ANNUAL REPORT 2013

FMA
FINANCIAL MARKETS AUTHORITY
TE MANA TATAI HOKOHOKO - NEW ZEALAND

Financial Markets Authority

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E.25 Annual Report 2013
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OUR VISION & VALUES

OUR VISION

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

FMA

Our mandate

To strengthen public confidence in New Zealand financial markets, promote innovation and grow New Zealand's capital base.

What we do

The Financial Markets Authority (FMA) is an independent Crown entity and New Zealand's financial conduct regulator and authority on providing guidance to industry professionals. Established on 1 May 2011 by the Financial Markets Authority Act 2011 (FMA Act), FMA's overarching focus is to raise standards of good conduct, ethics and integrity amongst market participants, and respond to any failures in New Zealand's financial markets.

FMA proactively monitors and enforces securities legislation and works with the prudential regulator – the Reserve Bank of New Zealand (RBNZ) – as well as other regulatory and public sector enforcement bodies.

Our functions are to:

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

CHAIRMAN'S FOREWORD

This report covers FMA's second year of operation. It reflects the significant progress FMA has made towards building confidence and participation in New Zealand's financial markets.

FMA has become well established since its creation as the new conduct and disclosure regulator on 1 May 2011 and there has been broad recognition and support for FMA effectively fulfilling its purpose.

Following the passage of the Financial Markets Conduct Act, our regulatory mandate has been expanded. This increase in scope and powers will further enhance FMA's ability to ensure that our financial markets are fair, efficient and transparent. Implementation of the new regime will begin in 2014 and bring into effect key changes identified by the Capital Markets Development Taskforce to ensure New Zealand's markets are globally up to standard and competitive.

FMA is well positioned to deliver on its new role and responsibilities under the Financial Markets Conduct Act. The Board has been focused on ensuring FMA is ready for what is a new era in the future of our markets. Preparation for this next stage in FMA's development has been a major project that has ramped up over the year.

In the last year, FMA has continued to proactively engage with market participants to raise standards and provide guidance on our expectations. Our compliance monitoring and enforcement work has sent the clear message that we will act in a timely and measured way to address conduct that harms the market. FMA has also exercised new powers allowing it to step in and act to seek information, prevent loss and preserve assets for investors.

Feedback from stakeholders has been positive on our new regulatory approach and on FMA's performance against objectives. Importantly our engagement with the market has been collaborative and a two-way dialogue. This has helped identify where and how we can step up our efforts to promote investment, provide greater clarity around expectations and improve regulatory outcomes.

With strong governance and management processes in place, FMA looks forward to the next stage of developing our markets and ensuring that the practical implementation of the Financial Markets Conduct Act is as effective as possible.

Finally, it is timely to recognise the achievements of FMA under the leadership of Chief Executive Sean Hughes who is not seeking reappointment beyond 2013. The Board is grateful for the huge effort and commitment that Sean and all of FMA have put into this initial establishment phase. We are working to ensure a seamless transition to the new Chief Executive and to continue the positive momentum built over the last two years.

SCAllen

Simon Allen

CHIEF EXECUTIVE'S FOREWORD

I am pleased to present this second annual report on FMA's performance for the year to 30 June 2013, which provides an overview of FMA's key achievements and outcomes.

Trust is the essential element of healthy and well-functioning financial markets, economies and societies. A key reason for the creation of FMA was the need to rebuild confidence following the collapse of parts of the financial community, alongside the impacts of the global financial crisis. For these reasons, in 2013, we have made customer trust our highest priority as outlined in our Compliance Focus published at the start of the year.

FMA has endeavoured to raise standards in the market by encouraging financial service providers to put their clients' interests first. We have worked hard on creating a new collaborative approach and culture in our engagement with the market, and this has been widely welcomed.

Our aim is for the market to step up, not just meet minimum legal standards or tick boxes. We expect more than basic compliance and have, on the whole, seen a positive response. This has required active dialogue to help market participants to understand their obligations and our expectations of them.

Regulations are not a panacea for eliminating problems. The right structure and culture are, however, vital to creating the right environment in which markets can perform well on a sustainable basis.

FMA pressed for legislative changes to the Financial Markets Conduct Act in response to the Ross Asset Management case, as part of our role to provide advice to the Government on law reform and regulation. These amendments will tighten up Discretionary Investment Management Services (DIMS) and ensure client funds are held by custodians who are separate from advisers.

FMA also acted to prevent potential losses through our top-of-the-cliff activities. While this work doesn't attract much attention, it's important for the public to be aware that our day-to-day actions make a difference in reducing and preventing harm in the market. In one case, an entity for which FMA had declined a licence to operate in New Zealand was raided by the Thai police for operating a boiler-room scam. We have also issued warnings to alert the public to activity on the perimeter of regulation and about 'low ball' offers.

A critical factor in building trust is transparency in our markets. Risks should be appropriately disclosed and factored into investment decisions. Effective disclosure is an area FMA has put significant effort into improving. Lengthy, dense disclosure doesn't really help anyone. Clear, concise and effective disclosure is the main objective of the guidance we provided to issuers with whom we have worked to improve offer documents. While there is still a way to go, we have seen some encouraging improvement and a commitment to further improvements.

Auditor regulation and oversight have together been an important part of financial market reforms. FMA has developed a vital partnership with CPA Australia and the New Zealand Institute of Chartered Accountants (NZICA), whom we accredited in the last year to oversee auditors. It is pleasing to see the commitment to raising professional standards and practices by auditors of issuers.

Major improvements to the licensing and oversight of securities trustees and statutory supervisors have been implemented by FMA during the year. It is a sector that has been under the spotlight and FMA is seeing positive signs of progress. Trustees' roles are critical to protecting investors' interests and those that have been licensed by FMA had to meet criteria that raised the bar on obligations and standards. We have worked closely with the sector and clearly laid out our expectations.

FMA's enforcement work has progressed the finance company matters we inherited from our predecessor and we are completing a large number of investigations with just a few to be concluded in 2013. Through careful consideration and preparation, FMA has maintained a high success rate in litigation action with the court entering convictions in all cases. In accordance with our enforcement policy where there are grey areas of law we may occasionally need to take test cases. Having achieved completion of past investigations now enables FMA to increase our focus on current issues.

During our establishment research was commissioned from Oliver Wyman, an international financial sector consultancy, for the purpose of gathering institutional and public stakeholder views about the design and operation of FMA. A second piece of research was subsequently undertaken prior to our second anniversary. Overall, the response was positive and supported our early achievements and approach, reinforcing our focus and direction and also offering useful guidance for the development of our organisation going forward. Findings from this research will be released later in the year.

This will be the last annual report I sign as Chief Executive. It has been a privilege to support the build of FMA, having started as Chief Executive designate in 2010 prior to the formation of FMA. The strategic and operational platform has been well established and FMA has built credibility in the market place and gained the momentum to act as a proactive regulator with a new mandate and an invigorated, high-performing team. I am proud of FMA's achievements in its initial period. I am confident that the strength and diversity of FMA's leadership team and our staff will meet the challenges of the next phase of our growth.

FMA has been fortunate to attract passionate and dedicated staff committed to promoting fair, efficient, and transparent financial markets. With the support of the Board and Minister of Commerce, I believe that FMA has made a substantial contribution towards our ultimate goal of building a more competitive and productive economy.

Sean Hughes

HIGHLIGHTS AND SIGNIFICANT EVENTS

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

Stakeholder sentiment

FMA commissioned an omnibus survey in March/April this year. A total of 1,021 New Zealanders took part in the survey, which included 743 people who had an investment in New Zealand's financial markets.

At the time, almost three-quarters of New Zealanders had investments in our financial markets: for example, KiwiSaver, shares and bonds.

One in three people indicated they had heard of FMA, and 52 percent of those with investments said the materials they received about their most recent investment were helpful in making informed decisions about whether or not to invest.

External engagement

FMA issued 53 media releases on investor information, guidance and enforcement action over the last 12 months.

Three new brochures were published during the period: *KiwiSaver – are you getting the right advice?*; *Be wary of 'low ball' offers*; and *A Director's Guide*.

Our senior leadership team undertook 95 public speaking engagements and contributed to numerous opinion pieces in major daily newspapers. A total of 44 interviews took place with news media over the 12 months.

Over the period, we also issued 12 guidance notes to assist participants in complying with their obligations and to help investors better understand our financial markets.

Enforcement

FMA takes enforcement seriously and with a commitment to careful and professional investigation and case preparation we have achieved a high success rate.

Over the last year, we have been actively engaged in more than 90 inquiries and investigations and 18 litigation matters. The year has seen our enforcement focus shift from failed finance company proceedings and investigations, which accounted for only 15 percent of our cases, to current market issues.

Exemptions

FMA has the power to grant exemptions when we believe the cost of compliance for an entity is not matched by improved outcomes for investors or participants.

During this period, we considered 91 exemptions:

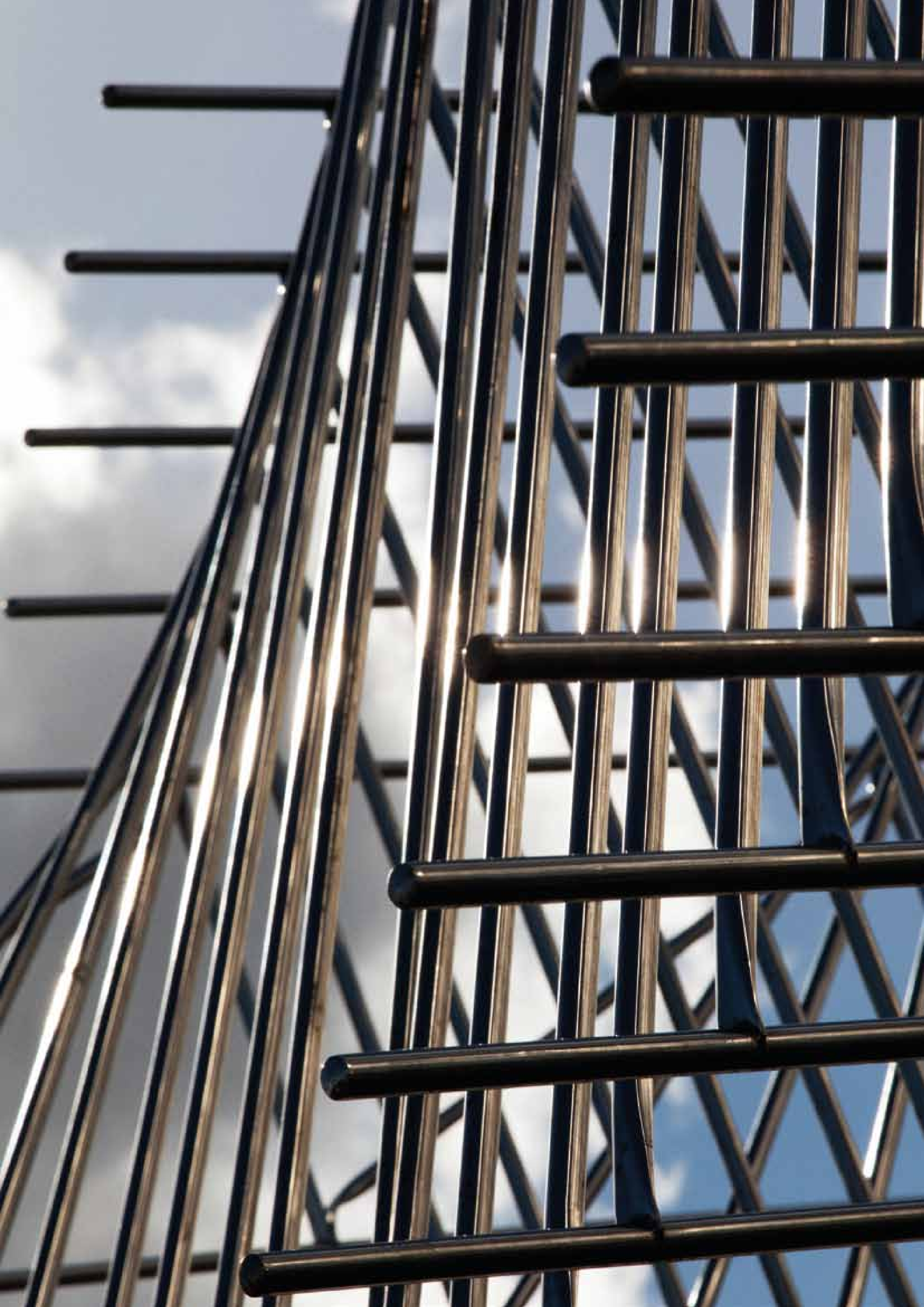
- Fifty-six class exemptions: 47 were existing class exemptions which were reviewed and then amended to extend and improve their terms; seven were existing class exemptions which were reviewed and found to be redundant or not appropriate and left to expire or be revoked; and two new class exemptions were considered and granted
- Thirty-five individual exemptions: 30 were granted; five were discontinued or withdrawn.

Ross Asset Management investigation

FMA began an investigation into Ross Asset Management (RAM) and related entities in October 2012, following complaints received that customers were unable to withdraw funds from RAM. FMA took immediate action to obtain a search warrant under s29 of the FMA Act and, soon after, applied for Asset Preservation Orders under the Financial Advisers Act 2008 (FA Act) and for the appointment of receivers and managers to manage the business of David Ross, RAM and related entities. FMA laid criminal charges against Mr Ross for breaches of the Financial Service Providers (Registration and Dispute Resolution) Act 2008 (FSPA), FA Act and FMA Act in June 2013.

