

JUNE 2021

Statement of Performance Expectations 2021/2022

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 [creativecommons.org](https://creativecommons.org/licenses/by/3.0/)

Contents

Statement of Authorisation	4
Purpose of the Statement of Performance Expectations	5
Reporting on performance targets	5
Our purpose and approach	6
SPE non-financial measures	8
Overarching measure	8
Category one: Investigation and enforcement activities	9
Category two: Licensing and compliance monitoring functions	10
Category three: Market analysis and guidance, investor awareness and regulatory engagement	11
Forecast financial statements	12
Expected revenue and proposed expenses	12
Statement of forecast comprehensive revenue and expense	13
Statement of forecast financial position	14
Statement of forecast changes in equity	15
Statement of forecast cashflows	16
Statement of significant assumptions	17
Statement of significant accounting policies	18

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 2021 to 30 June 2022.

It is prepared in line with the Crown Entities Act 2004 and should be read together with the FMA's Statement of Intent 2021-2024.

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.

Mark Todd

Chair

Financial Markets Authority

15 June 2021

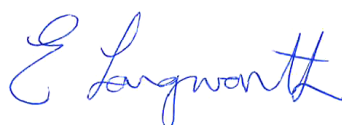


Elizabeth Longworth

Chair

Audit and Risk Committee

15 June 2021



Purpose of the Statement of Performance Expectations

The Statement of Performance Expectations (SPE) is one of two documents that set out how we will measure our performance and report on the progress of that performance against our performance targets.

The other document is our SOI (Statement of Intent), which offers a medium-term view of the progress made towards achieving our strategic intentions.

The SPE covers one financial year. It describes how we intend to perform the services we receive funding for through our Government appropriation.

We regularly review our performance measures to ensure they are focused on the impact we want to have on financial service providers, investors and customers.

The SPE links to the strategic intentions set out in the Statement of Intent 2021-2024.

Reporting on performance targets

We will report on how we have performed against these targets in the 2021/22 Annual Report.

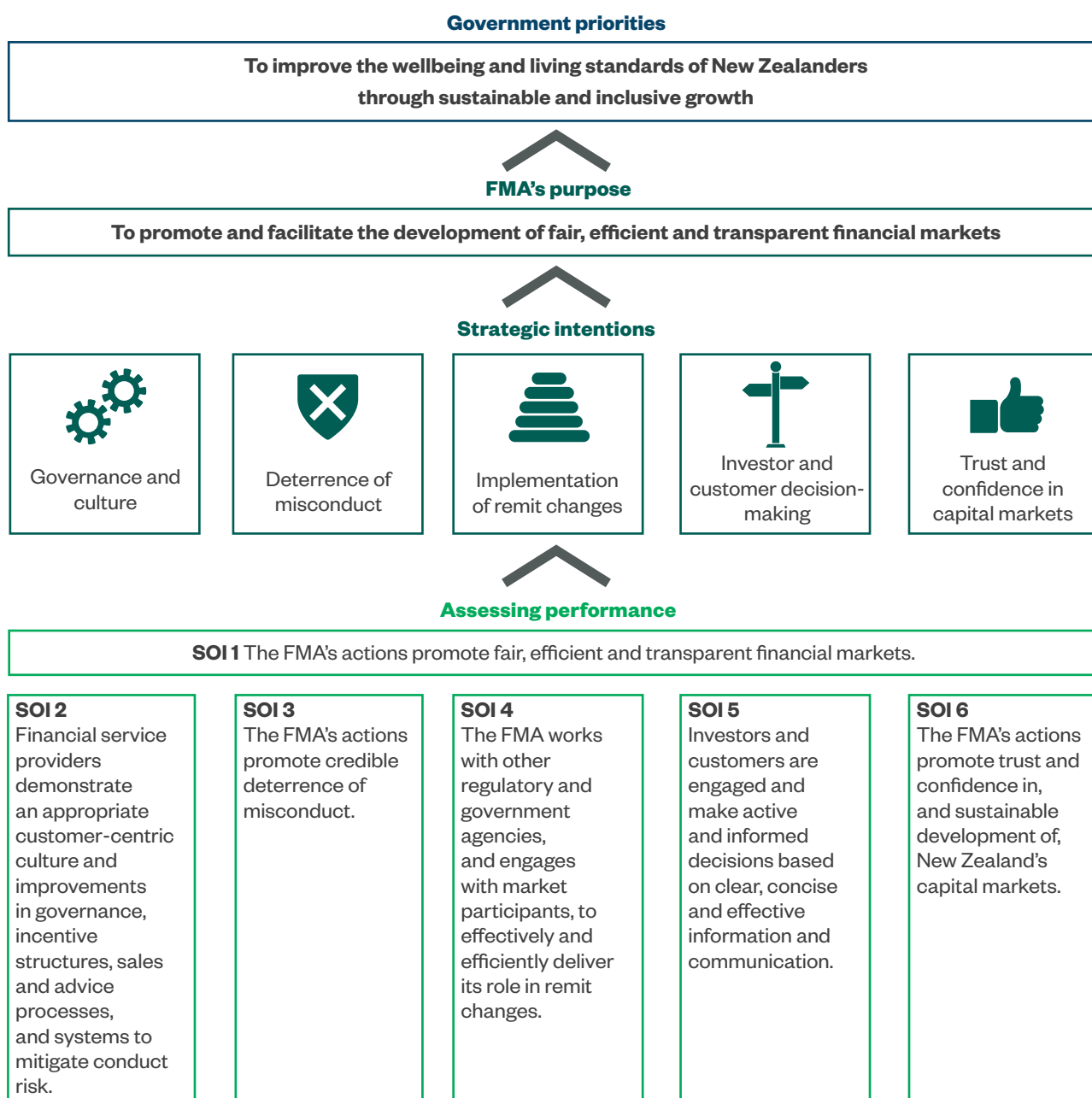
Assessment of our performance against the targets will be based on the following scaled rating system.

