



MARCH 2025

Regulatory Impact Statement

Regulatory reporting requirements for licensed financial institutions

This document is for licensed financial institutions and other interested parties. It discusses the regulatory reporting requirements under Standard Condition 3 for licensed financial institutions. Please note all sections of legislation referencing CoFI regime throughout this document are as of 31 March 2025.

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Executive summary

Document purpose

This Regulatory Impact Statement (**RIS**) discusses the decisions of the Financial Markets Authority – Te Mana Tātai Hokohoko (**FMA**) on the proposed regulatory return requirements for all licensed financial institutions¹ (**FIs**).

This document sets out our considerations in relation to the question set and the first return period. It also summarises the key themes underpinning the feedback received during public consultation that informed our decisions.

We considered the following options, including whether the first return period should be nine or twelve months.

- Option 1: no regulatory return (**status quo**)
- Option 2: broader scope regulatory return (**consulted return**)
- Option 3: narrower scope regulatory return (**narrow return**)

Preferred option

After carefully considering the feedback provided and assessing the impact of each option, we will implement the narrow return, and all reporting periods will be twelve months. The first FI regulatory return will be for the period from 1 July 2025 to 30 June 2026 and will be due to the FMA by 30 September 2026.

We considered submitters' suggestions to delay the first return. However, this would restrict the FMA's ability to be an intelligence-led and risk-based regulator, given we would not have consistent data to direct our supervision activities. We also determined that the data would be less meaningful if we had an initial nine-month period, as it would require analysis of data across both nine- and twelve-month periods in future.

Background

The Financial Markets (Conduct of Institutions) Amendment Act 2022 (**CoFI Act**) amends the Financial Markets Conduct Act 2013 (**FMC Act**) to introduce a new regulatory regime for FIs. From 31 March 2025, all FIs captured under the FMC Act can only provide relevant services and associated products to consumers if they have been granted an FI licence by the FMA.

¹ 'Financial institution' is defined in section 446E of the Financial Markets (Conduct of Institutions) Amendment Act 2022.

FMA's purpose, objectives and priorities

The FMA's statutory purpose is to promote and facilitate the development of fair, efficient, and transparent financial markets, and to promote the confident and informed participation of businesses, investors, and consumers in the financial markets. Our vision is that more New Zealanders than ever believe the financial services sector is working well for them.

The FMA Outlook 2024/2025² outlines our purpose, vision, activities and objectives. One of our core activities is the monitoring and supervision of financial markets. Our strategic objectives are evolving our outcomes-focused approach, evolving our intelligence-led approach, deterring harmful unregulated activities and deterring misleading and deceptive practices. Implementing CoFI is one of our four operational priorities for the 2024/25 year.

Risk-based and intelligence-led

Being a risk-based and intelligence-led regulator means that we identify and analyse patterns of risk, behaviour and capability of consumers and markets, to understand the most significant risks to our objectives. This, in turn, helps us prioritise and target our response. We use data and intelligence to make better decisions. We learn about the behaviour of those we regulate (and their consumers). We seek to be innovative and forward-looking in our use of technology, new regulatory approaches, and ways of working.

As the FMA continues developing our intelligence-led and risk-based approach, we will use data to create sector- and entity-specific views. This will help us to target our resources to the areas of greatest risk, where we see the potential for material harm that could lead to the erosion of public confidence in financial markets. The data collected through regulatory returns will be a key input to our intelligence-led approach.

Monitoring financial institutions

The FMA's supervisory activity, where we monitor adherence to regulatory and legislative requirements by financial market participants, is integral to our statutory purpose. FI licensees will be subject to ongoing supervision and monitoring by the FMA.

Our ability to effectively monitor the licensed population and emerging risks in the sector relies on the quality and depth of information available to us. Information may be obtained through complaints, referrals from other agencies, licensing applications, reporting under licence conditions or through our statutory powers.

Our monitoring activities generally fall into one of three broad categories:

- **Responsive monitoring** – undertaken in response to information received from market participants themselves or other parties, including complaints.
- **Thematic monitoring** – deep-dive review work to better understand a particular market segment and/or issue. Some of this monitoring is exploratory in nature, to help build understanding and assist with setting expectations for market participants.
- **Planned monitoring** – monitoring engagements that are planned in advance to take a more in-depth look at a particular entity. Our planned monitoring reviews generally also involve onsite visits by FMA staff to conduct interviews with key staff, as well as review of documents.