Financial advisers

To gauge the impact of the FA Act, we undertook a survey of 2,000 Authorised Financial Advisers (AFAs). More than 900 responded and an independent external organisation was commissioned to analyse the results. The survey provided us with credible, measurable information on aspects such as services offered by advisers and changes and challenges to business models since the implementation of the FA Act.



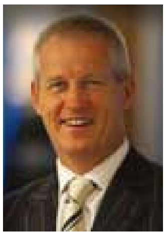
MEMBERS OF THE BOARD

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 2012/13 year with 12 members.

The Board held eight regular monthly meetings, one special meeting, 13 committee meetings and 37 division meetings (total 50). 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. Bruce Sheppard replaced Justine Smyth on the committee on 22 February 2013.

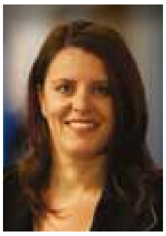
Members of the Board as of 30 June 2013



Simon Allen BSc, BCom
Chairman

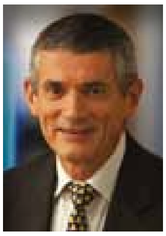
Simon is a professional director with 30 years' experience in the Australian and New Zealand financial markets. He was the founder and former Managing Director of ABN AMRO New Zealand Limited and Chair of NZX Limited (NZX) from 2001 until 2008.

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.



Shelley Cave LLB
Member

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



Colin Giffney BSc, BCom
Member

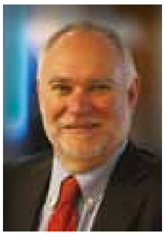
Colin is a corporate adviser at Giffney and Jones. He has extensive experience in financial markets and on the boards of public, private and Crown entities.

Current appointments: Chair of Renaissance Corporation Limited and Kompass (N.Z.) Limited. He is a director at Hughes & Cossar Group Holdings Limited and Windhorse Limited.

Mary Holm BA, MA, MBA
Member

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.

Current appointments: Director of the Banking Ombudsman Scheme.



Murray Jack BCom, CA
Member

Murray is 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, is the Chair of the Audit and Risk Committee and was previously a member of the Securities Commission.

Current appointments: Board member of the New Zealand Institute of Chartered Accountants.

James Miller BCom, FCA
Member

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.

Current appointments: Director of NZX Limited, NZCDC Settlement System (subsidiary of NZX), Mighty River Power Limited, ACC and Auckland International Airport Limited.

Justine Smyth BCom
Member

Justine is a professional director. She has experience 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.

Current appointments: Director of Telecom Corporation New Zealand Limited, director of Auckland International Airport Limited, Chair of The New Zealand Breast Cancer Foundation, trustee of Pure Advantage and executive director of Lingerie Brands Limited.

Mark Verbiest LLB
Member

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.

Current appointments: Chair of Telecom Corporation New Zealand Limited, Transpower New Zealand Limited and Willis Bond Capital Partners Limited and director of Freightways Limited and Bear Fund NZ Limited.

Michael Webb LLB
Member

Michael is a barrister specialising in banking, corporate, financial markets, insolvency and regulatory law. He has extensive governance experience on the boards of various New Zealand and Australian companies and Crown entities, and has acted in regulatory capacities in New Zealand and the Middle East.

Current appointments: Non-executive adviser to the board of Deloitte New Zealand and director of Crown Irrigation Investments Limited.

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

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 and Chair of the Reserve Bank of New Zealand to September 2013.

Current appointments: Trustee of the Reserve Bank of New Zealand Staff Superannuation Fund to September 2013. Chair of the Hugo Group Strategy sessions and Chair of the Postal Network Access Committee to September 2013.

Bruce Sheppard BCom, CA
Associate member

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 more than 25 years, he has been advising clients on issues relating to tax, business optimisation, and succession planning and risk and capital management.

Current appointments: Chair of T & T Fashions Limited, Spitfire Limited, Connexionz Limited and Let's Powwow Limited. Bruce is director for Archibald & Shorter Roverland Limited, Gilligan Sheppard Limited, Invisi Shield Limited, Trustee.co.nz Limited, LPF Group Limited and BlueSeventy Limited. He is also board member for Swashpump Technologies Limited, Angus Fire Protection Limited, Brilliance Intellectual Property Limited and Islay Group Limited.

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

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 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.

Current appointments: Board member of KiwiRail Holdings Limited, Chair of its Audit Finance and Risk Committee and a trustee of the Professionelle Foundation. Rebecca is director of Mint Group Limited, and Black and White Group Limited.

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. Sean is co-Chair of the Council of Financial Regulators and a board trustee of Leadership New Zealand. He holds degrees in history and law from the University of Canterbury and University of Cambridge. He also holds postgraduate qualifications in corporate governance and graduated from the Advanced Management programme at The University of Melbourne, Melbourne Business School in 2013.

Dave Brady

Head of Finance and Business Operations

Dave leads FMA's Finance, ICT and project teams, ensuring FMA has the operational efficiency to support the organisation. He has a broad background across utilities, property and construction, internet and airline industries. His previous roles have included freelance Business Consultant, Management Consultant at Davis Ogilvie & Partners and Financial Controller of Property Ventures.

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. Sue is a senior leader and lawyer with more than 25 years' experience leading corporate, legal and regulatory organisations in New Zealand, Australia and the United Kingdom. Prior to joining FMA, Sue was General Counsel of Public Trust and a partner with DLA Phillips Fox in Auckland and Sydney. She was an Inaugural Member of the Code Committee for Financial Advisers.

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.

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 local and global perspectives. 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.

Liam Mason

Head of Legal and Board Secretary

Liam leads FMA's legal team and provides in-house counsel and independent advice to the FMA Board. He was General Counsel to the Securities Commission from 2002 until 2011, when he was seconded to the New Zealand Ministry of Economic Development (now the Ministry of Business, Innovation and Employment) to provide expert advice on the Government's review of New Zealand's securities law. Liam has extensive experience in securities law and corporate governance matters, advising Board members and staff on securities and financial services law and policy, Crown entity governance and legal compliance.

Scott McMurray

Acting Head of Stakeholder Management

Scott was made Acting Head of Stakeholder Management following Diane Maxwell's appointment as the interim Retirement Commissioner. He has continued to lead the strategic and operational management of FMA's communications, media and stakeholder engagement activities. Prior to this, Scott was FMA's Senior Adviser for Government and Sector Relations, and before that, Government Relations Manager at Bank of New Zealand. Scott's previous experience includes communications and adviser roles in local and central government, along with a not-for-profit think-tank and public affairs consultancy.

Diane Maxwell

Head of Stakeholder Management

Diane provided 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 & Bednash in London, Media Director at Saatchi & Saatchi NZ, and trans-Tasman Consultant for the banking and telecommunications sector. She was also a weekly contributor on New Zealand station Viva FM and on BBC Radio Five Live in the UK. Diane was appointed as the Interim Retirement Commissioner for Financial Literacy and Retirement Income in March 2013, on secondment from FMA. Her permanent appointment as Commissioner was announced in June, effective 1 July 2013.

Belinda Moffat

Head of Enforcement

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, UK, USA and in the Caribbean in relation to commercial, banking and finance, competition and criminal matters. Belinda's role at FMA is to develop and lead FMA's investigation, forensic accounting and litigation capability.

Michelle Taylor

Head of People, Capability and Culture

Michelle manages FMA's Human Resources function and leads its people, performance and culture. She has over 15 years' experience in human resource management and people leadership. Previous roles include Manager Strategic Resourcing at Gen-i, HR Programme Manager at Rexam PLC and HR Shared Services Manager at Telecom. Michelle has been a Commissioned Officer in the Canadian Defence Force and in the Royal NZ Air Force.

PERFORMANCE AGAINST OBJECTIVES

Early adoption

Since our inception in May 2011, FMA has focused on increasing the level of confidence and integrity in New Zealand's financial markets. Over this time, FMA has concentrated on those participants or practices that present the greatest risk to fair, efficient, and transparent financial markets.

New Zealand's financial markets have faced significant changes over recent years as new regimes are embedded. The new Financial Markets Conduct Act will present even further changes to our financial markets. Acknowledging both the challenges of this changing environment and the growing maturity and focus of FMA, a more streamlined and tailored 2013-2016 Statement of Intent was published in May 2013.

Fair, efficient, and transparent financial markets remain our key objective and we will work to achieve this through three key impacts:

- Increased levels of compliance of market participants and frontline regulators
- Investors have access to resources to help them make more informed decisions
- FMA's regulatory and enforcement actions support market activity.

FMA acknowledges that there are many factors and players that can impact on fair, efficient, and transparent financial markets. The three impacts in our statement reflect where we consider the greatest risks to be and where we can have the most impact in achieving our objective.

Given the improved transparency and clarity of our new Statement of Intent, FMA has agreed with the Minister to adopt these new outcome and impact measures for the reporting of our 2012/13 performance in this Annual Report.

As the outcome measures are new in 2012/13, there are no comparisons provided for performance in the 2011/12 year.

Outcome and Impact Measures

Achievement of our key outcome of fair, efficient, and transparent financial markets was measured in a survey in March 2013[1] where 17 percent of those surveyed agreed their confidence in New Zealand financial markets has increased in the last year and 54 percent were "very" or "fairly" confident in New Zealand's financial markets.

The range of measures outlined in the table below, provides indicators of FMA's success in delivering our three key impacts.

	2012/13 target	2012/13 success	Measure method
Impact 1. Increased levels of compliance of market participants and frontline regulators			
In 2012/13, 93 percent of market participants substantially met expectations of significant new guidance. Significant new guidance in the past year included: KiwiSaver Performance Fees, Code Standard 6D, Effective Disclosure, Disclosing Non GAAP financial information.	Establish baseline	93%	Internal FMA data
In 2012/13, 15 percent of market participants were required to take corrective action as requested by FMA following a compliance review.	Establish baseline	15%	Internal FMA data
In 2012/13 100 percent of frontline regulators and gatekeepers took appropriate corrective action as requested by FMA following a compliance review.	100%	100%	Internal FMA data
In May 2012, 73 percent of stakeholders surveyed agreed FMA had performed well over the past year in helping to lift levels of competency and compliance by market participants.	Maintain baseline	Not measured in 2012/13 (2012: 73%)	Stakeholder survey 2012
In May 2012, 40 percent of stakeholders surveyed agreed that FMA's oversight of frontline regulators and gatekeepers had been effective.	Improve on baseline	Not measured in 2012/13 (2012: 40%)	Stakeholder survey 2012

[1] A total of 1,021 New Zealanders took part in Colmar Brunton's online omnibus survey in March 2013 of which 743 were investors. In addition to the above results, 51% of respondents had the same level of confidence in financial markets as they had last year and results are significant at a 95% confidence level.

	2012/13 target	2012/13 success	Measure method
Impact 2. Investors have access to resources to help them make more informed decisions			
In 2012/13, 80 percent of respondents to website and other questionnaires agreed that FMA's investor education materials were helpful and relevant.	Establish baseline	80%	Web survey
In 2012/13, 92 percent of offer documents and financial statements reviewed substantially meet our guidance expectations.	Establish baseline	92%	Internal FMA data
In 2012/13, 52 percent of investors surveyed who believed that investment disclosure documents given to them helped them to make an informed investment decision.	Improve on baseline	52%	Colmar Brunton Omnibus Survey
Impact 3. FMA's regulatory and enforcement actions support market activity			
In May 2012, 34 percent of stakeholders surveyed believed FMA's regulatory actions are proportionate (55 percent were neutral or did not have a view).	Improve on baseline	Not measured in 2012/13 (2012: 34%)	Stakeholder survey 2012
In May 2012, 54 percent of stakeholders surveyed believed that FMA's actions positively influenced market behaviour.	Improve on baseline	Not measured in 2012/13 (2012: 54%)	Stakeholder survey 2012
Regulatory Impact Statements to consider the costs and support the benefits of significant new guidance will only commence from 1 July 2013.	100%	Not applicable in 2012/13	Internal FMA data

1. Increased levels of compliance of market participants and frontline regulators

Implementing and monitoring supervisory regimes

In February, we released our compliance focus for 2013, outlining FMA's priority areas for monitoring and surveillance over the coming year. Our four major themes are: building customer trust; raising standards in existing regimes; embedding new regimes; and KiwiSaver, with an additional focus on Christchurch.

FMA's overarching aim is to raise the standards of good conduct, ethics and integrity, and we expect that where activities have been subject to regulation for some time, participants will operate above the bare minimum required.

Future of financial markets

Over the last year FMA has worked on readiness for the Financial Markets Conduct Act (FMC Act), which came into law on 17 September 2013, prior to publishing, and is the last major step in the reform of financial markets legislation in New Zealand.

The Act governs how financial products are created, promoted and sold, as well as the ongoing responsibilities of those who offer, deal and trade them. It will also regulate the provision of certain financial services. There will be new approaches to the information investors can access about financial offers to help them make informed investment decisions, and there will be new ways to raise capital.

We will challenge and assist market participants to operate in the way we outlined in FMA's Compliance Focus for 2013 – to operate above the bare minimum with senior management sponsoring a culture of integrity and good conduct – and, in this way, build sustainable and vibrant businesses.

