandate and we have already taken a range of both inherited and new actions where appropriate. While FMA has had the unenviable task of working through a backlog of finance company cases, we have also had to exercise judgment as to which cases to pursue with an emphasis on what is in the public interest.

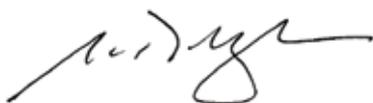
The Financial Markets Conduct Bill is currently before Parliament and FMA looks forward to the modernisation of New Zealand's 35 year old securities laws. We have played a key advisory role on the development of the Bill, along with a range of other financial markets legislation and regulations. FMA will be primarily responsible for the new conduct law which will further bolster our capability.

To gauge our effectiveness over this first year, we undertook a survey with some of FMA's stakeholders in June. It was found that 85 percent have significant awareness of FMA, while 83 percent have increased their level of awareness of

FMA over the last year. These results reflect a high level of engagement and communication, which is an important part of the change in culture and approach we want to achieve.

While international markets uncertainty continues, we have made significant progress towards ensuring New Zealand's financial markets participants are meeting their responsibilities within a robust new regulatory framework. In what has been an intensive year, FMA has achieved a great deal toward raising standards of conduct and disclosure, and inspiring investor confidence.

FMA is grateful for the level of support and engagement from all of our stakeholders and we look forward to continuing to work together to build New Zealand's financial markets.



Sean Hughes

Outlook

FMA's first, formative year is now behind us, and solid progress has been made on our sustainable delivery against many of our stakeholders' early expectations. Our focus is increasingly turning to the horizon and our ability to detect and protect against threats to the operation of well-functioning markets. Specifically we are looking to:

- Collaborate with our partners to raise the standards of conduct, good ethics and integrity amongst market participants above bare minimum compliance, and so build a more mature market.
- Encourage innovation and appropriate risk-taking in both product development and distribution, while recognising that the primary duty of all market participants is to put customers' interests first.
- Embed New Zealand's unique frontline regulatory roles for NZX, accredited auditor bodies, trustees and statutory supervisors, and qualifying financial entities, alongside other gatekeepers. In doing so, we balance their direct transactional supervision with appropriate oversight by FMA.
- Assist both consumers and market participants throughout the reconstruction of Christchurch to ensure a confident, healthy marketplace.
- Leverage our close relationships with peer agencies in Australia and the Asia Pacific region, in order to enhance the reputation of New Zealand's capital markets regulation.

While our focus is on building an ethical culture that supports strong standards of conduct and integrity amongst New Zealand's financial markets participants, FMA will continue to be vigilant in monitoring compliance, particularly at the regulatory perimeter.

HIGHLIGHTS

The following were among the most significant actions taken by FMA during this reporting period.

Stakeholder feedback

In July 2012, FMA completed a stakeholder survey which found 83 percent of stakeholders increased their awareness of FMA over the last 12 months. Results showed that 73 percent believe we have performed well in helping to lift levels of competency and compliance by financial markets participants. They see FMA as having a progressive, consultative style and said they valued this approach and feel it improves outcomes for all involved.

Guidance

FMA introduced new regimes and specific guidance where gaps in understanding and potential risks in the marketplace were found. Guidance issued included:

- July 2011: Financial Advisers (Australian Licensees) Exemption Notice
- November 2011: Securities Trustees and Statutory Supervisor Licensing
- December 2011: Code Standard 6(d) of the Code of Professional Conduct for AFAs
- January 2012: Anti-Money Laundering/Countering Financing of Terrorism (AML/CFT) Guide for small financial adviser businesses
- May 2012: KiwiSaver Performance Fees
- June 2012: Effective Disclosure.

FMA also issued consultation papers on the proposed processes for licensing auditors and registering audit firms. This was followed by the publishing of a monitoring plan for auditors to ensure they had adequate information on FMA's monitoring priorities and expectations.

- April 2012: Assessment of applications to be an accredited body under the Auditor Regulation Act 2011
- April 2012: Prescribed minimum standards for accredited bodies under the Auditor Regulation Act 2011
- April 2012: Prescribed minimum standards and conditions for licensed auditors and registered audit firms
- June 2012: Licensing and registration of overseas auditors.

FMA has worked with our joint supervisors for AML/CFT to publish the following joint AML/CFT guidelines on FMA's website:

- June 2011: Risk Assessment Guideline
- September 2011: Identity Verification Code of Practice
- September 2011: Interpreting 'Ordinary Course of Business' Guideline
- December 2011: AML/CFT Programme Guideline
- July 2012: Designated Business Group – Scope Guideline
- July 2012: Designated Business Group – Formation Guideline
- July 2012: Countries Assessment Guideline.

Enforcement

FMA issued its Enforcement Policy, which sets out our tailored approach to enforcement. This is intended to guide and inform financial markets participants. We will revise the policy from time to time in accordance with FMA's evolving organisational objectives and priorities.

A snapshot of FMA's enforcement activity carried out during the period, using the full range of enforcement tools, included:

- issuing warnings about unsolicited offers (and accepting enforceable undertakings from those making offers to include a warning statement in their offer documents)
- taking action against participants who made misleading offers
- issuing warnings to those conducting unacceptable KiwiSaver sales practices, and issuing warnings to investors who may be affected
- initiating inquiries into misleading offer documents, resulting in the withdrawal of a prospectus and suspension of allotment of securities and provision of enforceable undertakings
- making enquiries into instances of market manipulation, insider trading and breaches of continuous disclosure obligations
- achieving voluntary compliance from financial markets participants with respect to requirements for offer documents
- reaching a settlement with Kiwi Finance Limited and full recovery for investors following investigation into misleading offer documents

- initiating and continuing the court action and investigations into failed finance companies
- successfully defending a claim by a financial adviser who felt he had been unfairly declined authorisation.

Contacts

FMA set up a new complaints and enquiries database and has received 4758 enquiries and complaints over the last 12 months. This number includes enquiries received and handled by the Ministry of Economic Development (MED), now the Ministry of Business, Innovation and Employment on FMA's behalf.

Fundraising

FMA developed a Risk-based Prospectus Review Framework to meet its statutory objectives by identifying high-risk prospectuses that require detailed review. Ten percent of the total number of prospectuses registered were identified as high-risk and fully reviewed.

Exemptions

Examples of some of the significant exemptions granted during this period are listed below:

- FMA initiated a review of an expiring exemption for liquid collective investment schemes which enabled these schemes to renew prospectuses. The new exemption requires the issuer to provide information on fund performance that is able to be compiled quickly and is more useful for investors for investment decision making.
- We granted exemptions to allow the release of a broader scope of information about a proposed offer of securities. These exemptions were in relation to: Fonterra Co-operative Group Limited's proposal to offer interests in Fonterra to members of the public, who are not farmers that supply milk to Fonterra, and the Crown's proposal to sell a proportion of its interests in a number of state-owned energy companies and Air New Zealand Limited.
- FMA granted an exemption from the Financial Adviser regime, to recognise the qualifications of Australian advisers in the spirit of trans-Tasman mutual recognition. Our exemption, and mutual amendments made by the Australian Securities and Investment Commission (ASIC) to its regulatory guides, enables appropriately qualified and experienced New Zealand and Australian financial advisers to provide investment advice services in both countries.

External engagement

FMA issued 63 media releases on topics such as guidance, warnings to investors, enforcement action and law changes over the last 12 months.

We updated our investor information, producing four investor brochures on: Investment scams; Low ball offers; Questions to ask financial advisers; and Confidence comes from sound advice.

Our senior leadership team undertook 83 keynote speaking engagements over the last 12 months.

FMA extended our Auckland presence with the opening of a second office, in order to better meet the needs of the Auckland market and its large number of stakeholders.



MEMBERS OF THE BOARD

The Board consists of nine members and three associate members appointed by the Governor-General on the recommendation of the Minister of Commerce.

Members hold office for a term not exceeding five years and may be reappointed. The Board began the 2011/12 year with 12 members.

The Board held 13 regular monthly meetings, five special meetings, 18 committee meetings and 45 division meetings (total 63). The Audit and Risk Committee, chaired by Murray Jack, met nine times with other members Shelley Cave, Justine Smyth and ex-officio member Simon Allen.



Members of the Board as of 30 June 2012



Simon Allen BSc, BCom **Chairman**

Skills and experience: Simon was the founder and former Managing Director of ABN AMRO New Zealand Limited. He was Chair of NZX Limited (NZX) from 2001 until 2008.

Other current appointments: Chair of Crown Fibre Holdings Limited and Auckland Council Investments Limited. He is also the Deputy Chair of St Cuthbert's College in Auckland, the Snowvision Charitable Trust and a director of Xylem Investments Limited.



Colin Giffney BSc, BCom **Member**

Skills and experience: Colin is a corporate adviser at Giffney and Jones. He has extensive experience in financial markets and on the boards of public, private and Crown entities.

Other current appointments: Chair of Solution Dynamics Limited, Renaissance Corporation Limited and Kompass (N.Z.) Limited. He is Deputy Chair of the Takeovers Panel and a director at Hughes & Cossar Holdings Limited and Windhorse Limited.



James Miller BCom, FCA **Member**

Skills and experience: James has more than 15 years' experience in the financial sector, specialising in company research. He is regarded as one of the country's most experienced equity analysts.

Other current appointments: Director of NZX Limited, Mighty River Power Limited and Auckland International Airport Limited. He has recently retired as Chair for Kingfish Limited, Barramundi Limited and Marlin Global Limited.



**Justine Smyth BCom
Member**

Skills and experience: Justine is a professional director. She has expertise in governance, mergers and acquisitions, taxation and financial performance of large corporate enterprises and the acquisition, ownership, management and

sale of small and medium enterprises. Justine is a member of the Audit and Risk Committee.

Other current appointments: Chair of the New Zealand Breast Cancer Foundation. She is also a director of Auckland International Airport Limited, a director of Telecom Corporation of New Zealand Limited (Telecom), a Trustee of Pure Advantage and an executive director of Lingerie Brands Limited.



**Mark Verbiest LLB
Member**

Skills and experience: Mark is a professional director and a consultant at Simpson Grierson. He was Group General Counsel for Telecom New Zealand from 2000 to 2008 and a senior partner in Simpson Grierson, specialising in mergers

and acquisitions and securities, competition and utilities-related law. He was previously a member of the Securities Commission.

Other current appointments: Chair of Telecom New Zealand, Transpower New Zealand Limited and Willis Bond Capital Partners and a director of Freightways Limited.



**Mary Holm BA, MA, MBA
Member**

Skills and experience: Mary is a financial columnist, author and senior lecturer in financial literacy at The University of Auckland. She was a member of the Capital Markets Development Taskforce and the Savings Working Group.

Other current appointments: Director of the Banking Ombudsman Scheme.



**Michael Webb LLB
Member**

Skills and experience: Michael is a barrister specialising in banking, corporate, financial markets, insolvency and regulatory law. He has extensive experience on the boards of various New Zealand and Australian companies and

Crown entities. Other appointments have included Managing Director, financial sector development and policy at Qatar Financial Centre Regulatory Authority, member of the Securities Commission and Chair of the Ministerial Task Force on Financial Intermediaries.

Other current appointments: Non-executive adviser to the Board of Deloitte New Zealand.



**Murray Jack BCom, CA
Member**

Skills and experience: Murray is currently Chairman of Deloitte New Zealand, having previously been Chief Executive from 2005 to 2011. He has been involved in the development of the auditor oversight regime and related regulatory issues and

in the governance of accounting and auditing matters. He has over 25 years' experience as a management consultant and is the Chair of the Audit and Risk Committee. He was previously a member of the Securities Commission.

Other current appointments: Board member of the New Zealand Institute of Chartered Accountants and the New Zealand United States Council.



**Shelley Cave LLB
Member**

Skills and experience: Shelley is a partner at Simpson Grierson, specialising in corporate and securities law. Shelley is a member of the Audit and Risk Committee and was previously a member of the Securities Commission.

Other current appointments: Member of the New Zealand Venture Capital Association and the Institute of Directors in New Zealand.



Arthur Grimes BSocSc (Hons), MSc, PhD
Associate member

Skills and experience: Arthur is an economist and has extensive experience in the financial sector. He has been heavily involved in economic research with Motu

Economic and Public Policy Research Trust, where he is a senior fellow. He is also an adjunct professor of Economics at The University of Auckland.

Other current appointments: Chair of Reserve Bank of New Zealand and Trustee of the Reserve Bank of New Zealand Staff Superannuation Fund. He is also the Chair of the Hugo Group and the Postal Network Access Committee.



Bruce Sheppard BCom, CA
Associate member

Skills and experience: Bruce is an accountant and partner of Gilligan Sheppard. He founded the New Zealand Shareholders' Association in 2001 and was Chair until July 2011. For over 25 years

Bruce has been advising clients on issues

relating to tax, business optimisation, succession planning, and risk and capital management.

Other current appointments: Chair of T & T Fashions Limited, Spitfire Semiconductors Limited, Connexionz Limited and Future Technologies International Limited. Bruce is a director of Southern Hills Imperial Timber Limited, Archibald and Shorter Roverland and Blue Seventy Procurement Limited. He is also a Board member for Swashpump Technologies, Argus Bensen Group, Brilliance Holdings Limited and Islay Group Limited.



Rebecca Thomas (Mrs. Rebecca Eele) LLB (Hons)
Associate member

Skills and experience: Rebecca has more than 25 years' experience in financial markets in New Zealand and overseas and is a member of the Chartered Institute for Securities and Investment of London.

She has a background in law and business, having held roles as both a Chief Executive and independent director on UK listed and unlisted companies. Rebecca is currently the Chief Executive of Mint Asset Management Limited, a New Zealand-based fund manager.

Other current appointments: Board member of KiwiRail and a Trustee of the Professionelle Foundation.



LEADERSHIP TEAM



Sean Hughes
Chief Executive

Prior to moving to New Zealand in 2011, Sean's international career included over 20 years' corporate, legal and regulatory experience in Australia, Hong Kong and the UK. He has held senior executive roles in risk management and legal services at

two of the major Australian banks, including Group General Manager, Group Compliance at ANZ, as well as senior executive governance roles at the Australian Securities and Investments Commission (ASIC), in both the capital markets and enforcement areas. Sean has also been a non-executive director in public sector occupational health and safety agencies, as well as education and leadership development entities. He holds degrees in history and law from the University of Canterbury and University of Cambridge, as well as post-graduate qualifications in corporate governance.



Adam Hunt
Head of Strategic Intelligence

Adam leads FMA's intelligence and knowledge management activities, ensuring FMA has accurate and up-to-the-minute knowledge of the market, from both a local and global perspective. His background is in compliance, intelligence,

digital forensics and information technology. Adam was previously director of tax solutions and strategy at Oracle Corporation and establishing manager of Inland Revenue's strategic risk and intelligence unit.



Belinda Moffat
Head of Enforcement

Belinda's role at FMA is to develop and lead FMA's investigation, forensic accounting and litigation capability. Belinda brings considerable experience of litigation from her career in legal private practice. Prior to joining FMA, Belinda

was Head of Dispute Resolution at Westpac New Zealand. She has practised as a commercial litigation lawyer in both New Zealand and the UK and has appeared before Courts and Tribunals in New Zealand, the UK, the USA and in the Caribbean in relation to commercial, banking and finance, competition and criminal matters.



