

Statement of Performance Expectations 2019/20



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 2019 to 30 June 2020. 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.



Mark Todd
Chair
Financial Markets Authority
6 June 2019



Elizabeth Longworth
Chair
Audit and Risk Committee
6 June 2019

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

Statement of authorisation	3
Purpose of the Statement of Performance Expectations	5
SPE non-financial measures	6
Category one: Investigation and enforcement activities	7
Category two: Licensing and compliance monitoring functions	8
Category three: Market analysis and guidance, investor awareness and regulatory engagement	9
Forecast financial statements	10
Expected revenue and proposed expenses	10
Statement of forecast comprehensive revenue and expense	11
Statement of forecast financial position	12
Statement of forecast changes in equity	13
Statement of forecast cashflows	14
Statement of significant assumptions	15
Appropriations	16
Statement of significant accounting policies	17

Purpose of the Statement of Performance Expectations

The Statement of Performance Expectations (SPE) is one of two documents that set out how we measure our future 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 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 covers an overarching measure which we call 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.

We regularly review our measures to ensure they are focused on the impact we want to have on investors, market participants and the integrity of our financial markets.

The SPE links to the FMA's strategic priorities, which are set out in our 2019-2022 Strategic Risk Outlook.

We will report on how we have performed against these targets in the 2019/20 Annual Report.

SPE non-financial measures

Overarching measure (SPE 1)

The Investor Confidence Index reflects the purpose of our regulatory activities. This is to identify and address conduct risk, improve behaviour in our markets, and benefit investors and market participants.

The measure includes a number of contributing factors – some within our sphere of control and others for which we share a joint responsibility with other regulators, market participants and investors.

The overarching measure is an index of investor confidence, which includes four key factors:

- Stakeholders agree that the FMA's actions help raise standards of market conduct and integrity
- Investors are confident in New Zealand's financial markets
- Licensed market participants show how they achieve good customer outcomes
- Investors are confident in the quality of regulation of New Zealand's financial markets.

SPE 1 measures	Contributing factors	2019/20 target	2018/19 forecast (target)	2017/18 actual (target)
Stakeholders agree that the FMA's actions help raise standards of market conduct and integrity	Stakeholders, investors and consumers of financial services view of the effectiveness of our regulatory activities	85%	85% (85%)	84.5% (70%)
Investors are confident in New Zealand's financial markets	Largely a measure of investor sentiment but part of a wider picture of investor confidence	70%	68% (70%)	66% (70%)
Licensed market participants show how they achieve good customer outcomes ¹	Market participant conduct can have a direct impact and contributes to investor confidence	55%	52% (40%)	47.8% (75%)
Investors are confident in the quality of regulation of New Zealand's financial markets	Reflects other regulators' roles and responsibilities (like NZX) that contribute to overall investor confidence	65%	62% (70%)	59% (68%)
Investor confidence index	Equal weighting of the above measures	69%	67% (66%)	64.3% (71%)

1: This measure assesses licensed market participants' governance, systems, controls, processes and training related to achieving good customer outcomes, rather than the outcomes themselves. It is intended to measure whether licensed market participants structure and conduct their business in a way that aligns with our expectations as set out in licence conditions, our Good Conduct Guide and other guidance.

For this measure we assess on a pass/fail basis the quality and effectiveness of an entity's frameworks and processes in the following three categories: sales and advice, conflicted conduct and governance and culture. The result is determined by the percentage of passes across all three categories.

We do not review every licensed entity every year; the sample is determined by risk level of the entity/sector, balanced representation of each licence type, and time since last review.

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
- Explaining how we have identified, evaluated, investigated, and responded to misconduct by reporting on the significant conduct outcomes achieved by the FMA.

Measure	2019/20 target	2018/19 forecast (target)	2017/18 actual (target)	Strategic priorities
SPE 2: Investigation and enforcement activities are undertaken and completed according to agreed timeframes and standards ²	Achieved	Achieved (Achieved)	Achieved (Achieved)	<ul style="list-style-type: none"> • Credible deterrence of misconduct
SPE 3: The FMA reports on significant conduct outcomes achieved including key themes, actions and regulatory outcomes arising from market conduct	Achieved	Achieved (Achieved)	Achieved (Achieved)	<ul style="list-style-type: none"> • Governance, culture, systems and controls • Credible deterrence of misconduct • Investor decision-making • Promoting trust and confidence in capital markets

2: Achievement of SPE 2 is based on achieving the targets for five service delivery measures:

1. In accordance with the Conducting an Investigation Policy and Process document, progress of Type 1 cases are reported every 60 days and progress of Type 2 cases are reported every 90 days – target 100%
2. The FMA works with Serious Fraud Office (SFO) on all investigations of joint interest in accordance with Memorandum of Understanding (MOU) arrangements – target 100%
3. MOU requests for assistance are completed within timeframes agreed with international regulators – target 100%
4. Misconduct cases are evaluated within two working days of the information-received date – target 95%
5. Misconduct cases are closed within 39 working days of the information-received date – target 80%

