

JUNE 2022

# Statement of Performance Expectations 2022/23

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# Statement of Authorisation

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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 2022 to 30 June 2023.

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

29 June 2022

**Elizabeth Longworth**

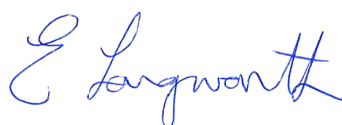
Chair

Audit and Risk Committee

29 June 2022



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# Purpose of the Statement of Performance Expectations

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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 2022/23 Annual Report.

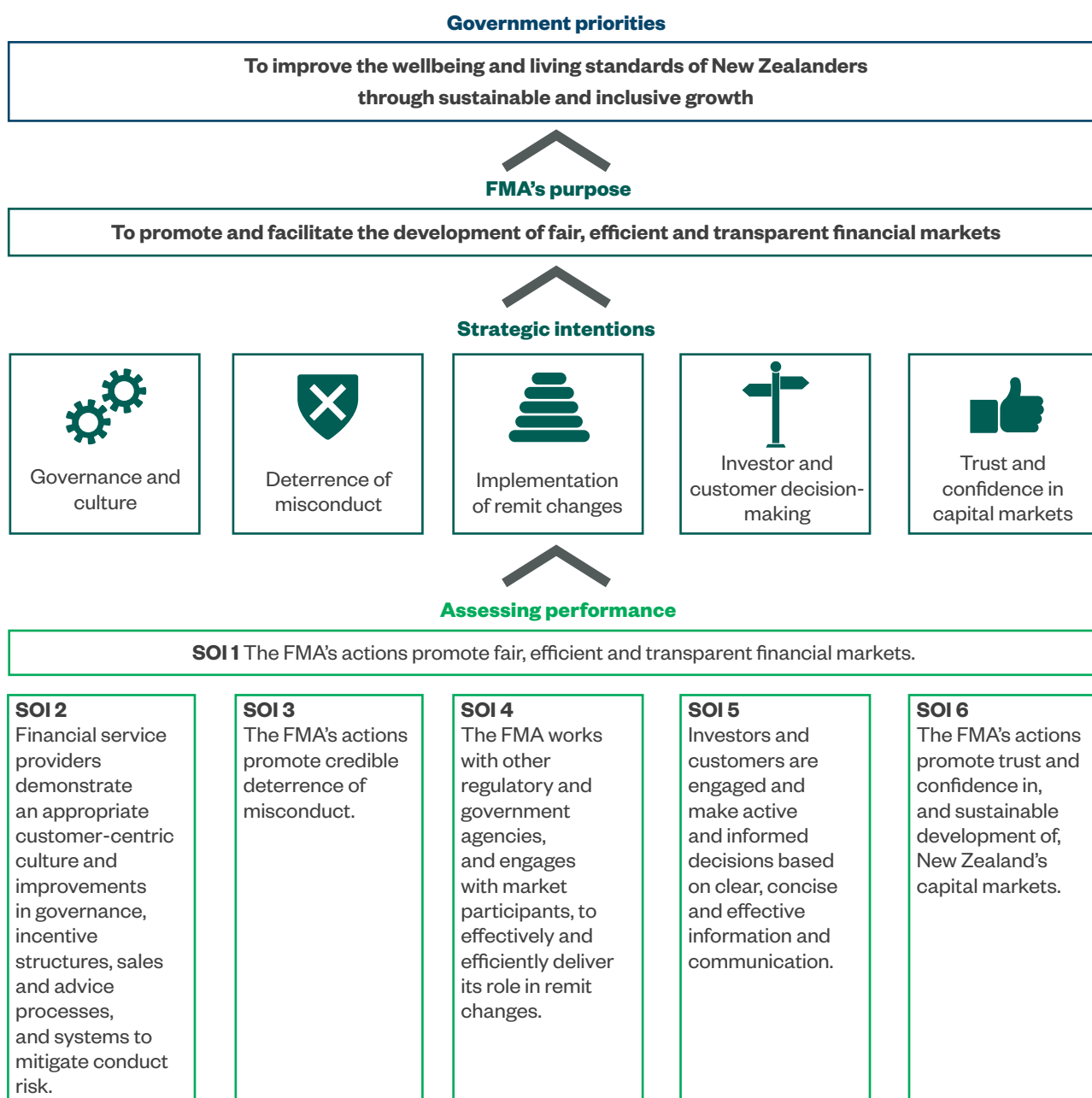
Assessment of our performance against the targets will be based on the following scaled rating system.

| 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

The SPE 1 overarching measure reflects the Multi-Category Appropriation 'Services and Advice to Support Well-functioning Financial Markets', which covers all three funding categories. The single overarching purpose of this appropriation is to support well-functioning financial markets through the activities of the Financial Markets Authority.

