

# Annual Report

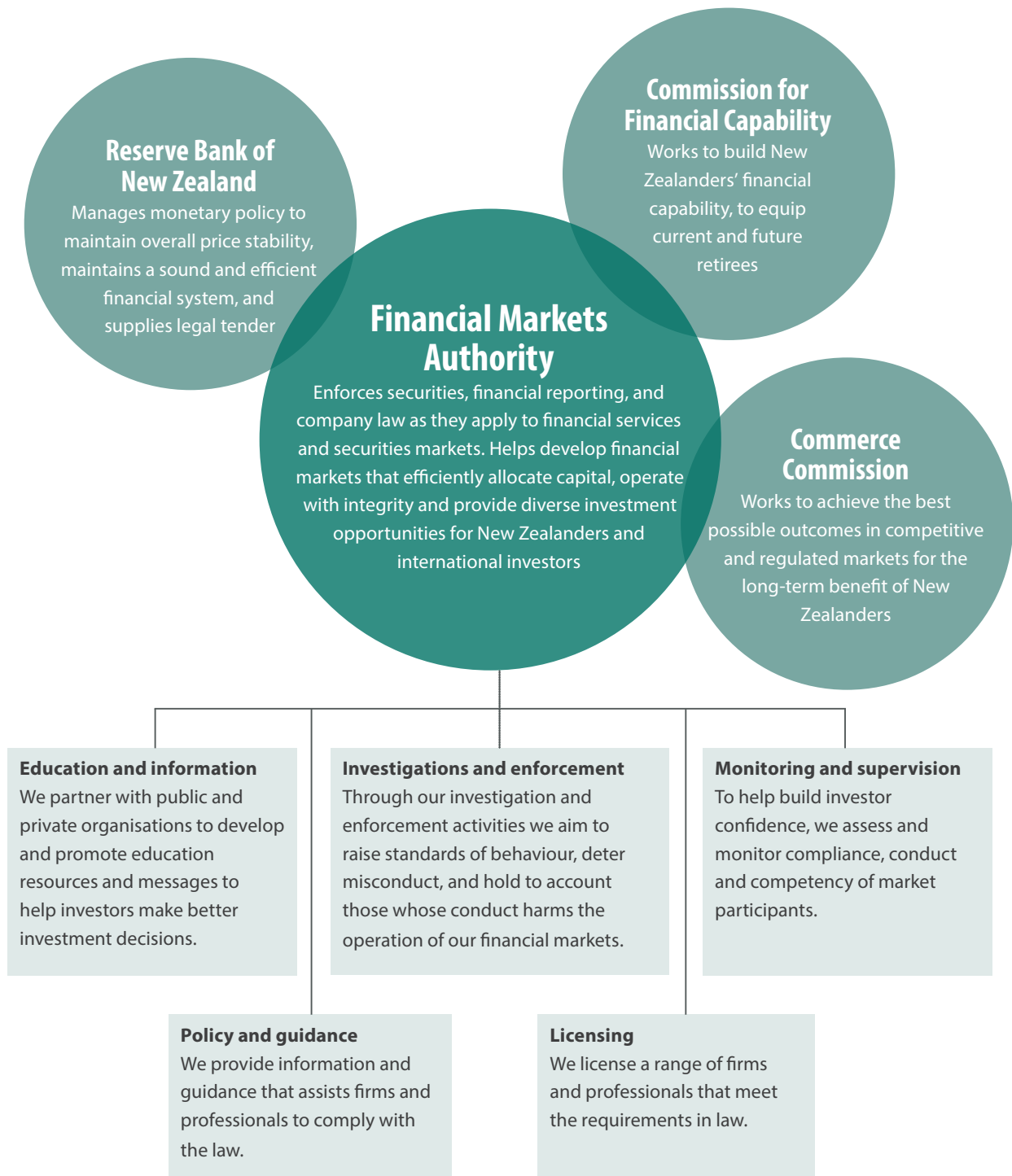
## 2017/18





# About the FMA

Our purpose is to promote and facilitate the development of fair, efficient and transparent financial markets. We work across a number of areas to achieve this, collaborating with other agencies where their mandate aligns with our own.



**Hon Kris Faafoi**  
Minister of Commerce and Consumer Affairs

This report is provided as required under sections 150 and 151 (3) of the Crown Entities Act 2004.  
It is the annual report of the Financial Markets Authority for the year ended 30 June 2018.



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**Murray Jack**

Chair  
Financial Markets Authority  
28 September 2018



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**Mark Todd**

Chair  
Audit and Risk Committee  
28 September 2018



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FMA Annual Report 2017/18

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# From the Chair



The FMA's purpose of facilitating and promoting fair, efficient and transparent financial markets has always been the yardstick by which the organisation and the Board measure the value of what we do.

This approach informs how we regulate the industry, the projects we undertake, and the intentions and expectations we set out in documents such as our [Strategic Risk Outlook](#), [Annual Corporate Plan](#) and [Good Conduct Guide](#).

That foundational work has stood us in good stead recently. When the Conduct and Culture Review got underway, our previous work was a blueprint for the areas the review will focus on, none of which should come as a surprise to the industry – as Rob expands on opposite.

Alongside our very clear messages about the importance of good conduct, we are cognisant of the need to make sure regulatory burden does not outweigh the benefit for fair, efficient and transparent markets. All of our proposed regulatory activity is scrutinised through the lens of benefit versus burden, and we welcome feedback from the industry on how we can improve in this area.

FY18 was our first year of additional funding following the 2016 funding review. As planned, we have used the extra resources to enhance systems and staff capabilities for knowledge management, as part of our vision to be an effective intelligence-led regulator.

The FMA is currently contributing to a number of reviews of financial services legislation. Depending on the outcome of these reviews, the regulation and consumer protection

landscape may change significantly, and we recognise that some of these reviews may have implications for our mandate.

**All of our proposed regulatory activity is scrutinised through the lens of benefit versus burden, and we welcome feedback from the industry on how we can improve in this area.**

This year we were extremely pleased to have Carol Cheng join us as an observing non-member of the Board for 12 months. Carol came to us through the Future Directors programme, which places future leaders with company and state sector boards. From a regulation perspective, the quality of board governance at regulated firms is a key focus for the FMA, and it was a privilege to help develop the next generation of corporate governance expertise.

Board member Arthur Grimes stepped down in November. I would like to thank Arthur for his contribution.

We also welcomed Prasanna Gai as a new board member. Prasanna is Professor of Macroeconomics at the University of Auckland, and brings the benefit of extensive experience in the academic and policy aspects of financial markets.

In closing, on behalf of the Board, I thank all our staff at the FMA for their efforts over the past year.

A handwritten signature in blue ink, appearing to read 'Murray Jack'. The signature is fluid and stylized, with a prominent loop at the end.

**Murray Jack**

**Chair**

# From the Chief Executive

Early in FY18 we published our first [Annual Corporate Plan](#). As well as listing key activities for the coming year, it reiterated the conduct outcomes we want to see from the financial services industry. We followed this up with the [Conduct Outcomes Report](#), which covered our expectations for good behaviour and how we responded to misconduct.

So, when the Australian Royal Commission started gaining attention here, there was no reason for the local industry to be unaware of the standards expected of them. When we launched our joint Conduct and Culture Review with the Reserve Bank, we knew the areas to focus on when asking banks and insurance companies to show us evidence of how they ensure good customer outcomes.

At the time the review launched, we were already well underway with our work in some of the same areas being highlighted in Australia. Our series of reports on conflicted conduct in various parts of the insurance industry prompted significant public interest. A review of banks' incentive structures was already in the detailed planning stage, and is set to be released shortly.

The Conduct and Culture Review has inevitably drawn staff resources away from other parts of the FMA's work. However, our approach to regulation involves focusing on areas that pose the most risk of harm, and this gives us a useful tool for prioritisation.

The conduct-related events of the last year – driven by the Australian Royal Commission – have been extraordinary and are probably unprecedented. The importance of good conduct has been clearly underlined. Broader concepts such as community standards and expectations are also in play.

Like other stakeholders on both sides of the Tasman, we are still processing ongoing developments. However, we are determined to play our part to ensure this opportunity for customer-centric conduct to be permanently embedded in the culture of the financial sector is not lost.

Areas we have focused on in the past year include pursuing legal action related to misuse of the Financial Service Providers Register, and issuing guidance about cryptocurrencies for consumers and prospective issuers, to coincide with the sudden spike in interest.

We have been in court with insider trading cases and on actions relating to dishonest or fraudulent behaviour. We also issued a number of formal warnings in relation to anti-money laundering.

Investor capability is a small but significant area of our remit where we can act to reduce the risk of harm.

This year we promoted the importance of using a licensed financial service provider, and publicised examples of scams alongside messages about checking the FMA's online warning list before making an investment decision.



Looking to the future of the industry, we have continued preparations for the changes to financial advice regulation proposed by the Financial Services Legislation Amendment Bill. This includes ensuring a smooth transition to the new regime, and working through how we will monitor providers in the future to ensure the objective of improving access to quality financial advice is being achieved.

**Where we see non-compliance our response will be proportionate to the risk of harm. Lack of time or experience will not be a valid excuse.**

Even before the Conduct and Culture Review launched, the tone of the FMA had started to shift. Conduct regulation is no longer a new concept in New Zealand's financial services sector. All market participants should be fully aware of their licence conditions and/or other obligations under the legislation we oversee. Where we see non-compliance our response will be proportionate to the risk of harm. Lack of time or experience will not be a valid excuse.

That said, we intend to continue being a regulator that is open and collaborative, with a preference for encouraging and facilitating good conduct rather than having to respond to poor behaviour. However, that relies on regulated entities having the same attitude, and the same commitment to placing the interests of customers at the heart of everything they do.

**Rob Everett**

**Chief Executive**

# 2017/18 highlights

## Conduct and Culture Review of financial services

The Australian Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry was established in December 2017 in response to widespread misconduct within financial services in Australia.

In April, the Reserve Bank of New Zealand (RBNZ) and the FMA met with 16 CEOs of New Zealand banks. We sought assurance that the issues identified in Australia were not occurring here.

While in our monitoring work to date we have not seen evidence of widespread, systemic issues like those in Australia, we are not being complacent. We have therefore initiated a Conduct and Culture Review in New Zealand.

The review encompasses conduct and culture themes that were already part of our conduct work programme, but it will be a more intensive review of areas such as governance, risk management, customer-focused

implementation and remediation practices.

Our starting point was to write to 10 New Zealand banks with major retail operations, seeking detailed information about their conduct and culture. We also wrote to 16 major life insurance companies.

The initial responses from banks and insurance companies are being reviewed by a joint FMA and RBNZ working group.

The responses are generally extensive and relevant to our request. Some indicate a proactive and mature approach to conduct risk, while other banks and insurance firms have not yet fully embedded conduct risk, governance or oversight into their operations.

As of 30 June 2018 we have commenced the more intensive phase of our work by carrying out on-site reviews and requesting specific information to test and verify our initial assessment. We will report on our findings and next steps in early November.

## KiwiSaver consumer work

This year, for the first time, all KiwiSaver providers were required to tell each member exactly how much they have paid in fees in a dollar amount.

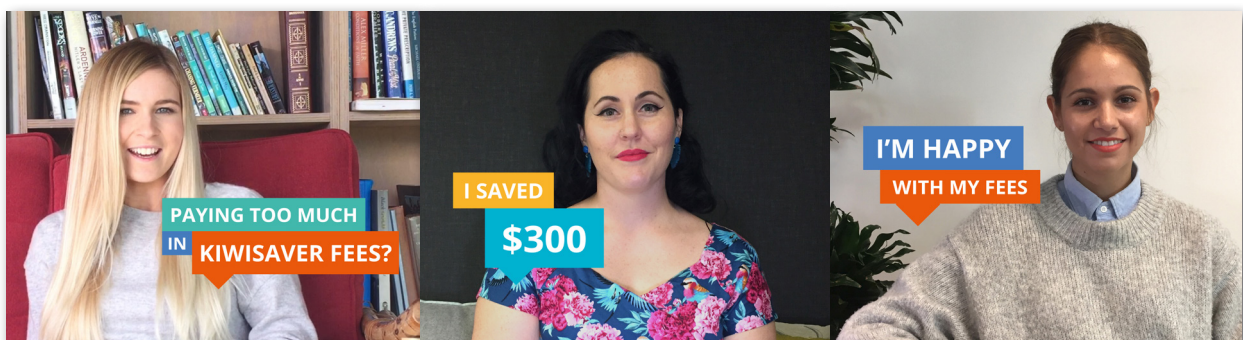
We ran a consumer-focused campaign calling on KiwiSaver members to check their annual statements earlier this year. The campaign targeted women aged 18 to 30, as our research indicated this was the group least likely to pay attention to their KiwiSaver but with the most to gain from doing so.

We used videos on social media of women talking to women, as research also suggests women are more likely

to be influenced to take action through their peers.

We partnered with social media influencers to encourage KiwiSaver members to use the new [KiwiSaver Health Checker](#) tool on our website in the hope they would take a few simple steps that could make a big difference in the long term. The campaign also pointed people to our [KiwiSaver Tracker](#), an interactive report that compares fund returns and fee data.

We reached more than 230,000 young women through Facebook and Instagram, and around 7000 people visited the Health Checker.





## Preparing for the new financial advice regime

The Financial Services Legislation Amendment Bill proposes major changes to the current financial advice regime (see page 23).

While the bill was being considered by Parliament this year, we worked on the development of our transitional and full licensing process, and our approach to monitoring.

We are working with the Ministry of Business, Innovation and Employment (MBIE) to understand the final policy settings. We have also been presenting information about the upcoming reforms at a nationwide series of forums with financial advisers. These sessions have given us insights into the concerns and issues the industry has ahead of transition and full implementation.

## Improving the quality of corporate disclosure

The quality of corporate governance and disclosure in New Zealand companies, including financial disclosures, is always a priority for us. It directly affects investor confidence and market integrity. Several high-profile issues within listed companies over the past year have cast a spotlight on this area.

We have investigated instances of inadequate financial statement disclosure, compliance with reporting standards and poor governance practices as part of our oversight of disclosure standards across listed issuers. We also talked about harms caused by market participants not adhering to financial reporting or disclosure standards in our 2017 [Conduct Outcomes Report](#).

Where we have seen failings we have engaged directly with companies to help ensure the market is informed and problems are rectified.

To encourage a focus on high standards of corporate governance, we updated our [Principles of Corporate Governance](#) handbook, which encourages companies to adopt principles, practices and processes to enable transparency and disclosure.

We complemented our annual [Audit Quality Monitoring Report](#) with guidance on how directors can contribute to a high-quality audit process.

We also released publications focused on improving specific pieces of disclosure, including:

- [Improving financial statements](#), which reviewed the extent of improvements in the presentation of NZX50 financial statements since our original report in 2014, and set out suggestions to further develop financial statements as a clear and effective reporting and communication tool (see below).
- [Disclosing non-GAAP financial information](#), which set out our expectations on the use of financial information outside of financial statements that is not prepared and presented in accordance with generally accepted accounting practice.

### Two steps to effective financial statements

**Step 1: Focus on providing material information**



**Step 2: Communicate this in a clear, concise and effective way**



**Effective financial statements**

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## Reviewing our regulatory perimeter

Our 'regulatory perimeter' is activity that is either not authorised or licensed by us, or that we do not otherwise regulate. In some cases it is illegal or deliberately intended to operate outside of regulatory parameters. All of these types of activities may pose a threat to investors and the integrity of our capital markets.

The Financial Service Providers Register is a key perimeter focus. Firms and individuals on the FSPR are registered to provide financial services in New Zealand, but are not necessarily licensed or regulated by us. Firms may register under false pretences, hiring a local director who has little involvement in the company and using registration to give the impression they are regulated and have legitimate business operations in New Zealand. This is a perimeter issue because we do not regulate the activities of these firms and in many cases their activities are conducted offshore. However, we can take action where we consider

they are misrepresenting their registration, which this year included two cases where we filed criminal charges against companies and their directors.

We investigated other potential wrongdoing by non-licensed individuals or firms. This included contributing to investigations into two Ponzi scheme cases that were both successfully prosecuted by the Serious Fraud Office and resulted in prison sentences for those convicted. This year we have also seen an increase in complaints regarding cryptocurrency services and providers, mainly relating to scams or issues with returning funds.

Scams frequently appear on the perimeter. In October 2017 we filed 47 charges against Steven Robertson, related to PTT Limited and associated entities. The charges related to theft and obtaining by deception. The case is before the courts at the date of publication.

## Investigations into conflicted conduct in insurance sales

Conflicted conduct in the insurance industry occurs when insurers incentivise advisers to prioritise policy sales over the best interests of their clients.

The FMA's review of insurance replacement business and conflicted conduct found over half the advisers we reviewed were either unaware of, or in breach of, their obligation to exercise care, diligence and skill when providing financial advice.

Our review of conflicted remuneration in the life and health insurance industry showed that nine life and health insurance companies spent \$34 million on non-financial incentives (soft commissions) for advisers. This raised concerns that insurers are setting financial advisers up to fail in meeting their care, diligence and skill obligations.

Our report on QFE insurance providers' replacement business practices looked at how Qualifying Financial Entities mitigate risks through operational policies and procedures when selling replacement insurance policies. Generally, we found that advisers do not sufficiently acknowledge that replacement business creates conflict risks that need to be managed carefully.

Our reports are clear that both advisers and insurers must take responsibility for conflicted conduct that results from sales incentives.

The reports received extensive media coverage, increasing public awareness of these potential harms, and prompting some firms to review their practices and commit to change.



# Our approach to regulation

A number of principles underpin our approach to our work.

**Intelligence-led and harm-based:** We gather and analyse information to identify the greatest risks of harm to customers and New Zealand's financial markets.

**Outcome-focused:** We focus our resources where we have the greatest opportunity of achieving desired outcomes. We carefully consider the most appropriate tools and action for each situation. This means recognising the limits of our powers, considering regulatory burden and any unintended consequences of our actions.

**Consistent and transparent:** We clearly communicate our intentions and expectations to market participants, and explain our actions.

**Flexible and responsive:** We adopt an operating model and ways of working that enable us to adapt and respond quickly to changing market conditions. We seek and act on feedback, and learn from our experiences.

## Who we regulate

The table outlines the entities we regulate through direct licensing or authorisation, and those who are licensed or registered by other agencies but may be subject to elements of laws we enforce. We also take an interest in other products and markets not directly in our remit but linked to financial markets.