SPE 2 is complemented in our planning and reporting framework by SPE 3, which measures progress on our investigation and enforcement outcomes and how they align with our 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	2019/20 target	2018/19 forecast (target)	2017/18 actual (target)	Strategic priorities
SPE 4: Fully completed licence applications, regulated offers and completed applications for exemptions are processed within agreed timeframes and standards ³	Achieved	Achieved (Achieved)	Achieved (Achieved)	<ul style="list-style-type: none"> • Governance, culture, systems and controls
SPE 5: The FMA conducts and reports on thematic reviews arising from the risks and priorities identified in its Strategic Risk Outlook and which are relevant to market conduct and investor decision-making	5 reports	6 reports (5 reports)	6 reports (5 reports)	<ul style="list-style-type: none"> • Governance, culture, systems and controls • Credible deterrence of misconduct • Investor decision-making • Promoting trust and confidence in capital markets
SPE 6: Substantive FMA feedback on licensing applications, regulated offers and disclosures that result in improvements being made or documents withdrawn ⁴	Achieved	Achieved (Achieved)	Achieved (Achieved)	<ul style="list-style-type: none"> • Governance, culture, systems and controls

3: Achievement of SPE 4 is based on achieving all targets for four service delivery measures:

1. Once received by the FMA, fully completed licence applications are processed within 60 working days and in accordance with established processes – target 93%
2. Regulated offers are risk-assessed within five working days after a new Product Disclosure Statement (PDS) is lodged or a new prospectus is registered – target 100%
3. 100% of high-risk regulated offers are reviewed post-registration or lodgement – target 100%
4. Completed applications for exemptions are processed within six weeks of receiving all relevant information or as agreed with applicant – target 100%

4: Achievement of SPE 6 is based on achieving all targets for two measures:

1. Where the FMA has reviewed regulated offers and found issues of material concern, disclosures and offer information are improved or documents withdrawn – target 100%
2. The FMA's licensing decisions are unchallenged or upheld – target 100%

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 activities that bring positive results
- Maintaining an FMA website for compliance or investment queries
- Meaningful direct engagement with larger market entities.

Measure	2019/20 target	2018/19 forecast (target)	2017/18 actual (target)	Strategic priorities
SPE 7: The FMA undertakes at least 20 industry or business presentations or speeches per year, with the aim of providing better information and insight for regulated populations	30	28 (20)	31 (20)	<ul style="list-style-type: none"> • Governance, culture, systems and controls • Credible deterrence of misconduct • Successful implementation of changes to our remit • Promoting trust and confidence in capital markets
SPE 8: Percentage of FMA website visitors surveyed who rate the content they accessed as useful in helping them to comply, or to make informed investment decisions	95%	95% (95%)	94% (100%)	<ul style="list-style-type: none"> • Governance, culture, systems and controls • Investor decision-making
SPE 9: Market participants who are part of the FMA's stakeholder and relationship management programme say they have benefited from the relationship	95%	94% (100%)	89% (100%)	<ul style="list-style-type: none"> • Governance, culture, systems and controls • Promoting trust and confidence in capital markets

Forecast financial statements

Expected revenue and proposed expenses Vote Business, Science and Innovation

For the years ending 30 June	2018/19 forecast outturn \$000	2019/20 forecast \$000
Non-departmental output expense appropriation		
Performance of investigation and enforcement functions		
Crown revenue	6,196	6,196
Total revenue	6,196	6,196
Expenditure	6,352	7,304
Operating surplus/(deficit)	(156)	(1,108)
Performance of licensing and compliance monitoring functions		
Crown revenue	16,072	16,072
Interest	296	177
Other revenue	539	2,016
Total revenue	16,907	18,265
Expenditure	16,478	18,946
Operating surplus/(deficit)	429	(681)
Performance of market analysis and guidance, investor awareness and regulatory engagement functions		
Crown revenue	13,732	13,732
Total revenue	13,732	13,732
Expenditure	14,078	16,188
Operating surplus/(deficit)	(346)	(2,456)
Total	(73)	(4,245)
Non-departmental other expenses appropriation		
FMA litigation fund		
Crown and interest revenue	2,008	2,000
Expenditure	2,738	2,500
Litigation surplus/(deficit)	(730)	(500)