Criteria	Rating
On target or better	Achieved
Within 5% of the target	Substantially achieved
More than 5% below the target	Not achieved

Our purpose and approach

Why are we here?

The 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 its participants.



What do we do?

As New Zealand's principal conduct regulator of financial markets, we focus on protecting investors, customers and the integrity of markets through influencing how participants behave towards their customers, investors and each other.

Our activities include:

- Policy and guidance - We engage and provide information and guidance that assists firms and professionals to comply with the law. We keep under review the law and practices relating to financial markets and participants.
- Information and resources - We provide information and resources to help investors and customers make better investment and financial decisions.
- Licensing - We license a range of firms and professionals that meet the requirements in law.
- Monitoring and supervision - We monitor and assess conduct, compliance and competency of market participants.
- Investigations and enforcement - Through our investigation and enforcement activities we aim to raise standards of behaviour, deter misconduct, and hold to account those whose conduct harms the operation of our financial markets.
- Environmental scanning - We scan the environment to identify the most significant risks to and opportunities for promoting our priorities.

In delivering our functions we work and engage closely with industry, investors and customers, the Government and other agencies.

What do we expect?

When interpreting our statutory objectives, we consider:

- 'Fair' to mean providers and participants acting fairly, professionally and with integrity, focusing on serving the needs of customers (see below).
- 'Efficient' to mean dynamic and accessible markets that facilitate growth and innovation.
- 'Transparent' to mean investors and customers get the clear, concise and effective information they need to make informed decisions.

Serving the needs of customers

This means financial service providers focus on:

- treating customers fairly in all interactions
- recognising and prioritising the interests of customers and effectively managing the conflicts of interest that arise
- giving customers clear, concise and effective information
- designing and distributing products that are suitable, work as expected and as represented, and are targeted at appropriate customer groups
- ensuring adequate after-sales care, including complaints and claims handling, and not imposing unnecessary barriers to switching or exiting a product or service
- effectively monitoring their own conduct, and where relevant the conduct of suppliers and distributors, to ensure they can identify, rectify and learn from mistakes.

SPE non-financial measures

Overarching measure

SPE 1 reflects how well financial service providers and investors believe our regulatory activities are fulfilling our overall purpose of promoting the development of fair, efficient and transparent financial markets.