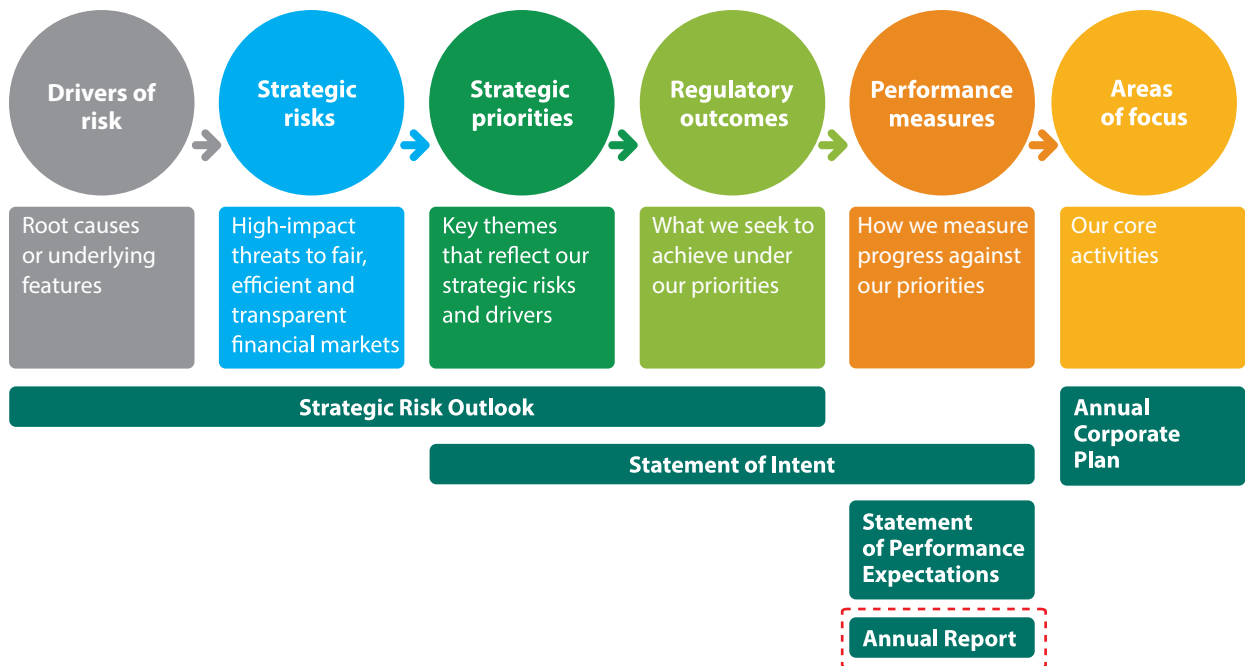
| Sector                               | FMA licensed/authorised  | Licensed/registered by others <sup>1</sup>   |
|--------------------------------------|--|--|
| Retail product and service providers | Derivatives Issuers (DI)<br>Managed Investment Scheme (MIS) managers – including KiwiSaver providers   | Banks <sup>2,3</sup><br>Non-bank deposit takers <sup>2,3</sup><br>Insurers <sup>2,3</sup><br>Foreign exchange providers <sup>2</sup> |
| Advisers and discretionary managers  | Discretionary Investment Management Service (DIMS) providers<br>Authorised Financial Advisers (AFAs)<br>Qualifying Financial Entities (QFEs) | Registered Financial Advisers (RFAs) <sup>2</sup>  |
| Infrastructure providers             | Licensed financial product markets<br>Designated settlement systems  |  |
| Alternative capital raising          | Peer-to-peer lending providers<br>Crowdfunding providers   | Certain other products and markets, eg cryptocurrency exchanges  |
| Frontline regulators                 | Supervisors<br>Licensed independent trustees<br>NZX (Regulation)<br>Accredited audit bodies  | Registered audit firms <sup>4</sup><br>Licensed auditors <sup>5</sup>  |
| Other market participants            | International auditors and audit firms   | Brokers <sup>2</sup><br>Custodians <sup>2</sup><br>Providers of products and services to wholesale clients <sup>2</sup>              |
| Issuers                              |  | Debt and equity offers, and related financial reporting <sup>6</sup>   |

1. We do not license these market participants but oversee them to some extent; 2. Registered on the Financial Service Providers Register (FSPR);

3. Prudentially registered or licensed by RBNZ; 4. Registered on the auditor's register; 5. Licensed by accredited audit body; 6. Registered on the Disclose register

# How we monitor our performance

The Strategic Risk Outlook and the Annual Corporate Plan set out what we care about, the outcomes we want to achieve and how we will achieve them. Our Statement of Intent and Statement of Performance Expectations outline how we plan to measure our success, and the Annual Report covers progress towards our objectives.



# The year in review

Our Strategic Risk Outlook sets the seven strategic priorities that inform the work we do.

## Governance and culture



Firms have an organisational culture that places customer interests at the centre of their business, and reflects high standards of corporate governance.

## Sales and advice



Practices are designed and implemented to meet the needs of customers. Providers demonstrate appropriate capability and due skill, care and diligence.

## Conflicted conduct



Incentive structures and practices are designed and implemented with a focus on customer outcomes, and conflicts of interest are appropriately identified and mitigated.

## Investor decision-making



Investors are capable and confident, and receive clear, concise and effective disclosure.

## Capital market growth and integrity



New Zealand has accessible and dynamic capital markets with resilient infrastructure, where participants act with integrity and investors can engage with confidence.

## Effective frontline regulators



Frontline regulators contribute to well-regulated financial markets through effective oversight of relevant markets and participants.

## FMA effectiveness and efficiency



The FMA is an efficient and effective intelligence-led regulator with a focus on continuous improvement.

The following section contains highlights from our strategic priority areas. For each priority we give an assessment of progress in relation to our strategic intentions as set out in our 2017-2020 Statement of Intent (SOI) and Annual Corporate Plan 2017/18.

All of our activity aims to contribute to our statutory purpose of fair, efficient and transparent markets, with the ultimate regulatory outcome of an increase in investor confidence in New Zealand's financial markets.

On pages 40 to 41 we provide a progress update on how we're tracking on our SOI performance measures compared to the 2020 target.

We also measure our performance annually against the targets set in the Statement of Performance Expectations. These results are presented in this Annual Report within the Statement of Performance (see page 43).



Strategic priority:

# Governance and culture

We want to see boards and senior management of regulated firms leading organisational culture and placing customer interests at the centre of their business strategies.

In relation to regulated firms, we carry out licensing and post-licensing monitoring visits to review firms' governance, and risk and compliance frameworks. The onsite visits of the licensed population we carried out this year have been limited in scope, mainly following up on post-licensing conditions. However, conduct regulation is no longer a new concept for our regulated financial services sector, and we will be expecting our monitoring work to provide us with evidence of a maturing approach to conduct and conduct risk.

Overall during FY18, we completed around 250 supervision monitoring engagements related to the legislation we oversee: the Financial Markets Conduct, Financial Advisers, Financial Markets Supervisors, Anti-Money Laundering and Countering Financing of Terrorism, and KiwiSaver Acts.

Where we saw room for improvement we provided feedback to the firm in question. Where we saw more serious failures we took formal action to sanction and require compliance. Issues that appear to be widespread

across the industry or pose a high risk of potential harm are often the subject of thematic reviews.

In FY18 we completed a thematic review of pricing and valuation of managed investment scheme (MIS) assets. We found MIS managers' operations and assets valuations were generally consistent with the IOSCO (International Organization of Securities Commissions) principles for valuing scheme assets. To encourage continuing good practice we will be publishing some recommendations for MIS managers to follow to maintain integrity in their processes and policies.

We also completed a thematic review of MIS governing documents, to see how well they set out the framework for schemes and the relationships and accountabilities between investors, managers, supervisors and the FMA. We observed some risks around how well these documents function in practice. These findings have helped to improve our approach to monitoring.

## 2017 Conduct Outcomes Report

The [Conduct Outcomes Report](#) tells our stakeholders and the public how we responded to misconduct cases and why we took these steps, as well as the behaviour we expect to see from the industry.

The report is a summary of our 2017 enforcement and investigation activity. It covers our enforcement action, monitoring and supervision work, and our activities to address risks and harms on our regulatory perimeter. To encourage good conduct, it explains the five elements of the 'conduct lens' we apply to any issues we identify (see below) and includes good practice suggestions for licensed financial service providers. It also sets out where we will focus our energies in 2018.



Key activity detailed in the report includes:

- Sell My Good initial coin offering prevented after engagement with directors
- Our assessment of how licensed participants are meeting the conditions of their licences
- Our engagement with industry regarding trading conduct relating to New Zealand's Bank Bill Benchmark Rate and closing rates
- Details of a range of formal enforcement activity (see page 20 for more details).



To increase our understanding of the risks in wholesale markets and the impact on retail investors, we reviewed how retail fund managers invest in wholesale funds. Wholesale funds are unlicensed and generally unsupervised, and there is risk that protections for retail investors are lost. Our review has identified ways to strengthen our monitoring approach to help mitigate this risk.

We published technical guidance to support firms in meeting their obligations. This includes the [good practice note on compliance assurance programmes](#), which FMC Act licensees must have in place as a condition of their licence.

**Corporate governance**

Following consultation, we updated and published our [Principles of Corporate Governance](#) (see below). This handbook is a guide for a wide range of companies and businesses, including those that want to raise capital or list on the NZX in the future. The update removed unnecessary overlap with the NZX Code, which is the primary guide for listed companies. We also amended some areas to align with corporate governance developments in New Zealand and globally.

To complement our annual [Audit Quality Monitoring](#)

[Report](#), we published [guidance](#) specifically aimed at directors and their role in improving audit quality. One of the key responsibilities of directors is ensuring their organisation’s financial statements fairly represent their business. Facilitating a good audit process can help to achieve this and encourage investor confidence in the quality of corporate disclosures.

We continued to have open and regular dialogue with the market in general, and with firms we regulate. This includes engaging with directors of listed companies in relation to their compliance and governance.

**What we think**

The quality of corporate governance and disclosure by New Zealand listed companies has been an ongoing concern this year. We have made public statements clearly setting out the roles we expect boards and management to play, and reiterating that we will intervene if we see evidence of companies not meeting their disclosure obligations. We will continue to work with boards of both listed and unlisted companies, as well as boards of product providers, to encourage good quality disclosure.

## Principles for corporate governance

|  |   |  |   |
|--|---|--|---|
| <p><b>1</b><br/><b>Ethical standards</b></p> <p>Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for delivering these standards throughout the organisation.</p> | <p><b>2</b><br/><b>Board composition and performance</b></p> <p>To ensure an effective board, there should be a balance of skills, knowledge, experience, independence and perspectives.</p>                                    | <p><b>3</b><br/><b>Board committees</b></p> <p>The board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility.</p> | <p><b>4</b><br/><b>Reporting and disclosure</b></p> <p>The board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures.</p>  |
| <p><b>5</b><br/><b>Remuneration</b></p> <p>The remuneration of directors and executives should be transparent, fair and reasonable.</p>  | <p><b>6</b><br/><b>Risk management</b></p> <p>Directors should have a sound understanding of the key risks faced by the business, and should regularly verify there are appropriate processes to identify and manage these.</p> | <p><b>7</b><br/><b>Auditors</b></p> <p>The board should ensure the quality and independence of the external audit process.</p>   | <p><b>8</b><br/><b>Shareholder relations and stakeholder interests</b></p> <p>The board should respect the rights of shareholders, and foster constructive relationships with shareholders and stakeholders. Shareholders should be encouraged to engage with the entity.</p> |



Strategic priority:

# Conflicted conduct

We want to see conflict management procedures designed to put customer interests first.

Conflicted conduct is a part of all areas of financial services, as advisers, firms and employees must balance profit and benefits with the need to ensure good outcomes for consumers. Our focus is on raising awareness of potential conflicts of interest, and their appropriate management and control.

Following implementation of the FMC Act, many licensed firms are still developing appropriate conflict management procedures. While we have seen the policies and processes during our supervisory work, we are yet to find quality examples linking these to good customer outcomes.

Our [series of reports](#) on conflicted conduct in the insurance industry has been successful in raising public awareness of this issue.

The report into conflicted remuneration in the life and health insurance industry revealed the extent of soft commissions given to advisers by insurers – the graphic below shows our top-level findings. Soft commissions present a conflict of interest for advisers, as remuneration or incentives provided by insurers could influence an adviser in giving advice to a customer.

## What we think

Our expectations, highlighted in the report, are that advisers must be aware of their obligation to exercise care, diligence and skill when providing financial advice. Insurers should consider the nature and value of soft commissions and all other incentives, to ensure they are not setting up advisers to fail in their obligations to customers. The practices that are prevalent within the industry currently do not easily align with promoting customer interests. We have and will continue to ask providers of financial products to demonstrate to us how their practices are best serving their customers.

We recently commenced a thematic review into bank incentives structures, which aims to establish a more in-depth understanding of incentives for frontline salespeople and their management line. This work will be completed in FY19 alongside the Conduct and Culture Review (see page 8).

The FMA analysed 242 instances of soft commissions provided to advisers by the nine insurers in our review, over the period April 2015 to March 2017



Trips

\$18m



Professional development

\$5.5m



Events

\$3.8m



Other soft commissions

\$3.5m



Sponsorship

\$1.7m



Gifts, rewards and prizes

\$1.6m





## Insurance replacement business and conflicted conduct

Our report on inquiries into insurance replacement business, a follow up on our 2016 report, set out an example of how we identify and address potential misconduct arising from conflicts of interest.

We identified 200 advisers who had a high volume of new policies on their books and a high rate of lapsed business, which could be an indication of replacement business. We then reviewed that data with reference to:

- the number of overseas trips taken by an adviser
- the volume of transactions within qualifying windows linked to incentives being offered
- any other complaints data or intelligence on file.

Based on this analysis, we requested further data from 24 selected advisers, including a sample of client files. The table below shows the outcomes of this further investigation.

| Action   | Number of advisers |
|--|--------------------|
| Eliminated from inquiries where the proportion of replacement activity dropped due to genuine new policies and unrelated lapsed policies | 6                  |
| Removed due to poor health   | 1                  |
| Ongoing inquiries for other conduct reasons  | 2                  |
| Deregistered from Financial Service Providers Register for reasons unrelated to our inquiries  | 1                  |
| Regulatory sanction or further investigation   | 14                 |
| <b>Of these 14 advisers:</b>   |                    |
| Private warnings   | 4                  |
| Compliance letters – no further action   | 7                  |
| Ongoing inquiries into conduct   | 3                  |



Strategic priority:

# Capital market growth and integrity

We want to see resilient and dynamic capital markets with broad investor participation and sound infrastructure.

We have continued to focus on market integrity issues such as insider trading and market manipulation. In March 2017, the High Court ruled that the trading conduct of former Milford Asset Management trader Mark Warming amounted to market manipulation on two occasions. This case was the first of its kind litigated in New Zealand.

Related to the Warming judgment, we published a report based on our concerns about alleged misconduct by Goldman Sachs NZ Ltd, to further educate the market about our expectations for trading by brokers.

## What we think

Since the Warming judgment, we have been meeting with brokers, managed investment funds that trade securities, and fund managers to raise awareness of the case. Our presentations have reflected our position that firms should assess their governance structures, risk-management processes and controls, to identify opportunities for improvement and ensure they are managing the risk of potential misconduct.

We published the [Anti-Money Laundering and Countering the Financing of Terrorism \(AML/CFT\) Sector Risk Assessment](#) to improve understanding of the risks of this activity in various financial services sectors. The assessment provides general information and specific examples to assist reporting entities in the nine sectors we supervise for AML/CFT.

For the banking sector, we published [guidance](#) on the conduct and expected controls for the trading that sets the Bank Bill Benchmark Rate (BKBM) and closing rates. Recent years have seen international instances of trading to deliberately manipulate inter-bank lending benchmarks similar to the BKBM. Our guidance states how we distinguish between legitimate and illegitimate trading, and how banks can demonstrate good conduct by documenting their activity and intentions.

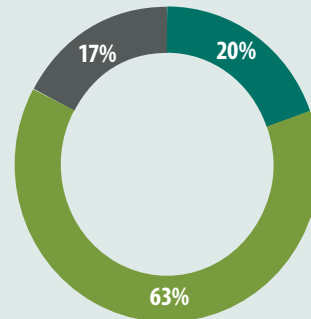
For the first time we released [data on peer-to-peer lending and crowdfunding](#) in New Zealand, which was published as an interactive report. We require peer-to-peer lending and crowdfunding licensees to submit information returns every year.

Audit quality is key to investors being able to have confidence in the financial statements of listed entities. This

year we continued to engage with audit firms about the quality of audits of Financial Markets Conduct Act reporting entities. Our annual [Audit Quality Monitoring Report](#) summarised the findings of our monitoring, showing that the majority of audit firms had fully or partially addressed our findings from the previous review (see graph). The report also set out our expectations for firms in the key areas of:

- auditor independence
- internal review of audit quality
- use and documentation of professional scepticism
- audit of revenue
- executing key audit procedures.

## Audit quality – progress made in 2016/17



- **Fully addressed our findings**  
Firms implemented effective systems and procedures since our previous review
- **Improvement shown**  
Firms implemented changes based on our findings, but improvements not fully effective across all reviewed files
- **No improvements found**  
The planned system improvements to address our findings were not implemented or were ineffective

## What we think

We have seen improvements in audit quality since we started our reviews in 2013. Audit firms have in place appropriate systems and policies to deliver high-quality audits, although there are still inconsistencies in the quality of individual audits. This coming year we will be increasing our engagement with licensed audit firms to make our expectations clear.



## Our regulatory perimeter and the FSPR

Maintaining the integrity of New Zealand's financial services sector involves keeping an eye on our regulatory perimeter, where there may be financial services activity that is not licensed or regulated by us but poses a risk to markets and investors.

Some businesses and individuals register on the Financial Service Providers Register to mislead overseas investors by giving the impression their activities are regulated by us or other authorities. This registration does not equate to being licensed or regulated by us. We do not oversee or maintain the FSPR, but we have the power to deregister a business or individual, or prevent them from registering in the first place.

Our September 2017 [report on the FSPR](#) presented examples we have seen of misuse of the register, and detailed the following outcomes of our work between 2014 and 2017:

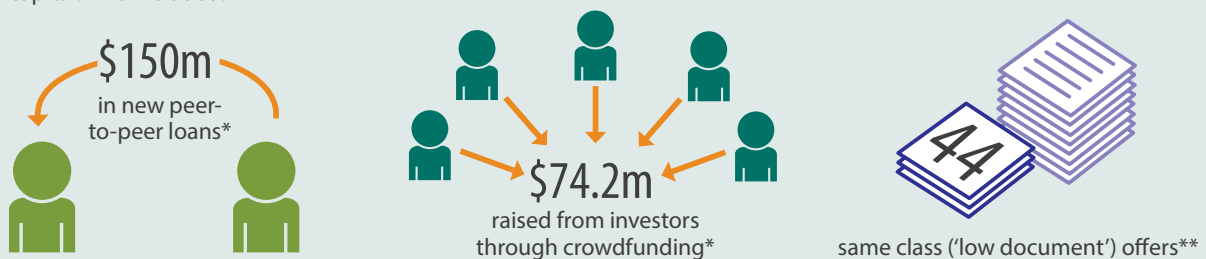
- 115 registrations on the FSPR were reviewed, resulting in 69 firms being deregistered and 21 choosing to deregister voluntarily.
- Of 93 applications for registration referred to the FMA, 19 were allowed to proceed.
- Three financial service providers brought legal action against the FMA following a decision to direct the Registrar to deregister the company from the FSPR. These cases were resolved in the FMA's favour.

