

---

# Statement of performance expectations 2017–2018





---

# Statement of authorisation

This Statement of Performance Expectations (SPE) is presented to the House of Representatives in accordance with Part 4 of the Crown Entities Act 2004.

This SPE sets out our financial forecast for the financial year 1 July 2017 to 30 June 2018. It is prepared in line with the Crown Entities Act 2004 and should be read together with the FMA's Statement of Intent 2017-2020.

The prospective financial statements, prepared in accordance with FBE FRS-42 for this SPE, have not been audited and should not be relied upon for any other purposes.

The FMA is responsible for the preparation of this SPE, including the forecast financial statements and the assumptions on which they are based, the non-financial measures and the judgments which used them.



Murray Jack  
**Chair**  
Financial Markets Authority  
9 May 2017



Mark Todd  
**Chair**  
Audit and Risk Committee  
9 May 2017

This copyright work is licensed under the Creative Commons Attribution 3.0 New Zealand licence. You are free to copy, distribute and adapt the work, as long as you attribute the work to the Financial Markets Authority and abide by the licence terms. To view a copy of this licence, visit <http://creativecommons.org/licenses/by/3.0/nz/>. Please note that the Financial Markets Authority logo may not be used in any way which infringes any provision of the Flags, Emblems, and Names Protection Act 1981. <http://www.legislation.govt.nz/act/public/1981/0047/latest/DLM51358.html> Attribution to the Financial Markets Authority should be in written form, not by reproduction of the Financial Markets Authority logo.

---

# Contents

<b>Purpose of the SPE</b>	<b>3</b>
<b>Linking our strategic priorities to the performance measures</b>	<b>4</b>
<b>Non-financial measures</b>	<b>6</b>
<b>Category one: Investigation and enforcement activities</b>	<b>7</b>
<b>Category two: Licensing and compliance monitoring functions</b>	<b>8</b>
<b>Category three: Market analysis and guidance, investor awareness and regulatory engagement</b>	<b>9</b>
<b>Forecast financial statements</b>	<b>10–14</b>
<b>Statement of significant assumptions</b>	<b>15</b>
<b>Appropriations</b>	<b>16</b>
<b>Statement of significant accounting policies</b>	<b>17</b>

---

# Purpose of the SPE

The SPE is one of two documents which set out how we measure our future performance, and report on the progress of that performance, against our performance targets. The other document is the Statement of Intent (SOI) which offers a three-to-five year medium-term view of the progress made towards achieving our strategic priorities.

The SPE covers one financial year. It describes how we intend to perform the services we receive funding for, through our Government appropriation. The SPE includes an overarching measure – the ‘Investor Confidence Index’. It measures a number of factors we believe contribute to whether New Zealand’s financial markets are fair, efficient and transparent.

This year, we have reduced the number and improved the quality of our performance measures, as there was considerable overlap between the previous sets of SPE and SOI measures. As well, some of the measures simply counted activity, rather than evaluating worthwhile results.

We will continue to review our measures to ensure they are focussed on the impact we want to have on investors, market participants and the market in general.

We encourage feedback on our approach and the measures chosen. We will report on how we performed against the measures in this SPE in the Annual Report 2017.

Our SPE targets link to our strategic priorities in our [Strategic Risk Outlook 2017](#). The diagram sets out how these seven priorities map to the related categories appropriation.

# Linking our strategic priorities to the performance measures

The combined measures reflect our overall statutory purpose:  
Fair, transparent and efficient financial markets.

## Strategic priority

## We want to see



**Governance and culture**

Boards and senior management leading organisational culture and placing customer interests at the centre of their business strategies.



**Conflicted conduct**

Conflict management procedures designed to put customer interests first.



**Capital market growth and integrity**

Resilient and dynamic capital markets with broad investor participation and sound infrastructure.



**Investor decision-making**

Capable, confident and well-informed investors.



**Sales and advice**

Sales and advice practices designed to meet the needs of customers.