FMA will also work with market participants to help them understand what's changing, their responsibilities and our expectations for bringing about higher standards of conduct and willing compliance.

The latest information on the FMC Act can be viewed on our website.

Financial adviser monitoring

Over the last 12 months, we have increased the frequency of our contact with Authorised Financial Advisers (AFAs) in relation to monitoring visits and introduced a new, shorter 'verification visit'. Our monitoring programme enables us to observe and record how AFAs are complying with their legal obligations and gives us the opportunity to provide them with feedback, so they can make any necessary improvements to their processes.

A thematic monitoring project focused on AFAs who are licensed to provide Discretionary Investment Management Services (DIMS) was carried out between January and March 2013 – DIMS is an arrangement under which an adviser makes buy-sell decisions in respect of a portfolio of investments, without referring to the client for each transaction. During the period, there were around 1,300 AFAs licensed to provide DIMS and 44 percent (572) confirmed that they offered it to clients.

FMA commissioned a survey of 2,000 AFAs with 900 responding. We found there is a good level of support and understanding of the FA Act and the Code of Professional Conduct for AFAs (the Code). Some advisers expressed concern that the new compliance obligations, such as the record keeping elements of the Code, is adding to the costs of providing advice and is not always helpful for clients. We also heard that the legislation is complex, more guidance from FMA would be helpful, and that advisers were concerned about ordinary New Zealanders having sufficient access to financial advice.

The survey responses have helped us to develop three specific guidance notes on key aspects of the Financial Adviser regime, and these will be published later in 2013. We share industry's concerns in relation to access to advice and will continue to look for practical ways to address this.

Exemptions

FMA carried out 56 class exemption reviews during the year, some of which resulted in significant changes. A list of current exemption notices can be found on our website under Laws We Enforce, Legislation.

A significant individual exemption was granted to Mighty River Power Limited and the Crown in relation to the Crown offer of its Mighty River Power shares. Securities law prohibits allotment of shares where an offer document is materially incomplete or misleading. The exemption allowed allotment where an adverse event occurred after publishing date of the offer document. The exemption only allowed allotment to proceed if wide public attention was raised about the event, subscribers could then read updated information and had a reasonable opportunity to withdraw.

Effective disclosure guidance

Our work on disclosure guidance is intended to assist financial markets participants to comply with their legal obligations where they are offering securities to the public, and helps to ensure they produce clear concise and effective disclosure documents that can assist investors to make more informed investment decisions. Disclosure documents are also important sources of information for analysts, financial commentators and financial advisers.

FMA's work in helping industry understand our expectations in relation to disclosure documentation will help achieve our objective of promoting and facilitating fair, efficient, and transparent financial markets.

We engaged with a number of issuers and their advisers, prior to registration of offer documents. While we can't engage on all offers prior to registration, we have provided input where the offer or product is new, presents strategic or unduly complex issues or is a major offer for New Zealand's capital markets. This includes the initial public offerings of Fonterra's shareholder's fund, Mighty River Power, Veritas, Wynyard and Synlait. We are currently engaging with issuers on other offers ahead of their listings later in 2013 where they meet the above criteria.

Disclosing non-GAAP financial information

Issuers of financial documents have an obligation to ensure they remain within acceptable standards of accounting practices, so as not to deceive or mislead investors and the market.

After consulting with the market on the use of financial information in corporate documents, we released a guidance note in which we set out our views on when non-GAAP financial information should or should not be used, and the disclosure needed to ensure information was not misleading.

We began using this guidance in January 2013. A report showing the level of compliance with our guidance was released on 27 September 2013.

Securities trustees and statutory supervisors licensing

The purpose of the Securities Trustees and Statutory Supervisors Act 2011 is to protect the interests of security holders and residents of retirement villages. The licensing process for trustees and statutory supervisors was completed in September 2012 and trustees and statutory supervisors are now required to be licensed, and are accountable for any failure to perform their functions effectively.

Regular reports must be submitted to FMA showing how they are meeting the terms of their licences.

Auditor licensing

Under the Auditor Regulation Act 2011, auditors who carry out issuer audits must be licensed and audit firms must be registered. A new framework for the regulation and oversight of auditors and audit firms undertaking audit and assurance work relating to issuers was put in place from 1 July 2012.

During the period, CPA Australia was accredited by FMA to license auditors who carry out issuer audits in New Zealand. NZICA is the only other accredited body that can carry out auditor licensing in New Zealand.

These accredited bodies are responsible for supervising the auditors they license and investigating any breaches of their obligations. We expect them to promote the quality, expertise and integrity of auditors and assist in the recognition of their professional status overseas.

FMA has undertaken a number of quality reviews and a report will be released on this in December 2013.

KiwiSaver and superannuation schemes

KiwiSaver is one of the key priorities for FMA. We are one of several government agencies, along with trustees, that have roles in supervising the sector. For many people, KiwiSaver will be the first investment they make and will represent a large part of their retirement savings, and inadequate or misleading disclosures in offer documents could have a significant impact on their retirement.

As part of our ongoing monitoring of KiwiSaver, we carried out theme-based monitoring of all KiwiSaver offer documents in November 2012. Our key objective is to promote high standards and increase public confidence in offer documents. A report on the *Monitoring of KiwiSaver Offer Documents* was published on our website on 17 June 2013.

We also undertook a thematic review on investment risk together with KiwiSaver trustees. KiwiSaver scheme trustees' responsibilities as frontline supervisors are crucial to the effective operation of KiwiSaver schemes. We considered the risk disclosures in many investment statements and prospectuses to be too generic in nature, and not reflective of specific risks to which the scheme or funds are likely to be exposed.

Across all KiwiSaver schemes, the largest item of expenditure over the year to 31 March 2013 was $168.7 million in administration, investment management and trustees' fees.

Significant work has been achieved in relation to KiwiSaver, property related issues and the retirement economy. FMA's organisation-wide knowledge and intelligence structures support the development of risk-management processes in areas such as licensing. A KiwiSaver report for the year ended 30 June 2013 will be released in October 2013.

KiwiSaver reporting

The Periodic Disclosure Regulations will come into force 1 July 2013 and will require issuers of non-restricted KiwiSaver schemes to prepare quarterly and annual disclosure statements for every KiwiSaver fund. The regulations will standardise the reporting of investment returns and fees, making it easier for investors to compare funds offered by non-restricted KiwiSaver schemes. The first quarterly statements are due to be published by 21 October 2013 and annual statements on 27 June 2014.

KiwiSaver sales and distribution

Over the period, guidance was issued on KiwiSaver sales, distribution, fees and disclosure. We are continuing to monitor how distributors adjust to the guidance and expect them to keep sales practices under review and avoid any inappropriate customer incentives.

Where KiwiSaver scheme issuers use third-party distributors or agents, FMA expects issuers to take reasonable steps to satisfy themselves that the client is aware of the obligations they are incurring. Issuers should be alert to any indication that the investment decision has not been made freely on a properly informed basis. We have already taken action in relation to some sales practices.

NZX market supervision (NZXMS)

An annual review of registered securities markets was published in June 2013. We consider that NZX is committed to a programme of continuous improvement to deliver fair, orderly and transparent markets, and was fully compliant by the end of our review. NZX should continue to focus on managing potential conflicts of interest, enforcing compliance, board reporting and oversight.

FMA is working to ensure market transparency and, where our inquiries identify serious failure to comply with continuous disclosure obligations, insider trading or market manipulation, we will take action. We will watch closely any issuers that are offering securities while experiencing trading or financing difficulties to ensure they comply with their obligations and act with integrity.

A review of statutory disclosures to the market via NZX, of substantial security holders and directors and officers of public issuers, took place during the period and was largely positive. The outcome was reported to the market to ensure market transparency and highlight areas of concern, as well as reinforce what the disclosure obligations are.

NZX implemented the new Trading Among Farmers market in late 2012 and we will monitor this new market as it develops.

Authorisations

FMA approved four new futures dealers' authorisation applications. We also processed seven renewal applications for existing authorised futures dealers. All were completed within the period agreed with the applicants. An additional seven applications were considered during the period; five are ongoing and two have been withdrawn.

Futures dealers

All futures dealers must be authorised or approved and comply with the requirements set out under the Securities Markets Act 1988.

Initial visits to authorised futures dealers over the last 12 months indicated that some firms had poor compliance controls for meeting capital requirements and safeguarding client money and assets. There was evidence of a lack of robustness in the work undertaken by external reviewers, and of inadequate handling and disclosure of conflicts of interest and business changes. These areas will be a focus in our monitoring work over the next year.

NZ Clear designation

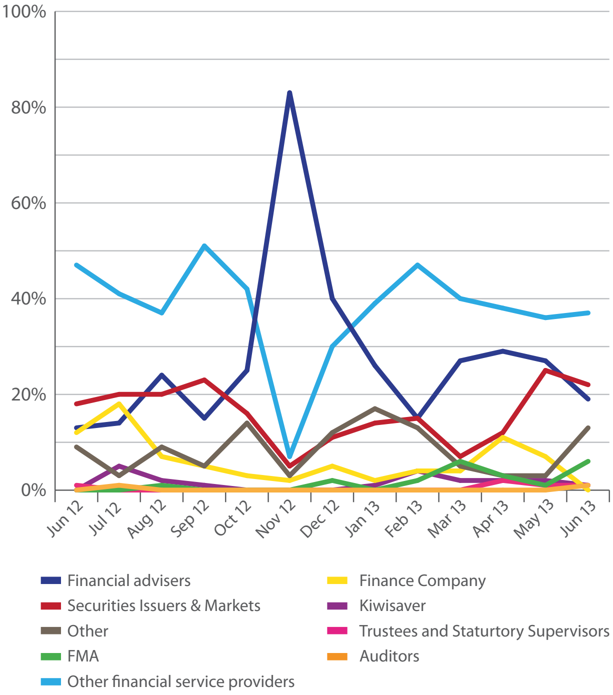
FMA and the Reserve Bank are joint regulators of designated settlement systems and all designated settlement systems are subject to ongoing oversight by us, although it is not compulsory for settlement systems operating in New Zealand to be designated.

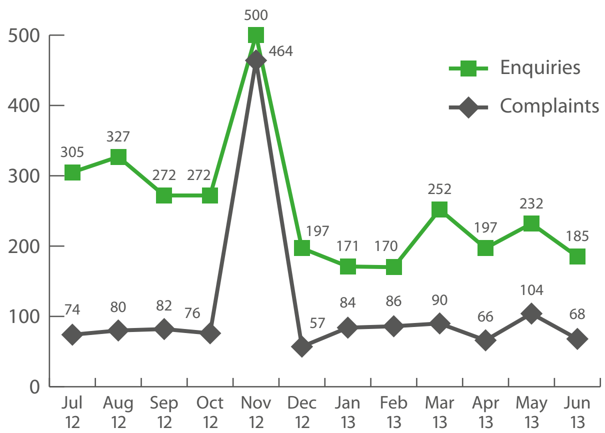
New Zealand currently has two designated settlement systems: NZ Clear Settlement System was declared a designated settlement system under Part 5C of the Reserve Bank of New Zealand Act in October 2012; and NZCDC Settlement System is operated by New Zealand Clearing and Depository Corporation and is a wholly-owned subsidiary of NZX Limited.

Complaints and enquiries

Over the last 12 months, FMA received 3,080 enquiries and 1,331 complaints, tips and referrals. Staff acknowledged 97 percent of all enquiries within two working days and 93 percent of complaints received a substantive response from FMA within 20 working days of our receiving all relevant information. The number of enquiries has increased by 47 percent from last year.

Complaints by sphere





Financial markets participants monitoring

Our main activity in this area has been making enquiries into people or entities that appear to be non-compliant with the FSPA. For instance, promoting themselves as financial advisers or providing personalised services to retail clients without being registered or authorised under the FA Act, or providing property investment seminars and services or money management services without being qualified to do so.

In most cases, this has been addressed by educating the individual or entity concerned about the requirements of the relevant legislation.

A list of offshore companies and individuals of which we are aware may be providing financial services in New Zealand and not complying with New Zealand's financial services laws, is published on our website.

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

We began our role as a supervisor to monitor compliance with the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 (AML/CFT Act) on 30 June 2013. FMA now assesses the adequacy and effectiveness of reporting entities' systems and controls to detect and deter money laundering and terrorist financing, and we take action where these fall below the expected standard.

Along with the other AML/CFT supervisors, we published five fact sheets in April to supplement the Beneficial Ownership Guideline (trusts, companies, clubs and societies, partnerships and co-operatives). We continue to engage with these supervisors and with industry on a sixth fact sheet on managing intermediaries.

Market guidance

Twelve guidance notes have been issued by us over the period and include: *Countries Assessment Guideline*; *Designated Business Group – Formation Guideline*; *Designated Business Group – Scope Guideline*; *Pre-prospectus publicity*; *Disclosing non-GAAP financial information*; *Sales and Distribution of KiwiSaver*; *Issuers of securities and participants in issues*; *Guideline for audits of risk assessments and AML/CFT programmes*; *Territorial scope of the Anti-Money Laundering and Countering Financing of Terrorism Act 2009*; and *Beneficial Ownership Guideline*.

2. Investors have access to resources to help them make more informed decisions

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

FMA commissioned Colmar Brunton to conduct an omnibus survey in March and April of this year. While over half of those surveyed said they felt either "very" or "fairly" confident in our financial markets, the remaining group expressed a lack of confidence, clearly indicating that there is still more work to do in order to raise levels of confidence in New Zealand's financial markets.