To support our messages to consumers about misuse of the FSPR, we published a notice about the importance of always using an FMA-licensed provider. The notice was published in Chinese, Malay and Arabic, reflecting the areas that represent the largest number of complaints to the FMA.



## Lower-cost opportunities to raise capital

Where possible we facilitate the use of products, channels and processes that provide a lower-cost way to raise capital. This included:



\* during the year to 30 June 2017

\*\* during the year to 30 June 2018



We publicised the following examples of our enforcement activity, spanning conduct issues relating to market integrity, our regulatory perimeter and anti-money laundering. This demonstrates how we deter or stop unlicensed or harmful activity.

|                         |   |
|-------------------------|---|
| <p><b>July</b></p>      | <p><b>Warminger</b><br/>Mark Warminger withdrew his appeal against the High Court judgment. Civil proceedings ended. High Court judgment enforced.</p> <p><b>Wilson</b><br/>Former registered financial adviser Anthony Norman Wilson was sentenced to 150 hours of community work, six months' community detention and ordered to pay reparations of \$16,461 for forging clients' initials and falsely amending insurance applications.</p> |
| <p><b>August</b></p>    | <p><b>Prince &amp; Partners</b><br/>Prince &amp; Partners Trustee Company admitted failings as trustee of Viaduct Capital Limited, which went into receivership in 2010.</p>  |
| <p><b>October</b></p>   | <p><b>VMob</b><br/>Charges filed against an individual, alleging insider trading in shares of VMob (now trading as Plexure Group).</p> <p><b>Robertson</b><br/>Charges filed against Stephen Robertson for theft by a person in a special relationship, dishonestly using a document and obtaining by deception.</p>  |
| <p><b>November</b></p>  | <p><b>Fullerton Markets</b><br/>Formal warning issued to Fullerton Markets for AML/CFT Act breaches related to inadequate risk assessment, compliance and due diligence.</p>  |
| <p><b>February</b></p>  | <p><b>FSPR</b><br/>Filed criminal charges against a company and its New Zealand-based director for breaching the Financial Service Providers (Registration and Dispute Resolution) Act.</p>   |
| <p><b>March</b></p>     | <p><b>AML/CFT</b><br/>Issued formal warnings to five reporting entities under Section 80 of the Anti-Money Laundering and Countering Financing of Terrorism Act.</p> <p><b>Patterson</b><br/>Garry James Patterson pleaded guilty to two charges related to holding out that he was in the business of providing financial services despite not being registered, and obstructing the FMA's investigation.</p>                                |
| <p><b>April</b></p>     | <p><b>Crafters &amp; Co Limited</b><br/>Issued a formal warning to Crafters &amp; Co Limited and its director Hadleigh Petherick, related to a crowdfunding campaign that in our view contained misleading and deceptive statements.</p>  |
| <p><b>May</b></p>       | <p><b>FSPR</b><br/>Filed criminal charges against another company and its director for breaching the Financial Service Providers (Registration and Dispute Resolution) Act.</p>   |
| <p><b>June/July</b></p> | <p><b>CBL</b><br/>Published an update on our ongoing investigation into a potential breach of disclosure requirements and other matters at CBL. The FMA investigation will be conducted alongside a joint investigation by the Reserve Bank and SFO.</p>  |



## Strategic priority:

# Effective frontline regulators

We want to see frontline regulators who contribute to well-regulated financial markets.

Frontline regulators include accredited audit bodies, NZX in its regulatory capacity, and supervisors of debt securities, managed investment schemes and retirement villages.

### NZX

Each year we review NZX's regulatory obligations through our annual [NZX Market Operator Obligations Review](#). While this year's review found that NZX was compliant with the majority of its obligations, there was one obligation it did not meet. We found that a lack of market experience in NZX's market surveillance function meant it did not meet its obligation to have adequate arrangements to monitor the conduct of participants on, or in relation to its markets. To resolve this issue, NZX has committed to recruit additional resource into this function.

### Audit bodies

We continued to engage with accredited audit bodies to improve audit standards. Our annual accredited body reports set out our assessment of the [New Zealand Institute of Chartered Accountants \(NZICA\)](#) and [CPA Australia](#).

We found both bodies have appropriate policies and processes for:

- licensing domestic auditors and registering domestic audit firms
- monitoring their registered auditors and audit firms
- promoting and monitoring the competence of these members
- taking action against misconduct.

We also recommended some further improvements to NZICA's disciplinary process.

### Supervisors

An ongoing priority for us is to clarify the responsibilities and expectations for supervisors' oversight of market participants. This year we renewed the licences for all existing supervisors, and granted one new licence. We took the opportunity during the licensing process to improve our understanding of the supervisors' approaches to monitoring managed investment scheme (MIS) managers.

### What we think

We have observed that supervisors' performance has, in general, strengthened over the past five years, but has room for further improvement. Our relicensing exercise demonstrated that most need to strengthen their own governance models. To reflect the growing maturity of the sector we would also like to see supervisors embed a more risk-based and proactive approach into their monitoring. We will build these areas into our own monitoring of supervisors over the coming year.



Strategic priority:

# Sales and advice

We want to see sales and advice practices designed to meet the needs of customers.

This year we received complaints in relation to financial advisers that indicate a lack of consideration given to customer outcomes, and instances where financial advisers' disclosure statements were non-compliant or not provided to the customer at all.

### What we think

Based on our monitoring work we believe there is a need for significant improvement in this area, especially from RFAs and QFEs, in order for advisers to be ready to operate under the new statutory conduct standards proposed in the reform of the Financial Advisers Act (see opposite).

Accurate disclosure of information about fees and charges is a key part of good sales and advice practices. From 2018, KiwiSaver scheme providers must give their investors an annual statement that shows the total fees, in dollar value, that an investor was charged. In preparation for this change, we consulted with industry, and produced [guidance](#) that sets out methodology for how providers can calculate fees

accurately, but without unnecessary cost and time burden.

Licensed peer-to-peer and crowdfunding providers have 'fair dealing' obligations under the FMC Act, and their platforms often target less-experienced borrowers and investors. After an industry-wide review of peer-to-peer and crowdfunding advertising practices, we provided direct feedback to licensees. We also published guidance to ensure providers understand that their advertising and communications to customers need to be clear, balanced and not misleading, and any claims need to be substantiated and qualified.

We will be looking at banks' sales practices in our incentive structure review (see page 16), to see to what extent these entities' processes focus on good outcomes for customers.

We also consider sales and advice practices in the context of technology and its associated risks. As awareness of cryptocurrencies and initial coin offerings entered the mainstream late in 2017, we published commentary for industry about our view and expectations. We expect potential cryptocurrency issuers to consider whether their

## Enabling personalised digital financial advice

The exemption to enable the provision of personalised digital advice recognises the importance of promoting innovation, as well as increasing access to personalised financial advice.

Digital advice has the potential to open the door to people who may have obstacles to accessing financial advice through traditional channels. However, the law currently doesn't allow providers to offer personalised digital advice, as this is a development that was not considered when the existing financial adviser legislation was written.

We publicly consulted on and granted a personalised digital advice exemption. Firms can now apply to the FMA to be able to rely on the exemption. The exemption allows a firm to design its own digital advice tools and platforms, while requiring its systems and conduct to be of a standard that protects consumer interests.

The new financial advice regime (see opposite) will permit digital advice.

**Application Guide**

**Personalised digital advice exemption**

**Your guide to applying to provide personalised digital advice under the Financial Advisers (Personalised Digital Advice) Exemption Notice 2018**

This guide covers all the questions you'll be asked, the minimum standards you need to meet, and the information and supporting documents you'll need to provide.

**In this guide...**

|                           |    |
|---------------------------|----|
| Introduction              | 2  |
| Getting started           | 5  |
| Good character            | 9  |
| Capability                | 11 |
| Risk management processes | 14 |
| IT systems                | 16 |
| Client filtering          | 17 |
| Final steps               | 19 |



currency or token may be a financial product under New Zealand law, and the legal obligations associated with that. They should also be aware of their obligations as a provider of financial services. Our main message is to approach us early for guidance, as we are always seeking opportunities to promote innovation and flexibility in our financial markets.

We refer complaints about Authorised Financial Advisers to the Financial Advisers Disciplinary Committee. The committee oversees disciplinary proceedings for any complaints, and imposes appropriate penalties where it finds misconduct. This year we referred two complaints to the committee, which are still in progress.

## Financial Services Legislation Amendment Bill

The Financial Services Legislation Amendment Bill proposes major changes to the current financial advice regime. Under the proposed regime, advice can only be provided to retail customers by or on behalf of a financial advice provider, who will need to be licensed by the FMA.

Anyone providing financial advice to retail customers must comply with:

- a new Code of Conduct that sets standards including competence, skills, knowledge, ethical behaviour and client care
- the financial advice rules and regulations in an amended Financial Markets Conduct Act 2013.

While the bill is being considered by Parliament, we have been presenting information about the upcoming reforms at a nationwide series of forums with financial advisers. We have also been working on the development of our transitional and full licensing process, and our approach to monitoring.

### Under the proposed new financial advice regime

Advice can only be provided to retail customers by or on behalf of a licensed financial advice provider.

A financial advice provider can be...

An individual



A business



They can provide advice...



Directly  
(eg in person or online)



Through a **financial adviser** – a person engaged by the financial advice provider and registered on the Financial Service Providers Register.



Through a **nominated representative** – a person engaged by the financial advice provider but not registered on the Financial Service Providers Register.

Anyone providing financial advice to retail customers must comply with...



A code of conduct. This will set out professional standards for competence, skills, knowledge, ethical behaviour and client care.



Financial advice rules and regulations in the Financial Markets Conduct Act 2013.



Strategic priority:

# Investor decision-making

We want to see capable, confident and well-informed investors.

In November 2017 we published a refreshed [Investor Capability Strategy](#), which sets out how we will improve investor capability, by both influencing how industry engages with investors and talking to investors directly.



We talked to investors proactively through events such as Money Week, IOSCO's World Investor Week and Fraud Awareness Week. Where necessary we also reacted to market developments, such as our consumer information and associated social media campaign about cryptocurrencies and initial coin offerings.

Where possible, we look for ways to increase our usage of KiwiSaver data to improve transparency. This year, in anticipation of the new requirement for KiwiSaver providers to disclose to members their total annual fees as a dollar value, we published the [KiwiSaver Tracker](#), an interactive report of fund return and fee data. At 30 June the tracker had been viewed over 70,000 times.

We also used the tracker as part of our campaign (see page 8) that asked KiwiSaver members to check the health of their investment by considering four key questions:

- Are you in the right fund?
- Could you be saving more?
- Are you paying the right amount of tax?
- Are you paying too much in fees?

Our focus on encouraging KiwiSaver providers to improve engagement with, and disclosure to, their members included details published in our KiwiSaver annual

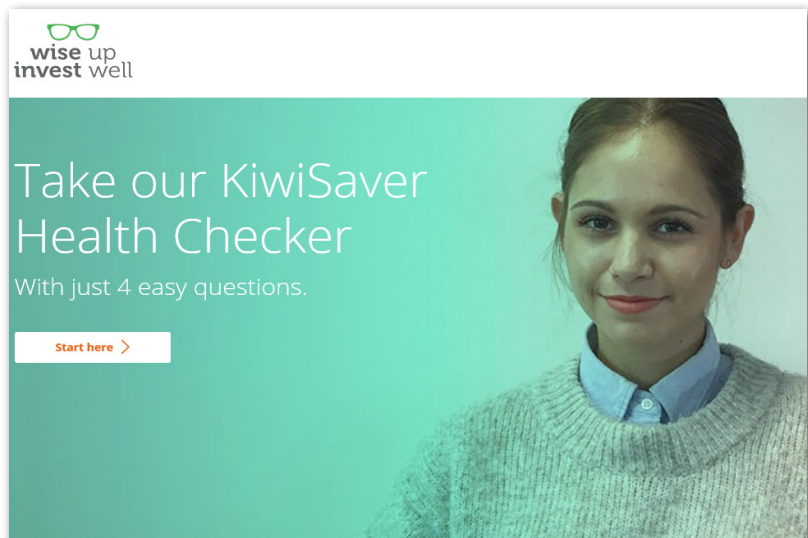
report of financial literacy activities by KiwiSaver default providers. We also ran a forum for default KiwiSaver providers to share insights into what lifts default member engagement.

## What we think

We are pleased that some KiwiSaver providers have shown interest in behavioural trials, indicating they are keen to try new ways to better engage with default members. Overall, we think KiwiSaver providers still need to do better in engaging with all members, including by helping members to understand whether they are getting value for money from their KiwiSaver.

We work with issuers and their professional advisers to improve the quality of disclosure investors receive. We do this through pre-registration reviews and risk assessment of product disclosure statements (PDS), and reviews of financial statements. We also publish research and provide market guidance. This year we published the following reports and guidance for the sector:

- [Disclosing non-GAAP financial information](#), which sets out our expectations on the use of financial information outside of financial statements that is not prepared and presented in accordance with generally accepted accounting practice (GAAP). Non-GAAP financial information can be useful but has the potential to be misleading, so our purpose was to set out general principles for presenting non-GAAP financial information. Following these principles will contribute





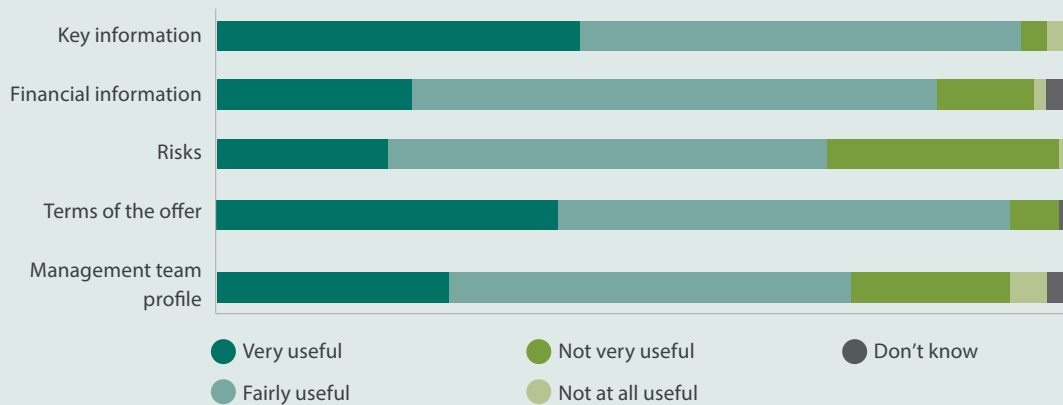


## Product disclosure statements: understanding investors' information needs

Deepening our knowledge of the drivers of investor decision-making is essential for long-term success in this strategic priority area. This year we published [findings from a review](#) of how investors view PDSs, which identified areas we encourage issuers to consider in relation to disclosure. We presented this report to industry and government groups.

### How useful to your decision-making was each of these key sections of the PDS?

As part of this research, an online survey measured how useful each of the five key sections are to investors' decision-making. The results support our findings that these five sections were the most helpful to investors.



to the reliability and comparability of non-GAAP financial information over time, and reduce the potential for misleading disclosure.

- [Improving financial statements](#), which reviewed the extent of improvements in the presentation of NZX50 financial statements since our original report in 2014. It also set out suggestions to further develop financial statements as a clear and effective reporting and communication tool.
- [Disclosure of significant accounting estimates](#), part of our work on improving the overall quality of disclosure in financial statements. It explained our expectations for disclosure of significant accounting estimates and assumptions, particularly those containing high levels of uncertainty.
- [Improving financial information in an equity PDS](#), to assist issuers with improving how financial information is disclosed in an equity PDS and understanding our expectations on aspects of the financial information section, including our interpretation of the application of certain rules.
- General stocktake of fund updates, the results of a review of how MIS managers' quarterly fund updates are meeting their requirement to facilitate easy comparison of funds and be understood by non-expert investors.

Most fund updates did not raise significant concerns, but the review did find some examples of potential non-compliance or instances where disclosure could be improved. We will continue to look at disclosure of costs and fees, and work with fund managers to improve the prominence and accessibility of this information.

- [Guide for peer-to-peer lending services on publishing default rate information](#), which is to help providers comply with their obligation to publish information about the rate of default by borrowers using their facility. The aim of this requirement is to give investors a view of the potential risk of losing money invested in peer-to-peer loans, and our guide encourages providers to do so in a fair, clear and transparent manner.

### What we think

Our report into PDSs and understanding investor needs identified that the PDS is an improvement over previous disclosure documents, but there are still areas where we encourage issuers to improve. Our reviews of financial statements also found improvements, but recent corporate problems for NZX-listed companies show that in some cases more effective and clear disclosure in financial statements is needed. We will continue our engagement with industry on these matters.



Strategic priority:

# FMA effectiveness and efficiency

## We want the FMA to be an efficient and effective intelligence-led regulator.

To build our capabilities to assess and respond to harm and risks, we have started rolling out a capability framework to staff. It is designed to help fulfil our remit as a regulator by identifying what additional capabilities and skills we need to do our jobs well now, and help us build capability for the future. Where possible skills gaps are identified, we provide learning and development opportunities for staff.

Using data effectively is a key part of regulation, allowing us to identify not only misconduct, but also trends that may pose current or future risks to the market and investors. During the year we have assessed and selected new technologies and tools for data analytics and knowledge management, and for upgrading our evidence discovery processes. We have also strengthened our people capabilities in this area.

In May 2017, the trial of the FMA's case against collapsed finance firm Viaduct Capital and Mutual Finance was aborted. This followed a dispute about the disclosure of additional documents held by the FMA. We accepted the High Court's finding that non-compliance with disclosure obligations occurred. This issue has pushed us to enhance our information management processes, to help ensure no such failures occur again.

The FMA runs a comprehensive relationship management programme for entities we regulate or work with closely. During the year we refreshed this programme, to ensure our interactions function more efficiently as a two-way communication channel and can be used for early identification of risks and issues.

We made a number of improvements to [our website](#) this year, to help users to easily find, read and understand the information they need.

One of our objectives across all the areas we regulate is to balance the benefit and burden of FMA activity. We have published [information on our website](#) to explain our initiatives to assess, respond to and reduce regulatory burden, and to make compliance easier while still being thorough and fit for purpose.

Related to this is the revision of our internal regulatory toolkit. This included making processes and templates more streamlined and user-friendly. The improvements will support the efficient use of our resources and enable us to respond in a timely manner and take appropriate, proportionate and consistent action on identified harms.