**Frontline regulators**

Frontline regulators who contribute to well-regulated financial markets.



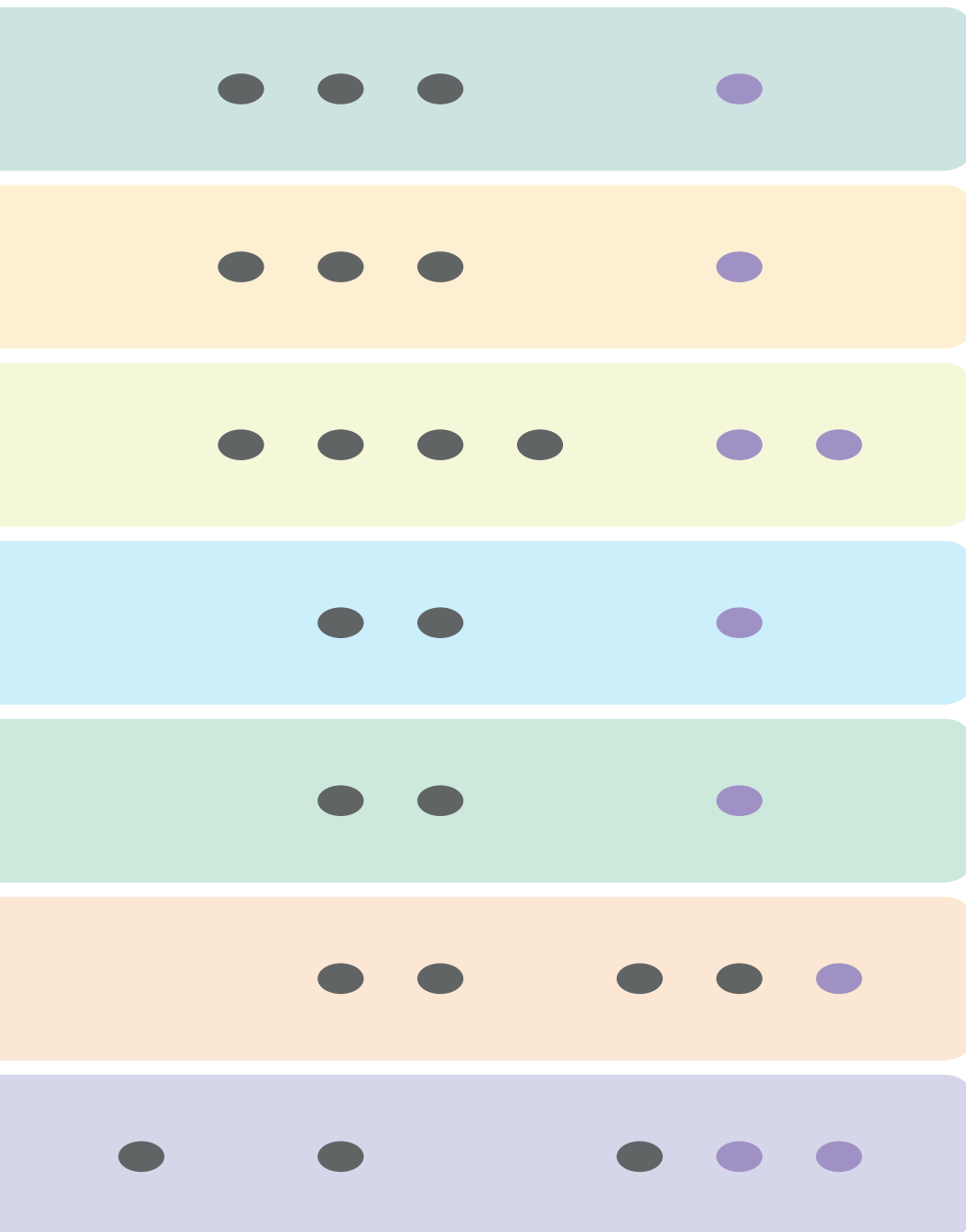
**FMA effectiveness and efficiency**

The FMA as an efficient and effective intelligence-led regulator.