More information can be found in the Highlights and Significant Events section under the subheading: Stakeholder sentiment.

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

We expect market participants to make customers' interests central to their activities. At the same time, we also expect investors to take responsibility for their own financial decisions. FMA is committed to making information available to the public. We have encouraged participants to follow our 'good practice' guidance on how to present disclosure documents, by making the right disclosures and providing comparable information. As a result of the FMC Act there will be new disclosure requirements for all offers of financial products, to ensure that investors have clear, concise and effective information to help them understand the risks involved and make more informed investment decisions.

Information was published on our website for potential retail investors ahead of the MRP offer, as well as a series of updates on the Ross Asset Management investigation.

The Consumer Advisory Panel, set up to help inform our investor work, had its first face-to-face meeting in June 2013 and provided feedback on current investor information brochures in production.

Disclosure documents and financial reporting

FMA reviewed the accounting classification and disclosure of financial instruments, classified as hybrid instruments and listed on the NZX debt market as at 1 December 2012. We performed a range of theme-based monitoring projects on financial reporting, with the classification and disclosure of financial instruments being one of the key themes. As a result, we found that the financial statement disclosures around hybrid financial instruments needed improvement. A report on our findings and recommendations was released and published on our website on 29 May 2013.

In December 2012, Hybrid financial instruments with a face value of $4.1 billion, were listed on the NZX debt market. We reviewed the adequacy of the financial statement disclosures for all 21 issuers of these instruments and found that the quality of information provided varied from issuer to issuer. We consider there is scope for all issuers to improve their disclosures.

Over the period, we reviewed 325 prospectuses of which 32 (10 percent) were considered to be high-risk. In each case in which we intervened under our Risk-based Prospectus Review Framework, the high-risk document was either withdrawn or amended.

FMA published *A Director's Guide* in April, in partnership with the Institute of Directors, on the essentials of being an effective director and what to consider before taking up a directorship.

Public information, warnings and alerts

FMA published guidance in August 2012 on *Managing Problems With Your Investment* and on *Choosing Your Investment*.

In January this year, we also issued general guidance to investors via our website, in relation to 'low ball' offers. We advised that unsolicited offers were not illegal and that, following the introduction of the Securities Markets (Unsolicited Offers) Regulations 2012 in December, anyone who accepted such an offer had a '10 working day' cooling-off period to cancel the agreement.

Details about scams, alerts and warnings are published regularly on our website. Over the period we published three new brochures.

Investor education

Our omnibus survey of 1,021 New Zealanders found that almost three-quarters of those surveyed had investments in New Zealand's financial markets. Helping consumers understand how to find information and the types of services they can receive is a key step to helping people make more informed decisions about their money. At the time of publishing, we had six investor education brochures available to be ordered or downloaded from the FMA website.

In June 2013, we undertook an online survey of visitors to the 'Help Me Invest' pages of FMA's website. Of the visitors surveyed, 76 percent said that the information provided by us was helpful and relevant.

Communication

We continue to take a proactive and accessible approach to our communications and news media.

FMA uses a range of communication channels to ensure market participants and the public are kept informed of the latest developments. In the last 12 months, we received 377 media enquiries and issued 53 media releases on guidance, enforcement action and investor information. We also undertook 95 public-speaking engagements and contributed numerous opinion pieces to the major daily newspapers. In total, 44 media interviews took place with news media over the period.

3. FMA's regulatory and enforcement actions support market activity

Enforcement

Our role as a financial markets conduct regulator is to promote, assist and monitor compliance, enforce the law, and help set stakeholder and market expectations. We take a risk-based approach that is timely and proportionate in dealing with any misconduct.

Although enforcement action is necessary to make it clear to the market that there are real and meaningful consequences for failing to comply with financial markets regulation, we use other non-litigation enforcement tools and work closely with participants to help them comply with the standards required.

Our aim is to deter potential misconduct and hold to account those who fail to meet the necessary standards, while continuing to change behaviour and raise standards in the market and resolutely restore investor confidence. Over the past year, we have been committed to completing our investigations into failed finance companies and resolving legacy inquiries. This has not been an easy task.

FMA's enforcement team has been actively engaged in over 90 inquiries and investigations, and 18 litigation matters. The past year has seen our enforcement focus shift from failed finance company proceedings and investigations, accounting for only 15 percent of our cases, to current market issues.

Additional focus areas have been on: contraventions of the financial advisers' regime (26 percent); illegal offers to the public (9 percent); and insider trading and market manipulation (13 percent). The remaining cases relate to: financial reporting (10 percent); offer document disclosure (9 percent); perimeter issues (9 percent); overseas regulator inquiries (7 percent); and unsolicited offers (2 percent).

Meeting the time frame for the closure of cases has not always been possible for a number of reasons. These include: competing resource demands presented by urgent market events such as the Perpetual; Ross and Robinson cases; and other large and serious legacy matters. Some matters referred over the period also raised complex issues and large quantities of evidence required collation, review and analysis. A more appropriate measure has been adopted in our Statement of Intent 2013 – 2016.

Key enforcement activities are detailed in our *Investigations and Enforcement Report 2013* which can be found on our website under Keep Updated, Reports and Papers.

Increasingly, informers and whistleblowers approach FMA on a confidential basis with information about possible breaches of the legislation that we enforce. This channel is an important source of information for any regulator and we take all possible steps to protect the identity of anyone who provides information to us in good faith.

Over the last 12 months, FMA has carefully considered whether it is appropriate to bring an action under s34 of the FMA Act, particularly in respect of a number of the finance company cases. Although no s34 proceedings have been commenced to date, potential cases will continue to be reviewed.

Failed finance company investigations and litigation

While the recurring theme from the failed finance company cases might be broadly summarised as the failure of corporate governance, particularly with respect to the accuracy and completeness of disclosure, FMA is dedicated to creating well-functioning financial markets that support sustainable business growth and job creation, and where risk is understood, innovation and integrity prevails and investors are confident enough to actively participate.

By the end of June 2013, 32 directors had been convicted and 29 sentenced as a result of prosecutions pursued by FMA. During this time, the courts' focus in these cases has been on sentencing principles, following guilty pleas entered by a number of defendants.

We are now at the tail end of our finance company investigation work and anticipate that these investigations will be complete and announcements made by the end of 2013.

Cost effectiveness

We have recorded a surplus of $3.6 million reflecting FMA's strong cost management and a phased conservative approach to expending our resources as we roll out our regulatory surveillance programmes and prepare for the impact of the FMC Act.

We are mindful of preparing the organisation for when the transitional funding ceases after the 2013/14 financial year and are building reserves to meet future headwind challenges. This staged approach to our financial management has not impacted FMA's timely delivery of its activities.

Law reform

FMA works with market participants and government to ensure the scope and content of financial markets legislation remains up to date. Where issues are identified that cannot be efficiently dealt with by our existing powers, we make recommendations to the Government for changes to laws and regulations.

FMA provided significant input into the Securities Markets (Unsolicited Offers) Regulations 2012. These came into force on 1 December 2012 and introduced new processes and disclosure obligations for most unsolicited offers (also known as 'low ball' offers). We have been actively monitoring unsolicited offers for compliance with the Regulations and have taken appropriate action in response to potential non-compliance with the Regulations. FMA has granted four separate exemptions from compliance with some parts of the Regulations.

We worked on the FMC legislation with the Ministry of Business, Innovation and Employment (MBIE) on a comprehensive review of securities law that builds on recommendations from the Capital Markets Development Taskforce. The will result in a series of changes for the financial markets in New Zealand.

We issued a consultation paper covering the Charitable and Religious Purposes Exemption Review in July. FMA is keen to work with all stakeholders, including charitable and religious organisations and their representatives to ensure any exemptions we grant work together with the legislative regime provided by the Securities Act 1978 and Regulations.

Fonterra Shareholders' Market was launched on 30 November 2012, requiring regulatory approval from FMA, together with the Fonterra Fund.

INVESTOR EDUCATION

It is important to us that investors are fully aware of their options when investing. We are working with other agencies to ensure that the information that is necessary for investors to make more informed decisions is readily available and there is a range of easily accessible information on our website.

At the time of publishing, FMA had six investor education brochures in circulation: *How to spot an investment scam*; *Be wary of 'low ball' offers*; *5 Questions to ask your financial adviser*; *Confidence comes from sound advice*; *KiwiSaver – Are you getting the right advice*; and *Become a smart investor – the Do's and Don'ts*. More brochures are in development.

EFFECTIVENESS AND CAPABILITY

Capability and risk

FMA has a risk-management framework that identifies key areas of capability and associated risks, and is overseen by the Board and FMA's Audit and Risk Committee. We developed the following responses to the main risks.

Recruiting and retaining staff

FMA uses targeted recruitment practices to attract key talent and capability, along with robust induction and on-boarding programmes that support integration into our high-performance culture. Our values are embedded throughout the organisation through our policies, processes and practices, to ensure consistency with leadership, accountability and culture.

Future capability

FMA's capability is further strengthened by of a variety of learning and development tools that are aimed at addressing both current and future capability needs. Our employees are encouraged to contribute to FMA's Good Employer Programme through numerous employee-led initiatives.

Physical event/disaster

Both FMA offices are in buildings with current warrants of fitness 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 members have external access to our computer network, which allows them to work remotely.

Confidentiality of information

New Board members and staff sign confidentiality agreements when they join FMA, and the induction process for new staff members and our internal policies relating to security and disclosure of information reinforce the need for confidentiality. The IT system and file security are robust and effective, and FMA's offices are physically secure. FMA has put in place advanced electronic security measures to improve controls against inadvertent disclosure of confidential information.

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.

Good employer

FMA is a member of the Equal Employment Opportunities (EEO) Trust and is committed to being a good employer. Our people are chosen and rewarded on the basis of individual ability and achievement. We use a mixed resourcing model in order to maintain flexibility and respond to fluctuating resource and skill demands.

FMA has a total of 141 employees working out of one Auckland and one Wellington office. Of these, 82 percent are permanent. A gender balance is reflected across all levels of the organisation, with females representing 50 percent of FMA's senior leaders. The average age of employees is 39.5 years with 70 percent of them falling between the ages of 30 and 59 years of age.

FMA is committed to maintaining a safe, secure and healthy working environment with programmes and policies that encourage health, safety and well-being.

Financial objectives

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

In the 12 months to 30 June 2013, we have managed our resources within budget while implementing systems, policies and procedures for the organisation. The financial results for the 12 months to 30 June 2013 deliver a surplus that will bolster FMA's balance sheet and ensure that resources are available at short notice if we need to respond to any future regulatory challenges.

Capital investments to support FMA's regulatory functions, culture and capability during the period were:

- selection and implementation of computer systems to give FMA a core regulatory support system and desktop productivity upgrade
- initiatives to improve network support and security.

Further substantial capital investments are proceeding to strengthen FMA's core regulatory systems and will continue to be implemented, providing us with the regulatory, supervisory, disclosure and intelligence tools to support our mandate.

Working with others

FMA is committed to working in collaboration with other regulatory agencies to improve efficiency, share knowledge and reduce duplication. By working this way, we are better able to identify risks and trends, and provide high-quality advice on financial markets and services policy. Results of a government agency survey undertaken during the year on relationships between FMA and other agencies were a positive indication that FMA is working well with others.

Council of Financial Regulators (CoFR)

Along with RBNZ, FMA is a founding member and alternate Chair of CoFR, which met for the first time in September 2011. Treasury and MBIE are also members. Over the last 12 months, there has been a working group established to advance the priority projects of the CoFR between scheduled quarterly meetings. The purpose of the CoFR is to share information on strategic priorities, identify important issues and trends, and ensure coordination of responses to events and developments. The CoFR's terms of reference are available on FMA's website.

MOU with the RBNZ

A Memorandum of Understanding (MOU) between FMA and RBNZ was signed in September 2011. This provides a framework for cooperation to ensure that effective and efficient regulation of the New Zealand financial system is achieved. The MOU was signed to offer agreement for mutual assistance and cooperation which will help encourage public confidence in the twin peaks regulatory model under which we work.

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

MOU with the Serious Fraud Office (SFO)

In January 2012, FMA signed a MOU with the SFO. The purpose is to enhance the working relationship and initiate greater efficiencies between the two agencies. The MOU established a framework for exchanging information, coordinating 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 cooperates with other oversight supervisors that have financial market regulatory functions such as the NZICA, NZX and Trustee companies.

CODE COMMITTEE

The Code Committee is appointed under the Financial Advisers Act 2008. It is responsible for drafting the Code of Professional Conduct for Authorised Financial Advisers, reviewing this Code and recommending changes to the Code to FMA.

Members of the Committee

David Ireland (Chairperson)

David Russell

Ross Butler

Mike Staal

Shane Edmonds

Dimity Kingsford-Smith

Gary Young

The Code was approved in September 2010.

The Code Committee began a review of the Code in April 2013. Consultation on the review is under way, with a revised Code intended to be submitted to FMA in late 2013.

FINANCIAL ADVISERS DISCIPLINARY COMMITTEE

The Financial Advisers Disciplinary Committee (FADC) is an independent body established under the Financial Advisers Act 2008. It is responsible for conducting disciplinary proceedings arising from complaints about Authorised Financial Advisers in relation to breaches of the Code of Professional Conduct, referred to it by FMA.

In the last 12 months, FMA referred four complaints to the FADC for determination.