## Our work with other regulators and agencies

We are committed to collaborating with other government agencies with similar interests, to share information, and ensure we take an informed and cohesive approach to our work. We work closely with MBIE, the Reserve Bank of New Zealand (RBNZ), the Commission for Financial Capability, the Commerce Commission, the Serious Fraud Office, Ministry of Justice, Department of Internal Affairs and Inland Revenue.

We also work with these and other agencies – including dispute resolution schemes and the NZ Police Financial Intelligence Unit – to respond to individual misconduct cases.

Together with RBNZ, MBIE and Treasury we are a member of the Council of Financial Regulators (CoFR). One of the key focus areas for CoFR is maintaining an overall view of risks for the financial sector. This risk register covers areas where there are multi-agency or system-wide regulatory risks and issues to be managed.

We are also working on internal and external system updates to be able to support the use of New Zealand Business Numbers, which are unique identifiers issued to businesses by MBIE.

We signed a Memorandum of Understanding with the NZ Police formalising cooperative arrangements for sharing information, execution of search warrants and promoting mutual objectives.

We engaged with the External Reporting Board (XRB), the International Organization of Securities Commissions (IOSCO), RBNZ and MBIE about the scope and focus of financial reporting, including compliance with financial reporting obligations.

During the year some of our supervision managers visited Australian regulators, industry associations and licence holders to better understand how legislation, delivery and monitoring of financial advice operates in Australia.



### Complaints received



- Fraud/scams
- Withholding client money
- Financial statements
- Providing financial services without registration/authorisation
- Advertising
- Advice
- Acting outside registration/licence conditions
- Sales processes
- Commissions, fees and charges
- Other (all other types of complaint – including insider trading, continuous disclosure, money laundering)


A complaint, or misconduct report, is an allegation of conduct in NZ financial markets which could result in harm. The FMA is required to assess each report and determine the appropriate course of action.


### Alerts published



Including...

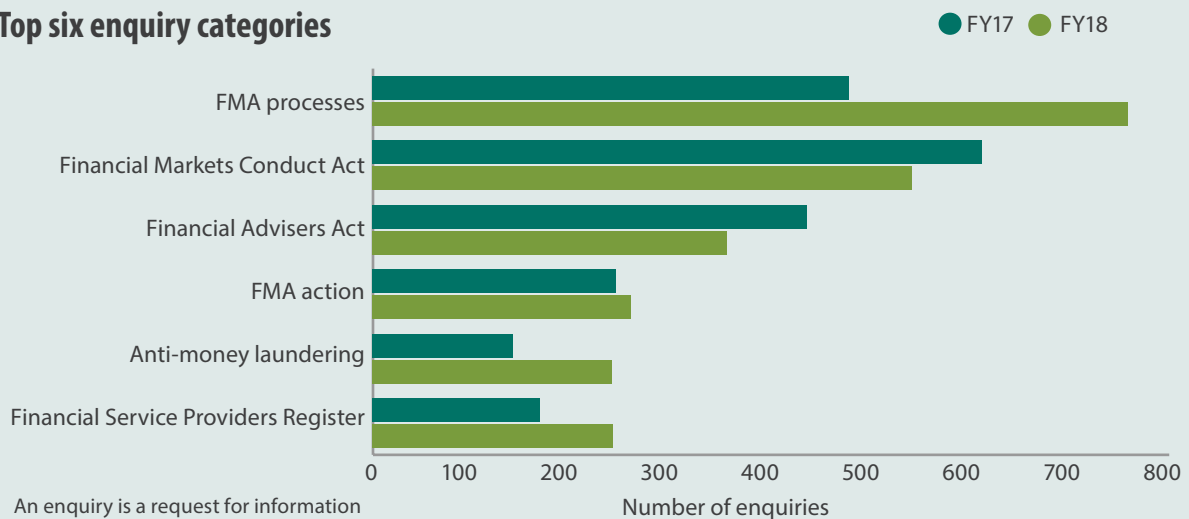
 21 suspected scams

 41 relating to unregistered businesses

 17 instances of a business falsely passing itself off as a regulator

Note that some alerts cover multiple categories.

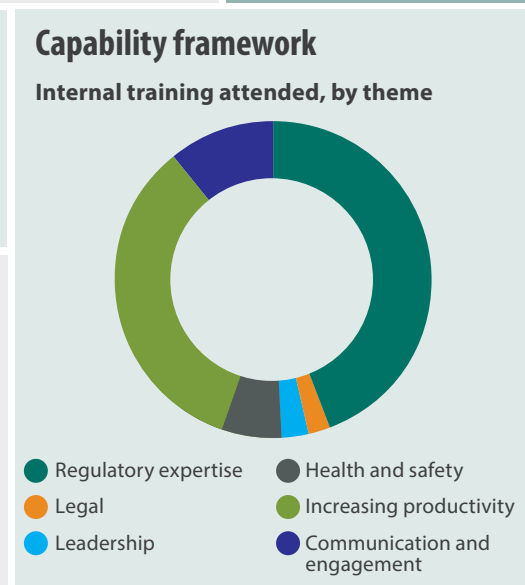
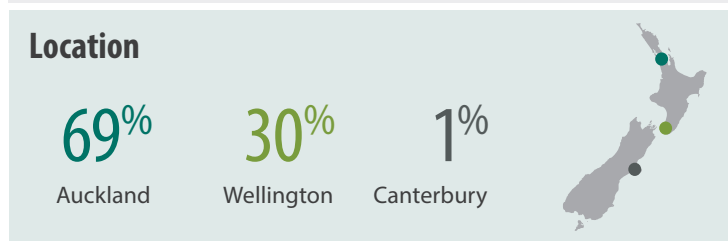
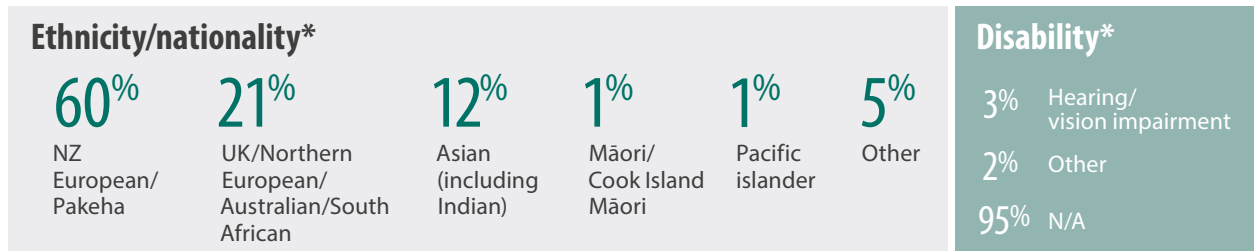
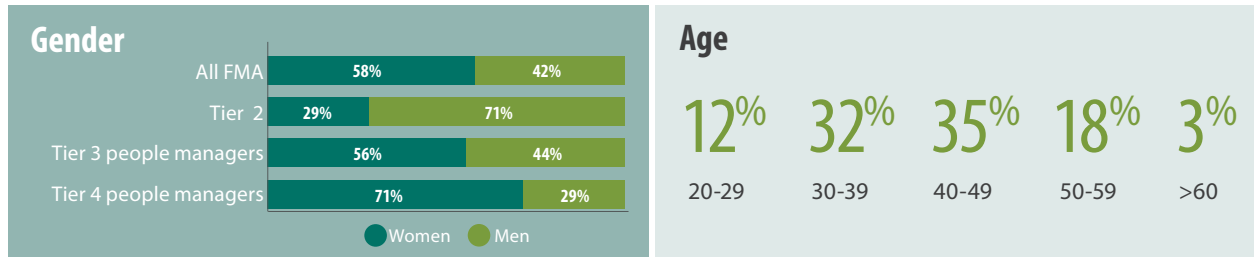
### Top six enquiry categories



An enquiry is a request for information from the FMA that requires a response.

# Our organisation

## Our people



### Employment type

|                        | 2018       | 2017       |
|------------------------|------------|------------|
| <b>Total</b>           | <b>194</b> | <b>178</b> |
| Permanent              | 170        | 154        |
| Fixed-term             | 7          | 7          |
| Casual                 | 1          | 0          |
| Contractor/temp        | 14         | 17         |
| Seconded               | 2          | 0          |
| Turnover**             | 15.50%     | 19.90%     |
| Average service length | 2.4 years  | 3.1 years  |

### Where we find our staff\*\*\*

|                    | 2018 | 2017 |
|--------------------|------|------|
| Corporate          | 20%  | 13%  |
| Financial services | 25%  | 9%   |
| Government         | 22%  | 16%  |
| International      | 10%  | 19%  |
| Internal           | 17%  | 38%  |
| Legal              | 3%   | 3%   |
| Other              | 2%   | 3%   |

All data covers permanent, fixed-term, and temporary staff as at 30 June 2018 unless otherwise stated.

\* Based on voluntary answers provided by permanent and fixed-term employees.

\*\* Based on permanent employees only.

\*\*\* Based on recruitment of permanent and fixed-term employees only. Totals may not add exactly due to rounding.

### **Leadership, accountability and culture**

We clearly communicate progress towards organisational goals, and encourage team members to work collectively towards the strategic priorities.

We foster a culture where people understand the purpose of the organisation, their own role in the bigger picture, and the sense that we all pull together. Treating people with respect, living our values and finding enjoyment and fulfilment in the work we do are at the core of our organisational culture.

### **Recruitment, selection and induction**

We have started to refresh our employee value proposition, to identify the unique benefits that attract and keep people at the FMA. Our tailored recruitment approach looks at the skills required for each role, the most appropriate channels for promotion, and whether we use an agency. We have promoted our employer brand at career expos at Auckland, Victoria and Otago universities.

### **Diversity and inclusion**

We aim to attract, select and develop people with diverse backgrounds and skillsets, so that our workforce better reflects the community we serve. We have diverse interviewing panels for all recruitment. We have established a Diversity Committee of staff to advise us as we work towards our goal of a diverse workforce and an inclusive culture. We have also piloted an unconscious bias training programme that will be rolled out across the organisation.

### **Employee development, promotion and exit**

We have developed a capability framework that identifies the skills needed for each role at the FMA. We have mapped each role and each person so we know what skills we have in-house, and where we need to focus our recruitment and learning and development efforts. Our year-round learning programme and calendar make it easier for people to find suitable opportunities. Our success in growing our people means that approximately 20% of roles are now filled through internal promotions.

We analyse all exit survey information and look at where improvements can be made to improve people's working experience.

### **Flexibility and work design**

We provide flexible working arrangements tailored to suit people's lifestyle needs. Approximately 20% of our staff are on formal or informal arrangements. We have also rolled out technology enhancements to support flexible working.

### **Remuneration, recognition and conditions**

We have completed changes to our remuneration structure so that we have more consistency in our banding. We have a recognition programme to reward strong performance at an individual or team basis.

We have boosted our leave options to include a week's leave entitlement to better support new parents returning to work, and a volunteer day for people wanting to support community or charity-based initiatives.

### **Harassment and bullying prevention**

We have refined our harassment and bullying prevention policy and communicated to all staff that the FMA takes a zero-tolerance approach to bullying and harassment. Staff have a range of channels to seek support. We are in the design phase of staff training specifically developed for the FMA on awareness and prevention of harassment and bullying. Our plan is for all staff to undergo this training.

### **Safe and healthy environment**

We monitor how much leave staff have and actively encourage people to take leave as needed. We have a staff Health and Safety Committee that recommends and implements actions to keep all team members and visitors safe. Our board has oversight of our health and safety work, and reviews our organisational risks, hazards and mitigating actions on a six-monthly basis.

# Our board



**Murray Jack**

**Chairman, BCom, FCA**

Murray has over 30 years' experience as a management consultant, and was previously a member of the Securities Commission. He is also Chair of Chartered Accountants Australia & New Zealand and Education Payroll Limited, and a director of Aurecon Group Pty Ltd.

*Current term expires April 2019*



**Campbell Stuart**

**Member, BCom**

Campbell has 30 years' experience in stockbroking and funds management. He is also a Director of Aspiring Asset Management. He was previously Managing Principal at UBS New Zealand, was on the NZX Disciplinary Committee, and was Vice Chair of NZX.

*Current term expires June 2019*



**Ainsley McLaren**

**Member, BCom**

Ainsley has over 25 years of broad financial services experience including investment management, fixed interest and financial markets. Her experience includes various senior roles at ASB Group Limited in both investment management and financial markets. Ainsley is currently leading client relationships at Harbour Asset Management. Until June 2018, she was also a board member of the Government Superannuation Fund Authority and Hohepa Auckland Regional Board.

*Current term expires September 2021*



**Elizabeth Longworth**

**Member, LLM**

Elizabeth has over 20 years' commercial legal experience and international governance expertise. She has specialties in information policy and disclosure, risk management, ethics and ADR. As the Executive Director of UNESCO, Paris, Elizabeth had strategic and oversight responsibilities across the organisation. She was the Director of the UN office for disaster risk reduction, Geneva. Previous roles include Sector Director at Industry New Zealand and In-house Counsel at the Reserve Bank.

*Current term expires June 2020*



**Mark Todd**

**Member, LLB Hons**

Mark has over 20 years' experience in financial markets regulation, and has held governance roles with both listed and unlisted companies. He co-founded Anti-Money Laundering Solutions and chairs Mint Asset Management. He is also the Customer Advocate at Westpac New Zealand.

*Current term expires June 2020*



### Mary Holm

Member, BA, MA, MBA

Mary is a financial columnist, author, seminar presenter and director of Financial Services Complaints Ltd. She was a member of the Capital Markets Development Taskforce, and the Savings Working Group, and has been a newspaper business editor and part-time senior lecturer at the University of Auckland.

*Current term expires June 2019*



### William Stevens

Member, BBS

William has 30 years' experience as an investment adviser. He is an NZX adviser, a Director of Craigs Investment Partners, and Chairs the Dingwall Trust for Children. He was previously Deputy Chair of the New Zealand Markets Disciplinary Tribunal.

*Current term expires June 2020*



### Vanessa Stoddart

Member, BCom/LLB (Hons), PG Dip in Prof Ethics

Vanessa is a Director of NZ Refinery, Heartland Bank and The Alliance Group, a member of the Tertiary Education Commission and the Audit and Risk Committee for DOC and MBIE. She was previously a Senior Executive at Air New Zealand and CEO of Carter Holt Harvey Packaging Australia.

*Current term expires June 2021*



### Prasanna Gai

Member, B.Ec (Hons), M.Phil, D.Phil

Prasanna is Professor of Macroeconomics at the University of Auckland. He brings over 20 years of experience in financial market issues from academic and high-level policy roles. Prasanna was Special Adviser to the Governor of the Bank of Canada, Senior Adviser at the Bank of England, and is currently a Member of the Advisory Scientific Committee of the European Systemic Risk Board. Prasanna was also Professor of Economics at the Australian National University and a Visiting Fellow of All Souls College, Oxford.

*Current term expires April 2023*



### Carol Cheng

Observer as non-member, CA

As a successful candidate in the selection of the Future Directors' programme to state sector boards, Carol joined the FMA Board as an observer to work with and learn from the Board for one year from 1 September 2017. Carol is the founder of Hong Consulting Limited and is an experienced business adviser and China business specialist. Carol previously held leadership roles in New Zealand and China including as an executive director of PwC New Zealand and partner at Grant Thornton in China. She is an Executive Member of New Zealand China Trade Association (NZCTA).

*Current term expired August 2018*

# Our executive committee



**Rob Everett**  
Chief Executive

Rob has been FMA's chief executive since 2014. Prior to this he worked in the investment banking, legal and risk-management sectors. After 17 years at Merrill Lynch in London, Hong Kong and New York in a variety of senior roles, Rob spent a year with regulatory consultants Promontory before moving to New Zealand in 2013.



**Brad Edley**  
Chief Operating Officer

Brad leads the FMA's corporate services team, which includes the strategic and day-to-day functions of our finance, facilities, technology and project management functions. Brad brings extensive experience to the FMA, predominantly as a senior finance executive, both in New Zealand and internationally. Before joining the FMA in 2016, Brad was Chief Financial Officer at NZX-listed Finzsoft Solutions, Mondelez International and Merck Sharp & Dohme.



**John Botica**  
Director of Market Engagement

John leads the FMA's market engagement activities. He is an experienced senior executive, director and consultant in the financial services industry. In previous roles he was co-founder of the Assure NZ Group, Managing Director at Guardian Trust and General Manager Wealth Management at AXA.



**Sarah Feehan**  
Director of People and Capability

Sarah has worked with a number of professional services firms. She was a member of the senior leadership team for a national advertising agency. Before joining the FMA in 2016, Sarah was HR Manager at one of New Zealand's top law firms.





**Nick Kynoch**  
General Counsel

Nick leads our enforcement and litigation, policy and governance, corporate legal and internal audit teams. His role includes advising our executive committee and board. Nick has extensive international legal experience, including with Barclays Investment Bank and several international law firms.



**Simone Robbers**  
Director of Strategy and Risk  
Acting Director of External Communications and Investor Capability

Simone oversees our regulatory strategy, strategic and operational risk management, corporate governance work, and government and industry relations. She has held senior legal, risk and compliance roles in the financial services industry in New Zealand and Edinburgh.

Simone is also currently acting Director of our External Communications and Investor Capability area. This area is responsible for our strategic communications advice and delivery as well as our investor capability strategy.



**Liam Mason**  
Director of Regulation

Liam leads and oversees the licensing and supervision of all financial markets participants, from individual AFAs through to KiwiSaver providers. He is also responsible for the FMA's compliance frameworks, contacts, and intelligence functions. Liam has extensive experience in securities law and corporate governance matters, advising on securities and financial services law and policy, Crown entity governance and legal compliance.



**Garth Stanish**  
Director of Capital Markets

Garth's team oversees primary and secondary markets, disclosure by issuers, market infrastructure, intermediary platforms, clearing providers and auditors. He has extensive dispute-resolution experience, and is a former head of issuer regulation and was acting head of regulation at NZX.

# Independent auditor's report

## To the readers of the Financial Markets Authority's financial statements and performance information for the year ended 30 June 2018

The Auditor General is the auditor of the Financial Markets Authority (the Authority). The Auditor General has appointed me, Athol Graham, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the performance information, including the performance information for an appropriation, of the Authority on his behalf.

### Opinion

We have audited:

- the financial statements of the Authority on pages 48 to 72, that comprise the statement of financial position as at 30 June 2018, the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements including a summary of significant accounting policies and other explanatory information; and
- the performance information of the Authority on pages 40 to 41 and 43 to 47.

In our opinion:

- the financial statements of the Authority on pages 48 to 72:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2018; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards; and
- the performance information on pages 40 to 41 and 43 to 47:
  - presents fairly, in all material respects, the Authority's performance for the year ended 30 June 2018, including:
    - for each class of reportable outputs:
      - its standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
      - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year; and
    - what has been achieved with the appropriation; and
    - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure; and
  - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 28 September 2018. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

### **Basis for our opinion**

We carried out our audit in accordance with the Auditor General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of the Board for the financial statements and the performance information**

The Board is responsible on behalf of the Authority for preparing financial statements and performance information that are fairly presented and comply with generally accepted accounting practice in New Zealand. The Board is responsible for such internal control as it is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board is responsible on behalf of the Authority for assessing the Authority's ability to continue as a going concern. The Board is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Authority, or there is no realistic alternative but to do so.