**SPE 1** Over-arching measure

**Performance measure number**

**SPE 2    SPE 3    SPE 4    SPE 5    SPE 6    SPE 7    SPE 8    SPE 9**



● This performance measure may apply depending on the subject matter of the relevant work or report.

# Non-financial measures

## Overarching measure

The 'Investor Confidence Index' reflects the purpose of our regulatory activities. As well as a number of contributing factors encompassed within this overarching measure – some within our sphere of control and others for which we share a joint responsibility with other regulators, market participants and investors directly.

The overarching measure includes four, equally weighted, contributing factors which are outlined in the table below. These four factors make up our overarching measure (SPE1) and reflect our overall statutory purpose of fair, transparent and efficient financial markets.

Forecast standard	Contributing factor	Measure	2017/18 target to be achieved	2016/17 forecast	2015/16 actual
<b>SPE 1</b>					
Stakeholders agree that the FMA's actions help raise standards of market conduct and integrity.	Stakeholders, investors and general financial services consumers view of the effectiveness of our regulatory activities.	Survey	70%	Revised measure	Revised measure
Investors are confident in New Zealand's financial markets.	Survey. Largely a measure of investor sentiment. But part of the wider picture of investor confidence.	Survey	70%	65%	59%
Licensed market participants show how they achieve good customer outcomes.	Reflecting that market participant conduct has a direct impact on investor confidence (or is a crucial contributor to investor confidence).	Direct FMA monitoring and supervisory work.	75%	New measure	New measure
Investors are confident in the quality of regulation of New Zealand's financial markets.	This reflects other regulators' roles and responsibilities (such as NZX) towards contributing to investor confidence.	Survey	68%	65%	63%
Investor confidence index			71%		



# Category one

## Investigation and enforcement activities

This category is about the work we do when we need to take action against financial market misconduct. Our actions are timely, proportionate and evaluate risk and potential harm.

It includes:

- Whether the activities we carry out are of an appropriate standard, and timely.
- Publishing an annual Conduct Outcomes Report that sets out how we have identified, evaluated, investigated, and responded to misconduct.

Measure	2017/18 target to be achieved	2016/17 forecast	2015/16 actual	Strategic priority
<b>SPE 2</b> Investigation and enforcement activities are undertaken and completed according to agreed timeframes and standards.*	Achieved	Revised measure	Revised measure	FMA effectiveness and efficiency
<b>SPE 3</b> We publish an annual Conduct Outcomes Report on key themes, actions and regulatory outcomes arising from market conduct.	Achieved	One report	One report	Governance and culture Conflicted conduct Capital markets growth and integrity Sales and advice Investor decision-making**

\* SPE 2 consolidates a number of service delivery measures from the SPE 2015/16. The FMA intends to achieve the following targets within timeframes and standards set out in the enforcement governance framework (90%), Memoranda of Understanding with the Serious Fraud Office and international regulators (100%), and internal standards that acknowledge and evaluate misconduct reports (95%); and for referrals from fellow New Zealand regulators (95%).

\*\* Depending on its content, the Conduct Outcomes Report will be relevant to several, or in some years, all seven strategic priorities.

## Category two

### Licensing and compliance monitoring functions

This category is about risk-based monitoring and surveillance.

It includes:

- Ensuring licence applications, exemptions and other activities are processed efficiently and to an appropriate standard
- Publishing thematic reports which link to our strategic risks and priorities
- Ensuring our feedback is put into practice by those we regulate.