Diane Maxwell
Head of Stakeholder Management

Diane provides strategic and operational management of FMA's communications, media and stakeholder engagement activities. Prior to joining FMA, Diane was Head of Brand and Corporate

Affairs at Bank of New Zealand. Her previous roles have included partner at Michaelides and Bednash in London, Media Director at Saatchi and Saatchi NZ, and trans-Tasman Consultant for the banking and telecommunications sector. Diane has been a weekly contributor on NZ station Viva FM and on BBC Radio 5 Live in the United Kingdom.



Duncan Smith
Head of Business Performance

Duncan ensures FMA has the organisational performance tools and capability to function effectively. Before joining FMA, he was Chief Operating Officer at Minter Ellison Rudd Watts. Duncan has extensive local and

international experience in emerging markets in senior financial and operational roles. His most recent international position was that of partner in KPMG Russia, responsible for corporate services across Russia and the Commonwealth of Independent States.



Elaine Campbell
Head of Compliance Monitoring

Elaine leads and oversees the development of FMA's commercial and infrastructure monitoring function, which includes trustees, qualifying financial entities, brokers, financial service providers,

auditors, superannuation and KiwiSaver schemes, fund managers, futures dealers, clearing houses, registered markets and secondary market activity. Previously she was Head of Market Supervision at NZX, and Executive Counsel of the NZ Markets Disciplinary Tribunal.



Liam Mason
Head of Legal and Board Secretary

Liam provides in-house counsel and independent advice to the FMA Board on legal matters. He is one of New Zealand's foremost securities law experts and was previously General Counsel

for the Securities Commission. Liam played a key advisory role to the Select Committee on FMA legislation, and has played a similar advisory role to the Ministry of Economic Development on the major review of New Zealand's securities law.



Sue Brown
Head of Primary Regulatory Operations

Sue leads and oversees the development of FMA's regulatory strategies and activities relating to the primary and retail financial markets, including financial advisers. She is a senior lawyer with

experience in the UK, Australia and New Zealand. Until 2010, she was a partner at DLA Phillips Fox.



PERFORMANCE AGAINST OBJECTIVES

1. Financial markets participants have clear and well understood responsibilities

FMA's 2012 Stakeholder Survey results showed that 73 percent of those surveyed believe FMA has performed well in helping to lift levels of competency and compliance by financial markets participants. Sixty-one percent of those surveyed agree that FMA's activities have helped clarify their understanding of their obligations. They see FMA as having a progressive, consultative style and said they value this approach and feel it improves outcomes for all involved.

For financial markets to function well, participants need to understand their roles and responsibilities. For many participants, regulation is new; so, forging relationships with the regulated community has been an important focus over the period.

FMA has communicated our expectations to help people comply with the law and standards of conduct and focused on providing guidance, market consultation and direct engagement with participants. We have sought feedback on guidance materials to ensure that we fully understand the impact that our regulatory expectations might have on the market.

Market guidance

One of FMA's principal functions is to promote the confident and informed participation of businesses, investors and consumers in financial markets. Issuing guidance is one of the ways we can be transparent and share our interpretation with the market.

In the first 14 months of operation, FMA has maintained a clear focus on disclosure and providing market guidance to set clear expectations. It is our intention to update and provide new guidance where there is legislative change, where market norms evolve, where new information is available, where we receive queries indicating uncertainty, or where there are changes in market conduct requiring guidance.

Where we have seen consistent gaps in understanding, or potential risks in the marketplace, FMA has introduced new regimes and specific guidance. These can be found in our Highlights section.

Consultation prior to issuing guidance has provided us with an opportunity to directly engage with market participants. To help participants comply with their responsibilities, we also publish information and informal guidance on our website.

Effective Disclosure guidance

Effective Disclosure is one of the fundamentals of fair, efficient and transparent financial markets. During the period, FMA released guidance on how issuers can improve the quality, accuracy and relevancy of the information they are obligated to provide to investors.

The Effective Disclosure guidance note aims to help issuers comply with legal requirements and address some key areas, including ensuring that disclosure documents are clear and free of ambiguity, and that issuers and their directors consider and disclose all matters likely to be material to a person considering investing in the offer.

FMA met with more than 30 individuals and small groups to explain our approach and seek feedback, following its release. The guidance note has been used as part of FMA's risk-based assessment of offer documents for new issues from 9 July 2012, and will apply for continuous issues from 1 January 2013.

Disclosing non-GAAP financial information

To assist investors and issuers in their communication of financial information and minimise the risk of misleading disclosure, FMA issued draft guidance on the use of non-generally accepted accounting practice (GAAP) financial information, including 'alternative performance measures' (APMs).

Consultation began in January 2012, and workshops were held with market participants to better understand the underlying reasons for increased use of APMs. Final guidance is scheduled to be issued toward the end of 2012 and will apply from 1 January 2013.

Securities trustees and statutory supervisors licensing

The Securities Trustees and Statutory Supervisors Act came into force on 1 October 2011. The Act's purpose is 'to protect the interests of security holders and residents of retirement villages, and to enhance investor confidence in both financial markets and retirement villages'. A licensing regime was introduced through the Act to ensure all trustees and statutory supervisors are capable of performing their functions.

FMA has the responsibility of issuing licences, monitoring the performance of licensees and ensuring applicants are capable of performing their functions effectively. We issued guidance in October 2011 to specify the licensing criteria and information we require in order to be satisfied of the applicant's capability to meet the required obligations.

From 1 October 2011, existing trustees and supervisors automatically received temporary licences by operation of the Act, allowing them to operate while FMA works through the new criteria and reviews applications. Decisions on all full licences were made on schedule, by 30 September 2012. Once licences are issued, licensees will be required to provide regular reports as to how they are meeting their obligations.

Auditor licensing

The Auditor Regulation Act 2011 came into force on 1 July 2012. The new licensing regime, which applies to auditors of issuers, will promote the quality, expertise and integrity in the profession of auditors and provide recognition of the professional status of New Zealand auditors in overseas jurisdictions. A monitoring plan was published in June 2012.

Accredited bodies, monitored by FMA, have the primary responsibility for regulating New Zealand auditors and audit firms. Consultation papers on the proposed process for licensing auditors and registering audit firms, and on the requirements for accredited bodies, were issued by FMA in November and December 2011. Final versions of these documents were issued prior to the regime coming into full force. FMA will conduct quality reviews of audit practices in the next period.

A total of 27 New Zealand auditors and 53 audit firms registered transitional licences and firm registrations prior to the 26 June 2012 cut-off date. FMA also regulates overseas auditors and audit firms that audit New Zealand issuers. A total of 29 overseas auditors registered transitional licences, although they were not eligible for transitional registration.

KiwiSaver performance fees

KiwiSaver is a regulatory priority for FMA and we intend to continue issuing guidance to the market on a number of KiwiSaver issues.

Under the KiwiSaver Act 2006, FMA is responsible for considering whether schemes comply with a requirement that KiwiSaver fees 'must not be unreasonable'. To assist managers and trustees of KiwiSaver schemes, FMA issued draft guidance in November 2011 for consultation, setting out the criteria against which FMA would assess the reasonableness of performance fees.

Final guidance with clear principles for assessing performance fee elements and disclosure was issued in May 2012, emphasising that performance fees are only appropriate in certain, limited circumstances.

KiwiSaver sales and distribution

FMA began consulting on proposed guidance for entities and individuals involved with the sale and distribution of KiwiSaver schemes in June 2012. The guidance explains the approach we propose to take when looking at KiwiSaver sales practices, and the importance we place on potential investors having access to expert advice and information about KiwiSaver schemes. The guidance explains how FMA will distinguish between transactions in which only information is given to investors and those which include investment advice, and explains who can offer these services.

Futures markets

Previously authorised futures markets (NZX and ASX24) were re-authorised by FMA prior to 30 June 2012 and ICE Futures Europe was authorised for the first time. All futures markets are, as a condition of authorisation, subject to reporting and notification requirements to FMA.

NZX Market Supervision (NZXMS)

FMA delivered feedback to NZXMS in September 2011 and again in March 2012, in relation to the exercise of its regulatory discretions. Feedback will continue to be provided on an ongoing basis to ensure issues with frontline regulators are addressed and dealt with in a timely manner. The market infrastructure part of this report describes FMA's General Obligations Review of NZX.

NZ Clear designation

In conjunction with RBNZ, FMA recommended to the Minister of Finance and the Minister of Commerce that NZ Clear be a designated settlement system on 1 June 2012.

Enforcement

FMA has had an intensive first year, engaging with market participants to ensure compliance with regulatory requirements, identifying and addressing issues in the market, responding to concerns raised by participants and investors in New Zealand's financial markets, and progressing the investigations and court action against those involved in the failed finance companies.

This broad range of enforcement and compliance activity has produced positive outcomes for the market and sent clear messages as to what potential and existing investors should be able to expect from financial markets participants.

Details of all public enforcement actions are published on FMA's website. We have also released an Inquiries, Investigations and Enforcement Report which was published in September 2012.

Financial Advisers Disciplinary Committee (FADC)

The FADC is an independent body established under the Financial Advisers Act and is responsible for conducting disciplinary proceedings arising from complaints about AFAs in relation to breaches of the Code of Professional Conduct, referred to it by FMA. During the period, FMA established the FADC website www.fadc.govt.nz, and published the Rules of Procedure.

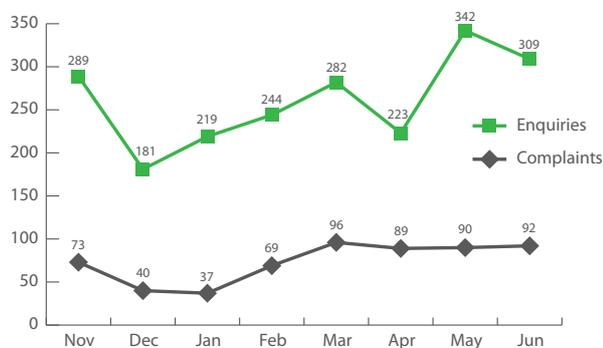
Complaints and enquiries

One of FMA's roles is receiving and responding to complaints and enquiries, collectively referred to as 'contacts'. Since 1 May 2011, we have received 4758 such contacts¹.

In November 2011, FMA put in place a database to help manage and identify the types of contacts we receive and aimed to acknowledge each contact within two working days of receipt.

Between 1 November 2011 and 30 June 2012, FMA received 586 complaints and 2089 enquiries¹.

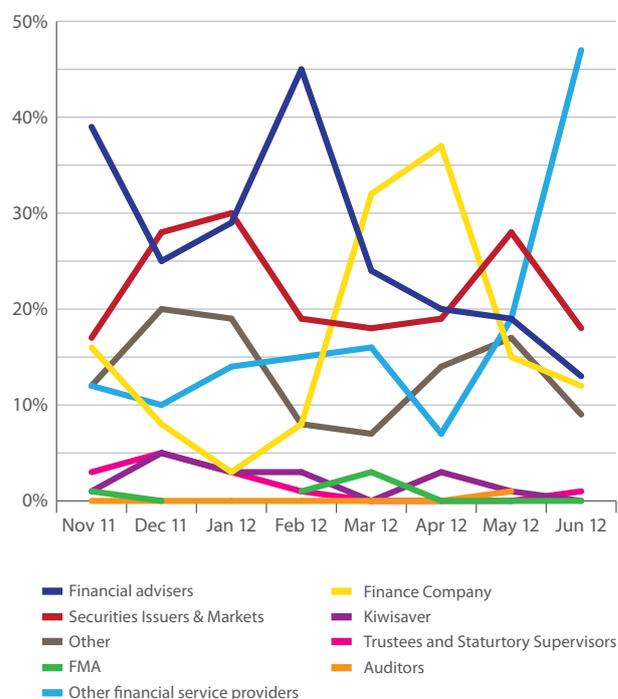
Total Contacts



During the period, 94 percent of complaints, tips and referrals were acknowledged within two working days of receipt. A total of 94 percent of those whom we responded to, received a substantive response within 28 days of FMA receiving all relevant information.

The majority of enquiries related to people or entities providing financial advice and the new financial advisers' regime, securities issuers and markets, and failed finance companies.

Complaints by Sphere



The largest areas of concern raised through these complaints related to four key issues: alleged fraud and scams within the markets; people or entities operating without the necessary authorisation or registration; concerns regarding disclosure; and concerns regarding advice.

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

FMA has been proactive in helping investors access the information they need in order to make informed decisions. It is important that investors better understand risks and can make decisions on investments based on accurate and relevant information.

We have taken a holistic approach and worked to ensure that investors are better informed; that issuers communicate important information clearly and in a timely manner; and that advisers are appropriately qualified and act in the best interests of their clients.

Disclosure documents and financial reporting

A key focus for FMA has been investment disclosure and financial reporting. Consistent with our Statement of Intent commitment, a Risk-based Prospectus Review Framework (framework) was developed and put in place prior to

¹ This number includes enquiries received and handled by MED on FMA's behalf.

31 December 2011. This framework was implemented and has been in use since 9 January 2012.

The framework is used to help identify 'high-risk' prospectuses and associated investment statements that require further detailed review. For the period 1 July 2011 to 30 June 2012, 55 prospectuses (or 10 percent of the total number of prospectuses registered) were identified as high-risk. Intervention was required in 35 cases. All of these prospectuses were either improved or withdrawn.

In September 2012, FMA published a guidance note for issuers and their advisers on pre-offer publicity/advertising (commonly referred to as 'pre-prospectus advertising') in order to provide some guidance on the types of issues we will consider when reviewing pre-offer advertisements and evaluating exemption applications in relation to pre-prospectus publicity.

Investor warnings and alerts

FMA recognises the importance of the role of news media in communicating investor warnings to the public, and we comment on consumer and investor related news stories as appropriate.

Investor warnings, scams and alerts are published on our website. This includes a list of names of individuals and companies that investors should be wary of, and warnings from other international regulators.

The following warnings were publicly issued and published on FMA's website during the period:

- May 2011 – General warning with regard to potential to lose investor rights and protections
- May 2011 – Bernard Whimp warning on 'low ball' offers
- June 2011 – SuperLife Limited in relation to KiwiSaver sales practices
- July 2011 – Unsolicited offers from Share Buyers Limited and Stock & Share Trading Company Pty Limited
- Aug 2011 – Unsolicited offers from Share Buyers Limited
- Oct 2011 – Property Tutors Limited seminars targeting those with no or minimal income
- Dec 2011 – Stock & Share Trading Company Pty Limited had requested copies of security holder registers from Tower Limited, Dorchester Pacific Limited and others, potentially with a view to making unsolicited offers
- Dec 2011 – VonWin Capital Management L.P. offer to Irongate bondholders
- Feb 2012 – Illegal offer by Makko Securities to advise on Facebook Initial Public Offering (IPO).

Investor education

FMA has been researching and working to partner with specialist public and private organisations to promote investor literacy education. The Commission for Financial Literacy and Retirement Income is a key stakeholder with whom we work closely on investor education initiatives and strategic priorities.