The measure 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  | 2022/23 target | 2021/22 forecast (target) | 2020/21 actual (target) | Source of data/information  | Strategic intention links   |
|--|----------------|---------------------------|-------------------------|---|---|
| <b>SPE 1 Index measure</b><br>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)       | Achieved (Achieved)     | <ul style="list-style-type: none"> <li>• Annual Ease of Doing Business survey of market participants and FMA stakeholders</li> <li>• Annual Investor Confidence survey</li> </ul> | <ul style="list-style-type: none"> <li>• Governance and culture</li> <li>• Deterrence of misconduct</li> <li>• Implementation of remit changes</li> <li>• Investor and customer decision-making</li> <li>• Trust and confidence in capital markets</li> </ul> |
| <b>Index measure sub-components</b>  |                |                           |                         |   |   |
| Stakeholders agree that the FMA's actions help raise standards of market conduct and integrity**   | 85%            | 88% (85%)                 | 88% (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%            | 67% (65%)                 | 67% (65%)               | Annual Investor Confidence survey   |   |

\*The target for SPE 1 is based on an equal weighting between the stakeholders and investors survey sub-components. To achieve the index target will require meeting both sub-measure targets.

\*\*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  | 2022/23 target | 2021/22 forecast (target) | 2020/21 actual (target) | Source of data/ information                                 | Strategic intention links |
|--|----------------|---------------------------|-------------------------|---|---------------------------|
| <b>SPE 2</b><br>Progress of all investigation cases is reported to the FMA Board every 40 working days   | 100%           | 100% (100%)               | 100% (100%)             | Internal tracking of investigation and enforcement activity | Deterrence of misconduct  |
| <b>SPE 3</b><br>Misconduct cases* are evaluated and decisions on follow-up actions are made within 9 working days of the information-received date | 85%            | 88% (85%)                 | 84.93% (85%)            | 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.

## 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  | 2022/23 target | 2021/22 forecast (target) | 2020/21 actual (target) | Source of data/ information                          | Strategic intention links  |
|--|----------------|---------------------------|-------------------------|--|--|
| <b>SPE 4</b><br>Once received by the FMA, fully completed licence applications are processed within 60 working days  | 93%            | 93% (93%)                 | 98.73% (93%)            | Internal tracking of relevant documents and activity | <ul style="list-style-type: none"> <li>• Governance and culture</li> <li>• Trust and confidence in capital markets</li> </ul>  |
| <b>SPE 5</b><br>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"> <li>• Governance and culture</li> <li>• Trust and confidence in capital markets</li> </ul>  |
| <b>SPE 6</b><br>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)       | Achieved (Achieved)     | Internal tracking of relevant documents and activity | <ul style="list-style-type: none"> <li>• Governance and culture</li> <li>• Deterrence of misconduct</li> <li>• Investor and customer decision-making</li> <li>• Trust and confidence in capital markets</li> </ul> |

\* 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  | 2022/23 target          | 2021/22 forecast (target)   | 2020/21 actual (target)  | Source of data/ information   | Strategic intention links   |
|--|-------------------------|---|--|---|---|
| <b>SPE 7</b><br>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<br>(30)  | 39<br>(30)   | Count of speeches and presentations that meet the aims of the measure                               | All   |
| <b>SPE 8</b><br>Participants find FMA communication clear, concise and effective   | 75%                     | 76%<br>(75%)  | 76%<br>(75%)   | Annual Ease of Doing Business survey of market participants and FMA stakeholders                    | All   |
| <b>SPE 9</b><br>Number of website page views of FMA's investor content   | Increase on prior year* | 40,000 unique page views<br><br>(Increase on prior year - 31,968 unique page views) | 31,968 unique page views<br><br>(Increase on prior year - 9,007** unique page views) | Google Analytics page view data from all pages within relevant investor sections of the FMA website | <ul style="list-style-type: none"> <li>• Investor and customer decision-making</li> </ul>                                     |
| <b>SPE 10</b><br>Market participants within the stakeholder relationship management programme (SHRM), who responded to our survey, say they have benefited from the relationship | 95%                     | 100%<br>(95%)   | 100%<br>(95%)  | Annual survey of SHRM members   | <ul style="list-style-type: none"> <li>• Governance and culture</li> <li>• Trust and confidence in capital markets</li> </ul> |