Measure	2017/18 target to be achieved	2016/17 forecast	2015/16 actual	Strategic priority
<b>SPE 4</b> Fully completed licence applications, regulated offers and completed applications for exemptions, are processed within agreed timeframes and standards.***	Achieved	Revised measure	Revised measure	FMA Effectiveness and efficiency
<b>SPE 5</b> 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.****	Five reports	Five reports	Five reports	Governance and culture Conflicted conduct Capital markets growth and integrity** Sales and advice Investor decision-making Frontline regulators
<b>SPE 6</b> Substantive FMA feedback on licensing applications, regulated offers and disclosures that result in improvements being made or documents withdrawn.*****	Achieved	Revised measure	Revised measure	Capital markets growth and integrity

\*\*\* SPE 4 consolidates a number of service delivery measures from the SPE 2015/16. The FMA intends to achieve the following targets within timeframes and standards set out for processing fully completed licensed applications, in line with established processes, (90% within 60 working days), risk assessments of regulated offers after a new Product Disclosure Statement (PDS) is lodged or a new prospectus is registered (100% within five working days), and review of high-risk regulated offers post-registration or lodgement (100%).

\*\*\*\* SPE 5 improves an existing measure from SPE 2015/16.

\*\*\*\*\* SPE 6 consolidates two measures from SPE 2015/16.

## Category three

### Market analysis and guidance, investor awareness and regulatory engagement

This category is about engaging with, setting expectations for and informing the market and investors.

It includes:

- Regular and meaningful engagement that brings positive results.
- Maintaining an FMA website for compliance or investment queries.
- Worthwhile direct engagement with larger market entities.

Measure	2017/18 target to be achieved	2016/17 forecast	2015/16 actual	Strategic priorities
<b>SPE 7</b> 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	20	20	FMA Effectiveness and efficiency Frontline regulators
<b>SPE 8</b> 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%	100%	96%	FMA Effectiveness and efficiency Frontline regulators And, potentially, Investor decision
<b>SPE 9</b> Market participants within the entity-based relationship management (EBRM) programme say they have benefited from the relationship.	100%	100%	91%	FMA Effectiveness and efficiency And, potentially, Capital Markets Growth & Integrity Frontline regulators

# Forecast financial statements

## Expected revenue and proposed expenses Vote Business, Science and Innovation

For the years ending 30 June	2016/17 forecast outturn \$000	2017/18 forecast \$000
<b>Non-departmental output expense appropriation</b>		
<b>Performance of investigation and enforcement functions</b>		
Crown revenue	6,015	8,065
Expenditure	6,571	8,105
<b>Operating surplus/ (deficit)</b>	<b>(556)</b>	<b>(40)</b>
<b>Performance of licensing and compliance monitoring functions</b>		
Crown revenue	11,298	15,833
Interest	184	203
Other revenue	1,200	528
<b>Total revenue</b>	<b>12,682</b>	<b>16,564</b>
<b>Expenditure</b>	<b>12,830</b>	<b>15,914</b>
<b>Operating surplus/ (deficit)</b>	<b>(148)</b>	<b>650</b>
<b>Performance of market analysis and guidance, investor awareness and regulatory engagement functions</b>		
Crown revenue	8,871	12,102
Other revenue	272	204
<b>Total revenue</b>	<b>9,143</b>	<b>12,306</b>
<b>Expenditure</b>	<b>11,891</b>	<b>12,164</b>
<b>Operating surplus/ (deficit)</b>	<b>(2,748)</b>	<b>142</b>
<b>Total</b>	<b>(3,452)</b>	<b>752</b>
<b>Non-departmental other expenses appropriation</b>		
FMA litigation fund		
Crown and interest revenue	2,000	2,000
Expenditure	2,000	2,000
<b>Litigation surplus/ (deficit)</b>	<b>-</b>	<b>-</b>