FMA's Chief Executive is the incoming Chair of the Advisory Committee for the National Strategy for Financial Literacy and we host a monthly teleconferenced Community of Practice financial literacy meeting, run by ASIC. FMA has a 'How to Invest' section on our website, along with investor material. We have produced four investor brochures on: Investment scams; Low ball offers; Questions to ask financial advisers; and Confidence comes from sound advice.

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

FMA's 2012 Stakeholder Survey found that FMA has achieved a high level of performance and engagement during its first year of operation. Seventy percent of stakeholders surveyed say we are performing well in supporting the integrity of the financial markets. But it is also clear that stakeholders would like FMA to focus on assisting investors and consumers more in the future.

FMA has provided ongoing expert advice to government during the period, to prioritise reforms needed to address shortcomings in the law identified through our work. We established a register for central issues in December 2011 and the Chairman and Chief Executive reported on law reform priorities at quarterly meetings with the Minister of Commerce over the course of the period.

FMA provides high quality advice and assistance to the Government's financial services policy development, giving advice and assistance to other government agencies on matters including: the Financial Markets Conduct Bill, KiwiSaver Periodic Disclosure Reporting Regulations, fees and levies, and regulations under the Securities Markets Act 1988.

Communication

FMA has taken a proactive and accessible approach to communications and news media. Media reporting on FMA's early outcomes has raised the profile of our new regulatory approach and generated awareness of market guidance and enforcement action.

We have used multiple communication channels to ensure market and public awareness of our work. In the last 12 months

FMA has received 408 media enquiries and issued 63 news releases on topics such as guidance, warnings to investors, enforcement action and law changes. Our senior leadership team has undertaken 83 keynote speaking engagements at industry and public events and carried out interviews with broadcast and print media on a variety of subjects.

Implementing and monitoring supervisory regimes

During the period, the Financial Adviser regime has come fully into force. Authorised Financial Advisers (AFAs) are now licensed by FMA and required to comply with clear terms and conditions and the Code of Professional Conduct. A searchable list of all AFAs is published on our website, as well as a table of Qualified Financial Entities (QFEs).

Proposed application processes, and standards and conditions for statutory supervisors and trustees and auditors, were publicly consulted on prior to release. Transitional licensing came into effect for statutory supervisors and trustees on 1 October 2011 and for auditors on 1 May 2012.

Market infrastructure

Amendments to the Securities Markets Act 1988, which came into effect in 2011, have given FMA an expanded oversight role in respect of registered securities markets. The change in the legislative framework brought about a change in the way we monitor NZX's compliance with its obligations under the Securities Markets Act. FMA now undertakes a bi-monthly review of NZX, with any issues discussed and addressed at the time. This enables better market outcomes because any corrective action can be taken early.

FMA's report on NZX General Obligations review, published in June 2012, was the first FMA assessment since amendments introduced by the Securities Markets Amendment Act 2011 came into effect on 1 May 2011 and The Authorised Futures Exchange Notice (NZX Limited) 2010 came into force in September 2010. We concluded that NZX was compliant with its obligations and met its statutory requirements, with the exception of three specific areas:

1. Potential conflicts of interest as a result of appointing the Corporate Counsel to also act as Head of Market Supervision (HOMS).
2. Enforcing compliance: absence of documented criteria for consistent decision making; low number of referrals to the NZ Markets Disciplinary Tribunal (an independent body charged with hearing and determining matters referred to it in relation to the conduct of parties regulated by NZX's market rules and the Clearing and Settlement Rules); and slow progress of investigations.
3. Insufficient resources in the area of Market Supervision set against a significant workload.

Financial adviser monitoring

FMA monitors AFAs through a mixture of site visits and desk-based research. Our emphasis over the first part of the period was on adviser education. Individual visits were made to the majority of QFEs and 35 site visits took place. An interim monitoring report relating to AFAs was published in July 2012 and a further report will be completed in October 2012.

In general, FMA was pleased to see evidence of a commitment to professionalism and to fulfilling new regulatory obligations from both AFAs and QFEs. A number of AFAs have reviewed their own practices, systems and processes, and have found it useful to revisit the approach they have been using to provide financial advice. However, most AFAs received feedback about improving in one or more areas. In particular, FMA highlighted the need for AFAs to be able to demonstrate how their advice met the needs of their client.

FMA also noted the need for more proactive self-notification. For AFAs, this related mostly to annual reporting requirements. For QFEs, a focus for the next period will be on encouraging notification of breaches based on their own monitoring and assessment of advice records.

Other financial markets participants monitoring

FMA has also increased its focus on active monitoring of other financial markets participants. In some cases this is a direct monitoring role. In others, we monitor via frontline regulators such as the trustees and NZX.

Active monitoring conducted by FMA led to NZF Money Limited having to withdraw its 2010 debt prospectus from the market in July 2011. New powers of notification and inspection conferred by the FMA Act enabled us to inspect the documents and records of NZF, revealing matters of concern regarding NZF's disclosures of asset quality and liquidity.

In May 2012, FMA confirmed it was making enquiries into issues concerning Pyne Gould Corporation and related entities. FMA moved proactively in the interests of investors to seek to recover \$25 million in related party loans made by Perpetual, a subsidiary of Pyne Gould Corporation.

In April 2012, FMA issued an interim order preventing Asset Finance Limited from taking investments from the public due to concerns its offer documents did not contain sufficient details of certain loans.

FMA is increasing our focus on this area and developing active monitoring regimes for other financial markets participants such as brokers, and KiwiSaver and superannuation scheme managers.

KiwiSaver and superannuation schemes

FMA is responsible for monitoring compliance with the KiwiSaver Act 2006 and Superannuation Schemes Act 1989. We oversee the registration and administration of schemes under these Acts and determine the reasonableness of fees charged.

FMA also manages the KiwiSaver Default Monitoring Panel, which meets quarterly to review any current issues with default providers. We maintain an online register of all KiwiSaver schemes and of exempt employers and complying superannuation schemes.

We will continue to increase our monitoring of KiwiSaver scheme providers for key issues such as investment risk, corporate governance, conflicts of interest, outsourcing risk and operational risk. FMA's supervisory approach will take into account the role of the trustee as frontline supervisor of competency and conduct issues.

In our KiwiSaver report ended 30 June 2011, FMA noted concerns that the true costs of investments made in sub-funds are inconsistently disclosed and there were questionable selling practices. The latter is now being addressed in the draft guidance note on KiwiSaver sales and distribution. A 2012 KiwiSaver report was prepared during the reporting period and was published in September.

4. Emerging risks are identified and mitigated

Market intelligence hub

The importance of FMA's risk identification role has been recognised in the allocation of specific resources tied to our new organisation structure and we have developed a framework to identify emerging risk.

Strategic Intelligence Risk Types

Firm/Individual Risk [Tactical]	Thematic Risk [Operational]	Systemic Risk [Strategic]
<ul style="list-style-type: none"> Applies directly to a particular firm or individual within the regulated population (or on the regulatory perimeter). The risk may cause the individual or firm to engage in misconduct or non-compliance - risks identified at the individual or firm level may provide us with intelligence on thematic risks across firms. 	<ul style="list-style-type: none"> Relates to an issue or product that affects a number of firms or an industry sector. Thematic risks could include, for example, a risk arising from sales practices for a particular product. Thematic risk may become systemic given certain economic/ market conditions. 	<ul style="list-style-type: none"> The possibility of an event causing impairment of the financial system that could lead to major economic disruption. Systemic risks may be identified from macroeconomic factors, by the strength and influence of thematic risks or by the convergence of a number of thematic risks. Systemic risk generally cannot be avoided by diversification.

Periodically, FMA will look at thematic matters and undertake a health check on significant areas for the economy, for example in the case of retirement villages. Our role is to detect and address systemic risks to the development of New Zealand's capital markets, which includes sharing intelligence with co-regulators, other public sector bodies and the market.

Surveillance

FMA's compliance philosophy focuses on education and engagement before enforcement. However, we also use active and transparent surveillance and monitoring to clarify and reinforce participants' responsibilities.

During the period, we carried out surveillance activities in relation to a range of individuals and entities. In most cases, FMA has been able to address any breaches promptly by engaging with the individual or entity about their responsibilities and the requirements of the legislation. In other cases, we have issued warnings to alert the public, and in some cases, the matter is proceeding to enforcement action.

A Risk-based Supervision Framework identifying FMA's expectations and monitoring activity was developed and completed in March 2012, for both AFAs and QFEs. During this process, extensive communication with both audiences took place.

Anti-Money Laundering/Countering Financing of Terrorism (AML/CFT)

FMA is one of three joint supervisors for the AML/CFT regime, which will come into effect on 30 June 2013. During the year, we have focused on identifying and conducting risk assessments on our reporting entities under the AML/CFT Act 2009, as well as providing guidance to those reporting entities.

FMA has worked with the other supervisors to develop a risk-based supervisory framework for monitoring reporting entities. A questionnaire and discussions with reporting entities, during two New Zealand-wide roadshows, have also helped refine the risk profiles and identify areas of focus for our initial compliance monitoring.

5. Our markets are internationally attractive

Financial markets play a critical role in the New Zealand economy and must maintain their reputation and attractiveness to local and overseas participants. The effective co-operation and enforcement of financial and securities law by local and international regulators will help to facilitate cross-border investments.

An important element is ensuring the regulatory framework is integrated, internationally benchmarked, and that various agencies work co-operatively at minimum cost.

Trans-Tasman

FMA has a strong working relationship with ASIC under a formal Memorandum of Understanding (MOU), which has been updated during the period. Senior FMA leaders and Board members have attended key ASIC forums and training as part of the overall strategy of progressing New Zealand's Single Economic Market (SEM) objectives.

A significant SEM achievement throughout this time was working with ASIC to implement the trans-Tasman mutual recognition of financial advisers, announced on 2 July 2012. Financial advisers can now provide services in each other's countries based on the qualifications and experience they have attained from their home country.

FMA and ASIC continue to work closely under the Mutual Recognition of Securities Offerings and have begun updating protocols under this arrangement. Six meetings have been held with the ASIC Chairman, Commissioners and senior executives on strategic policy, regulatory matters, and operational engagement on monitoring, investigations and information sharing.

FMA participated in the Australia New Zealand Leadership Forum, and is contributing to the joint Productivity Commission's study into strengthening economic relations between the two countries. FMA engaged with the Ministry of Foreign Affairs and Trade, and New Zealand Trade and Enterprise on policy and promotion of investment into New Zealand, with our Chief Executive speaking to fund and investment managers at economic development events in Singapore, Tokyo and Sydney. He has also engaged with other Australian regulators including Apra, AUSTRAL and diplomatic representatives of both countries.

International Organisation of Securities Commission (IOSCO)

IOSCO is the leading international policy forum and standard setter for securities regulation, with its membership responsible for regulating more than 95 percent of the world's security markets.

FMA is a member of IOSCO and a signatory to the IOSCO Multilateral Memorandum of Understanding (MMOU). As a representative of the Asia Pacific Regional Committee, FMA's Chief Executive was a member of IOSCO's Executive Committee until the IOSCO annual conference in May 2012. IOSCO's new transitional board will have a change of chair in March 2013, when Australia's ASIC Chairman takes over from Japan.

Our involvement with IOSCO is two-way and focuses on areas where both organisations can make the greatest contribution to one another's work and gain the most benefit. At the IOSCO's conference in May this year, FMA representatives were confirmed as members of three IOSCO Committees: Issuer Accounting, Audit and Disclosure; Enforcement and Information Sharing; and the Assessment Committee.

FMA received 32 requests for assistance for information under the IOSCO MMOU from overseas regulators in the period of the report. Participation in IOSCO and fulfilling obligations under the MMOU provides a strong platform to promote New Zealand investment to international markets.

Other international engagement saw FMA as host of the APEC Financial Regulators Training Initiative in Auckland in March 2012.

Law reform

In December 2011, FMA established a register to capture potential shortcomings in law identified during our work. This register forms the basis of robust advice on future law reform priorities made at quarterly meetings with the Minister of Commerce.

The focus of law reform advice during the period was on fees and levies and the regulations under the Securities Markets Act, and on the drafting of the Financial Markets Conduct Bill.

6. FMA's regulatory actions support market activity

Fifty-four percent of stakeholders surveyed believe that FMA's actions have positively influenced market behaviour.

The challenge for any regulator is to strike the right balance between setting standards and taking actions while not impeding market activity.

Enforcement action

FMA's Enforcement Policy was released in September 2011 to assist financial markets participants and investors to have a clear understanding of FMA's enforcement role, function and priorities. Our approach to enforcement is to target conduct that presents the greatest harm or likelihood of harm.

A snapshot of FMA's enforcement activity can be found under the Highlights section of this report.

One of the powerful new tools conferred on FMA is through section 34 of the FMA Act, giving FMA the power to initiate or take over and control civil actions against financial markets participants. The threshold for FMA to take a case is set high. Each case must be carefully considered on its own merit and be in the public interest. In the period, we have commenced consideration under section 34 of potential investor and company claims in relation to various issues.

Using the full range of enforcement tools is one way in which FMA achieves the balance between setting standards and taking action. Examples where we have utilised the full range of our enforcement powers are illustrated below:

- Asset preservation orders obtained under sections 60G and 60H of the Securities Act against a director of the Hanover Group of companies. Despite challenges and appeals in the courts on several occasions, FMA was successful in maintaining these orders during the period.
- In June 2011, FMA made an interim order to stop allotment of securities by GFNZ Group Limited when it identified that GFNZ had breached its minimum new lending covenant with its primary funder.
- FMA dealt with cases where offers of securities had been made to the public without a prospectus.
- Following FMA intervention, debenture investors in Kiwi Finance Limited received full reimbursement for loss suffered following the failure of the company in 2008.

Exemptions

FMA's power to grant exemptions is an important tool we use to achieve our objectives. Exemptions are a way of ensuring regulation supports market activity and FMA looks to exempt issuers where the costs of compliance are not matched by improved outcomes for investors or participants.

During the period 1 May 2011 to 30 June 2012, FMA received 51 applications for exemptions. All were completed within six weeks of receiving the necessary information, or within the period agreed with the applicant.

FMA also initiated a review of all exemptions, and highlighted 44 class exemptions due to expire in 2012. We are currently reviewing these notices following engagement with market participants and other stakeholders. A report was published on FMA's website in September 2012 summarising these decisions.

A number of significant exemptions have been granted over the period and appear in our Highlights section.

Authorisations

FMA addressed eight new futures dealers authorisation applications, including dealers which transferred from NZX, seven renewals, and one declaration. Again all were completed within the period agreed with the applicants.

Failed finance company investigations and litigation

In our first year, FMA has maintained a strong focus on progressing investigations and court action against those involved in failed finance companies. Convictions have been obtained in five failed finance company cases, and five cases (one being a civil claim) are continuing to trial.

A report on the key issues and themes arising from inquiries, investigations and enforcement activity was published in September 2012.

The status of investigations and court action relating to failed finance companies can be found in the Enforcement section of FMA's website.

Cost effectiveness

Over the next three years, FMA will develop, in conjunction with other regulators and participants, a framework for assessing the cost of the regulatory framework.

2012 STAKEHOLDER SURVEY

In June 2012, FMA commissioned Colmar Brunton to undertake a survey of some of our stakeholders (this did not include members of the general public) to: explore views of FMA's stakeholder engagement; measure our performance as a regulator of New Zealand's financial markets over the past 12 months; and identify areas where FMA might improve our regulation of New Zealand's financial markets in the future.

