



AUGUST 2022

Annual Corporate Plan 2022/23

Introduction

The Financial Markets Authority – Te Mana Tātai Hokohoko (FMA) is an independent Crown entity and New Zealand's principal conduct regulator of financial markets. Our overarching statutory purpose is to promote and facilitate the development of fair, efficient and transparent financial markets.

Well-regulated financial markets are a cornerstone of a successful economy and the financial wellbeing of all New Zealanders.

Through our broad and expanding remit we are well-placed to facilitate fair outcomes for New Zealanders.

Our 2022/23 Annual Corporate Plan (ACP) provides our stakeholders with details of the FMA's priority outcomes and intended programme of work for this financial year.

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Foreword from the Chief Executive

Joining the FMA earlier this year has been a privilege for me, returning to New Zealand where I spent my formative years, after 30 years of regulatory experience in Europe. As a regulator, the FMA has reached a point of inflection on the horizon of growth and expansion. I am excited to have joined at this time, to lead the organisation through a period of significant change.

We continue to operate against a backdrop of uncertainty, where our financial ecosystem is evolving and adapting – sometimes in unprecedented ways. In short, it's a period of change for the industry and a period of change for the FMA.

It's important the FMA works with industry to ensure New Zealand has a successful financial services sector that works well for all New Zealanders.

My overarching focus is ensuring the FMA is ready to deliver on its significant remit expansion, and that as a result we become a world-leading conduct regulator. This is certainly no small task, and I'm cognisant of the important role and responsibility we have as a regulator. We've been fortunate to receive greater funding to effectively implement this enhanced remit, so we must ensure that we deliver value for New Zealanders.

Meeting these challenges will ensure we meaningfully work towards fostering a strong and trusted financial

sector that treats people fairly. To embed this, the FMA will have a greater focus on fair outcomes for consumers and markets. This is a bold ambition and reflects my view of the financial sector as an enabler of people's lives. In turn, this will shape how the FMA operates as we step onto the pathway of deepening our understanding of

consumers and how they interact with financial markets and services. A key focus for me is also broadening our engagement with Māori.

In terms of our expanding remit, the new financial advice regime came into

effect in March last year, introducing a two-year transition period for providers to move from a transitional to full licence. The Government has now passed legislation for banks, insurers and non-bank deposit takers to be licensed by the FMA in relation to their general conduct, and we expect to open the application process for this in mid-2023. And with New Zealand leading the world to introduce a mandatory climate reporting regime for listed organisations, the FMA will be responsible for the monitoring and enforcement of this.

To prepare the FMA for this significant expansion and elevate our capabilities, I have initiated a strategic change programme. This recognises that the FMA needs to

“It's important the FMA works with industry to ensure New Zealand has a successful financial services sector that works well for all New Zealanders.”

change how it is organised and how it delivers its work, including introducing new capabilities and skillsets.

I am focused on smoothly implementing this change, while maintaining our current momentum. As reflected in this plan, we will continue to prioritise our core regulatory activities such as licensing, monitoring and enforcement, with a particular focus on responding to egregious misconduct. We will also respond to emerging regulatory risks and opportunities, and target our interventions accordingly. To that end, we are prioritising areas such as cyber security and operational resilience, reviewing use of the wholesale investor classification, consumer research and insights, and innovation.

“...it is vital we maintain our steadfast focus on ensuring fair outcomes for New Zealanders, and helping them to build their financial wellbeing.”

As we and the industry navigate these changes, it is vital we maintain our steadfast focus on ensuring fair outcomes for New Zealanders, and helping them to build their financial wellbeing.