## Statement of forecast comprehensive revenue and expenses

For the years ending 30 June	2016/17 forecast outturn \$000	2017/18 forecast \$000
<b>Revenue</b>		
<b>Crown revenue</b>	<b>26,184</b>	<b>36,000</b>
Interest	184	203
Other revenue	1,472	732
Litigation fund income – Crown revenue and bank interest	2,000	2,000
<b>Total revenue</b>	<b>29,840</b>	<b>38,935</b>
<b>Expenses</b>		
Personnel expenses	20,952	24,690
Occupancy expenses	1,864	1,922
Depreciation	3,102	2,816
Other operating expenses	5,374	6,755
Litigation fund expenses	2,000	2,000
<b>Total expenses</b>	<b>33,292</b>	<b>38,183</b>
<b>Surplus/(deficit)</b>	<b>(3,452)</b>	<b>752</b>
<b>Comprising</b>		
Operating surplus/(deficit)	(3,452)	752
Litigation surplus/(deficit)	-	-
<b>Surplus/(deficit)</b>	<b>(3,452)</b>	<b>752</b>

## Statement of forecast financial position

For the years ending 30 June	2016/17 forecast outturn \$000	2017/18 forecast \$000
<b>Equity</b>		
Accumulated funds	(915)	(163)
Litigation fund	844	844
Capital contributions	9,027	11,027
<b>Total equity</b>	<b>8,955</b>	<b>11,708</b>
<b>Assets</b>		
Current assets	5,932	7,553
Non-current assets	7,004	8,699
<b>Total assets</b>	<b>12,936</b>	<b>16,252</b>
<b>Liabilities</b>		
Current liabilities	2,302	2,960
Non-current liabilities	1,679	1,584
<b>Total liabilities</b>	<b>3,981</b>	<b>4,544</b>
<b>Net assets</b>	<b>8,955</b>	<b>11,708</b>

## Statement of forecast changes in equity

For the years ending 30 June	2016/17 forecast outturn \$000	2017/18 forecast \$000
<b>Opening balance</b>		
Accumulated funds	2,536	(915)
Litigation fund	844	844
Capital contributions	8,777	9,027
<b>Total opening balances</b>	<b>12,157</b>	<b>8,955</b>
<b>Comprehensive revenue and expense</b>		
Forecast net operating surplus / (deficit)	(3,452)	752
Forecast net litigation surplus / (deficit)	-	-
<b>Total comprehensive revenue and expense</b>	<b>(3,452)</b>	<b>752</b>
<b>Owner transactions</b>		
Capital contribution	250	2,000
<b>Total owner transactions</b>	<b>250</b>	<b>2,000</b>
<b>Closing Balance</b>		
Accumulated funds	(915)	(163)
Litigation fund	844	844
Capital contributions	9,027	11,027
<b>Total closing balances</b>	<b>8,955</b>	<b>11,708</b>

## Statement of forecast cashflows

For the years ending 30 June	2016/17 forecast outturn \$000	2017/18 forecast \$000
<b>Cash flow from operating activities</b>		
Cash was provided from:		
– Crown revenue	26,184	36,000
– Crown revenue - litigation fund	2,646	1,991
– Interest	184	203
– Other income	1,287	731
Cash was applied to:		
– Suppliers	(11,785)	(13,203)
– Employees	(19,106)	(21,658)
– Net GST	(44)	(291)
<b>Net cash flows from operating activities</b>	<b>(633)</b>	<b>3,772</b>
<b>Cash flow from investing activities</b>		
Cash was provided from:		
– Net decrease in term deposits	3,500	-
Cash was applied to:		
– Purchase of fixed assets	(1,454)	(4,511)
– Net increase in term deposit	-	(1,000)
<b>Net cash flows from investing activities</b>	<b>2,046</b>	<b>(5,511)</b>
<b>Cashflow from financing activities</b>		
Cash was provided from:		
– Capital contributions	250	2,000
<b>Net cash flows from financing activities</b>	<b>250</b>	<b>2,000</b>
<b>Net increase (decrease) in cash balance</b>	<b>1,663</b>	<b>261</b>
Add opening cash and cash equivalents balance	1,340	3,003
<b>Closing cash and cash equivalents balance carried forward</b>	<b>3,003</b>	<b>3,264</b>
<b>Comprising</b>		
Current account cash and cash equivalents	2,703	2,964
Litigation fund cash and cash equivalents	300	300
	<b>3,003</b>	<b>3,264</b>



---

## Statement of significant assumptions

The following significant assumptions were used in to prepare the forecast information:

### Crown revenue

Currently appropriated Crown revenue is set out in the Appropriations table on page 14 which is consistent with the 2017/18 Estimates of Appropriations. The FMA's funding will increase from 1 July 2017.