The Board's responsibilities arise from the Crown Entities Act 2004 and the Public Finance Act 1989.

### **Responsibilities of the auditor for the audit of the financial statements and the performance information**

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor General's Auditing Standards will always detect a material misstatement when it exists.

Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error.

Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected

to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the Authority's statement of performance expectations.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit 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.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.
- We evaluate the appropriateness of the reported performance information within the Authority's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

## Other information

The Board is responsible for the other information. The other information comprises the information included on pages 2 to 33, 38, 39, 42 and pages 73 to 75, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Independence

We are independent of the Authority in accordance with the independence requirements of the Auditor General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than in our capacity as auditor, we have no relationship with, or interests, in the Authority.



Athol Graham  
Audit New Zealand  
On behalf of the Auditor General  
Auckland, New Zealand

# How we performed

## Checking in on our Annual Corporate Plan







The table below provides a progress update for the 'milestone' projects we committed to in our Annual Corporate Plan for FY18. The information on these two pages is not audited.

| <b>Governance and culture</b>  |   |
|--|---|
| Complete our review of the Principles of Corporate Governance Handbook and provide market guidance if required   | Achieved – see page 15  |
| Thematic review of governing documents of SIPOs (Statements of Investment Policy and Objectives)   | Achieved – see page 14  |
| Thematic review of outsourcing arrangements  | Not achieved – this project did not go ahead due to capacity constraints that have arisen from the Conduct and Culture Review   |
| Thematic review of use of wholesale investment managers  | Achieved – see page 15  |
| <b>Conflicted conduct</b>  |   |
| Report on adviser conduct in insurance replacement business  | Achieved – see page 17  |
| <b>Capital market growth and integrity</b>   |   |
| Record and provide examples of where we have deterred or stopped unlicensed or harmful activity through use of our FMC Act regulatory tools or fair dealing provisions | Achieved – see page 20  |
| Publish annual Conduct Outcomes Report   | Achieved – see page 14  |
| Implementation of Asia region managed funds passport regime  | In progress – implementation of this initiative, which will allow managed funds to be offered more easily to investors in other participating jurisdictions, will be late 2018/early 2019, allowing for legislative processes and changes to the Disclose Register. |
| Produce guidance on trading conduct in wholesale and listed markets where appropriate  | In progress – we will issue updated guidance for MIS managers on controls for managing trade-related risks early in FY19  |
| Publish a report on our activities in relation to the FSPR   | Achieved – see page 19  |
| Publicise any enforcement activity associated with late or non-filing of financial statements  | No instances in FY18  |
| Produce summary/report on results of regulatory returns from crowdfunding and peer-to-peer platform providers  | Achieved – see page 18  |









| <b>Effective frontline regulators</b>   |   |
|---|---|
| Publish reports on performance of each audit accredited body  | Achieved – see page 21  |
| Publish annual NZX review   | Achieved – see page 21  |
| Review of supervisors' monitoring practices   | Achieved – see page 21  |
| <b>Sales and advice</b>   |   |
| Strategy and approach developed for the transitional licensing of financial advisers for the new regime   | In progress – see page 23   |
| Relevant guidance and consultation underway for core aspects of both the transitional and full financial advisers' regime                           | In progress – see page 23   |
| <b>Investor decision-making</b>   |   |
| Publish our refreshed Investor Capability Strategy  | Achieved – see page 24  |
| Produce guidance on financial product disclosure issues such as non-GAAP financial information and improving financial information in an equity PDS | Achieved – see pages 24-25  |
| Market engagement to discuss lessons from FMC Act disclosure  | Achieved – see pages 24-25  |
| Review quarterly fund updates and engage with the market on our findings  | Achieved – see page 25  |
| <b>FMA effectiveness and efficiency</b>   |   |
| Implement our people capability strategy including core capability framework and new learning and development programme                             | In progress – see page 26   |
| Publish a report on our initiatives to assess, respond to and reduce regulatory burden  | Achieved – see page 26  |
| Complete the design and scope of our data analytics operating model and systems requirements  | In progress – see commentary about our data analytics and knowledge management, and evidence discovery tools on page 26 |
| Implementation of knowledge management strategy   |   |
| Complete the review of our investigation and enforcement processes, identify and implement any improvements   |   |

## Checking in on our Statement of Intent

Below is an update on how we're tracking on our Statement of Intent performance measures compared to the 2020 targets. Refer to the pages listed for details of our activity that has contributed to each strategic priority area and measure.

| Measure   | 2018 result   | 2020 target                          | Comment  | Information source   |
|---|---|--------------------------------------|--|--|
| <b>Overarching measure</b>  |   |                                      |  |  |
| SOI 1: Investors are confident in New Zealand's financial markets   | 66%<br>                              | 70-75%                               | Investor confidence in financial markets is likely to have been affected by various high-profile governance issues in listed companies this year, as well as the Royal Commission in Australia. The same measure is part of SPE 1.   | Annual investor confidence survey  |
| <b>Governance and culture (pages 14-15)</b>   |   |                                      |  |  |
| SOI 2: Licensed market participants show how they achieve good customer outcomes  | Achieved<br>                         | Achieved                             | This measure is achieved on the basis of improvement compared to last year in licensees' risk and compliance frameworks, and in boards receiving information on customer outcomes. The same measure is part of SPE 1 (see page 43) but was not achieved, as the level of improvement did not meet the target of 75% set in the SPE. We expect to see ongoing improvement in this area as conduct regulation and standards become more familiar to the financial services sector. Looking for evidence of 'conduct maturity' will form part of our ongoing approach to supervision. | Findings from monitoring visit reviews of risk and compliance frameworks and disclosure of information to boards |
| <b>Conflicted conduct (pages 16-17)</b>   |   |                                      |  |  |
| SOI 3: Conflict management procedures are designed to support customer interests  | Achieved<br>                       | Achieved                             | Our goal was to see an improvement over last year. We assessed this measure at 47.1% compliance, compared to 18% the previous year. While we have seen evidence of conflicts of interest policies and procedures being in place, we have yet to see many good examples of how these are expressly linked to good customer outcomes.  | Findings from monitoring visit reviews of conflict management procedures   |
| <b>Capital market growth and integrity (pages 18-20)</b>  |   |                                      |  |  |
| SOI 4: The FMA stakeholders and consumers of New Zealand financial services believe that FMA's actions help raise standards of market conduct and integrity | Conduct: 82%<br>Integrity: 87%<br> | Conduct: 65-70%<br>Integrity: 80-85% | Both of these results remain strong, although a slight decrease from last year's results (85% and 88% respectively) may be a reflection of the high-profile market issues over the past 12 months. The same measure is part of SPE 1.  | Annual 'Ease of doing business' survey of stakeholders and market participants                                   |
| SOI 5: Issuers use new lower-cost opportunities to raise capital in New Zealand   | Achieved<br>                       | Achieved                             | Where possible we facilitate the use of products, channels and processes that provide a lower-cost way to raise capital – see page 19 for examples.  | Observations of relevant market activity   |
| <b>Sales and advice (pages 22-23)</b>   |   |                                      |  |  |
| SOI 6: Market participants can demonstrate alignment of sales and advice processes resulting in good customer outcomes                                      | Baseline set<br>                   | Achieved                             | This is the first year we have reported on this measure. Our monitoring findings have set a baseline of 38.7%; a year-on-year improvement on baseline will help us measure achievement in future years.<br><br>A common theme of our financial adviser monitoring in particular was the lack of compliant disclosure statements and/or evidence these were provided to clients. Disclosure statements are an important part of a client's decision-making process as they outline how the adviser will be paid and by who, when recommending certain types of financial products.  | Findings from monitoring visit reviews of market participants' sales and advice processes                        |



| Measure  | 2018 result   | 2020 target | Comment  | Information source   |
|--|---|-------------|--|--|
| <b>Investor decision-making (pages 24-25)</b>  |   |             |  |  |
| SOI 7: Investors believe that financial product information given to them helped them to make an informed decision   | 55%<br>            | 65-70%      | The survey found a correlation between an investor's confidence level and the likelihood they found product information useful. However this result has dropped by 1% from last year. See page 22 for additional details of work we have done this year to help improve product disclosure and investor understanding.   | Annual investor confidence survey  |
| SOI 8: The FMA works with Government agencies and market participants to promote information and materials to improve investor capability  | Achieved<br>       | Achieved    | Examples from the past year include working with the Commission for Financial Capability on Money Week, MBIE on Fraud Awareness Week, KiwiSaver default providers on member engagement, and participating in the Fraud Interagency Group.  | Assessment of relevant FMA activity and joint work with other agencies         |
| <b>Effective frontline regulators (page 21)</b>  |   |             |  |  |
| SOI 9: Investors believe that frontline regulators contribute to well-regulated New Zealand financial markets  | 59%<br>            | 70-75%      | This result has decreased from 69% last year. This may be due to various issues in the markets. This may also be due to a change to the wording of the survey question (removing details of who the regulators are, to make the question less leading). Deeper analysis of the result shows confidence higher among those in managed funds (78%) and shares (68%), while those in KiwiSaver were least confident in regulation. The same measure is part of SPE 1. | Annual investor confidence survey  |
| <b>FMA effectiveness and efficiency (pages 26-27)</b>  |   |             |  |  |
| SOI 10: FMA stakeholders are aware of and agree that the FMA's activities target the appropriate strategic risks   | 63%<br>          | 70-75%      | While still below target, this is a 2% improvement on last year's result. We will refresh our Strategic Risk Outlook early in 2019, which will give us the opportunity to further review and refine how our work aligns to market risks.   | Annual 'Ease of doing business' survey of stakeholders and market participants |
| SOI 11: The FMA uses a range of regulatory tools to alleviate regulatory burden  | Achieved<br>     | Achieved    | 13 exemption notices were granted during this period. Use of the exemption power is the primary way the FMA can address issues of inappropriate compliance costs or unnecessary regulatory burden in the market.   | Assessment of FMA's use of regulatory tools                                    |
| SOI 12: Stakeholders agree that the regulatory burden of the FMA is proportionate to the value of the FMA's interactions, and to its broader impact on New Zealand's financial markets                         | Baseline set<br> | Achieved    | Balancing the benefit and burden of FMA activity is a consideration in all our activity, although regulated populations may have differing interpretations of 'balance'. This year we published information on our website to explain our efforts in this area.<br><br>The survey result has set a baseline of 50%; year-on-year improvement will signify achievement of this measure.   | Annual 'Ease of doing business' survey of stakeholders and market participants |
| SOI 13: The FMA delivers its outputs within its appropriation  | Achieved<br>     | Achieved    | At year-end, our operating surplus was \$3.3m compared to a budgeted surplus of \$0.8m, a positive variance of \$2.5m.   | Assessment of annual financial results   |
| SOI 14: The FMA works with other regulatory and Government agencies to have a positive combined impact on New Zealand financial markets, to reduce regulatory overlap, minimise gaps and increase efficiencies | Achieved<br>     | Achieved    | Examples from the past year include the joint Conduct and Culture Review with RBNZ, participation in the Council of Financial Regulators, and contributing to a number of financial legislation reviews. See page 26 for more examples.  | Assessment of relevant FMA activity and joint work with other agencies         |

# Statement of responsibility

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

The Board is responsible for any end-of-year performance information provided by the FMA under section 19A of the Public Finance Act 1989.

The Board is responsible 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 performance fairly reflect the financial position and operation of the FMA for the year ended 30 June 2018.



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**Murray Jack**

Chair  
Financial Markets Authority  
28 September 2018



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**Mark Todd**

Chair  
Audit and Risk Committee  
28 September 2018

# Statement of performance

## Performance standards and measures for the output of the FMA for the 12 months ended 30 June 2018

### Multi-Category Appropriation (MCA)

The aim of our regulatory activities, in line with our strategic priorities and appropriation category, is to minimise conduct risks, improve behaviours within our markets, and benefit market participants and investors.

The purpose of this appropriation is to support well-functioning financial markets through the activities of the FMA. Success is measured by SPE 1, the overarching measure that reflects our overall statutory purpose of fair, transparent and efficient financial markets.

| Actual<br>12 months to<br>30 June 2017<br>\$000s |                          | Actual<br>12 months to<br>30 June 2018<br>\$000s | Budget<br>12 months to<br>30 June 2018<br>\$000s |
|--|--------------------------|--|--|
| 27,940   | Revenue                  | 37,378   | 36,935   |
| 30,696   | Expenditure              | 34,128   | 36,183   |
| <b>(2,756)</b>                                   | <b>Surplus/(Deficit)</b> | <b>3,250</b>                                     | <b>752</b>                                       |

| SPE 1 measures   | Target<br>2017/18 | Actual<br>2017/18 | Actual<br>2016/17 | Comment  | Information<br>source  |
|--|-------------------|-------------------|-------------------|--|--|
| Stakeholders agree that the FMA's actions help raise standards of market conduct and integrity | 70%               | <b>84.5%</b><br>✓ | 88%<br>✓          | This result is comprised of two survey measures: <ul style="list-style-type: none"> <li>Stakeholders agree that FMA supports market integrity, which scored 87%</li> <li>Stakeholders agree that FMA helps raise standards of market conduct, which scored 82%.</li> </ul>   | Annual 'Ease of doing business' survey of stakeholders and market participants                                   |
| Investors are confident in New Zealand's financial markets                                     | 70%               | <b>66%</b><br>✗   | 69%<br>✓          | Investor confidence in financial markets is likely to have been affected by various high-profile governance issues in listed companies this year, as well as the Royal Commission in Australia.  | Annual investor confidence survey  |
| Licensed market participants show how they achieve good customer outcomes                      | 75%               | <b>47.8%</b><br>✗ | New<br>—          | We have not seen the expected level of licensed market participants showing how they achieve good customer outcomes. This may be partially due to conduct regulation and standards being relatively new in our financial services sector. Looking for evidence of 'conduct maturity' will be a key focus of our monitoring and supervision work this coming year.      | Findings from monitoring visit reviews of risk and compliance frameworks and disclosure of information to boards |
| Investors are confident in the quality of regulation of New Zealand's financial markets        | 68%               | <b>59%</b><br>✗   | 69%<br>✓          | The driving factor behind the drop is the number of 'don't know' responses to the survey question increasing from 16% to 23%. This may be due to a change to the wording of the survey question (removing details of who the regulators are, to make the question less leading). The result is also likely to have been impacted by the various issues in the markets. | Annual investor confidence survey  |
| Investor confidence index  | 71%               | <b>64.3%</b><br>✗ | 75%<br>✓          | The index is the weighted average of the four contributing measures above.   |  |

## Category One: Investigation and Enforcement Functions

This category is limited to the performance of statutory functions relating to the investigation and enforcement of financial markets legislation, including the assessment of complaints, tips, and referrals.

| Actual<br>12 months to<br>30 June 2017<br>\$000s |                          | Actual<br>12 months to<br>30 June 2018<br>\$000s | Budget<br>12 months to<br>30 June 2018<br>\$000s |
|--|--------------------------|--|--|
| 6,014  | Revenue                  | 8,315  | 8,065  |
| 6,714  | Expenditure              | 5,650  | 8,105  |
| <b>(700)</b>                                     | <b>Surplus/(Deficit)</b> | <b>2,665</b>                                     | <b>(40)</b>                                      |

**Major variances against budget:** FY18 was our first year of additional funding following the 2016 funding review. The proportional allocation of the new funding to Category One was significantly higher than the actual level of work undertaken in this category. As a result, a large surplus is reported in this category, and a deficit is reported in Category Three.

| Measure  | Target<br>2017/18 | Actual<br>2017/18 | Actual<br>2016/17 | Comment   | Information<br>source                                       |
|--|-------------------|-------------------|-------------------|---|---|
| SPE 2: Investigation and enforcement activities are undertaken and completed according to agreed timeframes and standards      | Achieved          | Achieved<br>✓     | Achieved<br>✓     | <p>To determine whether we have achieved this measure, we track our performance in the following areas:</p> <p>During the year, 94% of investigations were compliant with the internal reporting timeframes dictated by FMA's internal investigations policy and procedures (target 90%). The enforcement and governance framework was replaced with the new policy, effective 1 September 2016.</p> <p>We worked with the Serious Fraud Office on 100% of investigations of joint interest in accordance with Memorandum of Understanding (MOU) arrangements (target 100%).</p> <p>100% of MOU requests for assistance were completed within agreed timeframes to the satisfaction of international regulators (target 100%).</p> <p>95% of misconduct reports about market participants were acknowledged within two working days (target 95%).</p> <p>97% of misconduct reports were evaluated and followed up on within 10 working days (target 95%). This result covers the period 1 July 2017 to 25 March 2018. On 26 March 2018 we updated our information management systems, which resulted in data no longer being captured in a way that aligns with how this measure is reported.</p> <p>We are continuing to improve our processes and timeliness for investigations and enforcement activity. See page 26 for a description of the work we are doing in this area and our investment in systems to help us.</p> | Internal tracking of investigation and enforcement activity |
| SPE 3: We publish an annual Conduct Outcomes Report on key themes, actions and regulatory outcomes arising from market conduct | Achieved          | Achieved<br>✓     | Achieved<br>✓     | We published the Conduct Outcomes Report in February. It outlines how we responded to the areas of misconduct we saw during 2017. It covers our enforcement action, monitoring and supervision work, and our activities to address risks and harms on our regulatory perimeter. It also includes good practice suggestions for licensed financial service providers, and sets out where we will focus our energies in 2018.   | Publication of report                                       |

## Category Two: Licensing and Compliance Monitoring Functions

This category is limited to the performance of statutory functions relating to licensing of market participants and risk-based monitoring of compliance, including disclosure requirements under financial markets legislation.

| Actual<br>12 months to<br>30 June 2017<br>\$000s |                          | Actual<br>12 months to<br>30 June 2018<br>\$000s | Budget<br>12 months to<br>30 June 2018<br>\$000s |
|--|--------------------------|--|--|
| 12,748   | Revenue                  | 16,961   | 16,564   |
| 11,935   | Expenditure              | 15,426   | 15,914   |
| <b>813</b>                                       | <b>Surplus/(Deficit)</b> | <b>1,535</b>                                     | <b>650</b>                                       |

**Major variances against budget:** Revenue is above budget due to higher than anticipated licensing fees received during the period. Expenditure is slightly below budget due to a lower than budget spend across all expense categories.