The stakeholder survey included an online survey of 203 stakeholders (which represented a 45 percent response rate) and a further 14 in-depth interviews with key stakeholders from a range of organisations.

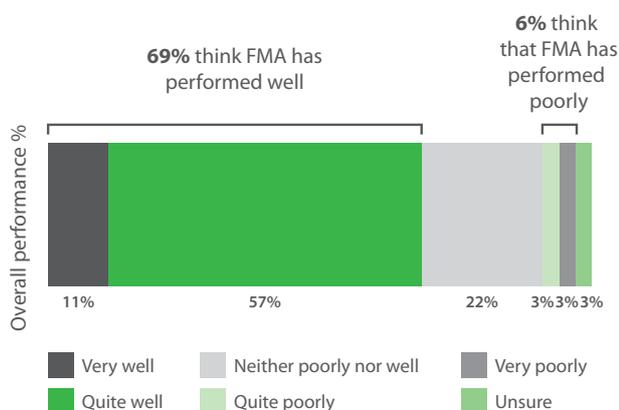
Stakeholders for the online survey were selected from FMA's databases and invited to participate via a unique survey link. Individuals were randomly selected from our stakeholders who had recent or regular engagement with FMA. Face-to-face interviews were also conducted.

Results

Overall it was felt that FMA has mostly shown strong performance and successful stakeholder engagement during our first year of operation and there was praise for the amount we have achieved within a short period of time.

A total of 69 percent of stakeholders said they think FMA has performed well as a regulator and overall indicated that they hold our engagement approach in high regard.

How well do you think FMA has performed as a regulator of New Zealand's financial markets over the past year?



In relation to the key outcomes identified in FMA's Statement of Intent:

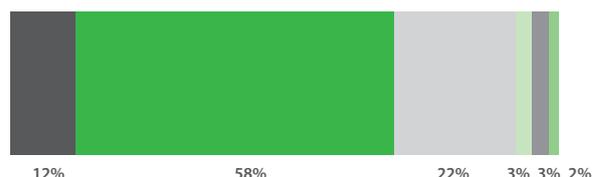
- 73 percent of stakeholders said FMA is performing well in helping to lift levels of *competency and compliance by financial markets participants*
- 70 percent of stakeholders said FMA is performing well in *supporting the integrity of the financial markets*
- 54 percent of stakeholders said FMA is performing well in *building confidence in the financial markets* (33 percent of stakeholders were neutral or did not have a view, while 13 percent said we performed poorly)
- 40 percent of stakeholders said FMA is performing well in *promoting informed investor participation in the financial markets* (43 percent of stakeholders were neutral or did not have a view, while 17 percent rated FMA poorly).

How well do you think FMA has performed over the past year in each of the following areas?

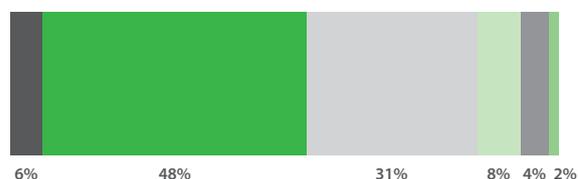
Helping to lift levels of competency and compliance by financial markets participants



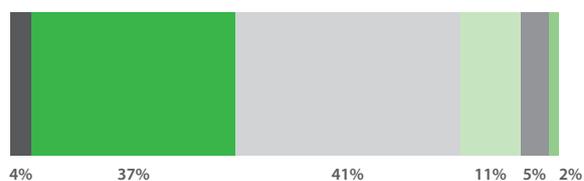
Supporting the integrity of the financial markets



Building confidence in the financial markets



Promoting informed investor participation in the financial markets



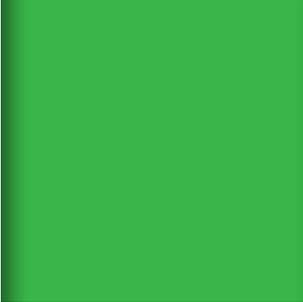
A total of 85 percent of stakeholders surveyed feel they know either a lot or a fair amount about FMA, and a large majority of stakeholders said their awareness of FMA (83 percent) and understanding of FMA's actions (73 percent) had increased over the past year.

In the main, stakeholders were very positive about their engagement with FMA. Our organisation is seen as having

a progressive, consultative style and is seen to demonstrate this consultative approach. Key stakeholders indicated that they value this and feel it improves outcomes for all involved.

The two key areas that stakeholders indicated they would like to see FMA focus on in the future are: assisting investors and consumers to understand investment risk; and to put a stop to the misleading advertising of financial products and services.

Impact No.	2011-14 SOI Measures	Measure Method	2011/12 Target	Measure Outcome
1	Level of understanding of responsibilities	Stakeholder survey	Establish baseline	66% of those stakeholders surveyed believe financial markets participants understand their responsibilities.
1	Percentage of participants who perceived they were assisted through engagement with FMA	Stakeholder survey	Establish baseline	61% of those stakeholders surveyed agree that FMA activities helped clarify their understanding of their obligations.
2	Level of Investor satisfaction with market information	Investor survey	Establish baseline for standard and accessibility	FMA did not undertake an investor survey during the period.
2	Quality of issuer disclosure documents	Document reviews	Establish baseline	FMA has developed a risk-based approach to reviewing prospectuses. During the period, we issued guidance on effective disclosure by issuers. FMA also developed a Risk-based Prospectus Review Framework to meet our statutory objectives by identifying high-risk prospectuses that require detailed review. 10% of the total number of prospectuses registered were identified as high-risk and fully reviewed.
2	Quality of issuer financial reports	Document reviews	Establish baseline	FMA reviews financial reports as part of our review of prospectus documents. During the period, we identified that improvements were needed around the disclosure of non-GAAP financial information and FMA issued guidance on this matter to the market.
3	Level of understanding of the regulatory framework and objectives	Stakeholder survey	Establish baseline	66% of those stakeholders surveyed believe financial markets participants understand their responsibilities. 67% of stakeholders surveyed believe that FMA effectively communicates our expectations of financial markets participants.
3	Level of satisfaction with FMA's responsiveness and helpfulness	Stakeholder survey	Establish baseline	Key stakeholders surveyed as part of FMA's stakeholder survey value the positive working relationship they have with FMA. We are seen as having a progressive, consultative style.
3	Level of effectiveness of the regulatory framework	Stakeholder survey	Establish baseline	57% of those stakeholders surveyed believe that FMA's oversight of financial markets participants is effective.
4	Percentage of significant emerging risks identified as high-risk, where FMA takes appropriate action	Intelligence work	100%	FMA has established a framework for identifying emerging financial markets risks. During the period, no new emerging risks were identified as being high-risk.
5	Level of relative performance of NZ markets, internationally	Stakeholder survey	Establish baseline	53% of those stakeholders surveyed believe that, over the past year, New Zealand's financial markets have performed well compared to markets overseas. 41% of those stakeholders surveyed believe that, over the past year, New Zealand's financial markets have been well regulated compared to markets overseas, while 50% of stakeholders were neutral or did not have a view.
6	Perception of relative costs and benefits	Stakeholder survey	Establish baseline	34% of those stakeholders surveyed believe that FMA's regulatory actions are proportionate, while 55% of stakeholders were neutral or did not have a view.



EFFECTIVENESS AND CAPABILITY

Capability and risk

FMA has a risk management framework that identifies key areas of capability and associated risks. We developed the following responses to the main risks.

Recruiting and retaining staff

FMA has successfully attracted talent at all levels of the organisation, growing our permanent employee base by over 40 percent since 1 July 2011, in line with our output agreement.

As at 30 June 2012, FMA had a total workforce headcount of 128. Total workforce includes permanent, fixed-term secondees, temporary staff, and contractors, with approximately 25 percent of the total workforce made up of flexible resources.

FMA is committed to building a strong employment value proposition, attracting talent from both New Zealand and international markets, and retaining them by developing a high performance culture alongside our high professional standards. The establishment of an Auckland presence has created an attractive alternative career option for candidates based in our largest commercial centre.

Physical event/disaster

FMA's offices are in buildings with current 'warrants of fitnesses' issued under the Building Act 2004. Our physical disaster plan includes emergency food, water and first-aid supplies, staff trained in first-aid, and document and ICT recovery systems. Our ICT systems are hosted in an external data centre. Key staff have access to our computer network, allowing them to work remotely.

Reputation and integrity

Since we promote high ethical standards in securities markets, it is essential that people have confidence in our organisation. FMA's integrity, work quality and maintenance of confidentiality are contributed to through our Code of Conduct and internal policies.

Confidentiality of information

New members and staff sign confidentiality agreements when they join FMA, and the induction process for new staff and our internal policies relating to security and disclosure of information reinforce the need for confidentiality. The ICT system and file security are robust and effective, and FMA's offices are physically secure.

Future capability

FMA has developed a high-level capability matrix to capture existing people capability against future requirements. This foundation work will influence future recruitment strategies and capability development to ensure we have the people capability to meet our long term objectives.

Financial objectives

FMA delivered the outputs, detailed in our Statement of Intent, and output agreement with the Minister, within the funding appropriated by Parliament for the purpose.

In the 14 months to 30 June 2012, FMA managed our resources within budget while implementing new financial systems, policies and procedures for the new organisation. The financial results for the 14 months to 30 June 2012 deliver a modest surplus that will bolster FMA's balance sheet and ensure that resources are available at short notice to respond to any future regulatory challenges.

Capital investments to support our regulatory functions, culture and capability to date are:

- new open plan office facilities in Auckland and Wellington to house FMA staff
- upgrade of the previous Securities Commission's computer systems to the current versions of software applications and computer networking infrastructure
- improved network support and security, through outsourcing of FMA server hosting, as part of the Whole of Government initiatives
- various regulatory software support systems.

Further substantial capital investments are in progress to strengthen FMA's core regulatory systems that will be progressively implemented from late 2012.

Working with others

FMA is committed to working collaboratively with other regulatory agencies to improve efficiency, reduce duplication and share knowledge. Co-operation also assists in identifying risks and trends as well as in the development and provision of high quality advice on financial markets and services policy.

Council of Financial Regulators

FMA is a founding member and alternate Chair of the Council of Financial Regulators, together with RBNZ, which met for the first time in September 2011. The Treasury and MED are associate members. The purpose of the Council is to share information on strategic priorities, identify important issues and trends, and ensure co-ordination of responses to events and developments. The Council meets quarterly and has terms of reference which are published on FMA's website.

MOU with RBNZ

An MOU has been signed between FMA and RBNZ to provide a framework for co-operation to achieve the most effective and efficient regulation of the New Zealand financial system. The MOU was signed in September 2011 with agreement for mutual assistance and co-operation which will help encourage public confidence in the twin peaks regulatory model.

FMA and RBNZ also signed a separate MOU in December 2011, setting out how we will work together as joint regulators of designated settlement systems.

MOU with the Serious Fraud Office (SFO)

In January 2012, FMA signed a MOU with SFO. The purpose is to enhance the working relationship and drive greater efficiencies between the two agencies. The MOU established a framework for exchanging information, co-ordinating activities and sharing expertise and resources. FMA and SFO have achieved efficiencies by sharing resources and intelligence on a number of finance company investigations and providing support on particular cases.

FMA also works closely and co-operates with other oversight supervisors that have financial market regulatory functions such as the New Zealand Institute of Chartered Accountants (NZICA), NZX and Trustee companies.

Relationship with responsible Minister

FMA has worked constructively with the Minister of Commerce and MED in accordance with our output agreement. Quarterly meetings have been established with the Minister to provide updates on performance against our Statement of Intent and give briefings on key activity and policy matters. FMA has endeavoured to maintain a 'no-surprises' policy at all times by providing briefings and advice well in advance on material decisions or actions consistent with our obligations as an independent Crown entity.

FUNCTIONS OF FMA

FMA was established by the Financial Markets Authority Act 2011. The Act establishes FMA as an independent Crown entity, and sets out our functions 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 (including in relation to one or more particular persons)
 - 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 1978, the Securities Markets Act 1988 and the Financial Advisers Act 2008), FMA will perform this function in respect of all persons. In the case of broader corporate governance law (for example, the Companies Act 1993 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.

FMA performs function in respect of all persons	FMA performs functions in respect of financial markets participants
Auditor Regulation Act 2011	Anti-Money Laundering and Countering Financing of Terrorism Act 2009
Financial Advisers Act 2008	Building Societies Act 1965
Financial Service Providers (Registration and Dispute Resolution) Act 2008	Companies Act 1993
Parts 4 and 5 and Schedules 1 and 2 of the KiwiSaver Act 2006	Co-operative Companies Act 1996
Sections 45U and 45V of the Public Finance Act 1989	Corporations (Investigation and Management) Act 1989
Securities Act 1978	Sections 220, 228, 229, 240, 242 and 256 to 260 of the Crimes Act 1961
Securities Markets Act 1988	Financial Reporting Act 1993
Securities Transfer Act 1991	Friendly Societies and Credit Unions Act 1982
Securities Trustees and Statutory Supervisors Act 2011	Industrial and Provident Societies Act 1982
Superannuation Schemes Act 1989	Limited Partnerships Act 2008
Unit Trusts Act 1960	Part 5C of the Reserve Bank of New Zealand Act 1989
	Trustee Companies Act 1967

- 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.
- Co-operate with any other law enforcement or regulatory agency or overseas regulators.

In addition to our functions under the Financial Markets Authority Act 2011, FMA has specific regulatory functions under:

- Auditor Regulation Act 2011
- Securities Trustees and Statutory Supervisors Act 2011
- Anti-Money Laundering and Countering Financing of Terrorism Act 2009
- Reserve Bank of New Zealand Act 1989 (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 1989 and the Insurance (Prudential Supervision) Act 2010
- 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, co-operate 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 from 2013. We will work closely with policy-makers to progress these reviews and implement changes arising from them.



AUTHORITY

This annual report was approved by the Financial Markets Authority on 31 October 2012.



Simon Allen
Chairman



Murray Jack
Chairman, Audit and Risk Committee

STATEMENT OF OBJECTIVES

For the 12 months ended 30 June 2012

FMA was funded by the Government to achieve its objectives through three principal appropriations.

These are:

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

Each of these appropriations has outputs which define the Government's expectations of the services we will provide and contribute to our six impacts.

To ensure we and our stakeholders know how FMA is performing against these expectations, we have developed key measures for each output class. These are described in the statement of service performance.

The image shows a stack of weathered wooden planks. The planks are arranged in a stepped fashion, with some in the foreground and others receding into the background. The wood is dark and shows signs of aging, with visible grain and some cracking. A bright green rectangular overlay is positioned on the left side of the image, partially covering the text.

PART 2:

STATEMENT OF SERVICE PERFORMANCE

**PERFORMANCE STANDARDS AND MEASURES FOR THE OUTPUT OF FMA FOR THE
14 MONTHS ENDED 30 JUNE 2012
12 MONTHS ENDED 30 JUNE 2012**

**APPROPRIATION ONE:
Licensing and Supervision of Market Participants**

	Actual 14 months to 30 Jun 12 \$000s	Actual 12 months to 30 Jun 12 \$000s	Budget 12 months to 30 Jun 12 \$000s
OUTPUT CLASS ONE			
Revenue	14,723	12,515	12,493
Expenditure	14,450	12,010	12,605
Surplus/Deficit	273	505	(112)

Output 1.1

The authorisation, supervision and disciplinary regulatory regimes of financial advisers and QFEs are implemented efficiently and achieve the Government's objectives.