The consolidated SPE 1 measure is an index of two key sub-components:

- Stakeholders (ie market participants) agree that the FMA's actions help raise standards of market conduct and integrity
- Investors of financial services are confident in the quality of regulation of New Zealand's financial markets.

Measure	2021/22 target	2020/21 forecast (target)	2019/20 actual (target)	Source of data/ information	Strategic intention links
SPE 1 Index measure Financial service providers and investors of New Zealand financial services believe that FMA's actions promote fair, efficient and transparent financial markets	Achieved*	Achieved (Achieved)	New	<ul style="list-style-type: none"> • Annual Ease of Doing Business survey of market participants and FMA stakeholders • Annual Investor Confidence survey 	<ul style="list-style-type: none"> • Governance and culture • Deterrence of misconduct • Implementation of remit changes • Investor and customer decision-making • Trust and confidence in capital markets
Index measure sub-components					
Stakeholders agree that the FMA's actions help raise standards of market conduct and integrity**	85%	85% (85%)	87% (85%)	Annual Ease of Doing Business survey of market participants and FMA stakeholders	
Investors are confident in the quality of regulation of New Zealand's financial markets	65%	65% (65%)	66% (70%)	Annual Investor Confidence survey	

*The target for SPE 1 is based on an equal weighting between the stakeholders and investors survey sub-components. The targets associated with these sub-components are based on previous targets to allow for continuity. To achieve the index target will require meeting both sub-measure targets. Should either sub-target be more than 5% below the target the index measure will be reported as 'Not achieved'. If sub-measures are within 5% of the target this would be reported as 'Substantially achieved'.

**This sub-component is an average based on two survey questions relating to stakeholder perceptions of the FMA's actions to support market integrity, and the FMA helping to raise standards of market conduct.

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 objective is for actions to be timely, proportionate, and subject to appropriate governance.

Measure	2021/22 target	2020/21 forecast (target)	2019/20 actual (target)	Source of data/ information	Strategic intention links
SPE 2 Progress of all investigation cases is reported to the FMA Board every 40 working days	100%	100% (100%)	Revised**	Internal tracking of investigation and enforcement activity	Deterrence of misconduct
SPE 3 Misconduct cases* are evaluated and decisions on follow-up actions are made within 9 working days of the information-received date	85%	87% (85%)	New	Internal tracking of misconduct cases	Deterrence of misconduct

*Misconduct cases involve an "allegation of financial markets conduct that could result in harm", whereas an investigation requires formal trigger points, including reasonable grounds to suspect a breach of any financial markets legislation. "Reasonable grounds" requires more than mere suspicion or hunch; a basis on objective information is required.

**SPE 2 is a revised sub-measure from the 2019/20 SPE. The previous measure required reporting to the Board every 60 working days.

Category two: Licensing and compliance monitoring functions

This category is about risk-based monitoring and surveillance.

It includes:

- Ensuring licence applications, individual exemptions and other activities are processed efficiently and to an appropriate standard
- Our activities are based on and subject to an assessment of regulatory risks
- We use a range of monitoring activities to address conduct risks.

Measure	2021/22 target	2020/21 forecast (target)	2019/20 actual (target)	Source of data/ information	Strategic intention links
SPE 4 Once received by the FMA, fully completed licence applications are processed within 60 working days	93%	98% (93%)	99.5% (93%)	Internal tracking of relevant documents and activity	<ul style="list-style-type: none"> • Governance and culture • Trust and confidence in capital markets
SPE 5 New regulated offers are risk-assessed within five working days after a new Product Disclosure Statement (PDS) is registered	100%	100% (100%)	100% (100%)	Internal tracking of relevant documents and activity	<ul style="list-style-type: none"> • Governance and culture • Trust and confidence in capital markets • Investor and customer decision-making
SPE 6 Applications for individual exemptions are processed within 30 working days of receiving all relevant information or as communicated with reasons to the applicant	100%	100% (100%)	100% (100%)	Internal tracking of relevant documents and activity	<ul style="list-style-type: none"> • Governance and culture • Trust and confidence in capital markets
SPE 7 The FMA undertakes a range of proactive, reactive and thematic monitoring activity to target risks identified in response to the regulatory risks identified	Achieved*	Achieved (Achieved)	New	Internal tracking of relevant documents and activity	<ul style="list-style-type: none"> • Governance and culture • Deterrence of misconduct • Investor and customer decision-making • Trust and confidence in capital markets

*To achieve this target the FMA must be able to demonstrate it has undertaken all three types of monitoring activity in response to the regulatory risks identified i.e., proactive (e.g. random or risk-based monitoring), reactive (e.g. responding to misconduct reports) and thematic (e.g. sector or issue based reviews) monitoring.

