

Our immediate priorities during the COVID-19 response and recovery

This information sheet outlines the FMA's immediate priorities as New Zealand continues to respond to the COVID-19 pandemic, showing how we will support that response and recovery, while also ensuring financial service providers support their customers and investors.

Overview

The COVID-19 pandemic has seriously impacted the global economy, with economic disruption expected to continue well into 2021.

The FMA's focus is to ensure that the financial sector is well positioned to respond to these future challenges and support customers and investors.

Accordingly, this document outlines our immediate priorities and focus areas over the next 3 – 6 months.

Our immediate priorities are intended to promote trust and confidence in financial markets through:

- supporting investors and customers by helping them to make good decisions and highlighting risks and issues
- providing ongoing support to entities and working with firms to help them respond to the impacts of COVID-19
- identifying and addressing misconduct, including scams and other predatory practices related to COVID-19
- swiftly responding to market disruptions and significant events
- setting out our expectations on good conduct, particularly in relation to the treatment of customers in vulnerable circumstances

- progressing the new financial advice regime which begins on 15 March 2021, and other key policy reforms to enhance oversight of financial markets
- continuing to work with other members of the Council of Financial Regulators (CoFR) and other agencies to monitor developments and ensure effective responses to system-wide issues.

By focussing on these areas, and with the support of industry, we can continue to promote and facilitate fair, efficient and transparent financial markets, and contribute to the country's economic recovery.

Background

The COVID-19 pandemic has had, and will continue to have, a significant impact on the economy, the sectors we regulate, and their customers and investors.

Our immediate response to the pandemic was characterised by a number of actions aimed at:

- reducing operational burden on entities to help them focus on supporting customers and investors
- stepping up our contact with entities to monitor their ongoing responses to the pandemic, and to outline what we expected of them

- communicating with investors to warn of risks (e.g. fund switching) as well as scams and fraud
- monitoring regulatory risks and determining swift regulatory responses through an internal cross-organisational COVID-19 Committee
- coordinating with other Council of Financial Regulators (CoFR) agencies, on initiatives in response and deferral of regulatory activity.

Our priorities and activities for the next 3-6 months are aimed at monitoring changing regulatory risks and ensuring we respond to them appropriately.

This will let us take necessary steps to reduce the likelihood and impact of harm to investors, customers and financial markets.

At this time of the year, the FMA usually publishes an Annual Corporate Plan outlining the work we intend to undertake to progress and promote our strategic priorities for the coming year.

We intend to publish a corporate plan later this year outlining our key areas of focus and work programme, once there is greater certainty on the impact of COVID-19 on the financial sector.

In the meantime, we are releasing this short-term view to outline our current approach and priorities to provide transparency to our stakeholders.

We recognise the very real possibility of further lockdowns associated with community transmission, as well as the potential for major events affecting financial markets, and have developed response processes for these scenarios.

Key regulatory risks we will focus on

The economic impacts of COVID-19 have the potential to undermine confidence and participation in New Zealand's financial markets, and trust in financial product and service providers, and to increase exposure of investors and customers to harm from misconduct.

Specific areas we will be focusing on over the coming months include:

1. Investor and customer behaviour and decision-making

In times of market volatility, investors may be tempted to either crystallise losses or enter into high-risk investments. The pandemic is also likely to cause greater vulnerability and more challenges around encouraging participation in financial markets.

In response, we will seek out opportunities to engage with investors and customers to support their decision-making, and provide relevant guidance.

2. Fair, efficient and transparent capital markets

We will continue to monitor and engage with, market participants and frontline regulators including NZX.

This will focus on areas such as resilience of financial market infrastructure, trading misconduct, financial reporting, quality and timeliness of disclosures, and audit issues.

3. Financial sector resilience

We will ensure that the FMA is prepared to respond to significant events, as well as undertake ongoing monitoring and assessment to identify high-risk entities and issues.

This will include ongoing engagement with frontline regulators such as Supervisors on issues such as liquidity risk management practices of MIS managers and coordination with CoFR agencies to monitor and respond to systemic issues.

4. Reintroduction of regulatory activities

Regulatory activities will restart in a phased approach and support industry to serve the needs of customers.

We have resumed our supervisory monitoring programme, which includes planned, reactive and thematic monitoring of our licenced populations

(e.g. derivative issuers and MIS managers) and entity types (e.g., AML/CFT reporting entities).

On-site engagements are scheduled to commence again in August.

5. Treatment of customers and investors

We will continue to outline our expectations of industry on the treatment of investors and customers, including those that are vulnerable due to their personal circumstances. We expect firms to be able to demonstrate how they have done this as we continue our engagement in the coming months.

We will use our risk-based monitoring to identify entities at high-risk of mistreating customers and investors through practices such as mis-selling products, poor claims management and other areas of concern.

Where we identify misconduct, particularly those seeking to take advantage of the COVID-19 pandemic, we will quickly address and deter misconduct. This includes enforcing the fair dealing provisions of the Financial Markets Conduct Act 2013 relating to misleading and deceptive conduct.

6. Scams and fraud

The pandemic has exacerbated investor vulnerability to fraudulent activities, with scammers seeking to exploit conditions such as market volatility, investor uncertainty, and search for yield.

We will work with relevant agencies to respond to scams and fraud, issuing public warnings and alerts to warn investors of potential risks.

Our other current activities

We will also continue to progress the medium-term strategic activities that support our statutory

objective of fair, efficient and transparent financial markets.

Our other current activities include:

- implementing the new financial advice regime and regulatory approach
- developing our approach to banking and insurance in response to the Financial Markets (Conduct of Institutions) Amendment Bill
- maintaining confidence in KiwiSaver through investor communications, supervisor engagement, and policy settings
- laying the groundwork for refreshing our investor capability strategy to align with an updated New Zealand financial capability strategy

Medium term strategic priorities

As a risk-based regulator, we will regularly review our strategic priorities and activities to ensure we continue to target the most significant risks to our objectives.

This document should be read with our Statement of Intent, which outlines our medium-term priorities.

Our medium-term strategic priorities are:

- Trust and confidence in capital markets
- Deterrence of misconduct
- Governance and culture
- Investor and customer decision-making
- Implementation of remit changes

We consider the pursuit of these medium-term priorities as critical to supporting investors and the entities we regulate to respond to, and recover from, the unprecedented impacts of COVID-19.



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