- 1.1.1 **A risk-based supervision framework developed by 31 March 2012 for AFAs and QFEs.**
The framework document was completed on 30 March 2012.
Achievement: Complete
- 1.1.2 **Results of two monitoring projects undertaken pursuant to the risk-based supervision framework published by 30 June 2012 for AFAs and QFEs.**
The first monitoring project on AFAs was completed and results were published in Quarter two. Site visits for the second monitoring project have been completed and the results collated in an interim monitoring report in June 2012. This was published to AFAs on 10 July 2012.
Achievement: Complete
- 1.1.3 **Guidance on licensing standards for trustees and statutory supervisors published by 31 October 2011.**
The Securities Trustees and Statutory Supervisors' guidance note was released to the market in final form on 31 October 2011.
Achievement: Complete
- 1.1.4 **Processing of licence applications of securities trustees, and statutory supervisors commenced by 31 October 2011.**
15 applications were received by FMA by the statutory due date of 1 November 2011. MED was notified of the temporary licences which the legislation confers on the applicants for updating the Financial Service Providers Register (FSPR). FMA is actively reviewing the applications received under the full licensing process and decisions will be made on all applications by 30 September 2012, within the statutory timetable.
Achievement: In-progress
- 1.1.5 **Standards and conditions for licensing of auditors and registration of audit firms developed by 30 June 2012.**
Following two consultation phases, the standards and conditions were gazetted on 19 April 2012.
Achievement: Complete

Output 1.2

Capability and capacity is available to fulfil new statutory roles covering market licensees and the conduct of intermediaries.

- 1.2.1 **Standards and guidelines are developed for the monitoring framework of AFAs and QFEs by 30 June 2012.**
Work standards and monitoring guidelines were settled for use by the Retail Monitoring team by 30 June 2012. The standards and monitoring guidelines will be regularly reviewed and improved.
Achievement: Complete
- 1.2.2 **FMA has a full complement of trained staff in place to implement new regulatory regimes as they come into force by 30 June 2012.**
90 percent of the roles required for 2012/13 requirements have been filled. We expect to appoint the remaining positions in Quarter one of 2012/13. Phasing of recruitment expenditure and on-boarding new FMA staff has occurred, both to spread the financial impact as well as manage the impact of large numbers of simultaneous arrivals.
Achievement: On target
- 1.2.3 **FMA has the systems and processes in place to monitor fully implemented regulatory regimes by 30 June 2012.**
FMA has sufficient interim systems and processes in place to monitor fully implemented regulatory regimes as at 30 June 2012, with establishment of new systems commencing in November 2012.
Achievement: Achieved target
- 1.2.4 **FMA has a capability framework and skills matrix in place by 30 June 2012.**
Work was completed on the skills and capability matrix by 30 June 2012 for a roll out in the new financial year. It will supplement the performance management framework currently in place, which operates annually to 30 June each year.
Achievement: Complete

Output 1.3

Oversight of exchanges and settlement systems to ensure they comply with laws and regulations.

- 1.3.1 **Annual review of NZX's Futures Market completed and published by 30 June 2012.**
The review was completed and published on 29 June 2012.
Achievement: Complete
-
- 1.3.2 **General obligations review of NZX is completed and published by 30 June 2012.**
The review was completed and published on 29 June 2012.
Achievement: Complete
-
- 1.3.3 **NZ Clear is authorised as a designated settlement system by 30 June 2012.**
FMA and RBNZ completed all work to designate NZ Clear as a designated settlement system during the period. On 1 June 2012 it was recommended to the Minister of Finance and the Minister of Commerce that NZ Clear be designated, thus completing FMA's regulatory obligation.
Achievement: Complete
-
- 1.3.4 **All active futures markets are re-authorised under amended Securities Markets Act provisions by 31 January 2012.**
All active futures markets were re-authorised by 31 January 2012.
Achievement: Not complete but handed to designating authority within the period
-

Output 1.4

Disclosure documents, continuous disclosure and financial reports are reviewed to the agreed standards and timeframes.

- 1.4.1 **Risk-based framework for reviewing prospectuses post-registration in place by 31 December 2011.**
The risk-based framework was in place by 21 December 2011.
Achievement: Complete
-
- 1.4.2 **Guidance on standards for registered prospectuses and investment statements published by 1 March 2012.**
Draft guidance on standards for registered prospectuses and investment statements and feedback was published on 26 January 2012.
Achievement: Complete
-
- 1.4.3 **100 percent of high-risk prospectuses are reviewed post-registration.**
Since the risk-based framework was implemented, 100 percent of high-risk prospectuses have been reviewed.
Achievement: Achieved target
-
- 1.4.4 **Five percent of other prospectuses are reviewed post-registration.**
In the 12 months to 30 June 2012 we have reviewed 55 documents post-registration including 100 percent of high-risk documents and seven percent of all documents, not rated as being high-risk.
Achievement: Achieved target
-
- 1.4.5 **Disclosures improved or documents withdrawn in 100 percent of cases where FMA intervenes.**
We have intervened in 35 cases. In all those cases (100 percent) the documents have been improved or withdrawn or we are in ongoing correspondence with the issuer.
Achievement: Achieved target
-

Output 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.

- 1.5.1 **Priority areas for guidance identified and a programme of work established for publications from September 2011 to June 2012.**
Priority areas for guidance were identified with a programme of publications established and delivered. Publications within this period included:
- Consultation on securities trustees and statutory supervisor licensing was issued on 21 September 2011, with notes issued on 4 October 2011 and full guidance released on 31 October 2011.
 - Non-GAAP financial performance measures draft guidance was issued for consultation on 22 May 2012.
 - Final guidance on KiwiSaver performance fees was issued on 25 May 2012.
 - Final guidance on Effective Disclosure issues following two rounds of market consultation was released on 8 June 2012.
 - Draft guidance and consultation issued on KiwiSaver sales and distribution was released to the market on 25 June 2012.
- Achievement: Complete**
-

Output 1.6

Market activity is monitored into suspected breaches of AML/CFT law, and inquiries lead to suitable enforcement action.

- 1.6.1 **FMA has a capability framework and skills matrix in place for AML/CFT monitoring by June 2012.**
As part of the overall FMA capabilities and skills matrix assessment, which was completed by 30 June 2012, we have considered the capability and skills required for monitoring generically, including AML/CFT monitoring as a component of this. Further assessment will occur prior to the regulatory compliance date in mid-2013.
Achievement: Complete
-
- 1.6.2 **Co-regulators are at least 85 percent satisfied with our performance, outputs and co-operation.**
All but one of the co-regulators surveyed indicated they were at least 85 percent satisfied with FMA's performance, outputs and co-operation. Only one respondent reported that we did not achieve this standard, with investigation showing that factors outside of our control influenced this ranking.
Achievement: Achieved target excluding one
-

APPROPRIATION TWO: Performance of Financial Markets Monitoring Functions

	Actual 14 months to 30 Jun 12 \$000s	Actual 12 months to 30 Jun 12 \$000s	Budget 12 months to 30 Jun 12 \$000s
OUTPUT CLASS TWO			
Revenue	9,346	7,165	7,012
Expenditure	5,783	5,017	8,083
Surplus/Deficit	3,563	2,148	(1,071)

Monitor financial and securities markets activity

Output 2.1

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

- 2.1.1 **Framework established to identify emerging risks by 30 June 2012.**
Both the Emerging Risk Framework and Market Intelligence Division of the FMA Board are formed and deployed, providing core governance to identify systemic risk.
Achievement: Complete
- 2.1.2 **100 percent of referrals from frontline regulators acknowledged and prioritised for action within one business day.**
Forty-six referrals were received by FMA from NZX and the Takeovers Panel during the year. All referrals were processed within one business day.
Achievement: Achieved target
- 2.1.3 **Two feedback reports on referrals received issued to frontline regulators by 30 June 2012.**
Specific feedback was given to NZXMS on 6 September 2011 and 23 March 2012 regarding the exercise of its regulatory discretions. Further feedback will be provided on an ongoing basis so that issues with frontline regulators are addressed and dealt with in a timely manner.
Achievement: Complete

Output 2.2

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

- 2.2.1 **Complaints management framework and processes developed by 31 December 2011.**
FMA developed and implemented a complaints management framework and process in November 2011. The framework is subject to regular review and improvement.
Achievement: Complete
- 2.2.2 **Complaints, tips and referrals are acknowledged within two working days of receipt.**
Since the framework was established on 1 November 2011, 100 percent of complaints, tips and referrals received through FMA's published online and telephone complaint and enquiry channels were acknowledged within two working days of receipt.
94 percent of all complaints, tips and referrals recorded since 1 November 2011 were acknowledged within two working days of receipt.
Note: this target has been revised to 80 percent for 2012-15 Statement of Intent. In some cases, an acknowledgement was not applicable or possible, e.g. where the complainant is anonymous.
Achievement: Achieved target
- 2.2.3 **100 percent of complainants receive a substantive response from FMA within 28 days of receiving all relevant information.**
Of those complaints responded to since 1 November 2011, 94 percent received a substantive response within 28 days of FMA receiving all relevant information.
Note: this target has been revised to 80 percent for the Statement of Intent 2012-2015, in line with peer international regulators. In some cases, a response was not applicable or possible but is recorded as responded, e.g. where the complainant is anonymous.
Achievement: Achieved target

Review securities law and practice and make recommendations for reform

Output 2.3

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

2.3.1 **Establish a central issues register across FMA by 31 December 2011.**

The register was established in December 2011.

Achievement: Complete

2.3.2 **Quarterly report to Minister of Commerce highlighting key priorities for reform delivered.**

The Chairman and Chief Executive report on law reform priorities at quarterly meetings with the Minister of Commerce:

- Completed for Quarter one.
- A combined Quarter two and Quarter three meeting was held in February 2012 due to the General Election in November 2011 and the appointment of a new Minister of Commerce.
- Quarter four's meeting was held on 5 June 2012.

Achievement: Complete

Output 2.4

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

2.4.1 **Other relevant government agencies are at least 85 percent satisfied with the quality of advice provided by FMA.**

FMA has provided advice and assistance to MED on the Financial Markets Conduct Bill, reforms of the Financial Reporting Act and Credit Contracts and Consumer Finance Act, fees and levies, and regulations under the Securities Markets Act. FMA has also provided comments and assistance to Treasury in relation to its review of the Crown Entities Act and has commented on the review of the role of the Solicitor-General and Crown Law Office. Agencies responded when surveyed that they were satisfied or at least 85 percent satisfied.

Achievement: Achieved target

2.4.2 **Co-sponsor development of a Council of Financial Regulators by 30 September 2011.**

The permanent members of the Council are RBNZ and FMA. The Chair alternates between these two members. Associate members are Treasury and MED.

Achievement: Complete

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

Output 2.5

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

2.5.1 **90 percent of complete applications for exemptions are processed within six weeks or as agreed with applicant.**

100 percent of complete applications processed within six weeks or as agreed with applicant.

Achievement: Achieved target

2.5.2 **Two reports on significant issues arising from exemption applications published by 30 June 2012.**

The first report – an information and consultation paper on the 44 class exemption notices under review – was published in April 2012.

A second report on various class exemptions under review was published on 4 July 2012. In the update, we disclosed the nature of the decisions made so far on particular exemptions and the notices which we are continuing to progress.

A guidance note on 'pre-prospectus publicity – some practical guidance for issuers and their advisers', after consultation with a target audience of experienced practitioners, was published in September 2012.

Achievement: Work completed in period (second report published post balance date)

2.5.3 **100 percent of exemptions and statements of reason published on FMA website or provided to pre-publication unit of PCO within two workings days of signing.**

100 percent of exemptions and statements of reason were published on the FMA website or provided to pre-publication unit of PCO within two workings days of signing.

Achievement: Achieved target

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

Output 2.6

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

-
- 2.6.1 **Key areas of deficiency in understanding are identified and prioritised by 31 December 2011.**
Engagement with stakeholders, including industry, the Commission for Financial Literacy and Retirement Income (CFLRI), consumer groups and other regulators, has identified areas of deficiency and been fed into the programmes and initiatives.
Achievement: Complete
-
- 2.6.2 **Three consumer and investor advocacy publications providing independent information were developed by 30 June 2012.**
Three consumer factsheets have been produced and will be published on FMA's website in July 2012. In addition, FMA's 'How to invest' website content has been updated and will be published on the website following peer review in August 2012.
Achievement: Work completed in period published post balance date
-
- 2.6.3 **Consumer Advisory Panel established by 31 December 2011 with quarterly meetings.**
FMA is actively consulting with stakeholders about a Consumer Advisory Panel, to provide a consumer perspective on new initiatives and communications. Meetings to discuss the scope and terms of reference have been conducted ahead of a planned session in Quarter one 2013.
Achievement: Planning and work have commenced, with outputs extended to ensure that external stakeholders are consulted to achieve the best outcome for consumers
-
- 2.6.4 **Baseline of number and nature of website visits established by 30 June 2012.**
Website analytical tools have been implemented and continue to be refined. Analysis of the baseline numbers shows that website visits spike around proactive initiatives such as consultation and media commentary on litigation and other enforcement outcomes. A new website is in the planning, to be delivered over the next three quarters to better meet the needs of a growing number of visitors.
Achievement: Complete
-

Output 2.7

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

-
- 2.7.1 **Stakeholder survey demonstrates greater awareness and understanding of FMA and our actions.**
A stakeholder survey was undertaken by an independent research company in June and July 2012 to measure awareness of and understanding of FMA and our actions.
83 percent of those stakeholders surveyed said that their level of awareness of FMA had increased in FMA's first year of operation.
73 percent of those stakeholders surveyed said that their level of understanding of FMA's actions had increased in the last year.
Achievement: Complete
-
- 2.7.2 **Details of public enforcement actions published on FMA's website.**
Updates on enforcement action and warnings and public statements about sentencing are regularly published on FMA's website.
Achievement: Complete
-
- 2.7.3 **Annual report on key issues and themes arising from investigations and enforcement activities; published by 30 June 2012.**
The first annual report on key themes and issues arising from investigations and enforcement activities will be completed and published on FMA's website in August 2012.
Achievement: Work completed in period published post balance date
-
- 2.7.4 **75 public engagements in 2011/12.**
83 public engagements were undertaken in the year ending June 2012.
Achievement: Achieved target
-