Category three: Market analysis and guidance, investor awareness and regulatory engagement

This category is about engaging with the market and entities, and setting and communicating our expectations, as well as providing information to aid investors and customers of financial services.

It includes:

- Regular and meaningful engagement activities that bring positive results
- Maintaining an FMA website to provide information and guidance to investors and market participants on regulatory requirements, expectations and issues
- Meaningful direct engagement with larger market entities.

Measure	2021/22 target	2020/21 forecast (target)	2019/20 actual (target)	Source of data/ information	Strategic intention links
SPE 8 The FMA undertakes a range of speeches and presentations (in-person and online) to inform and assist users and providers of financial services	30	30 (30)	29 (30)	Count of speeches and presentations that meet the aims of the measure	All
SPE 9 Participants find FMA communication clear, concise and effective	75%	75% (75%)	New	Annual Ease of Doing Business survey of market participants and FMA stakeholders	All
SPE 10 Number of website page views of FMA's investor content	Increase on prior year	4372 unique pageviews (Establish baseline*)	New	Google Analytics page view data from all pages within relevant investor sections of the FMA website	Investor and customer decision-making
SPE 11 Market participants within the stakeholder relationship management programme (SHRM), who responded to our survey, say they have benefited from the relationship	95%	95% (95%)	94.4% (95%)	Annual survey of SHRM members	<ul style="list-style-type: none"> • Governance and culture • Trust and confidence in capital markets

*2020/21 baseline target not available at time of publication

Forecast financial statements

Expected revenue and proposed expenses

Vote Business, Science and Innovation

For the years ending 30 June	2020/21 forecast outturn \$000	2021/22 forecast \$000
NON-DEPARTMENTAL OUTPUT EXPENSE APPROPRIATION		
Performance of investigation and enforcement functions		
Crown revenue	10,282	11,342
Total revenue	10,282	11,342
Expenditure	12,230	11,705
Operating surplus/ (deficit)	(1,948)	(363)
Performance of licensing and compliance monitoring functions		
Crown revenue	19,060	21,025
Interest	46	46
Other revenue	834	447
Total revenue	19,940	21,518
Expenditure	19,863	21,698
Operating surplus/ (deficit)	77	(180)
Performance of market analysis and guidance, investor awareness and regulatory engagement functions		
Crown revenue	19,158	21,133
Total revenue	19,158	21,133
Expenditure	15,087	21,809
Operating surplus/ (deficit)	4,071	(676)
Total	2,200	(1,219)
NON-DEPARTMENTAL OTHER EXPENSES APPROPRIATION		
FMA litigation fund		
Crown and interest revenue	1,654	3,000
Expenditure	1,654	3,000
Litigation surplus/ (deficit)	-	-

Statement of forecast comprehensive revenue and expense

For the years ending 30 June	2020/21 forecast outturn \$000	2021/22 forecast \$000
REVENUE		
Crown revenue	48,500	53,500
Interest	46	46
Other revenue	834	447
Litigation fund income - Crown revenue and bank interest	1,654	3,000
Total revenue	51,034	56,993
EXPENSES		
Personnel expenses	32,042	37,113
Occupancy expenses	2,916	3,695
Depreciation	3,622	4,404
Other operating expenses	8,600	10,000
Litigation fund expenses	1,654	3,000
Total expenses	48,834	58,212
Surplus/(deficit)	2,200	(1,219)
COMPRISING		
Operating surplus/(deficit)	2,200	(1,219)
Litigation surplus/(deficit)	-	-
Surplus/(deficit)	2,200	(1,219)