\*2022/23 target not available at time of publication – to be derived from 2021/22 full year result

\*\*We updated the target (prior-year result) from 4,388 page views to 9,007 page views. The original number omitted views of some investor website content outside of the main investor section, including editorial content, scam warnings, the KiwiSaver Risk Quiz sub-site, and related PDFs.

# Forecast financial statements

## Expected revenue and proposed expenses

### Vote Business, Science and Innovation

| For the years ending 30 June  | 2021/22<br>forecast outturn<br>\$000 | 2022/23<br>forecast<br>\$000 |
|---|--------------------------------------|------------------------------|
| <b>NON-DEPARTMENTAL OUTPUT EXPENSE APPROPRIATION</b>  |                                      |                              |
| Performance of investigation and enforcement functions  |                                      |                              |
| Crown revenue   | 11,342                               | 17,887                       |
| Other revenue   | -                                    | -                            |
| <b>Total revenue</b>  | <b>11,342</b>                        | <b>17,887</b>                |
| <b>Expenditure</b>  | <b>15,699</b>                        | <b>18,531</b>                |
| <b>Operating surplus/ (deficit)</b>   | <b>(4,357)</b>                       | <b>(644)</b>                 |
| Performance of licensing and compliance monitoring functions  |                                      |                              |
| Crown revenue   | 21,026                               | 24,956                       |
| Interest  | 65                                   | 76                           |
| Other revenue   | 950                                  | 1,169                        |
| <b>Total revenue</b>  | <b>22,041</b>                        | <b>26,201</b>                |
| <b>Expenditure</b>  | <b>19,972</b>                        | <b>25,853</b>                |
| <b>Operating surplus/ (deficit)</b>   | <b>2,069</b>                         | <b>348</b>                   |
| Performance of market analysis and guidance, investor awareness and regulatory engagement functions |                                      |                              |
| Crown revenue   | 21,132                               | 24,774                       |
| <b>Total revenue</b>  | <b>21,132</b>                        | <b>24,774</b>                |
| <b>Expenditure</b>  | <b>19,806</b>                        | <b>25,664</b>                |
| <b>Operating surplus/ (deficit)</b>   | <b>1,326</b>                         | <b>(890)</b>                 |
| <b>Total</b>  | <b>(962)</b>                         | <b>(1,186)</b>               |
| <b>NON-DEPARTMENTAL OTHER EXPENSES APPROPRIATION</b>  |                                      |                              |
| FMA litigation fund   |                                      |                              |
| Crown and interest revenue  | 2,576                                | 3,000                        |
| Expenditure   | 2,576                                | 3,000                        |
| <b>Litigation surplus/ (deficit)</b>  | <b>-</b>                             | <b>-</b>                     |

## Statement of forecast comprehensive revenue and expense

| For the years ending 30 June                             | 2021/22<br>forecast outturn<br>\$000 | 2022/23<br>forecast<br>\$000 |
|--|--------------------------------------|------------------------------|
| <b>REVENUE</b>   |                                      |                              |
| Crown revenue  | 53,500                               | 67,617                       |
| Interest   | 65                                   | 76                           |
| Other revenue  | 950                                  | 1,169                        |
| Litigation fund income - Crown revenue and bank interest | 2,576                                | 3,000                        |
| <b>Total revenue</b>                                     | <b>57,091</b>                        | <b>71,862</b>                |
| <b>EXPENSES</b>  |                                      |                              |
| Personnel expenses                                       | 38,961                               | 49,911                       |
| Occupancy expenses                                       | 3,712                                | 3,895                        |
| Depreciation   | 3,542                                | 3,155                        |
| Other operating expenses                                 | 9,262                                | 13,087                       |
| Litigation fund expenses                                 | 2,576                                | 3,000                        |
| <b>Total expenses</b>                                    | <b>58,053</b>                        | <b>73,048</b>                |
| <b>Surplus/(deficit)</b>                                 | <b>(962)</b>                         | <b>(1,186)</b>               |
| <b>COMPRISING</b>  |                                      |                              |
| Operating surplus/(deficit)                              | (962)                                | (1,186)                      |
| Litigation surplus/(deficit)                             | -                                    | -                            |
| <b>Surplus/(deficit)</b>                                 | <b>(962)</b>                         | <b>(1,186)</b>               |