Ngā manaakitanga,

Samantha Barrass
Chief Executive, Financial Markets Authority



Plan on a page

2022/23 priority outcomes	2022/23 activity focus areas	
<p>Regulatory outcomes</p> <ul style="list-style-type: none"> Undertake efficient and effective licensing and monitoring activities Respond promptly to egregious misconduct Work with relevant agencies to detect and deter financial crime in New Zealand 	<ul style="list-style-type: none"> FMC Act licensing Consultation on Derivative Issuer standard condition Consultation on regulatory returns for FAPs Planned monitoring Auditing and financial reporting reviews Financial Market Infrastructures implementation and approach 	<ul style="list-style-type: none"> Reactive monitoring Using regulatory tools Enforcement action Anti-Money Laundering and Countering Financing of Terrorism supervision Responding to frauds and scams
<ul style="list-style-type: none"> Continue to build our understanding of consumers and the sectors we regulate Progress our approach to cyber security and operational resilience Support informed consumer decision-making of financial products and services Facilitate market innovation and development Influence and set clear expectations for providers and consumers 	<ul style="list-style-type: none"> Cross-sector thematic review on governance Wholesale investors thematic review Managed Investment Scheme sector risk assessment Discretionary Investment Management Service sector risk assessment Consumer research and insights Cyber security and operational resilience approach 	<ul style="list-style-type: none"> Consumer awareness campaigns Supporting innovation Granting exemptions and other legislative tools Industry engagement Value for money reviews Performance fees guidance Liquidity risk management guidance
<ul style="list-style-type: none"> Drive continuous improvement in frontline regulation Work with relevant agencies to improve New Zealand's financial system 	<ul style="list-style-type: none"> Supervisor relicensing Accredited body monitoring Market operator reviews 	<ul style="list-style-type: none"> Co-regulator engagement Policy input
<p>Cross-FMA outcome</p> <ul style="list-style-type: none"> Effectively plan and begin implementing our Strategic Change Programme 	<ul style="list-style-type: none"> Implementing strategic remit changes (CoFI and CRD) Developing a new conduct framework Refreshing our data and intelligence strategy 	<ul style="list-style-type: none"> Reviewing our Statement of Intent and Statement of Performance Expectations Building our Te Ao Māori capability Implementing a new target operating model and organisational structure
<p>Organisational outcomes</p> <ul style="list-style-type: none"> Attract, retain, and nurture talent Continue to promote staff wellbeing Continuously improve our internal technology and systems Continuously improve our internal decision-making processes, including governance, risk management, audit, prioritisation, and evaluation practices Maintain prudent financial planning and management capabilities 	<ul style="list-style-type: none"> Recruiting and retaining staff Strategic planning Operational budgeting 	<ul style="list-style-type: none"> Promoting staff wellbeing Ongoing improvement of our technology and systems Robust decision-making

Environmental scan

The following commentary provides an overview of key trends in New Zealand's financial markets, setting the context for our areas of regulatory focus.

Cross-sector



The New Zealand economy and financial markets saw significant developments and uncertainties across 2021 and early 2022, including ongoing disruptions from COVID-19, historically tight labour markets, continued supply chain issues, rising inflationary pressures, and Russia's invasion of Ukraine.

The tapering of monetary stimulus by the Reserve Bank of New Zealand and global central banks has had a direct impact on asset and money markets, while investor search for yield continues to be driven by rising costs of living and debt servicing.

There continues to be a broad suite of legislative reform impacting the financial sector, not only within the FMA's remit, but also across the Government.

Digitisation has accelerated since the onset of the pandemic, with entities providing more self-service and point-of-sale options.

Cyber-attacks are impacting New Zealand organisations and are increasing in frequency, sophistication, and severity, with financial service providers being a popular target.

Several other trends increased in prominence since last year, including an increasing interest in Environmental, Social and Governance (ESG) and Te Ao Māori focus

areas, and the proliferation of new and novel products and services.

The way that consumers engage with financial markets continues to evolve with technological advancements and increasing ease of access to financial services, resulting in a stronger 'do-it-yourself' mentality, particularly among younger generations.

Capital markets



New Zealand's capital markets have faced significant challenges in the last year, including the ongoing impact of COVID-19, rising interest rates, the invasion of Ukraine, tight labour markets, and supply chain disruptions. These factors have contributed to an uncertain economic environment and a sustained contraction in the value of capital markets in recent quarters.

The composition and trading behaviour of capital markets has continued to evolve over the last 12 months. A new stock exchange, designed as a gateway to the NZX for small-to-medium-sized enterprises, has been launched. Retail engagement with capital markets has continued to grow following the initial surge in participation after the onset of COVID-19, which has increased the volume of low-value transactions in listed equity markets. Price volatility has also increased in line with the rise of passive investment strategies such as ETFs (exchange traded funds).