Statement of forecast comprehensive revenue and expense

For the years ending 30 June	2018/19 forecast outturn \$000	2019/20 forecast \$000
Revenue		
Crown revenue	36,000	36,000
Interest	296	177
Other revenue	539	2,016
Litigation fund income - Crown revenue and bank interest	2,008	2,000
Total revenue	38,843	40,193
Expenses		
Personnel expenses	25,469	28,644
Occupancy expenses	1,907	2,159
Depreciation	1,882	3,309
Other operating expenses	7,650	8,326
Litigation fund expenses	2,738	2,500
Total expenses	39,646	44,938
Surplus/(deficit)	(803)	(4,745)
Comprising		
Operating surplus/(deficit)	(73)	(4,245)
Litigation surplus/(deficit)	(730)	(500)
Surplus/(deficit)	(803)	(4,745)

Statement of forecast financial position

For the years ending 30 June	2018/19 forecast outturn \$000	2019/20 forecast \$000
Equity		
Accumulated funds	2,227	(2,518)
Capital contributions	11,027	11,027
Total equity	13,254	8,509
Assets		
Current assets	8,539	4,515
Non-current assets	9,656	9,023
Total assets	18,195	13,538
Liabilities		
Current liabilities	3,498	3,718
Non-current liabilities	1,443	1,311
Total liabilities	4,941	5,029
Net assets	13,254	8,509

Statement of forecast changes in equity

For the years ending 30 June	2018/19 forecast outturn \$000	2019/20 forecast \$000
Opening balance		
Accumulated funds	3,030	2,227
Capital contributions	11,027	11,027
Total opening balances	14,057	13,254
Comprehensive revenue and expense		
Forecast net operating surplus/(deficit)	(73)	(4,245)
Forecast net litigation surplus/(deficit)	(730)	(500)
Total comprehensive revenue and expense	(803)	(4,745)
Owner transactions		
Capital contribution	-	-
Total owner transactions	-	-
Closing balance		
Accumulated funds	2,227	(2,518)
Capital contributions	11,027	11,027
Total closing balances	13,254	8,509

Statement of forecast cashflows

For the years ending 30 June	2018/19 forecast outturn \$000	2019/20 forecast \$000
Cash flow from operating activities		
Cash was provided from:		
- Crown revenue	36,000	36,000
- Crown revenue - litigation fund	2,000	2,000
- Interest	203	177
- Other income	687	2,000
Cash was applied to:		
- Suppliers	(12,114)	(13,166)
- Employees	(25,637)	(28,375)
- MBIE: fees, settlement fund, underutilised litigation fund	(459)	-
- Net GST	153	39
Net cash flows from operating activities	833	(1,325)
Cash flow from investing activities		
Cash was provided from:		
- Net (increase)/decrease in term deposits	(2,000)	5,000
Cash was applied to:		
- Purchase of fixed and intangible assets	(5,907)	(2,677)
Net cash flows from investing activities	(7,907)	2,323
Cashflow from financing activities		
Cash was provided from:		
- Capital contributions	-	-
Net cash flows from financing activities	-	-
Net increase (decrease) in cash balance	(7,074)	998
Add opening cash and cash equivalents balance	9,479	2,405
Closing cash and cash equivalents balance carried forward	2,405	3,403
Comprising		
Current account cash and cash equivalents	2,405	3,403
Litigation fund cash and cash equivalents	-	-
	2,405	3,403

Statement of significant assumptions

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

Crown revenue

Currently appropriated Crown revenue is set out in the Appropriations table on page 16 which is consistent with the 2019/20 Estimates of Appropriations. The FMA's funding increased to \$36m 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. This includes approximate income we anticipate receiving under regulations that will be introduced as a result of the Financial Services Legislation Amendment Bill.

Litigation expense and fund

We assume expenditure on approved litigation of \$2,000,000 each year. In the 2019/20 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 2019/20 period, the FMA is appropriated to supply services under Vote Business, Science and Innovation in the categories of outputs described below.

Vote Business, Science and Innovation

For the years ending 30 June	2018/19 forecast outturn \$000	2019/20 forecast \$000
Part 2.2 Non-departmental output expense appropriation		
Services and advice to support well-functioning financial markets		
Performance of investigation and enforcement functions	6,196	6,196
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.		
Performance of licensing and compliance monitoring functions	16,072	16,072
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.		
Performance of market analysis and guidance, investor awareness and regulatory engagement functions	13,732	13,732
This category is limited to the performance of statutory functions relating to market intelligence, guidance, investor education, and regulatory and government co-operation and advice.		
Total for Appropriation	36,000	36,000
Part 5.2 Non-departmental other expenses		
FMA litigation fund	2,000	2,000
This appropriation is limited to meeting the cost of major litigation activity arising from the enforcement of financial markets and securities markets law by the FMA.		

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 6 June 2019.

These forecast financial statements have been prepared for the special purpose of the FMA's Statement of Performance Expectations 2019/20 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

fma.govt.nz



FINANCIAL MARKETS AUTHORITY

TE MANA TATAI HOKOHOKO - NEW ZEALAND