International liaison

Output 2.8

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

-
- 2.8.1 **Stakeholder feedback indicates that FMA's engagement with trans-Tasman regulators has contributed toward the development of a Single Economic Market.**
In the period, FMA and ASIC have signed a revised MOU which specifically acknowledges the acceleration and deepening of trans-Tasman economic and regulatory integration. Work was completed on the trans-Tasman mutual recognition of financial advisers and was announced in a joint media release on 2 July 2012, receiving positive media coverage. Work has also been progressed with ASIC on mutual recognition of auditors as a Single Economic Market initiative. FMA's Chief Executive has also participated in the Australia New Zealand Leadership Forum in April 2012 with other regulators, business and government representatives on advancing trans-Tasman initiatives which have been widely reported.
Achievement: Achieved target
-
- 2.8.2 **Collaborative work with ASIC completed to agreed standards and timeframes.**
FMA and ASIC have worked collaboratively across a range projects to agree standards and timeframes. This has included extensive consultation with ASIC in relation to proposed guidance on effective prospectus disclosure and non-GAAP financial reporting, along with work on the trans-Tasman mutual recognition of financial advisers and auditors. FMA has also agreed timeframes with ASIC for requests for information sharing and co-operation under the IOSCO Multilateral Memorandum of Understanding (MMOU).
Achievement: Achieved target
-

Output 2.9

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

-
- 2.9.1 **Standards for FMA's interaction with IOSCO for co-operation, timeliness and quality are met.**
FMA has met our own targets for acknowledging and responding to international requests under the IOSCO MMOU. FMA has met all of our obligations in regard to executing requests for assistance and co-operation under the MMOU, with other members providing positive feedback on the timeliness and quality of FMA's responses.
Achievement: Achieved target
-
- 2.9.2 **90 percent of requests for international assistance completed within agreed timeframes to the satisfaction of co-regulators.**
100 percent achieved with timeframes agreed with co-regulators.
Achievement: Achieved target
-



APPROPRIATION THREE: Performance of Investigation and Enforcement Functions

	Actual 14 months to 30 Jun 12 \$000s	Actual 12 months to 30 Jun 12 \$000s	Budget 12 months to 30 Jun 12 \$000s
OUTPUT CLASS THREE			
Revenue	7,063	5,749	5,749
Expenditure	7,182	6,326	4,282
Surplus/Deficit	(119)	(577)	1,467

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

Output 3.1

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

3.1.1 **An enforcement strategy established by 30 September 2011.**
FMA's Enforcement Policy was published on 12 September 2011.
Achievement: Complete

3.1.2 **A governance framework for prioritisation of inquiries and investigations established by 31 December 2011.**
The enforcement governance framework was submitted to the Board for review in December 2011 and it was formally approved in March 2012. It is now operational.
Achievement: Work completed within timeframe and formally approved in March 2012

Output 3.2

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

3.2.1 **100 percent of inquiries and investigations completed in the timeframes and standards defined in the governance framework.**
Matters referred to FMA for investigation since 1 January 2012 are being progressed in accordance with the enforcement governance framework. In the period to 1 January 2012, prior to approval of the governance framework, inquiries and investigations were progressed in a timely way. Inherited inquiries and investigations, including 26 failed finance company matters, were reviewed and some were closed while inquiry, investigation or prosecution continued with respect to others. In the period, nine failed finance cases have been before the Courts and three criminal trials were completed. The details of the finance company cases are recorded on FMA's website.
Achievement: Achieved target

3.2.2 **Positive stakeholder feedback that FMA's enforcement actions are appropriate.**
A stakeholder survey was undertaken by an independent research company in June and July 2012 to establish baselines. 54 percent of stakeholders surveyed believe that our actions positively influence market behaviour. 41 percent of stakeholders surveyed believe that FMA's regulatory action targets the right matters. A further 40 percent of stakeholders were neutral or did not have a view. 40 percent of stakeholders surveyed believe that FMA is fair and consistent in the way we take regulatory action, while 52 percent are neutral or did not have a view. 34 percent of stakeholders surveyed believe that FMA's regulatory actions are proportionate, while 55 percent are neutral or did not have a view.
Achievement: Complete



PART THREE: FINANCIAL REPORT

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STATEMENT OF RESPONSIBILITY

The Board is responsible for the preparation of FMA's financial statements and statement of service performance, and for the judgments made in them.

The Board of FMA has the responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In the Board's opinion, these financial statements and statement of service performance fairly reflect the financial position and operations of FMA for the 14 months ended 30 June 2012.

Signed on behalf of the Board:



Simon Allen
Chairman

31 October 2012



Murray Jack
Chairman, Audit and Risk Committee

31 October 2012

STATEMENT OF COMPREHENSIVE INCOME

for the 14 months ended 30 June 2012
for the 12 months ended 30 June 2012

	Note	Actual 14 months to 30 Jun 12 \$000s	Actual 12 months to 30 Jun 12 \$000s	Budget 12 months to 30 Jun 12 \$000s
INCOME				
Government grant	2	29,853	24,274	24,274
Litigation fund income	5	2,431	2,188	2,500
Interest		488	469	390
Other income		791	686	590
Total income		33,563	27,617	27,754
EXPENDITURE				
Personnel expenses	3	16,866	14,298	14,760
Depreciation and amortisation	7,8	778	688	1,488
Other operating expenditure	4	9,770	8,367	8,722
Litigation fund expenditure	5	2,431	2,188	2,500
Total expenditure		29,845	25,541	27,470
Surplus/(deficit)		3,718	2,076	284
Total comprehensive income		3,718	2,076	284
TOTAL COMPREHENSIVE INCOME COMPRISES:				
Net operating surplus/(deficit)		3,718	2,076	284
Net litigation fund surplus/(deficit)		-	-	-
Total comprehensive income		3,718	2,076	284

Explanation of major variances against budget are provided in note 18.

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the 14 months ended 30 June 2012
for the 12 months ended 30 June 2012

	Note	Actual 14 months to 30 Jun 12 \$000s	Actual 12 months to 30 Jun 12 \$000s	Budget 12 months to 30 Jun 12 \$000s
OPENING BALANCE		1 May 11	1 Jul 11	1 Jul 11
Capital contributions		3,777	3,777	4,007
Accumulated funds		-	1,642	1,609
Litigation fund		844	844	844
Total opening balances		4,621	6,263	6,460
COMPREHENSIVE INCOME				
Surplus/(deficit)		3,718	2,076	284
Other comprehensive income		-	-	-
Total comprehensive income		3,718	2,076	284
OWNER TRANSACTIONS				
Capital contribution		5,000	5,000	5,000
Total owner transactions		5,000	5,000	5,000
Closing balances 30 June 2012		13,339	13,339	11,744
Capital contribution		8,777	8,777	9,007
Accumulated funds		3,718	3,718	1,893
Litigation fund		844	844	844
Total closing balances	5,17	13,339	13,339	11,744

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

for the 14 months ended 30 June 2012
for the 12 months ended 30 June 2012

	Note	Actual 14 months to 30 Jun 12 \$000s	Actual 12 months to 30 Jun 12 \$000s	Budget 12 months to 30 Jun 12 \$000s
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
- Government grant		29,853	24,274	24,274
- Litigation fund income		2,195	1,817	2,500
- Interest		426	407	390
- Other income		788	665	590
Cash was disbursed to:				
- Suppliers		(10,604)	(9,118)	(11,260)
- Employees		(16,199)	(14,486)	(14,156)
- Goods and services tax (net)		31	(410)	350
Net cash flows from operating activities	12	6,490	3,149	2,688
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was provided from:				
- Sale of fixed assets		8	8	-
Cash was applied to:				
- Purchase of property, plant and equipment		(1,694)	(1,667)	(4,418)
- Purchase of intangible assets		(253)	(253)	-
- Increase in term deposit		(10,028)	(10,028)	(6,000)
Net cash flows from investing activities		(11,967)	(11,940)	(10,418)

The accompanying notes form part of these financial statements.

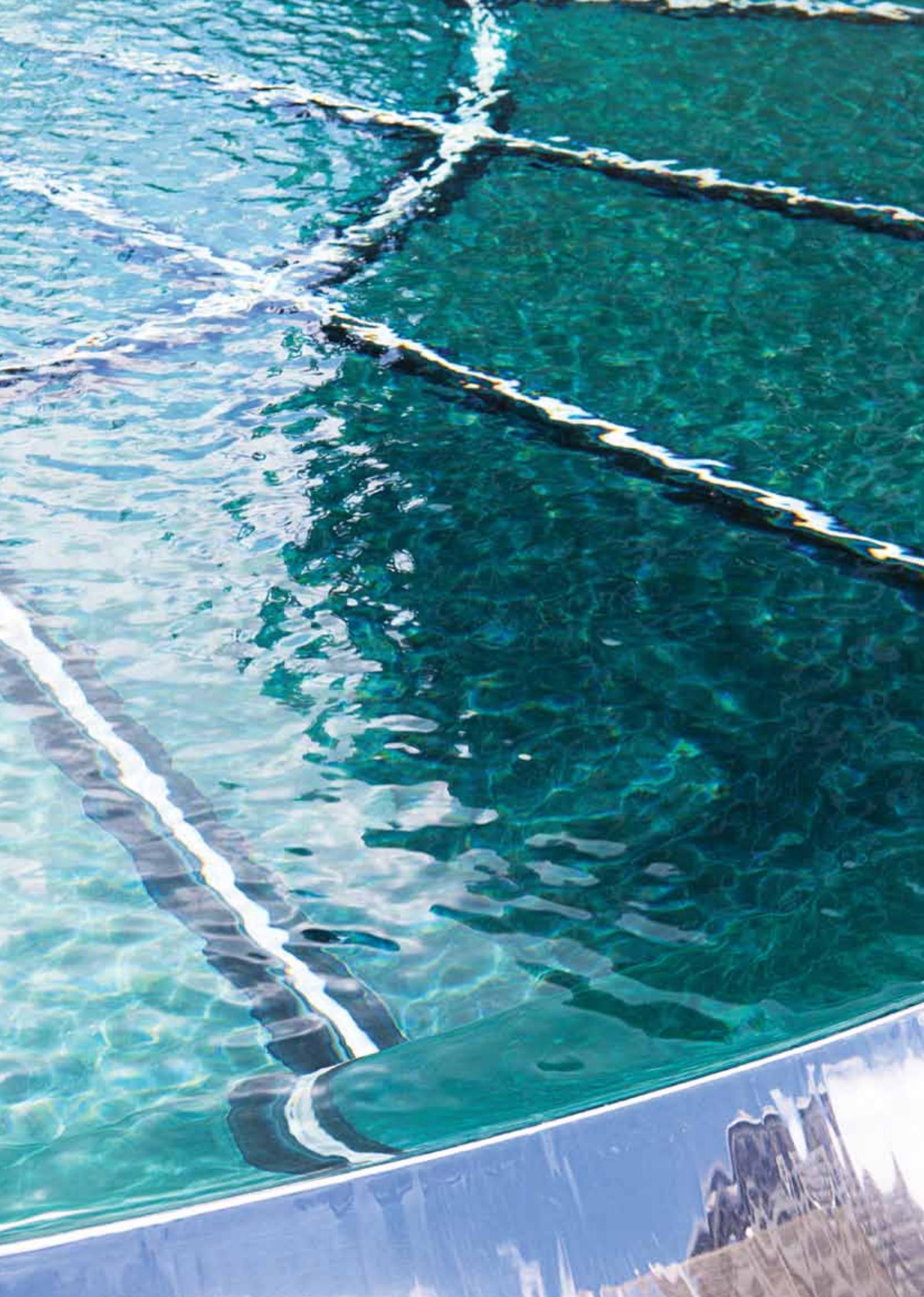
STATEMENT OF CASH FLOWS (continued)

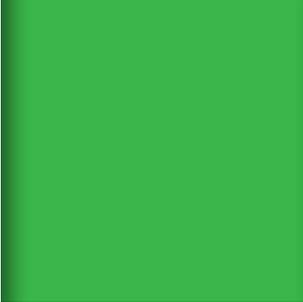
for the 14 months ended 30 June 2012
for the 12 months ended 30 June 2012

	Actual 14 months to 30 Jun 12 \$000s	Actual 12 months to 30 Jun 12 \$000s	Budget 12 months to 30 Jun 12 \$000s
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Transfer of funds from the Securities Commission			
- Operating cash	3,298	-	-
- Litigation fund cash	119	-	-
Capital contribution	5,000	5,000	5,000
Net cash flows from financing activities	8,417	5,000	5,000
Net increase/(decrease) in cash and cash equivalents	2,940	(3,791)	(2,730)
Cash and cash equivalents at the beginning of the year	-	6,731	6,731
Cash and cash equivalents at the end of the year	2,940	2,940	4,001
Comprising			
Cash and cash equivalents	2,790	2,790	3,782
Cash and cash equivalents – litigation fund	150	150	219
	2,940	2,940	4,001

Explanation of major variances against budget are provided in note 18.

The accompanying notes form part of these financial statements.





NOTES TO THE FINANCIAL STATEMENTS

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NOTES TO THE FINANCIAL STATEMENTS

**for the 14 months ended 30 June 2012
for the 12 months ended 30 June 2012**

NOTE 1: Statement of accounting policies

Reporting entity

The Financial Markets Authority (FMA) is a Crown entity as defined by the Crown Entities Act 2004. FMA was established on 1 May 2011 by the Financial Markets Authority Act 2011, is domiciled in New Zealand and its ultimate parent is the New Zealand Crown.

The Financial Markets Authority Act 2011 dissolved the Securities Commission (the Commission) at the close of 30 April 2011. The Commission's functions, duties and powers were transferred to FMA along with:

- the part of the Companies Office at the Ministry of Economic Development (MED) which dealt with entities that are financial service providers, including those that investigate and enforce securities laws
- the functions of the Government Actuary who currently monitors and supervises superannuation and KiwiSaver schemes
- the Commission's assets, rights, liabilities, contracts, entitlements and engagements have also been transferred to FMA in accordance with the accounting policies noted in this annual report.

FMA's primary objective is to promote and facilitate the development of fair, efficient and transparent financial markets. FMA has designated itself as a public benefit entity for the purposes of New Zealand equivalent to International Financial Reporting Standards (NZ IFRS).

As FMA's first two months fell within the Government's financial year to 30 June 2011, the Minister of Commerce has directed that May and June 2011 results are to be reported together with the 2012 financial year to 30 June 2012 as a 14-month period. In order to report FMA's accountability against the prospective financial statements issued for the 12 months ending 30 June 2012, this annual report for the 2012 financial year includes reporting for the full 14-month period as well as the 12-month period to 30 June 2012.

Basis of preparation

Statement of compliance and measurement base

These financial statements of FMA have been prepared in accordance with the requirements of the Crown Entities Act 2004. The financial statements have been prepared on a historical cost basis for a going concern in accordance with New Zealand Generally Accepted Accounting Practice (GAAP) and were authorised for issue by the Board on 31 October 2012.

The financial statements comply with NZ IFRS and other applicable financial reporting standards as appropriate for public benefit entities.

Functional and presentational currency

These financial statements are presented in New Zealand dollars which is the entity's functional currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand dollars (\$000).

Use of estimates and judgments

The process of applying accounting policies requires FMA to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on past experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Changes in accounting policies

This is FMA's first annual report and the significant accounting policies were adopted during the reporting period.

Standards, amendments and interpretations issued that are not yet effective and have not been early adopted and which are relevant to FMA, are:

- NZ IFRS 9 Financial Instruments will eventually replace NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IAS 39 is being replaced through the following three main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 has been completed and has been published in the new financial instrument standard NZ IFRS 9.

NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial assets (its business model) and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those of NZ IAS 39, except for when an entity elects to designate a financial liability at fair value through the surplus/deficit. The new standard is required to be adopted for the year ended 30 June 2016. However, as a new Accounting Standards Framework will apply before this date, there is no certainty when an equivalent standard to NZ IFRS 9 will be applied by public benefit entities.