Environmental scan

Over the last 12 months, the FMA has received increasing numbers of referrals from the NZX about potential misconduct. Wholesale offers are an area of increased regulatory focus, including the use of advertising channels that are likely to reach investors with lower levels of financial experience, and heavy reliance on the 'self-certification' wholesale classification.

In October 2021, the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill was passed and received Royal assent. This will require around 200 large financial institutions covered by the Financial Markets Conduct Act 2013 (FMC Act) to start making climate-related disclosures.

Investment management



Managed funds are one of the main avenues for New Zealanders to meaningfully improve their long-term financial wellbeing. As at December 2021, managed funds regulated by the FMA were worth approximately \$170 billion, of which \$92 billion was in KiwiSaver.

The default KiwiSaver market underwent significant change in 2021, with six default providers appointed. New requirements regarding balanced asset allocations and responsible investment came into effect. More managers are adopting a passive low-fee structure and/or outsourcing their fund management, while others have begun to offer DIY approaches and access to fractionalised investments.

Search for yield and a heightened inflationary environment have contributed to increased investor activity in alternative asset classes, including property syndicates and wholesale markets. We have seen some managed funds incorporate new asset classes such as cryptocurrencies, which may contribute to volatility and unanticipated risk exposure. We also continue to observe rising investor interest in ESG topics, alongside an increase in ESG-related investments and impact-branded funds.

As the current environment has shifted to rising interest rates, higher inflation, and a contraction in the value of many asset classes, investment fund managers are also grappling with heightened uncertainty. The FMA has continued its focus on value for money and embedding competitive pressures within industry, to ensure that economies of scale are passed on to investors and that fees and charges fairly reflect the level of service received.

Banking & insurance



The Financial Markets (Conduct of Institutions) Amendment Bill (CoFI) was passed and received its Royal assent in mid-2022, expanding the FMA's remit to license banks, insurers, and non-bank deposit takers in relation to their general conduct. We will continue to work with these financial institutions to ensure they are prepared for the new regime, with licence applications expected to open in mid-2023.

Current and forecasted economic settings, including inflationary pressures, rising interest rates, and declining business and consumer confidence, could adversely affect the profitability of banks and insurers. There will also be important considerations for fair treatment of consumers, particularly those in vulnerable circumstances, as debt servicing and general costs of living increase.

Banks continue to divest their insurance operations. There is also emerging competition from alternative payment providers, such as those offering buy-now-pay-later arrangements.

Retail advice & access



The sector is undergoing a period of change with the new financial advice regime that came into effect in March 2021. Those operating under a transitional licence must move to a full licence by March 2023 to continue providing regulated financial advice to retail customers. We continue to work with the sector to support this transition with user friendly tools and guides, together with a dedicated licensing team.

Another important trend is the rise of online investment platforms, which has made it easier for New Zealanders to access financial markets. We commissioned research into retail investors last year, which found that new investors are more likely to be influenced by online forums and an

emotional connection with a company's brand than by financial reports and disclosures.

We continue to see fraud and scam activity targeting consumers in the context of rising inflation, low interest rates, and search for yield.

2022/23 priority outcomes

For the 2022/23 financial year, our work will be guided by a set of priority outcomes that span all our sectors.

This year, we have different types of priority outcomes reflecting the nature of work as well as our current point of inflection:

Our **regulatory outcomes** target the most significant risks and opportunities in our regulatory environment, relating to our core regulatory activities.

Our **cross-FMA outcome** directly relates to our strategic change programme activities, which will set the FMA up for success with our expanding remit.

Our **organisational outcomes** aim to strengthen our operational capabilities, relating to our core organisational activities.

These priority outcomes will drive the activities we undertake and our allocation of resources for the coming year. We will regularly review our priorities and activities to ensure they are responsive to market developments.