The four proceedings were:

- *FMA v Musaphia [2013]* FADC 001
- *FMA v Ross [2013]* FADC 004
- *FMA v Bourke-Shaw [2013]* FADC 002
- *FMA v Beecroft [2013]* FADC 003

Members of the committee

Hon Sir Bruce Robertson (Chairperson)

Tracey Berry

Geoff Clews

Simon Hassan

Peter Houghton

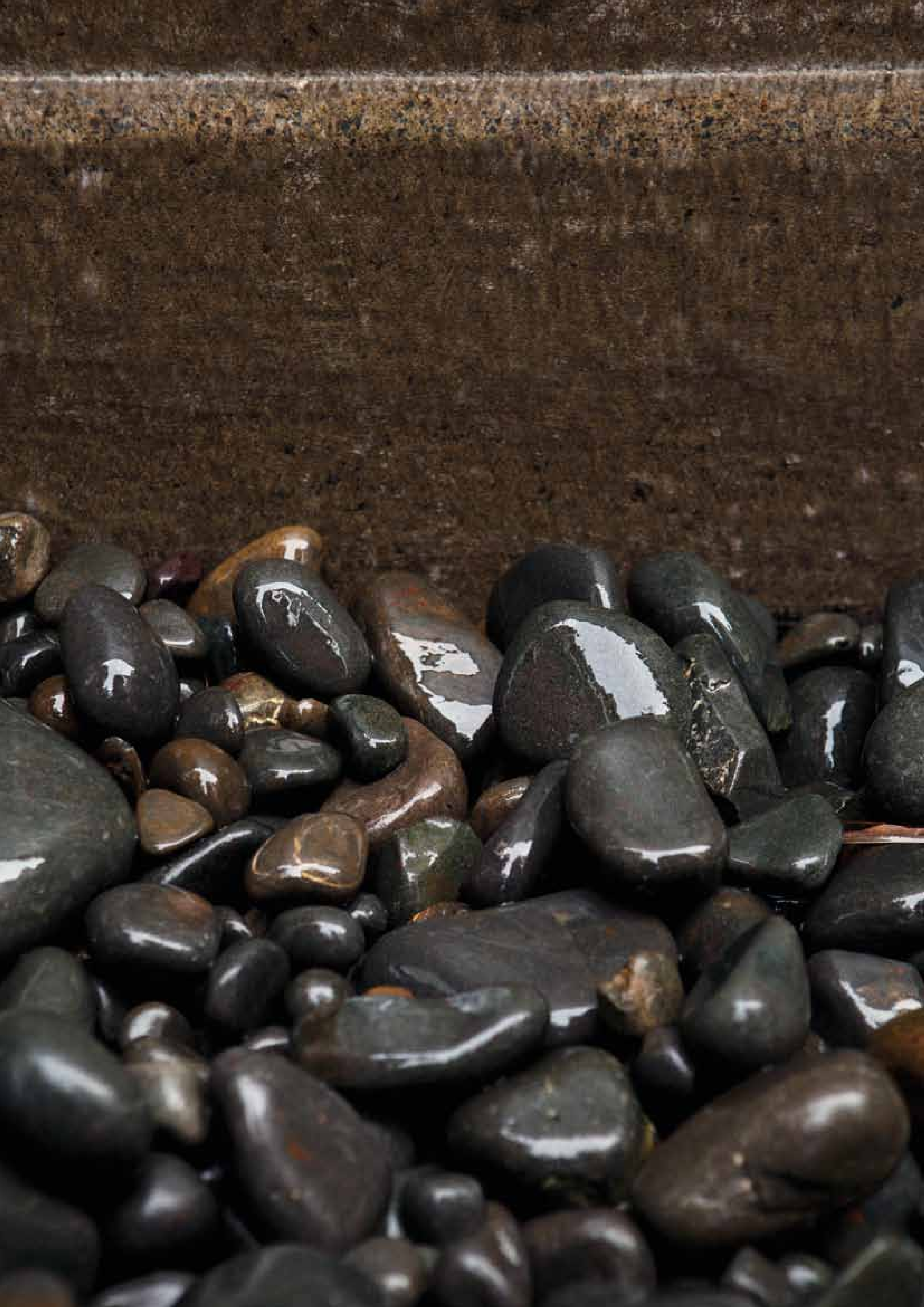
David Macdonald, QSO

Consumer Advisory Panel

FMA established a Consumer Advisory Panel in 2012. The panel consists of three external members and two FMA staff members who consult on new initiatives, retail investor issues, market communications and consumer issues or concerns.

The role of the panel is to provide advice and assistance to develop and achieve FMA's strategic impact objective: 'Investors have access to resources to help them make more informed decisions'.

Central elements of the panel's work include: providing FMA with input and intelligence about on- the-ground consumer issues or concerns; and considering initiatives for consumers to facilitate improvements in investor education. Panel membership is expected to grow to six external members over the course of the 2013/14 financial year.



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 its function and powers. The Act says FMA is to:

- promote the confident and informed participation of businesses, investors and consumers in the financial markets (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 FA Act, 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 FSPA
- monitor and conduct inquiries and investigations into any matter relating to financial markets or the activities of financial markets participants or of other persons engaged in conduct relating to those markets
- keep under review the law and practices relating to financial markets, financial markets participants and other persons engaged in conduct relating to those markets
- cooperate with any other law enforcement or regulatory agency or overseas regulators.
- In addition to its functions under the Financial Markets Authority Act 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).

The Government continues to review securities legislation. In particular, the FMC Act will expand FMA's roles and functions and we will continue to work closely with policymakers to progress reviews and implement the changes arising from the Act.

AUTHORITY

This annual report was approved by the Financial Markets Authority on 29 October 2013.

Simon Allen

Chairman

Murray Jack

Chairman, Audit and Risk Committee

STATEMENT OF OBJECTIVES

For the 12 months ended 30 June 2013

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

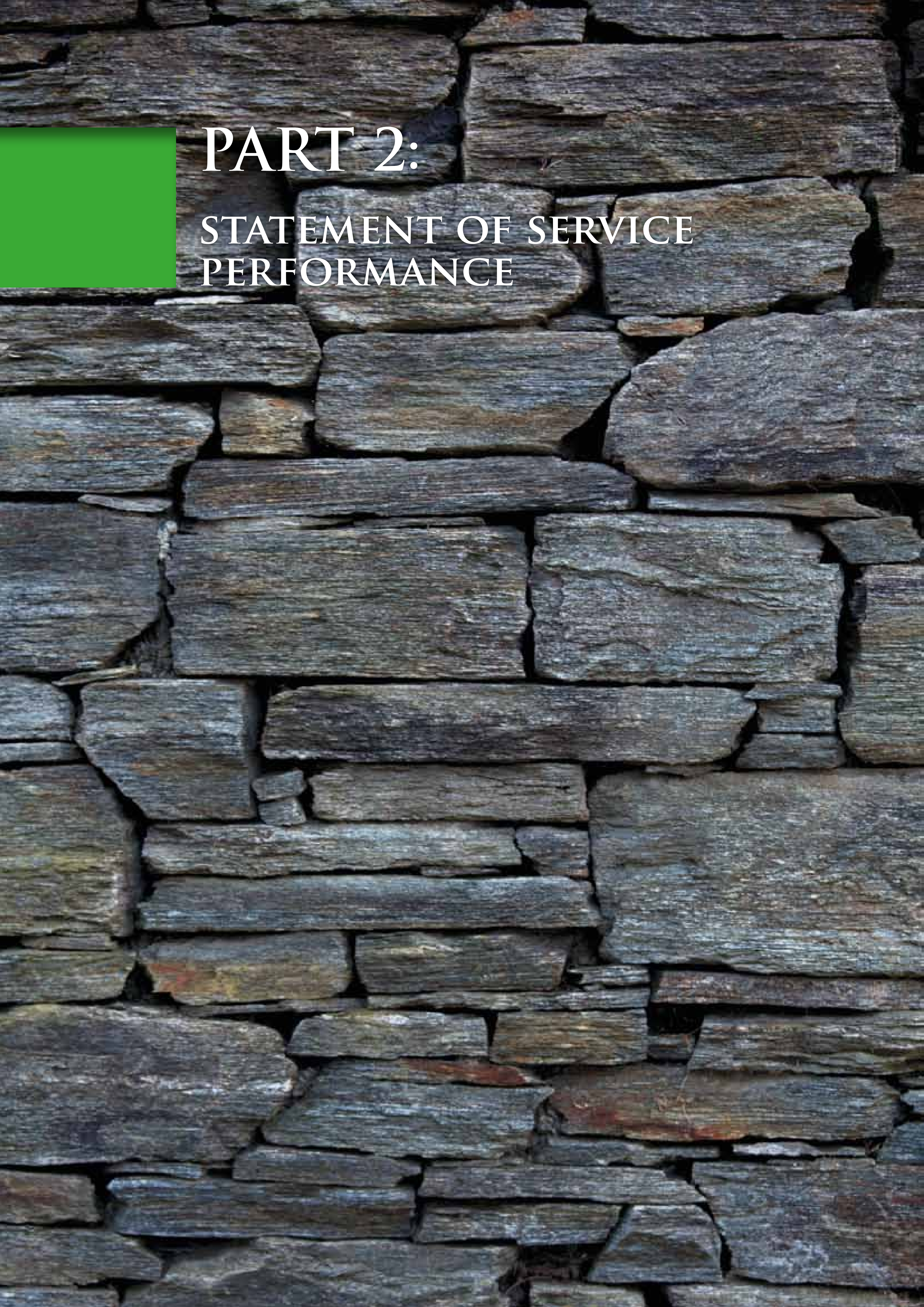
Appropriation One:	Licensing and supervision of market participants
Appropriation Two:	Performance of financial markets monitoring functions
Appropriation Three:	Performance of investigation and enforcement functions

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

PART 2:

STATEMENT OF SERVICE PERFORMANCE



STATEMENT OF SERVICE PERFORMANCE
PERFORMANCE STANDARDS AND MEASURES FOR THE OUTPUT OF FMA
FOR THE 12 MONTHS ENDED 30 JUNE 2013

APPROPRIATION ONE:
Licensing and Supervision of Market Participants

	Actual $000s 12 months to 30 Jun 13	Budget $000s 12 months to 30 Jun 13
Revenue	13,420	12,864
Expenditure	11,401	12,405
Surplus/(Deficit)	**2,019**	**459**

Major variances against budget: Surplus is over budget due to higher regulatory income received than forecast, monitoring and surveillance of market participants increased later than forecasted due to regulatory and law reform activities (such as preparation for the Financial Markets Conduct Act) taking resources.

SOI Ref	Output 2012/13 Forecast Standard	Output Achievement	Status
	High-quality advice and assistance		
1a	Government agencies are satisfied with the quality of advice and assistance provided by FMA in regard to licensing and supervision.	FMA received survey responses from five government agencies all of whom were satisfied with the quality of advice and assistance from FMA in regard to licensing and supervision.	Achieved
	Public relations and stakeholder communications		
2a	The annual stakeholder survey demonstrates greater awareness and understanding of FMA and its actions.	FMA stakeholder survey will now be undertaken every two years, with the next survey expected to be carried out in 2013/14. No survey was undertaken during the period. (2012 awareness of FMA 83 percent; understanding of FMA and its actions 73 percent).	No longer an annual survey
	Education of market participants, investors and consumers		
3a	Market participants' input is proactively gained and considered prior to establishing all new policy and/or addressing significant policy issues.	FMA can confirm that it has proactively gained and considered input from market participants on all new and significant policy issues considered during the year ending 30 June 2013. FMA issued the following policy or guidance during this period: • Policy for exemptions from Securities Act and Regulation regime for fundraising by: i) charitable and religious organisations ii) contributory mortgages offered by solicitors • Policy for exemptions from FA Act requirements for Australian based financial advisers servicing clients resident in New Zealand • Exemption policy on financial reporting exemptions for overseas incorporated insurers in light of new licensed auditor requirements • Establishing whether any exemptions may be appropriate to facilitate pragmatic and appropriate KiwiSaver period disclosure by providers offering personalised investment option schemes • Guidance Note: *Sale and Distribution of KiwiSaver* (Oct 2012 published, consulted June 2012) • In April 2013, FMA and the other AML/CFT supervisors published five fact sheets to supplement the *Beneficial Ownership Guideline* (trusts, companies, clubs and societies, partnerships and cooperatives) • An application guide for futures dealer • A *Monitoring by Securities Trustees and Statutory Supervisors* (ST&SS) guidance note • FMA commenced engagement with NZBA and QFEs with respect to their annual reporting requirements.	Achieved