| Measure  | Target<br>2017/18 | Actual<br>2017/18     | Actual<br>2016/17 | Comment   | Information<br>source                                       |
|--|-------------------|-----------------------|-------------------|---|---|
| SPE 4: Fully completed licence applications, regulated offers and completed applications for exemptions, are processed within agreed timeframes and standards  | Achieved          | <b>Achieved</b><br>✓  | Achieved<br>✓     | To determine whether we have achieved this measure, we track our performance in the following areas: <ul style="list-style-type: none"> <li>91.4% of completed licence applications were approved and processed within 60 working days (target 90%)</li> <li>100% of new product disclosure statements lodged or registered were risk-assessed within five working days (target 100%)</li> <li>100% of high-risk product disclosure statements were reviewed post-registration (target 100%)</li> <li>100% of completed exemption applications were processed within six weeks of receiving all relevant information, or as agreed with applicants (target 95%)</li> </ul> We will continue to monitor these timeframes closely as the resource demands of the Conduct and Culture Review increase. | Internal tracking of investigation and enforcement activity |
| SPE 5: The FMA conducts and reports on thematic reviews arising from the risks and priorities identified in its Strategic Risk Outlook and which are relevant to market conduct and investor decision-making | 5 reports         | <b>6 reports</b><br>✓ | 3 reports<br>✗    | We completed the following reviews: <ul style="list-style-type: none"> <li>Review of Managed Investment Schemes governing documents</li> <li>How retail fund managers invest in wholesale funds</li> <li>Compliance assurance programmes - How to guide</li> <li>Impact of conflicted remuneration (soft commissions) on advice</li> <li>Review of adviser conduct in life insurance</li> <li>Frontline Supervisors' (of MIS Managers) monitoring practices.</li> </ul>   | Publication of reviews (internal or external)               |

| Measure  | Target 2017/18 | Actual 2017/18       | Actual 2016/17 | Comment  | Information source                          |
|--|----------------|----------------------|----------------|--|---|
| SPE 6: Substantive FMA feedback on licensing applications, regulated offers and disclosures that result in improvements being made or documents withdrawn. | Achieved       | <b>Achieved</b><br>✓ | Achieved<br>✓  | To determine whether we have achieved this measure, we track our performance in the following areas: <ul style="list-style-type: none"> <li>In 100% (8 out of 8) of cases where we intervened, disclosure documents were improved or withdrawn (target 100%)</li> <li>100% of licensing decisions were unchallenged (target 95%). During the year we declined three FMC Act licence applications, and a further 10 were withdrawn by the applicants. Withdrawn applications are often a result of our initial feedback to the applicant indicating their application is not of the required standard.</li> </ul> | Tracking of relevant documents and activity |

### Category Three: Market Analysis and Guidance, Investor Awareness and Regulatory Engagement Functions

This category is limited to the performance of statutory functions relating to market intelligence, guidance, investor education, and regulatory and government co-operation and advice.

| Actual 12 months to 30 June 2017 \$000s |                          | Actual 12 months to 30 June 2018 \$000s | Budget 12 months to 30 June 2018 \$000s |
|---|--------------------------|---|---|
| 9,178                                   | Revenue                  | 12,102                                  | 12,306                                  |
| 12,047                                  | Expenditure              | 13,052                                  | 12,164                                  |
| <b>(2,869)</b>                          | <b>Surplus/(Deficit)</b> | <b>(950)</b>                            | <b>142</b>                              |

**Major variances against budget:** The proportional allocation of the new funding (see Category One variance explanation) allocation to Category Three didn't reflect the increase in focus on this category. As a result, a deficit is reported in Category Three.

| Measure  | Target 2017/18 | Actual 2017/18  | Actual 2016/17 | Comment   | Information source                           |
|--|----------------|-----------------|----------------|---|--|
| SPE 7: The FMA undertakes at least 20 industry or business presentations or speeches per year, with the aim of providing better information and insight for regulated populations. | 20             | <b>31</b><br>✓  | 26<br>✓        | The FMA is continuing to build its reputation for being a regulator that is easy to approach and looks at its mandate from a proactive, collaborative perspective. We continue to receive a large number of invitations to participate in industry activity.  | Tracking of relevant activity                |
| SPE 8: Percentage of FMA website visitors surveyed who rate the content they accessed as useful in helping them to comply, or to make informed investment decisions.               | 100%           | <b>94%</b><br>✗ | 92%<br>✓       | While the target was not achieved, the result is an increase on last year. We have made a number of improvements to our website during the year, which included: <ul style="list-style-type: none"> <li>restructuring the investor section to make it easier to find information</li> <li>improving the search function for the list of registered finance services providers and list of warnings</li> <li>adding visual and interactive elements throughout website.</li> </ul> The target for next year has been adjusted down slightly to 95%, which we consider is more realistic but still allows us to aim for continuous improvement. | Annual opt-in survey of FMA website visitors |

| Measure  | Target 2017/18 | Actual 2017/18  | Actual 2016/17  | Comment  | Information source            |
|--|----------------|-----------------|-----------------|--|-------------------------------|
| SPE 9: Market participants within the entity-based relationship management (EBRM) programme say they have benefited from the relationship. | 100%           | 89%<br><b>X</b> | 94%<br><b>✓</b> | This result is based on an annual survey of all 19 Tier 1 EBRM members. We received 9 responses in total; one entity stated they did not benefit from the programme, but did not give a reason for their response. | Annual survey of EBRM members |

## Financial Markets Authority litigation fund

This appropriation is limited to meeting the cost of major litigation activity arising from the enforcement of financial markets and securities markets law, or defending litigation action taken against the FMA.

| Actual 12 months to 30 June 2017 \$000s |                          | Actual 12 months to 30 June 2018 \$000s | Budget 12 months to 30 June 2018 \$000s |
|---|--------------------------|---|---|
| 1,620                                   | Appropriation revenue*   | 1,320                                   | 2,000                                   |
| 1                                       | Other revenue            | 9                                       | -                                       |
| 1,621                                   | Total Revenue            | 1,329                                   | 2,000                                   |
| 2,313                                   | Expenditure              | 1,329                                   | 2,000                                   |
| <b>(692)</b>                            | <b>Surplus/(Deficit)</b> | -                                       | -                                       |

\*The appropriation revenue received by the FMA equals the Government's actual expenses incurred in relation to the appropriations, which is a required disclosure from the Public Finance Act.

**Major variances against budget:** Both litigation revenue and expenditure are below budget primarily because of the timing of litigation matters and the settlement of litigation brought by the FMA proceedings.

| Assessment of performance  | Budget standard of performance 2017/18   | Actual standard of performance 2017/18   | Actual standard of performance 2016/17   |
|--|--|--|--|
| The Financial Markets Authority delivers a strong and credible monitoring and enforcement regime to uphold the Government's financial and securities markets law. Litigation is one of the tools used in carrying out the FMA's enforcement functions under its enabling statutes. | The FMA undertook litigation using the litigation fund as per the conditions of use. | The FMA undertook litigation using the litigation fund as per the conditions of use. | The FMA undertook litigation using the litigation fund as per the conditions of use. |

# Financial statements

## Statement of comprehensive revenue and expense

For the 12 months ended 30 June 2018

| Actual 2017<br>\$000s |   | Note | Actual 2018<br>\$000s | Budget 2018<br>\$000s |
|-----------------------|---|------|-----------------------|-----------------------|
|                       | <b>Revenue from non-exchange transactions</b>             |      |                       |                       |
| 26,184                | Government grant  | 2    | 36,000                | 36,000                |
| 1,621                 | Litigation fund revenue                                   | 3    | 1,329                 | 2,000                 |
|                       | <b>Revenue from exchange transactions</b>                 |      |                       |                       |
| 217                   | Interest  |      | 295                   | 203                   |
| 1,539                 | Other revenue   | 4    | 1,083                 | 732                   |
| <b>29,561</b>         | <b>Total revenue</b>                                      |      | <b>38,707</b>         | <b>38,935</b>         |
|                       | <b>Expenditure</b>  |      |                       |                       |
| 20,800                | Personnel expenses  | 5    | 23,248                | 24,690                |
| 3,081                 | Depreciation, amortisation and impairment losses          | 8,9  | 2,809                 | 2,816                 |
| 6,815                 | Other operating expenditure                               | 7    | 8,071                 | 8,677                 |
| 2,313                 | Litigation fund expenditure                               | 3    | 1,329                 | 2,000                 |
| <b>33,009</b>         | <b>Total expenditure</b>                                  |      | <b>35,457</b>         | <b>38,183</b>         |
| (3,448)               | Surplus/(deficit)   |      | 3,250                 | 752                   |
| <b>(3,448)</b>        | <b>Total comprehensive revenue and expenses</b>           |      | <b>3,250</b>          | <b>752</b>            |
|                       | <b>Total comprehensive revenue and expense comprises:</b> |      |                       |                       |
| (2,756)               | Net operating surplus/(deficit)                           |      | 3,250                 | 752                   |
| (692)                 | Net litigation fund surplus/(deficit)                     |      | -                     | -                     |
| <b>(3,448)</b>        | <b>Total comprehensive revenue and expenses</b>           |      | <b>3,250</b>          | <b>752</b>            |

Explanations of major variances against budget are provided in Note 21. The accompanying notes form part of these financial statements.



## Statement of changes in equity

For the 12 months ended 30 June 2018

| Actual 2017<br>\$000s |  | Note | Actual 2018<br>\$000s | Budget 2018<br>\$000s |
|-----------------------|--|------|-----------------------|-----------------------|
|                       | <b>Opening balance</b>                                 |      |                       |                       |
| 2,536                 | Accumulated funds/(deficit)                            |      | (220)                 | (915)                 |
| 844                   | Litigation fund  |      | 152                   | 844                   |
| 8,777                 | Capital contributions                                  |      | 9,027                 | 9,027                 |
| <b>12,157</b>         | <b>Total opening balance</b>                           |      | <b>8,959</b>          | <b>8,956</b>          |
|                       | <b>Comprehensive revenue and expenses for the year</b> |      |                       |                       |
| (2,756)               | Net operating surplus/(deficit)                        |      | 3,250                 | 752                   |
| (692)                 | Net litigation fund surplus/(deficit)                  |      | -                     | -                     |
| <b>(3,448)</b>        | <b>Total comprehensive revenue and expense</b>         |      | <b>3,250</b>          | <b>752</b>            |
|                       | <b>Capital contributions/(repayments) for the year</b> |      |                       |                       |
| 250                   | Current contributions                                  |      | 2,000                 | 2,000                 |
| -                     | Litigation fund repayment                              | 3    | (152)                 | -                     |
| <b>250</b>            | <b>Total capital contributions/(repayments)</b>        |      | <b>1,848</b>          | <b>2,000</b>          |
|                       | <b>Closing balances</b>                                |      |                       |                       |
| <b>8,959</b>          | <b>Closing balances</b>                                |      | <b>14,057</b>         | <b>11,708</b>         |
| (220)                 | Accumulated funds/(deficit)                            |      | 3,030                 | (163)                 |
| 152                   | Litigation fund  | 3    | -                     | 844                   |
| 9,027                 | Capital contribution                                   |      | 11,027                | 11,027                |
| <b>8,959</b>          | <b>Total closing balances</b>                          |      | <b>14,057</b>         | <b>11,708</b>         |

Explanations of major variances against budget are provided in Note 21. The accompanying notes form part of these financial statements.

## Statement of financial position

As at 30 June 2018

| Actual 2017<br>\$000s          |   | Note | Actual 2018<br>\$000s | Budget 2018<br>\$000s |
|--------------------------------|---|------|-----------------------|-----------------------|
| <b>Assets</b>                  |   |      |                       |                       |
| <b>Current assets</b>          |   |      |                       |                       |
| 2,460                          | Cash and cash equivalents                   |      | 8,262                 | 2,963                 |
| 246                            | Cash and cash equivalents - litigation fund |      | 1,217                 | 300                   |
| 2,500                          | Term deposits                               |      | 3,000                 | 3,000                 |
| 315                            | GST receivable                              |      | 421                   | 622                   |
| 941                            | Receivables                                 | 13   | 881                   | 668                   |
| <b>6,462</b>                   | <b>Total current assets</b>                 |      | <b>13,781</b>         | <b>7,553</b>          |
| <b>Non-current assets</b>      |   |      |                       |                       |
| 2,611                          | Property, plant and equipment               | 8    | 2,443                 | 2,254                 |
| 4,405                          | Intangible assets                           | 9    | 4,532                 | 6,446                 |
| <b>7,016</b>                   | <b>Total non-current assets</b>             |      | <b>6,975</b>          | <b>8,700</b>          |
| <b>13,478</b>                  | <b>Total assets</b>                         |      | <b>20,756</b>         | <b>16,253</b>         |
| <b>Liabilities</b>             |   |      |                       |                       |
| <b>Current liabilities</b>     |   |      |                       |                       |
| 1,753                          | Creditors and other payables                | 14   | 3,869                 | 1,440                 |
| 945                            | Employee entitlements                       |      | 1,113                 | 1,379                 |
| 142                            | Lease liabilities                           | 11   | 142                   | 142                   |
| <b>2,840</b>                   | <b>Total current liabilities</b>            |      | <b>5,124</b>          | <b>2,961</b>          |
| <b>Non-current liabilities</b> |   |      |                       |                       |
| 982                            | Lease liabilities                           | 11   | 878                   | 887                   |
| 697                            | Provisions                                  | 12   | 697                   | 697                   |
| <b>1,679</b>                   | <b>Total non-current liabilities</b>        |      | <b>1,575</b>          | <b>1,584</b>          |
| <b>4,519</b>                   | <b>Total liabilities</b>                    |      | <b>6,699</b>          | <b>4,545</b>          |
| <b>Equity</b>                  |   |      |                       |                       |
| (220)                          | Accumulated funds/(deficit)                 |      | 3,030                 | (163)                 |
| 152                            | Litigation fund                             | 3    | -                     | 844                   |
| 9,027                          | Capital contribution                        |      | 11,027                | 11,027                |
| <b>8,959</b>                   | <b>Total equity</b>                         |      | <b>14,057</b>         | <b>11,708</b>         |
| <b>13,478</b>                  | <b>Total equity and liabilities</b>         |      | <b>20,756</b>         | <b>16,253</b>         |

Explanations of major variances against budget are provided in Note 21. The accompanying notes form part of these financial statements.

## Statement of cash flows

For the 12 months ended 30 June 2018

| Actual 2017<br>\$000s                       | Note      | Actual 2018<br>\$000s | Budget 2018<br>\$000s |
|---|-----------|-----------------------|-----------------------|
| <b>Cash flows from operating activities</b> |           |                       |                       |
| <b>Cash was provided from:</b>              |           |                       |                       |
| Receipts from non-exchange transactions:    |           |                       |                       |
| 26,184                                      |           | 36,000                | 36,000                |
| 2,000                                       |           | 1,788                 | 1,991                 |
| Receipts from exchange transactions         |           |                       |                       |
| 208   |           | 290                   | 203                   |
| 1,680                                       |           | 1,028                 | 731                   |
| (66)  |           | 266                   | -                     |
| <b>Cash was disbursed to:</b>               |           |                       |                       |
| (9,323)                                     |           | (8,926)               | (13,205)              |
| (20,816)                                    |           | (23,194)              | (21,658)              |
| (58)  |           | (27)                  | (291)                 |
| <b>(191)</b>                                | <b>15</b> | <b>7,225</b>          | <b>3,771</b>          |
| <b>Cash flows from investing activities</b> |           |                       |                       |
| <b>Cash was provided from:</b>              |           |                       |                       |
| 1   |           | -                     | -                     |
| 25,500                                      |           | 26,500                | 24,000                |
| <b>Cash was applied to:</b>                 |           |                       |                       |
| (84)  |           | (501)                 | (240)                 |
| (1,609)                                     |           | (1,451)               | (4,271)               |
| (22,500)                                    |           | (27,000)              | (25,000)              |
| <b>1,308</b>                                |           | <b>(2,452)</b>        | <b>(5,511)</b>        |
| <b>Cash flows from financing activities</b> |           |                       |                       |
| 250   |           | 2,000                 | 2,000                 |
| <b>250</b>                                  |           | <b>2,000</b>          | <b>2,000</b>          |
| 1,367                                       |           | 6,773                 | 260                   |
| 1,339                                       |           | 2,706                 | 3,003                 |
| <b>2,706</b>                                |           | <b>9,479</b>          | <b>3,263</b>          |
| <b>Comprising</b>                           |           |                       |                       |
| 2,460                                       |           | 8,262                 | 2,963                 |
| 246   |           | 1,217                 | 300                   |
| <b>2,706</b>                                |           | <b>9,479</b>          | <b>3,263</b>          |

Explanations of major variances against budget are provided in Note 21. The accompanying notes form part of these financial statements.

# Notes to the financial statements

For the 12 months ended 30 June 2018

## Who is the FMA and what is the basis of financial statement preparation?

Note 1 — Reporting entity and basis of preparation

## Where do the FMA's funds come from?

Note 2 — Revenue from the Crown

Note 3 — Litigation fund revenue

Note 4 — Other revenue

## How does the FMA spend the funds?

Note 5 — Personnel expenses

Note 6 — Transactions with related parties

Note 7 — Other operating expenditure

## Property, plant and software used by the FMA for its operations

Note 8 — Property, plant and equipment

Note 9 — Intangible assets

Note 10 — Operating leases and capital commitments

Note 11 — Occupancy lease liabilities

Note 12 — Provisions

## Other notes

Note 13 — Receivables

Note 14 — Creditors and other payables

Note 15 — Reconciliation of the net surplus/(deficit) from operations with the net cash flows from operating activities

Note 16 — Contingencies

Note 17 — Events after the balance date

Note 18 — Going concern

Note 19 — Financial instruments

Note 20 — Capital management

## How did the FMA perform against budget?

Note 21 — Explanation of major variances against budget

## Appendix: Other accounting policies

Significant accounting policies

## Notes to the financial statements for the 12 months ended 30 June 2018

**Who is the FMA and what is the basis of financial statement preparation?****Note 1 — Reporting entity and basis of preparation**

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

The FMA is responsible for ensuring public confidence in New Zealand's financial markets, promoting innovation and supporting the growth of New Zealand's capital base through effective regulation.

The financial statements for the FMA are for the year ended 30 June 2018, and were approved by the Board on 28 September 2018.

**Basis of preparation**

The financial statements have been prepared on a going-concern basis, and the accounting policies have been applied consistently throughout the year.

**Statement of compliance and measurement base**

These financial statements for the FMA have been prepared in accordance with the requirements of the Crown Entities Act 2004, which includes the requirements to comply with generally accepted accounting practice in New Zealand (NZ GAAP). The financial statements have been prepared in accordance with Tier 1 PBE accounting standards.

**Functional and presentational currency**

These financial statements are presented in New Zealand

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

**Use of estimates and judgments**

The process of applying accounting policies requires the FMA to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue 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. Estimates have been used in calculating provisions. 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.

**Where do the FMA's funds come from?****Note 2 — Revenue from the Crown**

Revenue from the Crown is recognised as revenue when earned and is reported in the financial period when the funding becomes receivable by the FMA. Revenue is measured at the fair value of consideration received or receivable.