2022/23 regulatory outcomes

Undertake efficient and effective licensing and monitoring activities

- **FMC Act licensing** – We will continue to process and assess FMC Act licence applications. This includes assessing applications for administrators of a financial benchmark, and also supporting Financial Advice Providers (FAPs) leading into the deadline of March 2023 to hold a full licence to continue providing advice.
- **Derivative Issuer standard condition** – We will consult on a new Derivative Issuer standard condition to limit leverage.
- **FAPs regulatory returns** – We will consult on a new set of regulatory return questions designed to inform and guide our future monitoring.
- **Planned monitoring** – We will undertake planned monitoring of licensed entities across our sectors using a risk-based approach.
- **Audit and financial reporting reviews** – We will complete audit quality reviews and publish our annual Audit Quality Monitoring Report. We will also monitor compliance with the financial reporting requirements for FMC reporting entities.
- **Financial Market Infrastructures (FMI) implementation and approach** – As a joint regulator with the RBNZ, we will continue to monitor and engage with the operators of designated settlement systems. We will progress the implementation of the new FMI Act regime, initially focusing on the development of standards and guidance, and systemic importance assessments with the work on the development of regulations and designations to follow in 2023.

Respond promptly to egregious misconduct

- **Reactive monitoring** – We will prioritise our reactive monitoring through assessing misconduct cases, notifications (regulatory reporting), enquiries, complaints and intelligence cases.
- **Using regulatory tools** – We will use our broad suite of regulatory tools (including warnings, censures, and direction orders) to effect behaviour change and address misconduct.
- **Enforcement action** – We will continue to investigate and take enforcement action, particularly in relation to consumer harm arising from insider trading, market manipulation, and breaches in continuous disclosure obligations. We will also continue to investigate and enforce fair dealing breaches, with a focus on banks and insurers, and the advertising of financial products.

Work with relevant agencies to detect and deter financial crime in New Zealand

- **Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) supervision** – We will undertake proactive AML/CFT monitoring, contribute to the ongoing regulatory and legislative changes expected from the AML/CFT Act review, and continue to take action on non-compliance (including Court proceedings where appropriate). We will continue to support the Transnational Organised Crime Strategy and Russia Sanctions rollout.
- **Responding to frauds and scams** – We will work alongside other Government agencies to raise awareness of frauds and scams, including publishing warnings and participating in fraud-awareness activities.

2022/23 regulatory outcomes

Continue to build our understanding of consumers and the sectors we regulate

- **Cross-sector thematic review on governance** – We will progress our joint thematic review with the RBNZ, focused on boards of regulated entities and their ability to effectively govern and provide oversight.
- **Wholesale investors thematic review** – We will continue our thematic review on the use of the wholesale classification and regulation of property syndicates.
- **Managed Investment Scheme (MIS) sector risk assessment** – We will publish our findings and engage with industry on a sector risk assessment of MIS Managers.
- **Discretionary Investment Management Service (DIMS) sector risk assessment** – We will undertake a sector risk assessment of DIMS providers to inform our future planned and thematic monitoring.
- **Consumer research and insights** – We will undertake consumer research, with an increased focus on understanding their perceptions and behaviours in relation to financial products and services. This includes the annual consumer experiences survey, which looks at consumers' financial situations, the financial products they own, and their experiences with providers.

Progress our approach to cyber security and operational resilience

- **Cyber security and operational resilience approach** – We will enhance our regulatory approach to cyber security and operational resilience, including consulting on a new FMC Act standard condition, enhancing our monitoring approach, and engaging with stakeholders and other regulators to raise awareness and capability.

Support informed consumer decision-making of financial products and services

- **Consumer awareness campaigns** – We will run awareness campaigns informed by insights from our consumer research, to engage with and alert New Zealanders about pertinent financial matters.

Facilitate market innovation and development

- **Supporting innovation** – We will continue work on the Council of Financial Regulators (CoFR) Fintech forum to ensure the New Zealand regulatory system facilitates innovation that improves outcomes for consumers and participants of the financial system.
- **Granting exemptions and other legislative tools** – Where appropriate, we will grant legislative tools such as exemptions from compliance with provisions in the FMC Act and designations that change the way products and other matters are regulated.

Influence and set clear expectations for providers and consumers

- **Industry engagement** – We will continue to actively engage with industry and their representative bodies, including through our Stakeholder Relationship Management programme, roadshows, workshops, seminars and forums, and briefings.
- **Value for money reviews** – We will continue to support the Supervisors as they work with MIS managers to embed regular reviews of whether they are providing value for money to investors.
- **Performance fees guidance** – Building on our value for money focus, we will update our guidance on performance fees, including benchmark expectations.
- **Liquidity risk management guidance** – Following consultation, we will publish follow-on guidance about liquidity risk management for managed funds.