## Statement of forecast financial position

| As at 30 June            | 2021/22<br>forecast outturn<br>\$'000 | 2022/23<br>forecast<br>\$'000 |
|--------------------------|---------------------------------------|-------------------------------|
| <b>EQUITY</b>            |                                       |                               |
| Accumulated funds        | (1,885)                               | (3,071)                       |
| Capital contributions    | 12,577                                | 14,312                        |
| <b>Total equity</b>      | <b>10,692</b>                         | <b>11,241</b>                 |
| <b>ASSETS</b>            |                                       |                               |
| Current assets           | 11,805                                | 11,295                        |
| Non-current assets       | 9,112                                 | 10,961                        |
| <b>Total assets</b>      | <b>20,917</b>                         | <b>22,256</b>                 |
| <b>LIABILITIES</b>       |                                       |                               |
| Current liabilities      | 7,207                                 | 7,908                         |
| Non-current liabilities  | 3,018                                 | 3,107                         |
| <b>Total liabilities</b> | <b>10,225</b>                         | <b>11,015</b>                 |
| <b>Net assets</b>        | <b>10,692</b>                         | <b>11,241</b>                 |

## Statement of forecast changes in equity

| For the years ending 30 June                   | 2021/22<br>forecast outturn<br>\$000 | 2022/23<br>forecast<br>\$000 |
|--|--------------------------------------|------------------------------|
| <b>Opening balance</b>                         |                                      |                              |
| Accumulated funds                              | (923)                                | (1,885)                      |
| Capital contributions                          | 12,577                               | 12,577                       |
| <b>Total opening balances</b>                  | <b>11,654</b>                        | <b>10,692</b>                |
| <b>COMPREHENSIVE REVENUE AND EXPENSE</b>       |                                      |                              |
| Forecast net operating surplus / (deficit)     | (962)                                | (1,186)                      |
| Forecast net litigation surplus / (deficit)    | -                                    | -                            |
| <b>Total comprehensive revenue and expense</b> | <b>(962)</b>                         | <b>(1,186)</b>               |
| <b>OWNER TRANSACTIONS</b>                      |                                      |                              |
| Capital contribution                           | -                                    | 1,735                        |
| <b>Total owner transactions</b>                | <b>-</b>                             | <b>1,735</b>                 |
| <b>Closing Balance</b>                         |                                      |                              |
| Accumulated funds                              | (1,885)                              | (3,071)                      |
| Capital contributions                          | 12,577                               | 14,312                       |
| <b>Total closing balances</b>                  | <b>10,692</b>                        | <b>11,241</b>                |



## Statement of forecast cashflows

| For the years ending 30 June                                     | 2021/22<br>forecast outturn<br>\$000 | 2022/23<br>forecast<br>\$000 |
|--|--------------------------------------|------------------------------|
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>                       |                                      |                              |
| Cash was provided from:  |                                      |                              |
| - Crown revenue  | 53,500                               | 67,617                       |
| - Crown revenue - litigation fund                                | 2,000                                | 3,000                        |
| - Interest   | 49                                   | 76                           |
| - Other income   | 801                                  | 1,169                        |
| Cash was applied to:   |                                      |                              |
| - MBIE fees and levies (net)                                     | 513                                  | -                            |
| - Litigation cost award paid to MBIE                             | (275)                                | -                            |
| - Suppliers  | (17,131)                             | (25,017)                     |
| - Employees  | (35,753)                             | (44,086)                     |
| - Net GST  | 186                                  | (99)                         |
| <b>Net cash flows from operating activities</b>                  | <b>3,890</b>                         | <b>2,660</b>                 |
| <b>CASH FLOW FROM INVESTING ACTIVITIES</b>                       |                                      |                              |
| Cash was provided from:  |                                      |                              |
| - Net decrease in term deposits                                  | -                                    | 2,000                        |
| Cash was applied to:   |                                      |                              |
| - Purchase of fixed assets                                       | (2,310)                              | (5,005)                      |
| - Net increase in term deposit                                   | (3,000)                              | -                            |
| <b>Net cash flows from investing activities</b>                  | <b>(5,310)</b>                       | <b>(3,005)</b>               |
| <b>CASHFLOW FROM FINANCING ACTIVITIES</b>                        |                                      |                              |
| Cash was provided from:  |                                      |                              |
| - Capital contributions  | -                                    | 1,735                        |
| <b>Net cash flows from financing activities</b>                  | <b>-</b>                             | <b>1,735</b>                 |
| <b>Net increase (decrease) in cash balance</b>                   | <b>(1,420)</b>                       | <b>1,390</b>                 |
| Add opening cash and cash equivalents balance                    | 7,842                                | 6,422                        |
| <b>Closing cash and cash equivalents balance carried forward</b> | <b>6,422</b>                         | <b>7,812</b>                 |
| <b>COMPRISING</b>  |                                      |                              |
| Current account cash and cash equivalents                        | 4,596                                | 5,986                        |
| Litigation fund cash and cash equivalents                        | 1,826                                | 1,826                        |
|  | <b>6,422</b>                         | <b>7,812</b>                 |