The Minister of Commerce has approved a new Accounting Standards Framework (incorporating a tier strategy) developed by the External Reporting Board (XRB). Under this Accounting Standards Framework, FMA is classified as a Tier 1 reporting entity and it will be required to apply full Public Benefit Entity Accounting Standards (PAS).

These standards are being developed by the XRB based on current International Public Sector Accounting Standards. The effective date for the new standards for public sector entities is expected to be for reporting periods beginning on or after 1 July 2014. This means that FMA expects to transition to the new standards in preparing its 30 June 2015 financial statements. As the PAS are still under development, FMA is unable to assess the implications of the new Accounting Standards Framework at this time.

Due to the change in the Accounting Standards Framework for public benefit entities, it is expected that all new NZ IFRS and amendments to existing NZ IFRS will be applicable to public benefit entities. Therefore, the XRB has effectively frozen the financial reporting requirements for public benefit entities up until the new Accounting Standard Framework is effective. Accordingly, no disclosure has been made about new or amended NZ IFRS that exclude public benefit entities from their scope.

Significant accounting policies

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

A) REVENUE

Revenue is measured at the fair value of consideration received or receivable.

Revenue from the Crown

FMA is primarily funded through revenue received from the Crown, which is restricted in its use for the purpose of FMA meeting its objectives as specified in the Statement of Intent.

Revenue from the Crown is recognised as revenue when earned and is reported in the financial period to which it relates.

Fees and cost recovery

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

Interest

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.

B) LEASES

Operating leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

Lease incentives received are recognised in the surplus or deficit over the lease term as an integral part of the total lease expense.

C) OCCUPANCY INCENTIVES

Rent holiday liability

This represents amounts received from the landlord for a rent holiday. Rent holiday liability is amortised over the life of the lease.

Capital contribution

Capital contribution payment received from the landlord is amortised over the life of the lease where the assets are owned by FMA. Where the landlord owns certain assets that are paid for out of capital contribution, the landlord's portion of assets is not recorded in FMA's property, plant and equipment.

D) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

E) DEBTORS AND OTHER RECEIVABLES

Short-term debtors and other receivables are recorded at their face value, less any provision for impairment.

Impairment of a receivable is established when there is objective evidence that FMA will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, receivership or liquidation, and default in payments are considered indicators that the debt is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the surplus or deficit. When the receivable is uncollectible, it is written off against the allowance account for receivables.

F) 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.

G) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are shown at cost or deemed cost less depreciation, and less any impairment losses.

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.

Additions

The cost of an item of property, plant and equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to FMA and the cost of the item can be measured reliably.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the surplus or deficit. When revalued assets are sold, the amounts included in revaluation reserves in respect of those assets are transferred to general funds.

H) INTANGIBLE ASSETS

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with maintaining computer software are recognised as an expense when incurred.

Costs associated with development and maintenance of FMA's website are recognised as an expense when incurred.

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each financial year is recognised in the surplus or deficit.

The useful lives and associated amortisation rate of acquired computer software is three years (33.3 percent).

I) IMPAIRMENT PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Property, plant and equipment and intangible assets that have finite useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

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.

An impairment loss is recognised in the statement of comprehensive income whenever the carrying amount of an asset exceeds its recoverable amount. Any reversal of impairment losses is also recognised in the Statement of Comprehensive Income.

J) CREDITORS AND OTHER PAYABLES

Short term creditors and other payables are recorded at their face value.

K) SHORT TERM EMPLOYEE BENEFITS

Short term employee benefits that are due to be settled within 12 months after the end of the period in which the employee renders the related service are measured based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, and annual leave earned to but not yet taken at balance date.

A liability and an expense are recognised for performance pay where there is a contractual obligation or where there is a past practice that has created a constructive obligation.

L) SUPERANNUATION SCHEMES

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

M) PROVISIONS

A provision is recognised for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that an outflow of future economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense and is included in 'finance costs'.

N) EQUITY

Equity is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into the following components:

- accumulated funds
- litigation fund
- capital contribution.

O) GOODS AND SERVICES TAX (GST)

All items in these financial statements are exclusive of GST, except for receivables and payables which are presented on a GST-inclusive basis.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as net operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

P) INCOME TAX

FMA is a public authority and consequently is exempt from the payment of income tax under the Income Tax Act 2007. Accordingly, no provision has been made for income tax.

Q) BUDGET FIGURES

The budget figures are derived from the Statement of Intent 2011-14 as approved by the Board in October 2011. The budget figures are for the 12 months to 30 June 2012 and have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by the Board in preparing these financial statements.

R) COST ALLOCATION POLICY

FMA has determined the cost of outputs using the cost allocation system outlined below.

Direct costs are those costs directly attributed to an output. Indirect costs are those costs that cannot be identified in an economically feasible manner with a specific output.

Direct costs are charged directly to outputs. Indirect costs are charged to outputs based on cost drivers and related activity or usage information. Personnel costs are charged on the basis of actual time incurred. Other indirect costs are assigned to outputs based on the proportion of direct staff time for each output.

S) 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.

T) 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.

NOTE 2: Revenue from the Crown

FMA has been provided with funding from the Crown for specific purposes as set out in its founding legislation and the scope of the relevant government appropriations. Apart from these general restrictions, there are no unfulfilled conditions or contingencies attached to government funding.

NOTE 3: Personnel costs

	Actual 2012 14 months \$000s	Actual 2012 12 months \$000s
Salaries and wages	12,328	10,376
Defined contribution plan employer contributions	244	209
ACC	29	29
Fringe benefit tax	1	1
Member and Committee fees	948	850
Contract staff	2,508	2,157
Recruitment/transitional costs	808	676
Total personnel costs	16,866	14,298

Employer contributions to defined contribution plans include contributions to KiwiSaver, the State Sector Retirement Savings Scheme, the Government Superannuation Fund and the DBP Contributors Scheme.

The contributions to KiwiSaver were all reimbursed by the State Services Commission and are recorded as other income during the period. The State Sector Employers KiwiSaver Contributions reimbursement scheme ended as at 30 June 2012.

NOTE 4: Other operating expenses

	Actual 2012 14 months \$000s	Actual 2012 12 months \$000s
Fees to auditors		
- fees to Audit New Zealand for financial statements audit	51	51
Bad debts	7	7
Loss on disposal of fixed assets	350	350
Operating lease expenses	2,144	1,925
Professional services	3,599	3,042
Services and supplies	2,736	2,204
Travel and accommodation	883	788
Total other operating expenses	9,770	8,367

There were no other services rendered by Audit New Zealand during the reporting period other than the audit of these financial statements.

Operating leases expenses include provision for lease on vacated property of \$421,076.

NOTE 5: Litigation fund

The Government has appropriated a litigation fund to cover actual litigation costs up to a maximum of \$3.5 million for the 14 months ended 30 June 2012 and \$2.5 million for the 12 months ended 30 June 2012.

A summary of the movements in the fund during the reporting period is as follows:

	Actual 2012 14 months \$000s	Actual 2012 12 months \$000s
Opening balance	844	844
Government grant revenue	2,430	2,187
Interest income	1	1
Settlements and cost recoveries	-	-
Total litigation fund income	2,431	2,188
Expenditure on eligible litigation	(2,431)	(2,188)
Capital repayment	-	-
Closing balance	844	844
COMPRISING		
Cash and cash equivalents		
- Current account	145	145
- Call account	5	5
	150	150
Trade and other receivables	1,037	1,037
	1,187	1,187
Trade and other payables	(343)	(343)
Balance	844	844

NOTE 6: Debtors and other receivables

	Actual 30 Jun 2012 \$000s	Actual 30 Jun 2011 \$000s
Trade debtors	848	524
Other receivables	590	216
Prepayments	291	-
Rental bond	-	65
Less: Provision for impairment	-	-
Total debtors and other receivables	1,729	805

The carrying value of receivables approximates their fair value.

The ageing profile of trade debtors at year end is detailed below:

	Gross \$000s	2012 Impairment \$000s	Net \$000s
Not past due	815	-	815
Past due 1 – 30 days	-	-	-
Past due 31 – 60 days	-	-	-
Past due 61 – 90 days	6	-	6
Past due over 90 days	27	-	27
Total	848	-	848

All trade debtors greater than 30 days in age are considered to be past due. The impairment assessment is performed on a collective basis.

NOTE 7: Property, plant and equipment

	Office equipment \$000s	Office furniture \$000s	Leasehold improvements \$000s	Total \$000s
COST				
Property, plant and equipment transferred from Securities Commission at 1 May 2011	1,449	625	1,413	3,487
Additions	18	2	7	27
Disposals	-	-	-	-
Balance at 30 June 2011	1,467	627	1,420	3,514
Additions	664	256	1,231	2,151
Disposals	(1,111)	(540)	(1,413)	(3,064)
Balance at 30 June 2012	1,020	343	1,238	2,601
ACCUMULATED DEPRECIATION				
Property, plant and equipment transferred from Securities Commission at 1 May 2011	(980)	(410)	(1,055)	(2,445)
Depreciation expense	(39)	(8)	(36)	(83)
Elimination on disposal	-	-	-	-
Balance at 30 June 2011	(1,019)	(418)	(1,091)	(2,528)
Depreciation expense	(338)	(49)	(230)	(617)
Elimination on disposal	1,005	415	1,260	2,680
Balance at 30 June 2012	(352)	(52)	(61)	(465)
CARRYING AMOUNTS				
At 1 May 2011	469	215	358	1,042
At 30 June 2011 and 1 July 2011	448	209	329	986
At 30 June 2012	668	291	1,177	2,136

There are no restrictions over the title of FMA's property, plant and equipment nor are any property, plant and equipment pledged as security for liabilities.

NOTE 8: Intangible assets

	Computer software \$000s
COST	
Intangible assets transferred from Securities Commission at 1 May 2011	251
Additions	-
Disposals	-
Balance at 30 June 2011	251
Additions	315
Disposals	(190)
Balance at 30 June 2012	376
ACCUMULATED DEPRECIATION	
Intangible assets transferred from Securities Commission at 1 May 2011	(168)
Amortisation expense	(7)
Elimination on disposal	-
Balance at 30 June 2011	(175)
Amortisation expense	(71)
Elimination on disposal	181
Balance at 30 June 2012	(65)
CARRYING AMOUNTS	
At 1 May 2011	83
At 30 June 2011 and 1 July 2011	76
At 30 June 2012	311

There are no restrictions over the title of FMA's intangible assets nor are any intangible assets pledged as security for liabilities.

NOTE 9: Creditors and other payables

	Actual 30 Jun 2012 \$000s	Actual 30 Jun 2011 \$000s
Trade creditors	1,552	1,060
Accrued expenses and other payables	1,046	315
Total creditors and other payables	2,598	1,375

Creditors and other payables are non-interest bearing and are normally settled on 30-day terms. Therefore, the carrying value of creditors and other payables approximates their fair value.

NOTE 10: Occupancy incentives

Rent holiday liability

This represents amounts received from the landlord for a rent holiday.

- The Terrace: the rent holiday liability has been fully released as FMA moved to a new office located at Grey Street in June 2012.
- Grey Street: there is no rent holiday from the landlord.
- Takutai Square: \$120,790 rent holiday was received from the landlord during the 10 months to 30 June 2012. This is to be amortised over the life of the lease.

Capital contribution

Lease incentive payments of \$310,000 were received during the period. Payments were structured so that the landlord is actually contributing to and will own certain fixtures and fittings provided as part of FMA's fit out or as a contribution to FMA's fit-out and design fees. Contribution to FMA's fit-out and design fees are to be amortised over the life of the lease.

NOTE 11: Provisions

	Actual 30 Jun 2012 \$000s	Actual 30 Jun 2011 \$000s
CURRENT PORTION		
Lease make-good	-	-
Provision for lease on vacated property	421	-
Total current portion	421	-
NON-CURRENT PORTION		
Lease make-good	35	-
Provision for lease on vacated property	-	-
Total non-current portion	35	-
Total provisions	456	-

Lease make-good provision

In respect of certain leases, at the expiry of the lease term, FMA is required to make-good any damage caused to the premises and to remove any fixtures or fittings it has installed by FMA. FMA has the option to renew both current premises leases, which affects the timing of expected cash outflows to make-good the premises. Information about FMA's leasing arrangements is disclosed in note 13.

Provision for lease on vacated property

FMA's lease on 56 The Terrace does not expire until 31 January 2013. It is unlikely that this will be sublet. A provision has been recognised for the obligation of the future rental payment.

NOTE 12: Reconciliation of the net surplus from operations with the net cash flows from operating activities

	Actual 14 months to 30 Jun 12 \$000s	Actual 12 months to 30 Jun 12 \$000s
Reporting surplus (deficit):	3,718	2,076
ADD NON-CASH ITEMS:		
- Allocation of lease incentives	227	229
- Depreciation/amortisation	778	688
ADD/(LESS) MOVEMENT IN WORKING CAPITAL:		
- Increase/(decrease) in creditors	2,275	1,678
- Decrease/(increase) in debtors	(872)	(1,218)
- Decrease/(increase) in employment entitlements	525	(143)
ADD/(LESS) MOVEMENT IN INVESTING ACTIVITY:		
- (Gain)/loss on sale of fixed assets	350	350
- Increase in creditors relating to investing activities	(511)	(511)
Net cash flows from operating activities	6,490	3,149

NOTE 13: Capital commitments and operating leases

Capital commitments

There are no capital commitments at balance date.

Operating leases as lessee

	The Terrace \$000s	Grey Street \$000s	Takutai Square \$000s	Total 2012 \$000s
- Not later than 1 year	421	420	474	1,315
- Later than 1 year and not later than 5 years	-	1,679	2,517	4,196
- Later than 5 years	-	1,679	106	1,785
Total non-cancellable operating leases	421	3,778	3,097	7,296

FMA has three leased properties as at 30 June 2012.

The Terrace is currently vacant and its lease expires on 31 January 2013. FMA has recognised provision for lease on vacated property as noted in note 11.

Grey Street's lease commenced on 1 July 2012 and expires on 30 June 2021, with two rights of renewal on 30 June 2024 and 30 June 2027. For lease make-good provision, FMA has assumed it will vacate the premises at the end of the lease term being 30 June 2021.

Takutai Square's lease commenced on 1 September 2011 and expires on 31 August 2017, with two rights of renewal on 31 August 2018 and 31 August 2020. For lease make-good provision, FMA has assumed that it will vacate the premises at the end of the lease term being 31 August 2017.

NOTE 14: Contingencies

Contingent liabilities

There are no contingent liabilities at balance date. FMA is undertaking litigation against a number of parties. Should any case be unsuccessful, FMA could have costs awarded against it.

Contingent assets

There are no contingent assets at balance date.

NOTE 15: Transactions with related parties

All related party transactions have been entered into on an arm's-length basis.

FMA is a wholly owned entity of the Crown.

Significant transactions with government-related entities

FMA has been provided with funding from the Crown of \$32 million for the 14-month reporting period and \$26 million for the 12-month reporting period for specific purposes, as set out in its founding legislation and the scope of the relevant government appropriations.