Statement of forecast financial position

As at 30 June	2020/21 forecast outturn \$'000	2021/22 forecast \$'000
EQUITY		
Accumulated funds	(533)	(1,752)
Capital contributions	12,577	13,677
Total equity	12,044	11,925
ASSETS		
Current assets	7,001	5,192
Non-current assets	11,867	13,937
Total assets	18,868	19,129
LIABILITIES		
Current liabilities	5,684	6,181
Non-current liabilities	1,140	1,023
Total liabilities	6,824	7,204
Net assets	12,044	11,925

Statement of forecast changes in equity

For the years ending 30 June	2020/21 forecast outturn \$000	2021/22 forecast \$000
Opening balance		
Accumulated funds	(2,733)	(533)
Capital contributions	11,027	12,577
Total opening balances	8,294	12,044
COMPREHENSIVE REVENUE AND EXPENSE		
Forecast net operating surplus / (deficit)	2,200	(1,219)
Forecast net litigation surplus / (deficit)	-	-
Total comprehensive revenue and expense	2,200	(1,219)
OWNER TRANSACTIONS		
Capital contribution	1,550	1,100
Total owner transactions	1,550	1,100
Closing Balance		
Accumulated funds	(533)	(1,752)
Capital contributions	12,577	13,677
Total closing balances	12,044	11,925

Statement of forecast cashflows

For the years ending 30 June	2020/21 forecast outturn \$000	2021/22 forecast \$000
CASH FLOW FROM OPERATING ACTIVITIES		
Cash was provided from:		
- Crown revenue	48,500	53,500
- Crown revenue - litigation fund	2,000	3,000
- Interest	46	46
- Other income	831	447
Cash was applied to:		
- MBIE fees and levies (net)	(108)	-
- MBIE repayment of underutilised litigation fund	(1,928)	-
- Suppliers	(14,421)	(18,196)
- Employees	(30,098)	(35,232)
- Net GST	(196)	46
Net cash flows from operating activities	4,626	3,611
CASH FLOW FROM INVESTING ACTIVITIES		
Cash was provided from:		
- Net decrease in term deposits	-	2,000
Cash was applied to:		
- Purchase of fixed assets	(5,278)	(6,474)
- Net increase in term deposit	(3,000)	-
Net cash flows from investing activities	(8,278)	(4,474)
CASHFLOW FROM FINANCING ACTIVITIES		
Cash was provided from:		
- Capital contributions	1,550	1,100
Net cash flows from financing activities	1,550	1,100
Net increase (decrease) in cash balance	(2,102)	237
Add opening cash and cash equivalents balance	4,633	2,531
Closing cash and cash equivalents balance carried forward	2,531	2,768
COMPRISING		
Current account cash and cash equivalents	1,854	2,091
Litigation fund cash and cash equivalents	677	677
	2,531	2,768

Statement of significant assumptions

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

Crown revenue

The approved Crown appropriation for 2021/22 is \$53.5m.

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. This includes approximate income we anticipate receiving under regulations that will be introduced as a result of the Financial Services Legislation Amendment Bill.

Litigation fund and expenditure

A new litigation funding agreement was signed with MBIE in July 2020. The FMA now can retain up to \$3 million in the litigation fund on its balance sheet at any point in time. As and when the amount held in the litigation fund falls below \$2 million, the FMA can request a top up to an amount not exceeding \$3 million. In addition, FMA can retain any underspend in the litigation fund appropriation across financial year.

Based on our most likely litigation portfolio, arising from anticipated cases being investigated or set down for litigation, the 2021/22 litigation spend is estimated at \$3 million. We note the volatility inherent in predicting litigation activity. Actual litigation activity and expenditure may be materially different from forecast.

Capital Expenditure

The FMA has approved capital expenditure funding of \$3.8 million for office expansion fit outs, new website and IT system build for new FMA remit.

Based on the latest capital expenditure plan, \$1.55 million is planned to be used in 2020/21, \$1.10 million is planned to be used in 2021/22 and the balance of \$1.15 million is planned for 2022/23.

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 15 June 2021.

These forecast financial statements have been prepared for the special purpose of the FMA's Statement of Performance Expectations 2021/22 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.