SOI Ref	Output 2012/13 Forecast Standard	Output Achievement	Status
3b	Publication of FMA's principles underpinning FMA's supervisory programme for AML/CFT reporting entities by 30 June 2013.	FMA's *Supervision of Anti-Money Laundering and Countering Financing of Terrorism* document was published on 6 June 2013.	Achieved
3c	Guidance on AML/CFT for reporting entities published by December 2012.	The *Beneficial Ownership Guideline* was published in December 2012. Additional supporting fact sheets have also been produced.	Achieved
3d	90 percent of enquiries by market participants receive a substantive response from FMA within 20 working days of FMA receiving all relevant information.	97 percent of enquiries by market participants received a substantive response from FMA within 20 working days of FMA receiving all relevant information. MBIE's contact centre is contracted to handle casual enquiries on FMA's behalf; providing ready advice to simple enquiries, but is not included in this measure.	Achieved
	Effective licensing regimes		
4a	On receipt of fully completed applications for a licence, 90 percent are processed in accordance with established process and time frames: • QFEs will be processed within 40 working days • Statutory Supervisors and Securities Trustees received after 30 September 2012 will be processed within 40 working days • AFAs will be processed within 20 working days.	97 percent of fully completed applications were concluded in accordance with this output standard: • For QFEs: Overall, three (60 percent) of the applications have been completed within the 40 working days. Of the remaining two (40 percent), one took 41 days and one took 149 days because of the complexity of that particular application • For ST&SS: no new applications for approval or variation of ST&SS licences were received during the 2012/13 financial year **Note:** At the end of the transitional period under the ST&SS legislation, FMA had completed the licensing of all ST&SS interim licences. The final announcements on the licensing applications were made on 28 September 2012. Processing of new applications received after the transitional period were assessed under this performance measure • For AFAs: 94 applications were approved. 93 applicants (99 percent) were informed of the outcome within 20 days of fully evidencing their application.	Achieved in total, QFE applications are not achieved
	Risk-based assessment of offerings		
5a	100 percent of high-risk prospectuses are reviewed within five days of registration.	100 percent of the high-risk prospectuses (32 in total) were reviewed within five days of registration.	Achieved
5b	5 percent of other prospectuses are reviewed post-registration.	325 prospectuses were registered in the year. 8 percent of the prospectuses registered not identified as high-risk, were reviewed post-registration.	Achieved
5c	In 100 percent of cases where FMA intervenes, disclosures are improved or documents withdrawn.	In 100 percent of the 32 cases (cases determined by FMA to be high, medium or low risk) where FMA intervened, disclosures were improved or documents withdrawn.	Achieved
	Risk-based monitoring and surveillance of market participants		
6a	Annual review of registered securities market completed and published by 30 June 2013.	Annual review completed and published on 4 June 2013.	Achieved
6b	Joint supervisors are satisfied with our performance and cooperation in addressing money laundering and financing of terrorism.	Representatives of both the Reserve Bank and the Department of Internal Affairs reported that they were satisfied with FMA's performance and cooperation in addressing money laundering and financing of terrorism.	Achieved

APPROPRIATION TWO:
Performance of Financial Markets Monitoring Functions

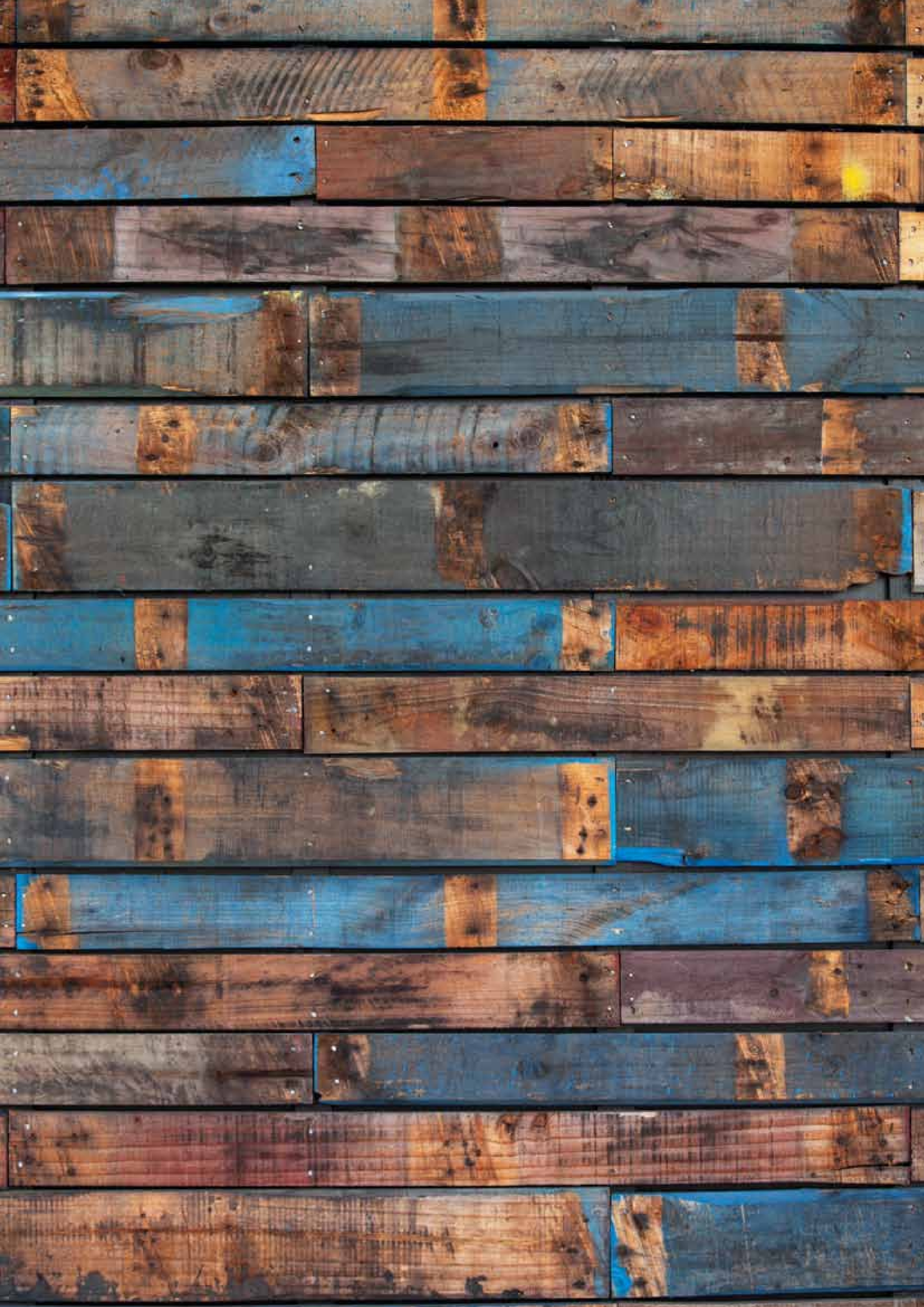
	Actual $000s 12 months to 30 Jun 13	Budget $000s 12 months to 30 Jun 13
Revenue	6,506	6,417
Expenditure	6,950	6,188
Surplus/(Deficit)	**(444)**	**229**

Major variances against budget: Expenditure is over budget due to law reform activities (Financial Markets Conduct Act as it was progressing through Parliament) taking more resources than forecast.

SOI Ref	Output 2012/13 Forecast Standard	Output Achievement	Status
	High-quality advice and assistance		
1b	Government agencies are satisfied with the quality of advice and assistance provided by FMA arising from FMA's monitoring and intelligence functions.	FMA received survey responses from seven government agencies all of whom were satisfied with the quality of advice and assistance provided by FMA in relation to its monitoring and intelligence functions.	Achieved
1c	Quarterly report is provided to the Minister of Commerce highlighting key priorities for reform.	FMA provided the Minister of Commerce with updates on key priorities for reform at quarterly briefings held on: 23 August 2012 19 November 2012 8 April 2013 17 June 2013 FMA also provided periodic reports to the Minister on matters as they arose during the year.	Achieved
1d	FMA's interaction with ASIC, IOSCO and overseas regulators meet their expectations of cooperation, timeliness and quality.	FMA surveyed ASIC, IOSCO and other overseas regulators in June 2013. All 12 respondents agreed their interaction with FMA met their expectations of cooperation, timeliness and quality. Comments unanimously confirmed FMA's international interaction to be of a high quality, helpful, professional and timely.	Achieved
	Public relations and stakeholder communications		
2a	The annual stakeholder survey demonstrates greater awareness and understanding of FMA and its actions.	FMA stakeholder survey will now be undertaken every two years, with the next survey expected to be carried out in 2013/14. No survey was undertaken during the period. (2012: awareness of FMA 83 percent; understanding of FMA and its actions 73 percent).	No longer an annual survey
2b	Fifty public engagements are undertaken in 2012/2013.	FMA undertook 95 public engagements in the year ended 30 June 2013.	Achieved
2c	The number of website visits and length of visit increases from the 2011/12 baseline.	FMA has established a baseline of monthly website visits from September 2012. September month's baseline and the October to June average results are tabulated below. The number of visits decreased and the number of unique visits increased over the October 2012 to June 2013 period, compared to the September 2012 baseline. The lengths of visits were slightly below the baseline.	Not achieved

Quarterly statistics (per month)	Sept 2012 baseline	Oct–June average	% of baseline
Website visits	23,053	20,352	88%
Unique visits	13,549	13,551	100%
Median duration (minutes)	2.57	2.44	95%

SOI Ref	Output 2012/13 Forecast Standard	Output Achievement	Status
	Education of market participants, investors and consumers		
3e	Key areas of focus for FMA's investor education are identified and prioritised by 30 September 2012 and implemented to plan.	FMA completed investor education priorities identified during the year including updating FMA's website 'Help Me Invest' pages and producing two key investor brochures. Further research has been undertaken that will inform future target areas and market segments.	Not achieved
3f	Four reports on significant issues arising from compliance monitoring work published by 30 June 2013.	FMA published seven feedback reports on our compliance monitoring of: • D&O and SSH compliance (FMA's review of market disclosures) was issued on 28 June 2013 • KiwiSaver schemes offer documents was issued on 17 June 2013 • Review of QFE annual reports on 28 June 2013 • Hybrid financial instruments disclosures on 29 May 2013 • General obligations of NZX on 4 June 2013 • FMA Superannuation Schemes Report for year ended 30 June 2012 was published on 19 October 2012 • FMA KiwiSaver Report for the year ended 30 June 2012 was published on 19 October 2012.	Achieved
3g	Consumer Advisory Panel is satisfied with FMA's performance in supporting the education of investors.	The Consumer Advisory Panel has been formed and held two formal meetings during the year. In addition, advice and input was provided by individual members in relation to FMA investor education. Draft terms of reference have been developed and provide the basis for the further refinement of the role and operation of the panel.	Not achieved
	Risk-based monitoring and surveillance of market participants		
6c	90 percent of completed applications for exemptions are processed within six weeks or as agreed with applicant.	For the financial year 30 June 2013, 99 percent of completed applications for exemptions were processed within six weeks or as agreed with applicant. Fifty-six class exemptions were considered: 47 existing class exemptions were amended to extend their terms and improve them, two new class exemptions were granted, and seven were left to expire for redundancy. These exemptions were completed within the time frame to meet the needs of market participants. Thirty-five individual exemption applications were considered; 30 were granted and five were discontinued or withdrawn. One of these individual exemption applications was not processed within six weeks or as agreed with applicant. The applicant accommodated this by delaying their offer to await the exemption.	Achieved
6d	80 percent of complaints, tips and referrals once received by FMA's assistance team are processed within established time frames: • Acknowledged within two working days • Frontline regulator referrals acknowledged and prioritised for action within one working day • Complainants receive a substantive response from FMA within 20 working days of receiving all relevant information.	FMA's assistance team received 1,331 complaints, tips and referrals, 97 percent of which were acknowledged within two working days. 100 percent of the 96 frontline regulator referrals were acknowledged and prioritised for action within one working day. 93 percent of complainants received a substantive response from FMA within 20 working days of our receiving all relevant information.	Achieved
6e	Two feedback reports on referrals received from NZX, issued to NZX by 30 June 2013.	The first report was issued to NZX on 3 December 2012. The second report was issued to NZX on 27 February 2013.	Achieved



APPROPRIATION THREE:
Performance of Investigation and Enforcement Functions

	Actual $000s 12 months to 30 Jun 13	Budget $000s 12 months to 30 Jun 13
Revenue	6,968	6,969
Expenditure	4,841	6,721
Surplus/(Deficit)	**2,127**	**248**

Major variances against budget: Expenditure is under budget due to lower hours resulting from staff vacancies and law reform activities (Financial Markets Conduct Act as it was progressing through Parliament) taking resources.