Collectively, but not individually, significant, transactions with government-related entities

In conducting its activities, FMA is required to pay various taxes and levies (such as GST, FBT, PAYE, and ACC levies) to the Crown and entities related to the Crown. The payment of these taxes and levies, other than income tax, is based on the standard terms and conditions that apply to all tax and levy payers. FMA is exempt from paying income tax.

FMA also purchases goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown. Purchases from these government-related entities totalled \$0.78 million for the 14 months ended 30 June 2012 and \$0.64 million for the 12 months ended 30 June 2012. These purchases included, but were not limited to, the purchase of electricity from Genesis Power Limited, air travel from Air New Zealand Limited, postal services from New Zealand Post Limited, secondment and communication services from MED and subscriptions from the Department of Internal Affairs.

Transactions with suppliers

The following transactions were entered into during the year with key management personnel:

Suppliers		Transaction value 2012 14 months \$000s	Transaction value 2012 12 months \$000s	Balance outstanding Year ended 30 June \$000s
M. Jack	New Zealand Institute of Chartered Accountants	9	9	-
M. Jack	Deloitte New Zealand	569	502	89
S. Cave/M. Verbiest	Simpson Grierson	68	68	1
J. Smyth	New Zealand Post Limited	1	1	-
J. Miller	NZX Limited	29	28	2
J. Miller	Auckland International Airport Limited	11	10	-
J. Smyth/M. Verbiest	Telecom Corporation of New Zealand Limited	34	27	-
D. Ireland	Kensington Swan	18	18	5

- New Zealand Institute of Chartered Accountants, of which M. Jack, Member of the FMA, is a director. The expenses relate to subscription fees, course fees and publication costs.
- Deloitte New Zealand, of which M. Jack, Member of FMA, is the Chairman. The expenses relate to professional services in relation to matters that FMA is investigating.
- Simpson Grierson, of which S. Cave, Member of FMA, is a partner, and M. Verbiest is a consultant. The expenses relate to staff secondments to FMA and professional services in relation to matters that FMA is investigating.
- New Zealand Post Limited, of which J. Smyth, Member of FMA, was a director (resigned April 2012). The expenses relate to delivery services.
- Telecom Corporation of New Zealand Limited, of which J. Smyth, Member of FMA, is a director from December 2011 and M. Verbiest, Member of FMA, is the Chairman. The expenses relate to telecommunications.
- NZX Limited, of which J. Miller, Member of FMA, is a director. The expenses relate to subscription and publication costs.
- Auckland International Airport Limited, of which J. Miller, Member of FMA, is a director. The expenses relate to parking fees incurred by FMA staff during work-related travel.
- Kensington Swan, of which D. Ireland, Member of the Code Committee, is a partner. The expenses relate to drafting services provided to the Code Committee.

These transactions are on normal commercial terms and there are no other material transactions between Members and FMA in any capacity other than that to which they were appointed.

No related party debts have been written off or forgiven during the year.

Key management personnel compensation

	2012 Actual 14 months \$000s	2012 Actual 12 months \$000s
SHORT TERM EMPLOYEE BENEFITS		
- Members' fees	911	814
- Code Committee fees	24	23
- Disciplinary Committee fees	13	13
- Executive team remuneration	2,182	1,853
	3,130	2,703
Termination benefits	386	154
Total key management personnel compensation	3,516	2,857

Key management personnel include all Board and Committee members and the executive team.

Composition of Members' fees

Members' fees are paid on the basis of time spent on the work of FMA and were:

	2012 Actual 14 months \$000s	2012 Actual 12 months \$000s
S. Allen	358	306
S. Cave	55	50
R. Eele	46	43
C. Giffney	55	50
A. Grimes	42	38
M. Holm	53	49
M. Jack	50	46
J. Miller	47	43
B. Sheppard	44	41
J. Smyth	62	57
M. Verbiest	50	46
M. Webb	49	45
Total Members' fees	911	814

Composition of Code Committee fees

Code Committee fees are paid on the basis of time spent on the work of the committee and were:

	2012 Actual 14 months \$000s	2012 Actual 12 months \$000s
R. Butler	7	6
P. Dunphy	2	2
S. Edmond	-	-
D. Ireland	3	3
D. Kingsford	7	7
D. Russell	1	1
M. Staal	3	3
G. Young	1	1
Total Code Committee fees	24	23

Composition of Financial Advisers Disciplinary Committee fees

Disciplinary Committee fees are paid on the basis of time spent on the work of the committee and were:

	2012 Actual 14 months \$000s	2012 Actual 12 months \$000s
T. Berry	2	2
G. Clews	2	2
S. Hassan	2	2
P. Houghton	4	4
D. McDonald	1	1
J. Robertson	2	2
Total Disciplinary Committee fees	13	13

Employee remuneration

During the period, the number of employees of FMA, not being Members, who received remuneration and other benefits in excess of \$100,000, were:

Remuneration \$	Number of employees 14 months	Number of employees 12 months
520,001 to 530,000	1	-
510,001 to 520,000	-	-
500,001 to 510,000	-	-
490,001 to 500,000	-	-
480,001 to 490,000	-	-
470,001 to 480,000	-	-
460,001 to 470,000	-	-
450,001 to 460,000	-	1
440,001 to 450,000	-	-
430,001 to 440,000	-	-
420,001 to 430,000	-	-
410,001 to 420,000	-	-
400,001 to 410,000	-	-
390,001 to 400,000	-	-
380,001 to 390,000	-	-
370,001 to 380,000	-	-
360,001 to 370,000	-	-
350,001 to 360,000	-	-
340,001 to 350,000	-	-
330,001 to 340,000	-	-
320,001 to 330,000	-	-
310,001 to 320,000	-	-
300,001 to 310,000	-	-
290,001 to 300,000	-	-
280,001 to 290,000	2	-
270,001 to 280,000	-	-
260,001 to 270,000	-	-
250,001 to 260,000	-	-
240,001 to 250,000	-	2
230,001 to 240,000	-	-
220,001 to 230,000	-	-
210,001 to 220,000	3	1
200,001 to 210,000	2	-
190,001 to 200,000	4	2
180,001 to 190,000	1	-
170,001 to 180,000	-	2
160,001 to 170,000	2	4
150,001 to 160,000	3	-
140,001 to 150,000	6	2
130,001 to 140,000	9	3
120,001 to 130,000	5	10
110,001 to 120,000	3	9
100,001 to 110,000	5	3

During the 14-month period ended 30 June 2012, 23 employees received compensation and other benefits in relation to cessation totalling \$1,092,744.

During the 12-month period ended 30 June 2012, 14 employees received compensation and other benefits in relation to cessation totalling \$649,653.

Professional indemnity insurance

FMA has effected Directors' and Officers' Liability and Professional Indemnity Insurance cover during the period in respect of the liability or costs of Board members and employees.

NOTE 16: Financial instruments

Financial instrument categories

The carrying amounts of financial assets in the NZ IAS 39 categories are as follows:

	2012 Actual \$000s
LOANS AND RECEIVABLES	
Cash and cash equivalents	2,790
Term deposits	10,028
GST receivable	329
Trade and other receivables (excluding prepayments)	1,438
Cash and cash equivalents – litigation fund	150
Total loans and receivables	14,735
FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	
Trade payables	2,598
Total financial liabilities measured at amortised cost	2,598

Financial instrument risks

FMA's activities expose it to a variety of financial instrument risks, including market risk, credit risk, and liquidity risk. FMA has a series of policies to manage the risks associated with financial instruments and seeks to minimise exposure from financial instruments. These policies do not allow any transactions that are speculative in nature to be entered into.

Market risk

The only market risk that FMA is subject to is interest rate risk. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. FMA's exposure to fair value interest rate risk is limited to its bank deposits which are held at fixed rates of interest.

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. FMA's exposure to cash flow interest rate risk is limited to its bank deposits which are held at floating interest rate.

Term deposits are made for varying periods of up to, including and greater than three months, depending on the immediate cash requirements of FMA, and earn interest at the respective short term deposit rates.

FMA's interest rate risk is limited to interest on term investments.

Sensitivity analysis

As at 30 June 2012, if the average interest rate on interest-bearing deposits over the year had been 100 basis points higher or lower, with all other variables held constant, the surplus for the 12 months would have been \$129,681 higher or \$126,634 lower.

Credit risk

Credit risk represents the risk that a third party will default on its obligations to FMA, causing it to incur a loss. Financial instruments which subject FMA to credit risk consist of bank balances, bank term deposits, trade and other receivables. For each of these, the maximum credit exposure is best represented by the carrying amount in the statement of financial position.

There is limited credit risk for FMA because most of the financial assets are cash or investments. These are deposits with Westpac Banking Corporation which is a registered bank in New Zealand and is rated Moody's Aa2 and Standard & Poor's AA- for its long-term credit rating.

FMA does not require collateral or security to support financial instruments. There is concentration of credit risk for accounts receivable in relation to receivables from the Government but this risk is very low. There is no other significant concentration of credit risk pertaining to trade and interest receivable.

Liquidity risk

Liquidity risk represents FMA's ability to meet its contractual obligations associated with financial liabilities. Prudent liquidity risk management implies maintaining sufficient cash and the ability to close out market positions. FMA mostly manages liquidity risk by continuously monitoring forecast and actual cash flow requirements.

FMA's creditors are mainly those reported as trade and other payables. FMA aims to pay these within normal commercial terms, that is, by the 20th of the month, if not earlier.

FMA has cash and other short term deposits that it can use to meet its ongoing payment obligations.

Contractual maturity analysis of financial liabilities:

Suppliers	Carrying amount \$000s	Contractual cash flows \$000s	Less than 6 months \$000s	6-12 months \$000s	Later than 1 year \$000s
JUNE 2012					
Creditors and other payables	2,598	2,598	2,598	-	-
Total	2,598	2,598	2,598	-	-
JUNE 2011					
Creditors and other payables	1,375	1,375	1,375	-	-
Total	1,375	1,375	1,375	-	-

NOTE 17: Capital management

FMA's capital is its equity, which comprises accumulated funds and revaluation reserves. Equity is represented by net assets.

FMA is subject to the financial management and accountability provisions of the Crown Entities Act 2004, which impose restrictions in relation to borrowings, acquisition of securities, issuing guarantees and indemnities, and the use of derivatives.

FMA manages its equity as a by-product of prudently managing revenues, expenses, assets, liabilities, investments and general financial dealings to ensure that the organisation effectively achieves its objectives and purpose, while remaining a going concern.

NOTE 18: Explanation of major variances against budget

Explanations for major variances from the FMA's budgeted figures in the Statement of Intent are as follows:

Statement of comprehensive income

1. Income

- a) Government grant – no variance from budget.
- b) Regulatory charges – increased activity over budget.

2. Expenditure

- a) Personnel – lower than budget due to start-up phase of FMA's positions were filled progressively to meet regulatory demand.
- b) Depreciation and amortisation – capital programme delayed to resulting fit with staff numbers build and regulatory demand.
- c) Other operating – lower than budget with end-of-lease costs from properties taken over from predecessor agencies offset by lower costs due to start-up of FMA.

3. Litigation fund

- a) Income and expenditure linked to case load.

Statement of financial position

1. Assets

- a) Term deposits – above budget due to cash from capital contribution held due to capital programme delayed to resulting fit with staff numbers build and regulatory demand.
- b) Plant, property and equipment – below budget due to cash from capital contribution held due to capital programme delayed to resulting fit with staff numbers build and regulatory demand.

2. Liabilities

- a) Creditors and other payables – no variance from budget.
- b) Employee entitlements – lower than budget due to start-up phase of FMA as positions were filled progressively to meet regulatory demand.

3. Equity

- a) Accumulated funds – lower than budget due to assumption opening accumulated funds transferred from Securities Commission treated as accumulated funds.
- b) Capital contribution – higher than budget due to assumption opening accumulated funds transferred from Securities Commission treated as accumulated funds.

Statement of cash flows

1. Cash flows from operating activities

- a) Cash provided from litigation fund income – lower than budget and linked to case load.
- b) Cash disbursed to suppliers – lower than budget due to start-up phase of FMA's positions were filled progressively to meet regulatory demand.

2. Cash flows from investing activities

- a) Cash applied to purchase of plant, property and equipment – lower than budget due to capital programme delayed to resulting fit with staff numbers build and regulatory demand.
- b) Cash applied to increase in term deposit – higher than budget due to capital programme delayed to resulting fit with staff numbers build and regulatory demand.

3. Cash flows from financing activities

- a) No variance from budget.



INDEPENDENT AUDITOR'S REPORT

To the readers of the Financial Markets Authority's financial statements and Statement of Service Performance for the fourteen months ended 30 June 2012

The Auditor-General is the auditor of Financial Markets Authority (the Authority). The Auditor-General has appointed me, Robert Cox, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and statement of service performance of the Authority on her behalf.

We have audited:

- the financial statements of the Authority on pages 44 to 68, that comprise the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the fourteen months ended on that date and notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of service performance of the Authority on pages 33 to 41.

Opinion

In our opinion:

- the financial statements of the Authority on pages 44 to 68:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect the Authority's:
 - financial position as at 30 June 2012; and
 - financial performance and cash flows for the fourteen months ended on that date.
- the statement of service performance of the Authority on pages 33 to 41:
 - complies with generally accepted accounting practice in New Zealand; and
 - fairly reflects, for each class of outputs for the fourteen months ended 30 June 2012, the Authority's:
 - service performance compared with the forecasts in the statement of forecast service performance for the period; and
 - actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the period.

Our audit was completed on 31 October 2012. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board and our responsibilities, and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and statement of service performance are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and statement of service performance. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and statement of service performance. The procedures selected depend on our judgement, including our assessment

of risks of material misstatement of the financial statements and statement of service performance, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Authority's financial statements and statement of service performance that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board;
- the adequacy of all disclosures in the financial statements and statement of service performance; and
- the overall presentation of the financial statements and statement of service performance.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance. We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board

The Board is responsible for preparing financial statements and a statement of service performance that:

- comply with generally accepted accounting practice in New Zealand;
- fairly reflect the Authority's financial position, financial performance and cash flows; and
- fairly reflect its service performance.

The Board is also responsible for such internal control as is determined necessary to enable the preparation of financial statements and a statement of service performance that are free from material misstatement, whether due to fraud or error.

The Board's responsibilities arise from the Crown Entities Act 2004.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Entities Act 2004.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

Other than the audit, we have no relationship with or interests in the Authority.



Robert Cox Audit New Zealand
On behalf of the Auditor-General,
Wellington, New Zealand



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Matters relating to the electronic presentation of the audited financial statements and the statement of service performance

This audit report relates to the financial statements and the statement of service performance of the Financial Markets Authority for the fourteen months ended 30 June 2012 included on the Financial Markets Authority's website. The Members of the Financial Markets Authority is responsible for the maintenance and integrity of the Financial Markets Authority's website. We have not been engaged to report on the integrity of the Financial Markets Authority's website. We accept no responsibility for any changes that may have occurred to the financial statements and the statement of service performance since they were initially presented on the website.

The audit report refers only to the financial statements and the statement of service performance named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements and the statement of service performance. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and the statement of service performance as well as the related audit report dated 31 October 2012 to confirm the information included in the audited financial statements and non-financial performance information and the statement of service performance presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.