### Other income

We have determined the level of income from fees and the recovery of costs under current regulations from the information available as at the date of preparation of these statements.

### FMC Act

The FMC Act came into full effect on 1 December 2016. The cost of operation of the FMA is expected to be higher. These forecast financial statements include our best estimates of those costs.

### Litigation expense and fund

We assume expenditure on approved litigation of \$2,000,000 each year. In 2016/17 year our estimate is based on our most likely litigation portfolio, arising from anticipated cases being investigated or set down for litigation. We note the volatility inherent in predicting litigation activity. Actual litigation activity and expenditure may be materially different from forecast.

## Appropriations

In the 2017-2018 period, the FMA is appropriated to supply services under Vote Business, Science and Innovation in the categories of outputs described below.

The FMA will receive increased funding from the 2017/18 financial year. The financial implications of after FMC Act implementation are reflected in the forecast financials.

## Vote Business, Science and Innovation

For the years ending 30 June	2016/17 forecast outturn \$000	2017/18 forecast \$000
<b>Non-departmental output expense appropriation</b>		
<b>Services and advice to support well-functioning financial markets</b>		
<b>Performance of investigation and enforcement functions.</b> 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.	6,015	8,065
<b>Performance of licensing and compliance monitoring functions.</b> 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.	11,298	15,833
<b>Performance of market analysis and guidance, investor awareness, and regulatory engagement functions.</b> This category is limited to the performance of statutory functions relating to market intelligence, guidance, exemptions, investor education, and regulatory and government co-operation and advice.	8,871	12,102
<b>Total for Appropriation</b>	<b>26,184</b>	<b>36,000</b>
<b>Non-departmental capital expenditure</b>		
<b>Procurement of an IT intelligence system</b>	<b>250</b>	<b>2,000</b>
<b>Non-departmental other expenditure</b>		
<b>FMA litigation fund.</b> This appropriation is limited to meeting the cost of major litigation activity arising from the enforcement of financial markets and securities markets law.	<b>2,000</b>	<b>2,000</b>

## Statement of significant accounting policies

### Reporting entity

The FMA is a Crown entity for legislative purposes and a public benefit entity for financial reporting purposes.

These forecast financial statements were authorised for issue by the FMA on 9 May 2017.

These forecast financial statements have been prepared for the special purpose of the FMA's Statement of Performance Expectations 2017-18 for the Minister of Commerce and Consumer Affairs. They should not be relied on for any other purpose.

These forecast financial statements have not been reviewed or audited by Audit New Zealand.

### Basis of preparation

#### Statement of compliance

The FMA's financial statements have been prepared in line with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with PBE Accounting Standards and other pronouncements that have authoritative support and are applicable to entities that apply PBE Standards. As a Tier 1 public sector PBE, we are required to report in accordance with Tier 1 PBE Accounting Standards.

### Basis of measurement

The appropriate accounting principles for the measurement and reporting of results and financial position on a historical cost basis have been applied.

#### Functional and presentational currency

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

#### Use of estimates and judgments

The preparation of forecast financial statements that conforms with PBE FRS-42 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable in the circumstances. Actual financial results achieved for the period covered are likely to vary from the information presented, and these variations may be material.



#### AUCKLAND

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

Phone: +64 9 300 0400 Fax: +64 9 300 0499

#### WELLINGTON

Level 2, 1 Grey Street  
PO Box 1179, Wellington 6140

Phone: +64 4 472 9830 Fax: +64 4 472 8076