SOI Ref	Output 2012/13 Forecast Standard	Output Achievement	Status
	High-quality advice and assistance		
1e	Government agencies are satisfied with the quality of advice and assistance provided by FMA in regard to investigation and enforcement.	FMA received survey responses from seven government agencies all of whom were satisfied with the quality of advice and assistance provided by FMA in regard to investigation and enforcement functions. Agencies noted that trust and information sharing had increased over the last year.	Achieved
1f	90 percent of MOU requests for assistance are completed within agreed time frames to the satisfaction of international regulators.	100 percent of MOU requests for assistance have been completed within agreed time frames to the satisfaction of international regulators.	Achieved
	Public relations and stakeholder communications		
2a	The annual stakeholder survey demonstrates greater awareness and understanding of FMA and its actions.	FMA stakeholder survey will now be undertaken every two years, with the next survey expected to be carried out in 2013/14. No survey was undertaken during the period (2012: awareness of FMA 83 percent; understanding of FMA and its actions 73 percent).	No longer an annual survey
2d	Details of all public enforcement actions are published on FMA's website.	100 percent of the public enforcement actions taken by FMA in the year have been reported on FMA's website in the year. • Warnings, alerts and scams • Prosecutions and proceedings • Court decisions of interest • Press releases • Report on key issues and themes arising from investigation and enforcement activity.	Achieved
2e	An annual report on the key issues and themes arising from investigations and enforcement activities and outcomes is published by 30 June 2013.	The annual report on the key issues and themes arising from investigations and enforcement activities was completed and approved for release by 28 June 2013 and was published on 1 July, with 30 June 2013 being a Sunday.	Achieved
	Risk-based monitoring and surveillance of market participants		
6f	70 percent of complaints that result in the opening of an inquiry are either resolved or progressed to a formal investigation to the time frames and standards defined in the enforcement governance framework.	All complaints that resulted in the opening of an enforcement inquiry were either resolved or progressed to a formal investigation in the time frames and standards defined in the enforcement governance framework.	Achieved

SOI Ref	Output 2012/13 Forecast Standard	Output Achievement	Status
	Risk-based, proportionate and timely action against misconduct		
7a	70 percent of inquiries and investigations are completed in the time frames and standards defined in the enforcement governance framework.	33 percent of the inquiries and investigations completed in the year (being three of nine matters) were completed in the time frames and standards defined in the enforcement governance framework. The measure only assesses a small subset of FMA's overall enforcement activities, being inquiries and investigations which were commenced after 1 January 2012, and does not assess legacy cases (commenced prior to January 2012) which may have also been closed in the period. In the period, FMA was engaged in 97 inquiries and investigations and 18 litigation matters. Forty-eight matters were completed which included legacy matters as well as the nine matters referred to above. In addition, five of the 10 remaining finance company investigations were completed. The remaining matters are ongoing.	Not achieved
7b	Inquiries are undertaken in all activity at the regulatory perimeter identified as high-risk.	Forty high-risk cases in total were undertaken in the past 12 months. All cases are dealt with within expected time frames of the enforcement governance framework and either resolved or currently in the system.	Achieved
7c	MOU is implemented with the Serious Fraud Office.	An MOU remains in place with SFO. FMA continues to comply with the requirements of the MOU with ongoing quarterly and monthly meetings at senior manager level as well as weekly/fortnightly at staff level. During the period, two coordinated investigations and two joint prosecution matters have been progressed. Joint training events for staff have also been held. Charges in the Ross Asset Management case were laid on 28 June 2013.	Achieved

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 12 months ended 30 June 2013.

Signed on behalf of the Board:

Simon Allen
Chairman

29 October 2013

Murray Jack
Chairman, Audit and Risk Committee

29 October 2013

STATEMENT OF COMPREHENSIVE INCOME

for the 12 months ended 30 June 2013

	Note	Actual 2013 $000s	Budget 2013 $000s	Actual 2012 $000s
INCOME				
Government grant	2	25,461	25,462	24,274
Litigation fund income	5	2,006	2,000	2,188
Interest		600	396	469
Other income		833	392	686
Total income		**28,900**	**28,250**	**27,617**
EXPENDITURE				
Personnel expenses	3	15,372	16,090	14,298
Depreciation and amortisation	7, 8	1,036	1,638	688
Other operating expenditure	4	6,784	7,586	8,367
Litigation fund expenditure	5	2,163	2,000	2,188
Total expenditure		**25,355**	**27,314**	**25,541**
Surplus/(deficit)		3,545	936	2,076
Total comprehensive income		**3,545**	**936**	**2,076**
TOTAL COMPREHENSIVE INCOME COMPRISES:				
Net operating surplus/(deficit)		3,702	936	2,076
Net litigation fund surplus/(deficit)		(157)	-	-
Total comprehensive income		**3,545**	**936**	**2,076**

Explanation of major variances against budget are provided in note 19.

The accompanying notes form part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY

for the 12 months ended 30 June 2013

	Note	Actual 2013 $000s	Budget 2013 $000s	Actual 2012 $000s
OPENING BALANCE				
Accumulated funds		3,718	4,013	1,642
Litigation fund		844	844	844
Capital contributions		8,777	9,007	3,777
Total opening balances		**13,339**	**13,864**	**6,263**
COMPREHENSIVE INCOME				
Net operating surplus/(deficit)		3,702	936	2,076
Net litigation fund surplus/(deficit)		(157)	-	-
Other comprehensive income		-	-	-
Total comprehensive income		**3,545**	**936**	**2,076**
OWNER TRANSACTIONS				
Capital contribution		-	-	5,000
Total owner transactions		**-**	**-**	**5,000**
Closing balances 30 June		**16,884**	**14,800**	**13,339**
Accumulated funds		7,420	4,949	3,718
Litigation fund	5	687	844	844
Capital contribution		8,777	9,007	8,777
Total closing balances		**16,884**	**14,800**	**13,339**

Explanation of major variances against budget are provided in note 19.

The accompanying notes form part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION

as at 30 June 2013

	Note	Actual 2013 $000s	Budget 2013 $000s	Actual 2012 $000s
ASSETS				
Current assets				
Cash and cash equivalents		1,388	2,778	2,790
Term deposits		14,028	6,028	10,028
Cash and cash equivalents – litigation fund		368	284	150
GST receivable		253	76	329
Debtors and other receivables	6	1,500	2,331	1,729
Total current assets		**17,537**	**11,497**	**15,026**
Non-current assets				
Property, plant and equipment	7	1,747	2,717	2,136
Intangible assets	8	1,477	3,018	311
Capital work in progress		6	-	-
Total non-current assets		**3,230**	**5,735**	**2,447**
Total assets		**20,767**	**17,232**	**17,473**
LIABILITIES				
Current liabilities				
Creditors and other payables	9	2,282	1,632	2,598
Employee entitlements		1,030	800	830
Lease incentive liability	10	97	-	97
Provisions	11	-	-	421
Total current liabilities		**3,409**	**2,432**	**3,946**
Non-current liabilities				
Creditors and other payables	9	135	-	-
Lease incentive liability	10	272	-	153
Provisions	11	67	-	35
Total non-current liabilities		**474**	**-**	**188**
Total liabilities		**3,883**	**2,432**	**4,134**
EQUITY				
Accumulated funds		7,420	4,949	3,718
Litigation fund	5	687	844	844
Capital contribution		8,777	9,007	8,777
Total equity		**16,884**	**14,800**	**13,339**
Total equity and liabilities		**20,767**	**17,232**	**17,473**

Explanation of major variances against budget are provided in note 19.

The accompanying notes form part of these Financial Statements.

STATEMENT OF CASH FLOWS

for the 12 months ended 30 June 2013

	Note	Actual 2013 $000s	Budget 2013 $000s	Actual 2012 $000s
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
- Government grant		25,461	25,461	24,274
- Litigation fund income		2,195	2,125	1,817
- Interest		458	396	407
- Other income		739	392	665
- Fees collected on behalf of MBIE		5	-	-
- Goods and services tax (net)		80	205	(410)
Cash was disbursed to:				
- Suppliers		(9,247)	(11,728)	(9,118)
- Employees		(14,812)	(13,950)	(14,486)
Net cash flows from operating activities	12	**4,879**	**2,901**	**3,149**
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was provided from:				
- Sale of fixed assets		35	-	8
- Decrease in term deposits		4,000	-	6,000
Cash was applied to:				
- Purchase of property, plant and equipment		(628)	(500)	(1,667)
- Purchase of intangible assets		(1,470)	(2,700)	(253)
- Increase in term deposit		(8,000)	-	(16,028)
Net cash flows from investing activities		**(6,063)**	**(3,200)**	**(11,940)**

Explanation of major variances against budget are provided in note 19.

The accompanying notes form part of these Financial Statements.

STATEMENT OF CASH FLOWS (continued)

for the 12 months ended 30 June 2013

	Actual 2013 $000s	Budget 2013 $000s	Actual 2012 $000s
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash flows from financing activities			
Cash was provided from:			
- Capital contribution	-	-	5,000
Net cash flows from financing activities	**-**	**-**	**5,000**
Net increase/(decrease) in cash and cash equivalents	(1,184)	(299)	(3,791)
- Cash and cash equivalents at the beginning of the year	2,940	3,361	6,731
Cash and cash equivalents at the end of the year	**1,756**	**3,062**	**2,940**
Comprising			
- Cash and cash equivalents	1,388	2,778	2,790
- Cash and cash equivalents – litigation fund	368	284	150
	1,756	**3,062**	**2,940**

Explanation of major variances against budget are provided in note 19.

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 12 months ended 30 June 2013

NOTE 1 Statement of accounting policies

Reporting entity

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.

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).

The financial statements for FMA are for the year ended 30 June 2013, and were approved by the Board on 15 October 2013.

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 (NZ GAAP) and they 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 ($000s).

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

There have been no changes in accounting policies during the financial year.

Standards, amendments and interpretations issued that are not yet effective and have not been early adopted

NZ IFRS standards, amendments and interpretations issued but not yet effective, which 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 over 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). 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 FMA expects to transition to the new standards in preparing its 30 June 2015 financial statements. FMA has not assessed 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 not 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 for 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 landlords for a rent holiday. Rent holiday liability is amortised over the life of the lease.

Capital contribution

Capital contribution payments received from landlords are amortised over the life of the lease where the assets are owned by FMA. Where a 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 provisions 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.

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year-end.

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.

H) INTANGIBLE ASSETS

Acquired computer software licenses 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 expenses 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 life 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 as they are generally settled within 30 days.

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, 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

All items in the financial statements are exclusive of goods and services tax (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 a 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 2012–2015 as approved by the Board in April 2012. The budget figures are for the 12 months to 30 June 2013 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. Members and committee fees of $886,000 have been reclassified from other expenses to personnel expenses in the budget figures.

R) COMPARATIVE FIGURES

The comparative figures presented are for the 12 months to 30 June 2012.

S) 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.

T) 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.

U) 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 2013 $000s	Actual 2012 $000s
Salaries and wages	12,577	10,376
Defined contribution plan employer contributions	250	209
ACC	38	29
Fringe benefit tax	1	1
Member and committee fees	726	850
Contract staff	1,479	2,157
Recruitment/transitional costs	301	676
Total personnel costs	**15,372**	**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.

NOTE 4 Other operating expenses

	Actual 2013 $000s	Actual 2012 $000s
Fees to auditors - fees to Audit New Zealand for financial statements audit	62	51
Bad debts	-	7
Loss on disposal of fixed assets	69	350
Operating lease expenses	1,177	1,925
Professional services	2,196	3,042
Services and supplies	2,598	2,204
Travel and accommodation	682	788
Total other operating expenses	**6,784**	**8,367**

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

Operating lease expenses for the year ended 30 June 2013 include provision for lease on vacated property of $Nil (2012: $421,076).

NOTE 5 Litigation fund

The Government has appropriated a litigation fund to cover actual litigation costs of up to a maximum of $2.0 million for the 12 months ended 30 June 2013 (2012: $2.5 million).

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

	Actual 2013 $000s	Actual 2012 $000s
Opening balance	**844**	**844**
Government grant revenue	2,000	2,187
Interest income	6	1
Settlements and cost recoveries	-	-
Total litigation fund income	**2,006**	**2,188**
Expenditure on eligible litigation	(2,163)	(2,188)
Capital repayment	-	-
Closing balance	**687**	**844**
COMPRISING		
Cash and cash equivalents		
- Current account	1	145
- Call account	367	5
	368	150
Trade and other receivables	825	1,037
Trade and other payables	(506)	(343)
Closing balance	**687**	**844**

NOTE 6 Debtors and other receivables

	Actual 2013 $000s	Actual 2012 $000s
Trade debtors	641	848
Other receivables	649	590
Prepayments	210	291
Total debtors and other receivables	**1,500**	**1,729**

The carrying value of receivables approximates their fair value.

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

	Gross $000s	2013 Impairment $000s	Net $000s
Not past due	546	-	546
Past due 1 to 30 days	88	-	88
Past due 31 to 60 days	7	-	7
Past due 61 to 90 days	-	-	-
Past due over 90 days	-	-	-
Total	**641**	**-**	**641**

	Gross $000s	2012 Impairment $000s	Net $000s
Not past due	815	-	815
Past due 1 to 30 days	-	-	-
Past due 31 to 60 days	-	-	-
Past due 61 to 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 at 1 July 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**
Additions	136	87	41	264
Adjustments	-	-	(59)	(59)
Disposals	(104)	-	-	(104)
Balance at 30 June 2013	**1,052**	**430**	**1,220**	**2,702**
ACCUMULATED DEPRECIATION				
Property, plant and equipment at 1 July 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)**
Depreciation expense	(348)	(64)	(171)	(583)
Elimination on disposal	93	-	-	93
Balance at 30 June 2013	**(607)**	**(116)**	**(232)**	**(955)**
CARRYING AMOUNTS				
At 30 June 2012	668	291	1,177	2,136
At 30 June 2013	445	314	988	1,747

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

NOTE 8 Intangible assets

	Computer software $000s
COST	
Intangible assets 1 July 2011	251
Additions	315
Disposals	(190)
Balance at 30 June 2012	**376**
Additions	1,677
Disposals	(76)
Balance at 30 June 2013	**1,977**
ACCUMULATED DEPRECIATION	
Intangible assets 1 July 2011	(175)
Amortisation expense	(71)
Elimination on disposal	181
Balance at 30 June 2012	**(65)**
Amortisation expense	(453)
Elimination on disposal	18
Balance at 30 June 2013	**(500)**
CARRYING AMOUNTS	
At 30 June 2012	311
At 30 June 2013	1,477

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

NOTE 9 Creditors and other payables

	Actual 2013 $000s	Actual 2012 $000s
CURRENT		
Trade creditors	1,676	1,552
Accrued expenses and other payables	603	1,046
Income in advance	3	-
Total current creditors and other payables	**2,282**	**2,598**
NON-CURRENT		
Accrued expenses and other payables	135	-
Total non-current creditors and other payables	**135**	**-**

Current 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.