The 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.

## Notes to the financial statements for the 12 months ended 30 June 2018

### Note 3 — Litigation fund revenue

On 17 August 2017, the FMA entered into a new funding agreement with MBIE for the funding of litigation costs. From 1 July 2017, the litigation appropriation is paid to the FMA in advance via quarterly instalments. Prior to 1 July 2017, the FMA were reimbursed for costs retrospectively based on actual costs incurred and paid. The annual appropriation remains at \$2m per annum. It is non-exchange revenue with conditions as the FMA is required to return any unspent or unapplied funding to the Crown.

Amounts received are accounted for as litigation revenue received in advance during the year, and disclosed as litigation grant repayable to the Crown as at balance date. The fund is restricted for approved litigation purposes only as criteria set out in the litigation funding agreement.

As a result of the new funding agreement, the FMA no longer manages a litigation fund reserve, instead all litigation fund movements are recorded in litigation revenue received in advance under current liabilities.

|   | <b>Actual 2018<br/>\$000s</b> |
|---|-------------------------------|
| <b>Litigation fund reserves</b>                                 |                               |
| <b>Opening balance</b>  | <b>152</b>                    |
| Repayment of litigation reserves                                | (152)                         |
| <b>Closing balance</b>  | <b>-</b>                      |
| <b>Litigation fund movement</b>                                 |                               |
| Litigation appropriation received during the year               | 2,300                         |
| Interest revenue  | 9                             |
| <b>Total litigation fund receipts</b>                           | <b>2,309</b>                  |
| Expenditure on eligible litigation*                             | (2,145)                       |
| GST on litigation fund movement funded by FMA's operating fund  | (19)                          |
| <b>Total litigation expenditure</b>                             | <b>(2,164)</b>                |
| <b>Net litigation movement</b>                                  | <b>145</b>                    |
| <b>Litigation grant repayable to the Crown</b>                  | <b>145</b>                    |
| <b>Comprising</b>   |                               |
| Litigation cash and cash equivalents                            | 1,217                         |
| Trade and other payables  | (341)                         |
| Settlement fund and cost awards repayable to MBIE and FMA       | (488)                         |
| Litigation expenditure funded by FMA's operating fund repayable | (243)                         |
| <b>Litigation grant repayable to the Crown</b>                  | <b>145</b>                    |

\* Expenditure on eligible litigation is made up of \$1.833m + GST. The \$1.833m expenditure includes \$1.329m expenditure incurred during FY18, and \$504K prior year's cost funded from the FY18 litigation funding.

## Notes to the financial statements for the 12 months ended 30 June 2018

**Hanover settlement:** As at balance date, all funds from the settlement of the Hanover Finance Ltd matter have been paid to eligible recipients, or returned to the Crown. No funds are held in Trust.

**Prince & Partners:** During August 2017 the civil proceedings brought by the FMA against Prince & Partners were settled for \$4.5m and these monies were held in trust by Meredith Connell. Approximately \$3.6m have been distributed to both investors and Treasury, and the remaining \$0.9m has largely been returned to the Crown to cover external costs covered by the litigation fund, with the FMA retaining a small portion of approximately \$88K to cover internal costs incurred. As at balance date, all funds from the settlement of the Prince and Partners case has been paid to eligible recipients, or returned to the Crown. No funds are held in Trust.

**Viaduct and Mutual:** A cost application was brought against the Solicitor-General and the FMA in February 2018 as a result of the Viaduct and Mutual case. The High Court has awarded compensation to be paid by the FMA totalling \$50K. This cost has been recorded as a litigation expense in the reporting year.

**Warming award:** The High Court ordered a \$400K pecuniary penalty to be paid to the FMA in September 2017 as a result of a judgment in the Warming case that was held in the previous financial year. Of the \$400K received, \$163K was recorded as other income as a recovery for operational costs incurred, with the remaining portion paid back to the Crown in July 2018.

**Note 4 — Other revenue**

|                                  | Actual 2018<br>\$000s | Actual 2017<br>\$000s |
|----------------------------------|-----------------------|-----------------------|
| Audit quality review fees        | 215                   | 292                   |
| Financial statement filing fees* | -                     | 211                   |
| Licence fees**                   | 530                   | 889                   |
| Sundry revenue                   | 329                   | 16                    |
| Superannuation fees              | 9                     | 131                   |
| <b>Total other revenue</b>       | <b>1,083</b>          | <b>1,539</b>          |

\* The regulation that required the Registrar to collect a fee on behalf of the FMA for lodging financial statements was revoked on 1 July 2017. As such, the FMA no longer receives that fee.

\*\* Revenue for licence fees comprises application fees and hours charged for additional work performed. Revenue is recognised by reference to the stage of completion of the application at the reporting date and the probability of economic benefits accruing to the FMA.

## How does the FMA spend the funds?

### Note 5 — Personnel expenses

#### Employee benefits

Short-term employee benefits, including holidays, are recognised as an expense over the period in which they accrue. 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 accrued based on the higher of ordinary weekly pay as at the beginning of the annual holiday or average weekly earnings for the 12 months immediately before the end of the last pay period before the annual holiday.

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.

#### Superannuation Schemes

Obligations for contributions to KiwiSaver, the State Sector Retirement Savings Scheme and the Government Superannuation Fund are accounted for as defined contribution plan employer contributions and are recognised as an expense in the statement of comprehensive revenue and expense as incurred.

|  | Actual 2018<br>\$000s | Actual 2017<br>\$000s |
|--|-----------------------|-----------------------|
| Salaries and wages                               | 20,428                | 17,883                |
| Defined contribution plan employer contributions | 569                   | 503                   |
| ACC  | 37                    | 40                    |
| Member and committee fees                        | 502                   | 504                   |
| Contract staff                                   | 1,385                 | 1,737                 |
| Recruitment costs and transitional costs         | 291                   | 113                   |
| Redundancy                                       | 36                    | 20                    |
| <b>Total personnel expenses</b>                  | <b>23,248</b>         | <b>20,800</b>         |

During the 12-month period ended 30 June 2018, one employee received compensation and other benefits in relation to cessation totalling \$35,821 (2017: one employees, \$19,544).



## Notes to the financial statements for the 12 months ended 30 June 2018

**Employee remuneration**

During the period, the number of employees who received remuneration and other benefits in excess of \$100,000, were:

| Remuneration paid or payable (\$) | Number of employees<br>2018 | Number of employees<br>2017 |
|-----------------------------------|-----------------------------|-----------------------------|
| 610,001 to 620,000                | 1                           | -                           |
| 590,001 to 600,000                | -                           | 1                           |
| 360,001 to 370,000                | 1                           | 1                           |
| 350,001 to 360,000                | 1                           | -                           |
| 340,001 to 350,000                | -                           | 1                           |
| 300,001 to 310,000                | -                           | 1                           |
| 290,001 to 300,000                | 1                           | -                           |
| 280,001 to 290,000                | 2                           | -                           |
| 270,001 to 280,000                | 1                           | 1                           |
| 260,001 to 270,000                | -                           | 2                           |
| 250,001 to 260,000                | -                           | 1                           |
| 230,001 to 240,000                | 1                           | -                           |
| 220,001 to 230,000                | -                           | 1                           |
| 210,001 to 220,000                | 1                           | 1                           |
| 200,001 to 210,000                | 4                           | 1                           |
| 190,001 to 200,000                | -                           | 2                           |
| 180,001 to 190,000                | 3                           | -                           |
| 170,001 to 180,000                | 4                           | 5                           |
| 160,001 to 170,000                | 2                           | 2                           |
| 150,001 to 160,000                | 7                           | 4                           |
| 140,001 to 150,000                | 9                           | 8                           |
| 130,001 to 140,000                | 11                          | 9                           |
| 120,001 to 130,000                | 9                           | 9                           |
| 110,001 to 120,000                | 16                          | 10                          |
| 100,001 to 110,000                | 16                          | 14                          |
| <b>Total</b>                      | <b>90</b>                   | <b>74</b>                   |

## Notes to the financial statements for the 12 months ended 30 June 2018

### Composition of Board Members' remuneration

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

|  | Actual 2018<br>\$000s | Actual 2017<br>\$000s |
|--|-----------------------|-----------------------|
| S. Cave                                  | -                     | 41                    |
| P. Gai                                   | 11                    | -                     |
| A. Grimes                                | 12                    | 44                    |
| M. Holm                                  | 35                    | 40                    |
| M. Jack                                  | 148                   | 148                   |
| E. Longworth                             | 41                    | 3                     |
| A. McLaren                               | 39                    | 29                    |
| W. Stevens                               | 42                    | 49                    |
| V. Stoddart                              | 38                    | 40                    |
| C. Stuart                                | 39                    | 41                    |
| M. Todd                                  | 48                    | 51                    |
| <b>Total Board Members' remuneration</b> | <b>453</b>            | <b>486</b>            |

A total payment of \$13,750 was made to one board observer in the period.

#### New member:

| Member name | Membership term start date |
|-------------|----------------------------|
| P. Gai      | April 2018                 |

#### Leaving member:

| Member name | Membership term expiry date |
|-------------|-----------------------------|
| A. Grimes   | November 2017               |

### Composition of Code Committee remuneration

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

|  | Actual 2018<br>\$000s | Actual 2017<br>\$000s |
|--|-----------------------|-----------------------|
| M. Biss                                  | 1                     | 1                     |
| R. Butler                                | 2                     | -                     |
| J. Duffy                                 | 1                     | 1                     |
| S. Edmond                                | 1                     | 1                     |
| M. Hawes                                 | 1                     | 1                     |
| D. Ireland                               | 10                    | 7                     |
| D. Kingsford                             | -                     | -                     |
| S. O' Connor                             | 1                     | 1                     |
| D. Russell                               | -                     | -                     |
| G. Young                                 | 1                     | 1                     |
| <b>Total Code Committee remuneration</b> | <b>18</b>             | <b>13</b>             |

## Notes to the financial statements for the 12 months ended 30 June 2018

**Composition of Financial Advisers Disciplinary Committee remuneration**

Financial Advisers Disciplinary Committee fees are paid on the basis of time spent on the work of the committee. Fees were:

|   | Actual 2018<br>\$000s | Actual 2017<br>\$000s |
|---|-----------------------|-----------------------|
| T. Berry  | 1                     | -                     |
| G. Clews  | 8                     | 3                     |
| S. Hassan   | 2                     | -                     |
| P. Houghton   | 2                     | 1                     |
| D. McDonald   | -                     | -                     |
| J. Robertson (Sir Bruce Robertson)                                  | 5                     | 1                     |
| <b>Total Financial Advisers Disciplinary Committee remuneration</b> | <b>18</b>             | <b>5</b>              |

**Professional indemnity insurance**

The FMA has purchased directors' and officers' liability and professional indemnity insurance cover during the period. This insurance is in respect of the liability or costs of Board members and employees.

**Note 6 — Transactions with related parties**

The FMA is a wholly owned entity of the Crown.

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

In accordance with PBE IPSAS 20, related party disclosures have not been made for transactions with related parties that are within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those that it is reasonable to expect the FMA would have adopted in dealing with the party at arm's length in the same circumstances.

However, the following related party disclosure is made voluntarily, recognising the FMA's role as a publicly funded agency. The transactions were entered into at an arms-length irrespective of the disclosed related party relationships on the FMA's board.

For the purposes of disclosure, the FMA notes:

Murray Jack chairs the FMA board. He is chair of Chartered Accountants Australia and New Zealand. This amalgamated body has regulatory responsibilities for New Zealand resident-issuer auditors, for which the FMA has oversight.

| Supplier  | Purpose of transactions             | Transaction value     |                       |
|---|-------------------------------------|-----------------------|-----------------------|
|   |                                     | Actual 2018<br>\$000s | Actual 2017<br>\$000s |
| Chartered Accountants Australia and New Zealand | Training and annual membership fees | 10                    | 43                    |

Transactions with other government agencies – disclosure of related-party transactions is not required as they are consistent with the normal operating arrangements between government agencies and have been undertaken on the normal terms and conditions for such transactions.

## Notes to the financial statements for the 12 months ended 30 June 2018

|  | Actual 2018<br>\$000s | Actual 2017<br>\$000s |
|--|-----------------------|-----------------------|
| <b>Short term employee benefits</b>                |                       |                       |
| Board member's remuneration                        | 453                   | 486                   |
| Full time equivalent members                       | 1.04                  | 1.13                  |
| Code Committee remuneration                        | 18                    | 13                    |
| Full time equivalent members                       | 0.07                  | 0.05                  |
| Disciplinary Committee remuneration                | 18                    | 5                     |
| Full time equivalent members                       | 0.06                  | 0.02                  |
| Executive team remuneration                        | 2,856                 | 2,894                 |
| Full time equivalent members                       | 8.18                  | 8.78                  |
| <b>Key management personnel compensation</b>       | <b>3,345</b>          | <b>3,398</b>          |
| <b>Total key management personnel compensation</b> | <b>3,345</b>          | <b>3,398</b>          |
| <b>Total full-time equivalent personnel</b>        | <b>9.35</b>           | <b>9.98</b>           |

Key management personnel include all board and committee members and the executive team. The full-time equivalent for board and committee members has been determined based on the frequency and length of board and committee meetings, and the estimated time to prepare for such meetings.

An analysis of Board member remuneration is provided in Note 5.

### Note 7 — Other operating expenditure

|  | Actual 2018<br>\$000s | Actual 2017<br>\$000s |
|--|-----------------------|-----------------------|
| Fees to Audit New Zealand for financial statements audit | 84                    | 73                    |
| Doubtful debts expense                                   | -                     | (2)                   |
| Loss on disposal of fixed assets                         | 35                    | -                     |
| Operating lease expenses                                 | 1,832                 | 1,817                 |
| Professional services                                    | 1,796                 | 1,112                 |
| Services and supplies                                    | 3,598                 | 3,289                 |
| Travel and accommodation                                 | 726                   | 526                   |
| <b>Total other operating expenditure</b>                 | <b>8,071</b>          | <b>6,815</b>          |

Services and supplies are mainly ICT expenses.

## Notes to the financial statements for the 12 months ended 30 June 2018

**Property, plant and software used by the FMA for its operations****Note 8 — Property, plant and equipment**

Property, plant and equipment are recognised at cost less depreciation, and less any impairment losses.

Where an item of property, plant and equipment is acquired in a non-exchange transaction for \$nil or nominal consideration, the asset is initially measured at its fair value.

Costs are recognised as Capital work in progress until the assets are operating in a manner intended by management, at which time they are transferred to property, plant and equipment. When put into use, the depreciation charge commences.

Depreciation is charged as follows:

|                        | <b>Assets acquired<br/>pre 1 July 2015</b>    | <b>Assets acquired<br/>post 1 July 2015</b>   |
|------------------------|---|---|
| Office equipment       | Straight line over<br>three years             | Straight line over a period of 3 to 5 years<br>based on the estimated useful lives of<br>each category of asset |
| Office furniture       | 20 percent of diminishing value               | Straight line over five years   |
| Leasehold improvements | Straight line over<br>remaining life of lease | Straight line over<br>remaining life of lease   |

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

## Notes to the financial statements for the 12 months ended 30 June 2018

|  | Office<br>equipment<br>\$000s | Office<br>furniture<br>\$000s | Leasehold<br>improvements<br>\$000s | Total<br>\$000s |
|--|-------------------------------|-------------------------------|-------------------------------------|-----------------|
| <b>Cost</b>                                  |                               |                               |                                     |                 |
| Property, plant and equipment at 1 July 2016 | 1,375                         | 736                           | 3,551                               | 5,662           |
| Additions                                    | 167                           | -                             | -                                   | 167             |
| Disposals                                    | (96)                          | -                             | -                                   | (96)            |
| <b>Balance at 30 June 2017</b>               | <b>1,446</b>                  | <b>736</b>                    | <b>3,551</b>                        | <b>5,733</b>    |
| Additions                                    | 350                           | 22                            | 64                                  | 436             |
| Disposals                                    | (37)                          | (2)                           | -                                   | (39)            |
| <b>Balance at 30 June 2018</b>               | <b>1,759</b>                  | <b>756</b>                    | <b>3,615</b>                        | <b>6,130</b>    |
| <b>Accumulated depreciation</b>              |                               |                               |                                     |                 |
| Property, plant and equipment at 1 July 2016 | (1,174)                       | (352)                         | (1,081)                             | (2,607)         |
| Depreciation expense                         | (146)                         | (69)                          | (396)                               | (611)           |
| Elimination on disposal                      | 96                            | -                             | -                                   | 96              |
| <b>Balance at 30 June 2017</b>               | <b>(1,224)</b>                | <b>(421)</b>                  | <b>(1,477)</b>                      | <b>(3,122)</b>  |
| Depreciation expense                         | (143)                         | (61)                          | (399)                               | (603)           |
| Elimination on disposal                      | 37                            | 1                             | -                                   | 38              |
| <b>Balance at 30 June 2018</b>               | <b>(1,330)</b>                | <b>(481)</b>                  | <b>(1,876)</b>                      | <b>(3,687)</b>  |
| <b>Carrying amounts</b>                      |                               |                               |                                     |                 |
| At 30 June 2017                              | 222                           | 315                           | 2,074                               | 2,611           |
| At 30 June 2018                              | 429                           | 275                           | 1,739                               | 2,443           |

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

### Note 9 — Intangible assets

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

*The costs associated with the development of intangible assets for internal use are recognised as capital work in progress until the assets are operating in a manner intended by management, at which time the costs are transferred to software. When put into use, the depreciation charge commences.*

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

*Costs associated with development and maintenance of the 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.*

## Notes to the financial statements for the 12 months ended 30 June 2018

Computer software is amortised as follows:

|                   | <i>Software acquired pre 1 July 2015</i>  | <i>Software acquired post 1 July 2015</i>   |  |
|-------------------|---|---|--|
| Computer software | <i>The useful life and associated amortisation rate is three years (33.3%).</i> | <i>To be amortised over three to five years (20% -33.33%), based on the expected useful life of each asset.</i> |  |

|   | <b>Computer software<br/>\$000s</b> | <b>Capital work<br/>in progress<br/>\$000s</b> | <b>Total<br/>\$000s</b> |
|---|-------------------------------------|--|-------------------------|
| <b>Cost</b>                             |                                     |  |                         |
| Intangible assets at 1 July 2016        | 9,492                               | 1,719  | 11,211                  |
| Additions                               | 147                                 | 1,130  | 1,277                   |
| Transfers from capital work in progress | 2,236                               | (2,236)  | -                       |
| <b>Balance at 30 June 2017</b>          | <b>11,875</b>                       | <b>613</b>                                     | <b>12,488</b>           |
| Additions                               | 140                                 | 2,344  | 2,484                   |
| Disposals/adjustments                   | (364)                               | -  | (364)                   |
| Transfers from capital work in progress | 491                                 | (491)  | -                       |
| <b>Balance at 30 June 2018</b>          | <b>12,142</b>                       | <b>2,466</b>                                   | <b>14,608</b>           |
| <b>Accumulated depreciation</b>         |                                     |  |                         |
| Intangible assets at 1 July 2016        | (5,469)                             | -  | (5,469)                 |
| Amortisation expense                    | (2,470)                             | -  | (2,470)                 |
| <b>Balance at 30 June 2017</b>          | <b>(7,939)</b>                      | <b>-</b>                                       | <b>(7,939)</b>          |
| Amortisation expense                    | (2,060)                             | -  | (2,060)                 |
| Elimination on disposal                 | 213                                 | -  | 213                     |
| <b>Balance at 30 June 2018</b>          | <b>(9,786)</b>                      | <b>-</b>                                       | <b>(9,786)</b>          |
| <b>Impairment provision</b>             |                                     |  |                         |
| Costs provided at 1 July 2017           | -                                   | (144)  | (144)                   |
| Additional costs provided               | -                                   | (146)  | (146)                   |
| <b>Balance at 30 June 2018</b>          | <b>-</b>                            | <b>(290)</b>                                   | <b>(290)</b>            |
| <b>Carrying amounts</b>                 |                                     |  |                         |
| At 30 June 2017                         | 3,936                               | 469  | 4,405                   |
| At 30 June 2018                         | 2,356                               | 2,176  | 4,532                   |

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

#### Impairment of property, plant and equipment, and intangible assets

During the current year an impairment of \$146K (2017: \$Nil) has been recognised in respect of intangible assets.