Drive continuous improvement in frontline regulation

- **Supervisor relicensing** – We will assess frontline Supervisor licence applications and make decisions on relicensing pursuant to the Financial Markets Supervisors Act.
- **Accredited body monitoring** – We will continue to monitor the audit regulatory systems of accredited bodies to ensure they are effective frontline regulators of FMC licensed auditors.
- **Market operator reviews** – We will continue to conduct reviews of how NZX and other market operators are meeting their licensee obligations.

Work with relevant agencies to improve New Zealand's financial system

- **Co-regulator engagement** – We will engage with co-regulators, both in New Zealand and internationally, including through CoFR. The current CoFR priority areas are climate risks, conduct and governance, cyber resilience, digital change and innovation, inclusion, and regulatory burdens and barriers to entry.
- **Policy input** – We will continue contributing to development of the law through advice to the Ministry of Business, Innovation and Employment, Ministers, and other relevant agencies.

2022/23 cross-FMA outcome

Effectively plan and begin implementing our Strategic Change Programme.

The Strategic Change Programme seeks to ensure the FMA is best positioned to accelerate our growth and expansion plans for overseeing a broader remit, and becomes a more outcomes-focused regulator. The programme will ultimately seek to lift our capabilities over the medium term.

Initiatives include:

- **Implementing strategic remit changes (CoFI and CRD)** – We have specific programmes dedicated to implementing our significant remit changes in relation to the conduct of financial institutions and climate-related disclosures regimes. We will be engaging with industry to prepare for and implement these changes, including publishing guidance and hosting industry workshops.
- **Developing a new Conduct Framework** – We are developing a new Conduct Framework, which will underpin our significant transition to becoming an outcomes-focused regulator and inform the refresh of our conduct guide. This will also include a significant engagement programme on the core outcomes for consumers and markets that will frame our approach. Through the development of the framework, we will also be enhancing our focus on behavioural economics to better understand the drivers of behaviour, as well as the efficacy of our regulatory interventions.
- **Refreshing our data and intelligence strategy** – In the context of an expanded remit, we will refresh our data and intelligence strategy to ensure we are intelligence-led and optimally risk-based in our work.
- **Reviewing our Statement of Intent (SOI) and Statement of Performance Expectations (SPE)** – We will comprehensively review our strategic intentions and performance measures, which will be reflected in the SOI and SPE documents published in 2023.
- **Building our Te Ao Māori capability** – We are committed to embedding Te Ao Māori in how we operate and our regulatory approach, including understanding how we can support the development of the Māori economy and greater participation of Māori in financial markets.
- **Implementing a new target operating model and organisational structure** – We are planning to implement a new operating model and organisational structure to execute our expanded mandate and drive sustainable success as a conduct regulator.

2022/23 organisational outcomes

Attract, retain, and nurture talent

- **Recruiting and retaining staff** – To support and grow our capabilities in a tight labour market, we will expand our candidate pool and adopt a more proactive and targeted recruitment practice. We will continue to mature our learning and development programme, which includes technical and non-technical training and development opportunities.

Continue to promote staff wellbeing

- **Promoting staff wellbeing** – We will continue to prioritise and promote inclusion and diversity at the FMA. We will continue to foster a positive culture across the organisation, and ensure all staff have appropriate support to do their work confidently and effectively.

Continuously improve our internal technology and systems

- **Ongoing improvement of our technology and systems** – We will continue work to make the FMA's information technology functions and systems more cost-effective, agile, secure, and modern.

Continuously improve our internal decision-making processes, including governance, risk management, audit, prioritisation, and evaluation practices

- **Strategic planning** – We will develop and review our priorities and work programme through our strategic planning process, and increase our focus on evaluation practices through quarterly reviews.
- **Robust decision-making** – We will maintain our robust decision-making processes through a range of internal committees and groups comprised of relevant experts that meet regularly to review significant policies, projects and decisions.

Maintain prudent financial planning and management capabilities

- **Operational budgeting** – We will maintain effective management of FMA finances and our operational budget, including the use of our litigation fund.

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