- Grey Street: there is no rent holiday from the landlord (2012: $Nil).
- Takutai Square: $144,948 rent holiday was received from the landlord during the year (2012: $120,790). This is amortised over the life of the lease with $25,001 capital contribution amortised during the year.
- The Terrace: $Nil (the rent holiday liability has been fully released as FMA has moved to a new office located at Grey Street in June 2012).

Capital contribution

There was no lease incentive payment received during the year (2012: $310,000). Payments received during the 2012 financial year 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 2013 $000s	Actual 2012 $000s
CURRENT PORTION		
Provision for lease on vacated property	-	421
Total current portion	-	421
NON-CURRENT PORTION		
Lease make-good	67	35
Total non-current portion	67	35
Total provisions	**67**	**456**

Lease make-good provision

In respect of certain leases, FMA is required at the expiry of the lease term to make good any damage caused to the premises and to remove any fixtures or fittings 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 expired on 31 January 2013 but FMA vacated the property in June 2012. A provision of $421,076 (2012: $Nil) for the obligation of future rental payments was released during the period.

Movements for each class of provision are as follows:

	Provision for lease on vacated property $000s	Lease make-good $000s	Total $000s
Balance at 1 July 2011	-	-	-
Additional provisions made	421	35	456
Amounts used	-	-	-
Balance at 30 June 2012	**421**	**35**	**456**
Balance at 1 July 2012	421	35	456
Additional provisions made	-	32	32
Amounts used	(421)	-	(421)
Balance at 30 June 2013	**-**	**67**	**67**

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

	Actual 2013 $000s	Actual 2012 $000s
Reporting surplus/(deficit):	3,545	2,076
ADD NON-CASH ITEMS:		
- Allocation of lease incentives	120	229
- Allocation of leasehold provisions	32	-
- Depreciation/amortisation	1,036	688
ADD/(LESS) MOVEMENT IN WORKING CAPITAL:		
- (Decrease)/increase in creditors	(737)	1,678
- Decrease/(increase) in debtors	303	(1,218)
- (Decrease)/increase in employment entitlements	200	(143)
ADD/(LESS) MOVEMENT IN INVESTING ACTIVITY:		
- Loss on sale of fixed assets	69	350
- (Decrease)/increase in creditors relating to investing activities	311	(511)
Net cash flows from operating activities	**4,879**	**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 $000s
2013				
Not later than one year	-	420	828	1,248
Later than one year and not later than five years	-	1,679	2,784	4,463
Later than five years	-	1,259	-	1,259
Total non-cancellable operating leases	**-**	**3,358**	**3,612**	**6,970**
2012				
Not later than one year	421	420	636	1,477
Later than one year and not later than five years	-	1,679	3,463	5,142
Later than five years	-	1,679	148	1,827
Total non-cancellable operating leases	**421**	**3,778**	**4,247**	**8,446**

FMA has two leased properties as at 30 June 2013.

Grey Street's lease commenced on 1 July 2012 and expires on 30 June 2021, with two rights of renewal to 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 to 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

FMA undertakes civil court action from time to time. Should FMA be unsuccessful in any case, costs could be awarded against it. Cost awards are at the court's discretion.

No actions as at balance date are likely to have a material effect on FMA's financial position. (2012: Nil).

Contingent assets

There are no contingent assets at balance date. (2012: Nil).

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 $27 million (2012: $26 million) during the year 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 $0.46 million (2012: $0.64 million). These purchases included but were not limited to the purchase of electricity from Genesis Power Limited and Mercury Energy, air travel from Air New Zealand Limited, postal services from New Zealand Post Limited, secondment and communication services from MBIE, subscriptions from Department of Internal Affairs and staff training from the New Zealand Police.

Transactions with suppliers

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

	Suppliers	Transaction value 2013 $000s	Transaction value 2012 $000s	Balance outstanding Year ended 30 June 2013 $000s	Balance outstanding Year ended 30 June 2012 $000s
M. Jack	New Zealand Institute of Chartered Accountants	191	9	114	-
M. Jack	Deloitte New Zealand	670	502	206	89
S. Cave/M. Verbiest	Simpson Grierson	182	68	-	1
J. Smyth	New Zealand Post Limited	-	1	-	-
J. Miller	NZX Limited	26	28	-	2
J. Miller/ J. Smyth	Auckland International Airport Limited	14	10	-	-
J. Miller	Accident Compensation Corporation	14	-	32	-
J. Smyth/M. Verbiest	Telecom Corporation of New Zealand Limited	1	27	-	-
D. Ireland	Kensington Swan	6	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, publication costs and professional services in respect of auditor reviews.
- Deloitte New Zealand, of which M. Jack, Member of FMA, is a partner and Chairman. The expenses relate to professional services in relation to matters that FMA is investigating.
- Simpson Grierson, of which S. Cave, Member of FMA, was a partner (resigned December 2012) and is now a consultant, 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).
- 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 and J. Smyth, Member of FMA, is a director from July 2012. The expenses relate to parking fees incurred by FMA staff during work-related travel.
- Accident Compensation Corporation, of which J. Miller, Member of FMA, was appointed as a Board member in February 2013. The expense relates to ACC levies.
- Telecom Corporation of New Zealand Limited, of which J. Smyth, Member of FMA, is a director and M. Verbiest, Member of FMA, is the Chairman. The expenses relate to telecommunications.
- 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

	Actual 2013 $000s	Actual 2012 $000s
SHORT TERM EMPLOYEE BENEFITS		
- Members' fees	683	814
- Code Committee fees	35	23
- Disciplinary Committee fees	9	13
- Executive team remuneration	2,501	1,853
	3,228	**2,703**
Termination benefits	**-**	**154**
Total key management personnel compensation	**3,228**	**2,857**

Key management personnel includes 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:

	Actual 2013 $000s	Actual 2012 $000s
S. Allen	308	306
S. Cave	42	50
R. Eele	27	43
C. Giffney	40	50
A. Grimes	39	38
M. Holm	30	49
M. Jack	31	46
J. Miller	36	43
B. Sheppard	32	41
J. Smyth	37	57
M. Verbiest	30	46
M. Webb	31	45
Total Members' fees	**683**	**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:

	Actual 2013 $000s	Actual 2012 $000s
R. Butler	5	6
P. Dunphy	-	2
S. Edmond	-	-
D. Ireland	12	3
D. Kingsford Smith	7	7
D. Russell	3	1
M. Staal	5	3
G. Young	3	1
Total Code Committee fees	**35**	**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:

	Actual 2013 $000s	Actual 2012 $000s
T. Berry	1	2
G. Clews	2	2
S. Hassan	1	2
P. Houghton	1	4
D. McDonald	1	1
J. Robertson (Sir Bruce Robertson)	3	2
Total Disciplinary Committee fees	**9**	**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 paid or payable $	Number of employees 2013	Number of employees 2012
500,001 to 510,000	1	-
450,001 to 460,000	-	1
300,001 to 310,000	1	-
280,001 to 290,000	1	-
260,001 to 270,000	3	-
240,001 to 250,000	-	2
210,001 to 220,000	-	1
190,001 to 200,000	1	2
170,001 to 180,000	2	2
160,001 to 170,000	6	4
150,001 to 160,000	3	-
140,001 to 150,000	3	2
130,001 to 140,000	4	3
120,001 to 130,000	7	10
110,001 to 120,000	11	9
100,001 to 110,000	7	3

During the 12-month period ended 30 June 2013, six employees received compensation and other benefits in relation to cessation totalling $128,553.

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 Events after the balance sheet date

There were no significant events after the balance date.

NOTE 17 Financial instruments

Financial instrument categories

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

	Actual 2013 $000s	Actual 2012 $000s
LOANS AND RECEIVABLES		
Cash and cash equivalents	1,388	2,790
Term deposits	14,028	10,028
GST receivable	253	329
Trade and other receivables (excluding prepayments)	1,290	1,438
Cash and cash equivalents – litigation fund	368	150
Total loans and receivables	**17,327**	**14,735**
FINANCIAL LIABILITIES MEASURED AT AMORTISED COST		
Trade and other payables (excluding income in advance)	2,414	2,598
Total financial liabilities measured at amortised cost	**2,414**	**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 to which FMA is subject 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 rates.

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 2013, 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 $157,841 (2012: $129,681) higher or $156,119 (2012: $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 New Zealand Limited which is a registered bank in New Zealand and is rated Moody's Aa3 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:

	Carrying amount $000s	Contractual cash flows $000s	Less than 6 months $000s	6-12 months $000s	Later than 1 year $000s
JUNE 2013					
Creditors and other payables	2,414	2,414	2,279	-	135
Total	**2,414**	**2,414**	**2,279**	**-**	**135**
JUNE 2012					
Creditors and other payables	2,598	2,598	2,598	-	-
Total	**2,598**	**2,598**	**2,598**	**-**	**-**

NOTE 18 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 FMA effectively achieves its objectives and purpose, while remaining a going concern.

NOTE 19 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. Other income – increased regulatory charges over budget due to regulatory demand
   b. Interest received – higher cash reserves than budget.

2. **Expenditure**
   a. Personnel
      - Savings on recruitment costs due to internally managed recruitment and some vacancies
      - Members' fees lower than budget due to meetings held less than monthly but budgeted monthly

   b. Depreciation and amortisation – below budget due to capital programme delayed to fit build more closely with the Acts that require changes
   c. Other operating
      - Stationery and publications less than budget due to a consolidation of resources and move away from print
      - Training higher than budget due to an investment in training to ensure a higher level of capability
      - Occupancy and services costs are less than budget due to lease costs being less than forecast and prudent purchasing
      - Travel costs are less than budget due to more desk-based reviews during planning and monitoring, and limiting of international travel.

3. **Litigation fund**
   – income and expenditure linked to case load with an upswing in activity in the last quarter of the year.

Statement of Financial Position

1. **Assets**
   a. Cash and cash equivalents and term deposits – higher than budget due to higher surplus
   b. Plant, property and equipment – below budget due to capital programme being delayed to fit the expenditure with Acts that require them
   c. Intangible assets – below budget due to capital programme being delayed to fit the regulatory systems build with Acts that require them.

2. **Liabilities**
   a. Creditors and other payables – higher than budget due to timing of expenditure being different to that forecast
   b. Employee entitlements – higher than budget due to the timing of leave balances being different to that forecast.

3. **Equity**
   a. Accumulated funds – higher than budget due to a higher surplus for the year
   b. Litigation fund – below budget due to a net litigation deficit for the year.

Statement of Cash Flows

1. Cash flows from operating activities

a. Cash disbursed to suppliers – lower than budget primarily due to other operating expenditure being lower than budget.

2. Cash flows from investing activities

a. Cash applied to purchase of plant, property and equipment – higher than budget due to timing of office fit-outs in prior year

b. Cash applied to purchase of intangible assets – below budget due to capital programme being delayed to fit the regulatory systems build with Acts that require them

c. Cash applied to net increase in term deposits – higher than budget due to capital programme being delayed to fit the regulatory systems build with Acts that require them, and lower personnel and other operating expenses.

INDEPENDENT AUDITOR'S REPORT

To the readers of the Financial Markets Authority's financial statements and non-financial performance information for the year ended 30 June 2013

The Auditor-General is the auditor of the 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 non-financial performance information of the Authority on her behalf.

We have audited:

- the financial statements of the Authority on pages 44 to 71, that comprise the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and notes to the financial statements that include accounting policies and other explanatory information; and
- the non-financial performance information of the Authority that comprises the statement of service performance on pages 35 to 41 and the report about outcome and impact measures on pages 16 to 17.

Opinion

In our opinion:

- the financial statements of the Authority on pages 44 to 71
  - › comply with generally accepted accounting practice in New Zealand; and
  - › fairly reflect the Authority's:
    - » financial position as at 30 June 2013; and
    - » financial performance and cash flows for the year ended on that date.
- the non-financial performance information of the Authority on pages 16 to 17 and 35 to 41:
  - › complies with generally accepted accounting practice in New Zealand; and
  - › fairly reflects the Authority's service performance, outcomes and impacts for the year ended 30 June 2013, including for each class of outputs:
    - » its service performance compared with forecasts in the statement of forecast service performance at the start of the financial year; and
    - » its actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.

Our audit was completed on 29 October 2013. 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 non-financial performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and non-financial performance information. 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 non-financial performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and non-financial performance information, 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 non-financial performance information 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 appropriateness of the reported non-financial performance information within the Authority's framework for reporting performance;
- the adequacy of all disclosures in the financial statements and non-financial performance information; and
- the overall presentation of the financial statements and non-financial performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and non-financial performance information. Also we did not evaluate the security and controls over the electronic publication of the financial statements and non-financial performance information.

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 non-financial performance information 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, outcomes and impacts.

The Board is also responsible for such internal control as is determined necessary to enable the preparation of financial statements and non-financial performance information that are free from material misstatement, whether due to fraud or error. The Board is also responsible for the publication of the financial statements and non-financial performance information, whether in printed or electronic form.

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 non-financial performance information 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 External Reporting Board.

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

Robert Cox

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

FMA

FINANCIAL MARKETS AUTHORITY

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