## Statement of significant assumptions

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

### Crown revenue

The approved Crown appropriation for 2022/23 is \$67.6 million.

### 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.

### Litigation fund and expenditure

Based on our most likely litigation portfolio, arising from anticipated cases being investigated or set down for litigation, the 2022/23 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

As part of Budget 2020, the FMA has approved capital expenditure funding of \$3.8 million to fit out additional space in its Auckland office, explore opening a Christchurch office, develop a new website and begin an IT system build for the new FMA remit. Of the \$3.8 million, \$1.55 million was spent in 2020/21 and the rest is planned to be spent in FY22/23 and FY23/24.

As part of Budget 2022, additional capital expenditure funding of \$2.1 million was approved. This funding will complete the IT systems build for the new remit. This funding will be accessed once the capital funding allocated in Budget 2020 is exhausted. Spend has been delayed to ensure the IT systems align with the legislation and regulations for the Conduct of Financial Institutions regime.

## Change programme

The FMA is currently undergoing a change programme. The estimated cost of the change programme is included in the Statement of forecast comprehensive revenue and expense on page 13.

## Statement of accounting policies

### Reporting entity

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 FMA is a public sector public benefit entity (PBE) for the Accounting Standards Framework issued by the New Zealand External Reporting Board, because we are a public entity as defined in the Public Audit Act 2001.

These forecast financial statements were authorised for issue by the FMA on 29 June 2022.

These forecast financial statements have been prepared for the special purpose of the FMA's Statement of Performance Expectations 2022/23 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.

### Measurement base and 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.

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. All material variations will be disclosed and explained in the subsequent Annual Report.

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).

### Other significant accounting policies

#### *Revenue from the Crown*

The FMA receives funding via appropriations from the Crown. It is non-exchange revenue. 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.

### ***Revenue - litigation fund***

The FMA receives litigation funding via appropriations from the Crown. It is non-exchange revenue.

The approved litigation funding for the 2022/23 financial year is \$5 million. Under the new funding agreement, the FMA can retain up to \$3 million in the litigation fund account on its balance sheet at any point in time. As and when the amount held in the litigation fund account 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 the financial year.

Amounts received are accounted for as litigation revenue received in advance and the revenue is recognised as the expenditure is incurred. Any unspent or unapplied funds not exceeding \$3 million at balance date are retained by the FMA and disclosed as litigation revenue received in advance. The fund is restricted for approved litigation purposes only as per criteria set out in the litigation funding agreement.

### ***Revenue – other***

Other revenue is measured at the fair value of the consideration received or receivable. Other revenue is received from providing specific services to market participants and court cost award recoveries.

### ***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.

### ***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.

### ***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 determines 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

## ***PBE FRS 48 Service Performance Reporting***

PBE FRS 48 Service Performance Reporting is the new accounting standard for service performance reporting for government departments and Crown entities. This standard applies to reporting periods beginning on or after 1 January 2022 and is part of generally accepted accounting practices (GAAP). The standard will be applied in the FMA's 2022/23 annual report.

Reporting against the targets and budgets set in the SPE forms part of our overall service performance reporting, so we have considered the impact of the standard when developing the 2022/23 SPE. The measures set out in this SPE will provide us with performance information about the FMA that will contribute to reporting that aligns with the principles of PBE FRS 48, and is appropriate and meaningful to users.