## Notes to the financial statements for the 12 months ended 30 June 2018

### Note 10 — Operating leases and capital commitments

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.

#### Operating leases as lessee

|   | Grey Street<br>\$000s | Takutai Square<br>\$000s | Total<br>\$000s |
|---|-----------------------|--------------------------|-----------------|
| <b>2018</b>                                       |                       |                          |                 |
| Not later than one year                           | 465                   | 1,429                    | 1,894           |
| Later than one year and not later than five years | 930                   | 5,776                    | 6,706           |
| Later than five years                             | -                     | -                        | -               |
| <b>Total non-cancellable operating leases</b>     | <b>1,395</b>          | <b>7,205</b>             | <b>8,600</b>    |
| <b>2017</b>                                       |                       |                          |                 |
| Not later than one year                           | 436                   | 1,385                    | 1,821           |
| Later than one year and not later than five years | 1,309                 | 5,998                    | 7,307           |
| Later than five years                             | -                     | 1,207                    | 1,207           |
| <b>Total non-cancellable operating leases</b>     | <b>1,745</b>          | <b>8,590</b>             | <b>10,335</b>   |

The FMA has two leased properties as at 30 June 2018.

In Wellington, 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 the lease make-good provision, the FMA has assumed it will vacate the premises at the end of the lease term, being 30 June 2021.

The FMA's lease of Takutai Square has a lease expiry date of 31 March 2023. For the lease make-good provision, the FMA has assumed that it will vacate the premises at the end of the lease term.

#### Capital commitments

There are no capital commitments at balance date (2017: \$Nil).



## Notes to the financial statements for the 12 months ended 30 June 2018

**Note 11 — Occupancy lease liabilities****Gifted assets**

Office furniture and leasehold improvements gifted by the sublessor in a prior financial period have been recognised at their fair value with reference to the market price of these assets at the date control was obtained. The value recognised is to be amortised over the life of the lease.

**Occupancy incentives**

Lease incentive payments received are recorded as a liability and amortised over the life of the lease.

**Deferred rental liability**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, which will create a deferred rental liability during the initial stages of the lease as the lease agreement provides for future rent increases.

Movements for each type of lease liability are as follows:

|                                | Gifted assets<br>\$000s | Occupancy incentives<br>\$000s | Deferred rental<br>\$000s | Total<br>\$000s |
|--------------------------------|-------------------------|--------------------------------|---------------------------|-----------------|
| Balance at 1 July 2016         | 757                     | 202                            | 233                       | 1,192           |
| Amortisation                   | (112)                   | (30)                           | 74                        | (68)            |
| <b>Balance at 30 June 2017</b> | <b>645</b>              | <b>172</b>                     | <b>307</b>                | <b>1,124</b>    |
| Balance at 1 July 2017         | 645                     | 172                            | 307                       | 1,124           |
| Amortisation                   | (112)                   | (30)                           | 38                        | (104)           |
| <b>Balance at 30 June 2018</b> | <b>533</b>              | <b>142</b>                     | <b>345</b>                | <b>1,020</b>    |

|                                  | Actual 2018<br>\$000s | Actual 2017<br>\$000s |
|----------------------------------|-----------------------|-----------------------|
| <b>Non-current portion</b>       |                       |                       |
| Occupancy incentives             | 533                   | 675                   |
| Deferred rental                  | 345                   | 307                   |
| <b>Total non-current portion</b> | <b>878</b>            | <b>982</b>            |
| <b>Current portion</b>           |                       |                       |
| Occupancy incentives             | 142                   | 142                   |
| Deferred rental                  | -                     | -                     |
| <b>Total current portion</b>     | <b>142</b>            | <b>142</b>            |
| <b>Total lease liabilities</b>   | <b>1,020</b>          | <b>1,124</b>          |

## Notes to the financial statements for the 12 months ended 30 June 2018

### Note 12 — 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 and 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.

|                            | Actual 2018<br>\$000s | Actual 2017<br>\$000s |
|----------------------------|-----------------------|-----------------------|
| <b>Non-current portion</b> |                       |                       |
| Lease make-good            | 697                   | 697                   |
| Total non-current portion  | 697                   | 697                   |
| <b>Total provisions</b>    | <b>697</b>            | <b>697</b>            |

### Lease make-good provision

In respect of certain leases, the 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 the FMA. Information about the FMA's leasing arrangements is disclosed in Note 10.

Movements for each class of provision are as follows:

|                                | Lease make-good<br>provision \$000s |
|--------------------------------|-------------------------------------|
| Balance at 1 July 2016         | 697                                 |
| Additional provisions made     | -                                   |
| Unused amounts reversed        | -                                   |
| <b>Balance at 30 June 2017</b> | <b>697</b>                          |
| Balance at 1 July 2017         | 697                                 |
| Additional provisions made     | -                                   |
| Unused amounts reversed        | -                                   |
| <b>Balance at 30 June 2018</b> | <b>697</b>                          |

The anticipated costs required to make-good both leased properties have been provided for in full.

## Notes to the financial statements for the 12 months ended 30 June 2018

**Other notes****Note 13 — Receivables**

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

The FMA recognises a provision for impairment where there is objective evidence of its debtors being unable to make required payments.

|  | Actual 2018<br>\$000s | Actual 2017<br>\$000s |
|--|-----------------------|-----------------------|
| Trade debtors  | 61                    | 407                   |
| Other receivables  | 181                   | 202                   |
| <b>Total debtors and other receivables</b>                 | <b>242</b>            | <b>609</b>            |
| Prepayments  | 639                   | 332                   |
| <b>Total receivables</b>                                   | <b>881</b>            | <b>941</b>            |
| <b>Total debtors and other receivables comprise:</b>       |                       |                       |
| Receivables from services provided (exchange transactions) | 219                   | 222                   |
| Receivables from grants (non-exchange transactions)        | 23                    | 387                   |
| <b>Total debtors and other receivables</b>                 | <b>242</b>            | <b>609</b>            |

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

|                            | 2018<br>\$000s | 2017<br>\$000s |
|----------------------------|----------------|----------------|
| Not past due               | 19             | 363            |
| Past due one to 30 days    | 30             | 29             |
| Past due 31 to 60 day      | -              | -              |
| Past due 61 to 90 days     | 5              | 7              |
| Past due over 90 days      | 7              | 8              |
| <b>Total trade debtors</b> | <b>61</b>      | <b>407</b>     |

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

No individual impairment has been recognised during the current year (2017: \$Nil).

## Notes to the financial statements for the 12 months ended 30 June 2018

### Note 14 — Creditors and other payables

Short-term creditors and other payables are recorded at their face value as they are non-interest bearing and are generally settled within 30 days.

|  | Actual 2018<br>\$000s | Actual 2017<br>\$000s |
|--|-----------------------|-----------------------|
| <b>Current</b>   |                       |                       |
| Trade creditors  | 2,707                 | 836                   |
| Accrued expenses and other payables                          | 1,006                 | 904                   |
| Revenue in advance   | 11                    | 13                    |
| Litigation grant repayable to the Crown                      | 145                   | -                     |
| <b>Total current creditors and other payables</b>            | <b>3,869</b>          | <b>1,753</b>          |
| <b>Non-current</b>   |                       |                       |
| Accrued expenses and other payables                          | -                     | -                     |
| <b>Total non-current creditors and other payables</b>        | <b>-</b>              | <b>-</b>              |
| <b>Total current creditors and other payables comprise:</b>  |                       |                       |
| Creditors and other payables under exchange transactions     | 3,724                 | 1,753                 |
| Creditors and other payables under non-exchange transactions | 145                   | -                     |
| <b>Total current creditors and other payables</b>            | <b>3,869</b>          | <b>1,753</b>          |

### Note 15 — Reconciliation of the net surplus/(deficit) from operations with the net cash flows from operating activities

|   | Actual 2018<br>\$000s | Actual 2017<br>\$000s |
|---|-----------------------|-----------------------|
| <b>Reporting surplus/(deficit)</b>                                  | <b>3,250</b>          | <b>(3,448)</b>        |
| <b>Add non-cash items:</b>  |                       |                       |
| - allocation of doubtful debt provision                             | -                     | (6)                   |
| - allocation of lease incentives                                    | (142)                 | (142)                 |
| - allocation of deferred rental                                     | 38                    | 74                    |
| - depreciation, amortisation and impairment losses                  | 2,809                 | 3,081                 |
| - loss on disposal of fixed assets                                  | 35                    | -                     |
| <b>Add/(less) movement in working capital:</b>                      |                       |                       |
| - increase/(decrease) in creditors                                  | 2,115                 | (328)                 |
| - (increase)/decrease in receivables                                | (45)                  | 324                   |
| - increase/(decrease) in employee entitlements                      | 168                   | 6                     |
| <b>Add/(less) movement in investing activities:</b>                 |                       |                       |
| - increase/(decrease) in creditors relating to investing activities | (851)                 | 248                   |
| <b>Add/(less) movement in financing activities:</b>                 |                       |                       |
| - litigation fund (reserve) converted to litigation fund revenue    | (152)                 | -                     |
| <b>Net cash flows from operating activities</b>                     | <b>7,225</b>          | <b>(191)</b>          |

## Notes to the financial statements for the 12 months ended 30 June 2018

**Note 16 — Contingencies**

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.

**Contingent liabilities**

The FMA undertakes civil court action from time to time. Should the 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 the FMA's financial position (2017: \$Nil).

**Contingent assets**

There are no contingent assets at balance date (2017: \$Nil).

**Note 17 — Events after the balance date**

Subsequent to the balance date, the costs decision in respect of the Viaduct and Mutual case (see note 3) has been appealed.

**Note 18 — Going concern**

There is currently no indication of anything that would affect the FMA's ability to continue as a going concern.

**Note 19 — Financial instruments****Financial instrument categories**

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. All financial assets being cash and cash equivalents, term deposits, trade and other receivables have been categorised as loans and receivables.

Financial liabilities being trade and other payables (excluding revenue in advance) are categorised as financial liabilities measured at amortised cost.

**Financial instrument risks**

The FMA's activities expose it to a variety of financial instrument risks, including market risk, credit risk and liquidity risk. The FMA has a series of policies to manage the risks associated with financial instruments and seeks to minimise exposure to those 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 the 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. Considering the FMA's exposure to interest rate risk arises from term investments only, the exposure to such risk is limited.

Term deposits are made for periods less than, equal to, or greater than three months depending on the cash requirements of the FMA, and earn interest at the respective short-term deposit rates.

**Interest rate risk**

The FMA's exposure to fair value interest rate risk is limited to its term deposits which are held at fixed rates of interest and, the FMA does not hold any term deposits with a variable interest rate. FMA does not actively manage its exposure to fair value interest rate risk.

FMA's investment policy requires a spread of investment maturity dates to limit exposure to short-term interest rate movements.

**Credit risk**

Credit risk represents the risk that a third party will default on its obligations to the FMA, causing it to incur a loss. Financial instruments that subject FMA to credit risk consist of bank balances, bank term deposits, and 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.

Cash and deposits are held with Westpac New Zealand Limited, Bank of New Zealand Limited, ASB Bank Limited, ANZ Bank New Zealand Limited and Kiwibank Limited. They are all registered banks in New Zealand and their long-term credit ratings are:

|                              | Moody's | Standard & Poors |
|------------------------------|---------|------------------|
| ASB Bank Limited             | A1      | AA-              |
| ANZ Bank New Zealand Limited | A1      | AA-              |
| Bank of New Zealand          | A1      | AA-              |
| Kiwibank Limited             | A1      | A                |
| Westpac New Zealand Limited  | A1      | AA-              |

Kiwibank's credit rating with Standard & Poors currently falls below our required minimum credit rating of A+ for the placement of funds on term deposit. As such, no term deposits were held with Kiwibank during the year.

The FMA does not require collateral or security to support financial instruments. Trade receivables mainly relate to

## Notes to the financial statements for the 12 months ended 30 June 2018

receivables from the Government so exposure to this risk is very low.

### Liquidity risk

Liquidity risk represents the 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. The FMA mostly manages liquidity risk by continuously monitoring forecast and actual cash flow requirements.

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

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

### Contractual maturity analysis of financial liabilities:

As the FMA's creditors are mainly those reported as trade and other payables, the FMA will pay these within six months of incurring the liability.

### Note 20 — Capital management

The FMA's capital is its equity, which is comprised of accumulated funds, litigation fund and capital contribution. Equity is represented by net assets.

The 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.

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

## How did the FMA perform against budget?

### Note 21 — Explanation of major variances against budget

The budget figures are derived from the Statement of Performance Expectations 2017–2018 as approved by the Board in May 2017. The budget figures are for the 12 months to 30 June 2018 and have been prepared in accordance with PBE FRS-42, using accounting policies that are consistent with those adopted by the Board in preparing these financial statements.

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

### Statement of comprehensive revenue and expense

#### 1. Revenue

— Interest income was above budget from having consistently higher bank and term deposit balances during the period.

— Other revenue was above budget due to higher than anticipated revenues for licensing and application fees, coupled with settlement funds received for the Warming case as cost recoveries.

— Litigation fund revenue was below budget due to the unpredictability of the incurrence of expenditure on open cases.

#### 2. Expenditure

— Personnel costs were lower than budget, due to vacancies during the period and some savings in recruitment and transitional costs.

— Other operating expenses were below budget, with savings reflected across all expense categories.

### Statement of Financial Position

#### 1. Assets

— Cash and cash equivalents and term deposits are higher than budget as a result of lower than expected capital expenditure as well as the savings in our operating expenditure.

— Non-current assets:

i. Property, plant and equipment are lower than budget due to lower than planned CAPEX spend in the period.

ii. Intangible assets are lower than budget due to the change in scope and timing of project work being undertaken.

## Notes to the financial statements for the 12 months ended 30 June 2018

## 2. Liabilities

— Creditors and other payables exceed budget due to the litigation grant repayable to the Crown that was not budgeted for and the purchase of an intelligence system that is payable as at balance date.

— Employee entitlements are lower than budget due to timing of annual leave taken, and year end staff vacancies.

## 3. Litigation fund

—With the change in the litigation funding agreement, the FMA no longer holds a litigation fund reserve. The litigation appropriation is now received in advance which is recorded as a liability as noted in item 2 above and in Note 3 on page 54.

**Statement of Cash flows**

## 1. Cash flows from operating activities

— Cash disbursed to suppliers was significantly lower than budget primarily due to lower operating expenditure across all categories.

— Cash disbursed to employees was less than budget due to staff vacancies and savings in recruitment and transitional costs.

## 2. Cash flows from investing activities

— Cash applied to term deposits was substantially higher than budget due to the surplus in cash resulting from lower capital and operating spends throughout the period.

**Appendix: Other accounting policies****Significant accounting policies**

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

**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.

**Term deposits**

This category includes only term deposits with maturities greater than three months.

**Impairment of 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 FMA's property, plant and equipment and intangible assets are not held with the primary objective of generating a commercial return, these assets are classified as non-cash generating assets, and therefore 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 revenue and expense whenever the carrying amount of an asset exceeds its recoverable amount. Any reversal of impairment losses is also recognised in the statement of comprehensive revenue and expense.

**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 is included as part of current assets or current liabilities in the statement of financial position.

Commitments and contingencies are disclosed exclusive of GST.

## Notes to the financial statements for the 12 months ended 30 June 2018

### **Income tax**

The 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.

### **Cost allocation policy**

The 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.

### **Equity**

The FMA's equity comprises the following reserves:

- Accumulated funds / (deficit) arising from normal operating activities, funded by a government appropriation and other revenue.
- Capital contribution reserve comprising closing accumulated funds transfers from the Securities Commission and capital contributions made to fund specific capital investment.
- Litigation fund reserve was utilised for the purpose of covering costs and expenses incurred by the FMA in taking or defending eligible cases prior to 1 July 2017. There is a new funding agreement effective 1 July 2017; as such the FMA no longer manages a litigation fund reserve. See Note 3 — Litigation fund revenue for details.





# Contacting us

## When to contact us

We investigate a range of complaints about the conduct of individuals and businesses that operate in our financial markets. We may be able to help if your complaint is about:

- conduct of the businesses and individuals we license and authorise
- illegal investment offers and schemes
- New Zealand incorporated 'shell' companies
- fair dealing in the conduct and advertising of financial product and service providers
- unregistered financial service providers
- misleading advertising about investments
- complaints about the FMA.

We also rely on 'whistleblowers' to help us to maintain market integrity. We would like to hear any concerns about misconduct you may have seen in your workplace.

## Areas we don't cover

The following organisations are the first point of contact for the areas listed.

- Citizens Advice Bureau – legal advice
- Commerce Commission – competition law and fair trading, credit (including hire purchase) and debt
- New Zealand Companies Office – registered companies and other entities, Financial Service Providers Register
- Sorted (Commission for Financial Capability) – advice on personal finance, planning and budgeting, and financial wellbeing
- Consumer Protection (MBIE) – consumer scams
- NZ Police; Serious Fraud Office – identify theft, financial crimes or fraud
- Reserve Bank of New Zealand – prudent supervision of banks and insurers
- Advertising Standards Authority – media advertising

## How to get in touch

General enquiries: 0800 434 567 | Complaints: 0800 434 566 | Overseas callers: 00 64 3 962 2698

Our lines are open Monday to Thursday 8.30am to 5pm and Friday 9am to 5pm

Online: [fma.govt.nz](https://fma.govt.nz) | Email: [questions@fma.govt.nz](mailto:questions@fma.govt.nz)



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