



09 APR 2018

Murray Jack
Chair
Financial Markets Authority
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Dear Murray

ANNUAL LETTER OF EXPECTATIONS FOR 2018/19

I am writing to convey my portfolio priorities and your role in achieving these priorities, along with my strategic and performance expectations for the Financial Markets Authority (FMA) in relation to the 2018/19 financial year.

The goal of this Government's economic strategy is to improve the well-being and living standards of New Zealanders through sustainable and inclusive growth. This means moving beyond narrow economic indicators and measures of success, and instead puts the well-being of our people and the environment at the centre.

Commerce and Consumer Affairs priorities and what this means for the FMA

My priorities for this year in the financial sector are as follows:

- Progressing passage of the Financial Services Legislation Amendment Bill to improve access to high quality financial advice for New Zealanders and establish a level playing field of regulation for all who provide financial advice.
- Ensuring that the Financial Market Conduct Act 2013 (**FMC Act**) reforms are delivering fair, efficient and transparent financial markets for all New Zealanders. This is likely to require a series of regulatory updates and maintenance over the next 12 to 18 months.
- Reviewing New Zealand's insurance contract law with an aim to modernise and consolidate existing law. This will include reviewing a number of discrete issues that have been raised, as well as considering whether there is a need for greater regulation of insurers' conduct.
- Exploring how further work on retail payment systems and open banking can increase competition, innovation and consumer welfare consistent with our overall goal of building a broad-based economy.

I expect the FMA to contribute to achieving results against these priorities, as appropriate.

I understand that the reforms under the FMC Act have meant a lot of change for the FMA in recent years and the new regime for financial advice will mean a lot more change in the next couple of years. I acknowledge that this is a very busy time for your organisation and

appreciate the hard work that is going into adapting to and implementing these regulatory changes. I am sure the FMA will continue to meet these challenges as well as carry out its core functions effectively.

This Government's priorities extend beyond agency boundaries - many will involve you playing an effective role within an integrated and coherent system. I expect you to focus on working together with the range of agencies and parties that have a stake in achieving these priorities in the Financial Markets regulatory system including, but not limited to, the Ministry of Business, Innovation and Employment (**MBIE**), the Reserve Bank of New Zealand, the Treasury, and the Commission for Financial Capability.

The following paragraphs set out my specific expectations for the FMA.

Specific expectations for FMA

My particular expectations for the FMA in 2018/19 are:

- Ensuring effective implementation of the new regime for financial advice, particularly ensuring robust processes are in place for licensing and monitoring of financial advisors.
- Anticipating and enabling innovation in financial services, while also ensuring appropriate safeguards are in place and investors are adequately informed about any risks the innovation may pose.
- Promoting, with other agencies and organisations, the effectiveness and integrity of the KiwiSaver system, with a strong focus on provider transparency and engagement with investors, particularly around fees and default funds.
- Promoting investor confidence in financial markets, including by engaging closely with NZX in its review of its market services.
- Engaging with MBIE on its review of insurance contract law.
- Continuing extensive engagement with market participants about the conduct and governance expectations under the FMC Act.
- Coordinating with MBIE, the Commission for Financial Capability and any other agencies across government where appropriate to build investor capability and confidence, including by encouraging access to information and advice.
- Proactively monitoring conduct risks within populations at the regulatory perimeter, including vulnerable investors and those who might be the targets of scams or fraud.
- Implementing regulation effectively and efficiently, making use of the full range of non-regulatory and regulatory tools, from proactive engagement with market participants to enforcement action where appropriate.

General expectations and good governance

As part of your role in governing a high performing FMA, I expect you to:

- maintain an effective board
- be the primary monitor of the entity's performance and maintain effective relationships with my advisors in MBIE, and
- operate a no surprises policy.

These expectations are set out in more detail in the Annex to this letter.

Strategy and performance information

All Crown entities must prepare an annual Statement of Performance Expectations (**SPE**) and have an approved Statement of Intent (**SoI**). The annual SPE should provide a clear performance framework and support excellent reporting to Parliament and the public on results.

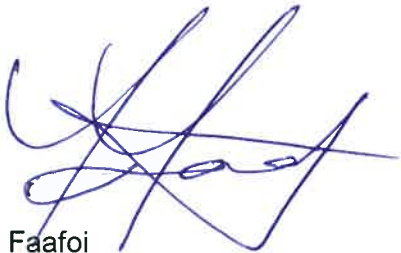
For this year I do not expect to see a new draft SoI, as the current SoI can remain in place until further notice. However, please advise me as soon as is practicable if a new SoI should be developed.

Response

Your advice by 27 April 2018 on how you propose to respond to the expectations set out in this letter and its Annex would be appreciated. I would be happy to consider approaches that best achieve our collective aims and work well for the FMA. In the first instance, please discuss your proposed response with MBIE.

I look forward to developing an effective working relationship with you over the coming year.

Yours sincerely



Kris Faafoi
Minister of Commerce and Consumer Affairs

Copy to: Rob Everett,
Chief Executive, Financial Markets Authority

Brad Ward,
General Manager, Commerce, Consumers and Communications, MBIE

Annex 1: General expectations and good governance

Effective board

Ensuring the board is, and remains, high-performing is essential. There are many tools to help boards self-assess and improve performance. I expect you to use a robust process, and advise me and MBIE of the result of this self-assessment by 30 September 2018, including what steps the board is taking to respond to the findings of your annual self-review. MBIE can provide support for the board in undertaking this work.

Your input into succession planning for the board is also sought. I expect you to provide MBIE with your view of the competency mix you need to work well as a board, along with your thoughts on upcoming appointments and any candidate attributes to target.

Effective monitoring of entity performance by boards and relationship with the MBIE

In addition to setting and driving a strategy that delivers on government priorities, your board is the most important monitor of entity performance. I expect the board to provide me with high quality information and analysis on entity performance against your strategic plan, implications for future performance, and risks and opportunities facing the entity.

I also expect you to have a constructive working relationship with your monitor within MBIE.

No surprises

The Government has a 'no surprises' policy. No surprises means that the Government expects a board to:

- be aware of any possible implications of their decisions and actions for wider government policy issues
- advise the responsible Minister of issues that may be discussed in the public arena or that may require a ministerial response, preferably ahead of time or otherwise as soon as possible
- inform the Minister in advance of any major strategic initiatives.

I also ask you to avoid 'pre-judging' my potential responses to risks and opportunities. I expect to hear about emerging issues and what major actions the board is considering. My reactions will be based on a range of factors, including the benefits of new initiatives and of taking different approaches to achieve our goals.