² FMA Outlook 2024/2025

We are committed to an open and educative approach, so all financial markets participants have clear and well-understood responsibilities. We publish summaries of the aggregate findings from our monitoring and surveillance to assist participants in understanding our expectations and enable them to check their compliance and raise standards if necessary.

FI licensing and standard conditions

We can impose conditions on licences under the FMC Act by written notice to the applicant or licensee (see section 403 of the FMC Act). Licensees have an obligation to comply with those conditions under section 402(3).

All FI licence holders are required to comply with six standard licence conditions³, as well as any additional specific conditions added to their licence, and any other statutory duties and obligations that apply to FIs.

Standard Condition 3 – Regulatory Returns requires FIs to provide us with information to help us to monitor their ongoing capability to effectively perform the licensed FI service in accordance with the applicable eligibility criteria and other requirements in the FMC Act, including updated information on the nature, size and complexity of the FI.

We have now considered and decided what information we require FIs to provide in their regulatory returns. This information will inform our risk-based and intelligence-led monitoring approach and is necessary to effectively monitor all FI licence holders.

Regulatory returns

This RIS explains our decisions on the [regulatory reporting requirements](#) that all FI licence holders must comply with.

The regulatory returns require reporting of factual business information, such as relevant services⁴ and associated products provided to consumers, numbers of consumers, numbers and types of breaches, and complaints information. FIs will also be asked for information about the implementation and maintenance of, and compliance with, their fair conduct programme (**FCP**). This will include updated information on the FCP and the nature, size and complexity of their financial institution service. This will help us to understand the profile of each FI's business and focus our resources in an intelligence-led and risk-based manner.

In the 2022 consultation on the FI licence Standard Conditions, stakeholders indicated they were generally supportive of Standard Condition 3; however, some submitters noted they could not comment without knowing what information would be required.

In late 2024, we carried out public consultation on the proposed questions to give effect to Standard Condition 3. Following feedback, we have reduced the number of questions from 48 to 23. This narrower regulatory return will allow us to still collect useful information, while balancing the level of burden an annual return can have on FIs. The data collected will inform our risk-based and intelligence-led approach to supervision and monitoring, which is why we cannot proceed with no return (status quo).

³ [Standard conditions for financial institution licences](#)

⁴ 'Relevant service' is defined in section 446F(1) of the CoFI Act.

Neither Option 1 nor Option 2 will meet our objectives (outlined below) without imposing unreasonable costs on either FIs or the FMA. Therefore, the preferred option is Option 3, which balances compliance cost with provision of information that will give us the ability to effectively monitor licensed FIs. This will:

- help us better understand the profile and business of FIs
- allow us to more effectively and efficiently allocate our resources, and focus monitoring and supervision activity on areas of highest potential risk
- ensure our resources are best directed to help achieve the statutory objectives of the FMC Act.

The preferred option will add initial compliance costs in some cases, but we consider these to be necessary. Having an up-to-date understanding of FIs and an improved ability to identify risk will help reduce the need for intensive monitoring in the long term.

Overall, this option will help to ensure a well-regulated financial sector.

Objectives and relevant stakeholders

Objectives

Regulatory reporting informs our risk-based approach to monitoring licensed FIs. This means data collected from FIs helps determine who and what to monitor, with respect to ongoing capability to effectively perform the financial institution service. This enables us to promote the following statutory purposes of the FMC Act, which we used as the objectives against which to measure the possible options for the regulatory return requirements:

- promote the confident and informed participation of businesses, investors, and consumers in the financial markets
- promote and facilitate the development of fair, efficient and transparent financial markets
- avoid unnecessary compliance costs.

Relevant stakeholders

FI licence holders are required to comply with all reporting requirements, including Standard Condition 3. This will impact those that hold or intend to apply for a FI licence. In considering the options, we contemplated the interests of stakeholders including:

- financial institutions
- authorised bodies, who provide a financial institution service covered by an FI licence
- industry bodies
- consumers of licensed financial institutions.

Problem definition, options, and impact analysis

Problem definition

Without a regulatory return, we are limited to relying on public complaints, referrals, and other information that FIs are required to provide the FMA. This information alone will be inadequate to provide up-to-date details of each FI's business and whether (and to what extent) they are fulfilling their obligations. This will limit our understanding of conduct risks of FIs, meaning we will be unable to appropriately target our risk-based and intelligence-led supervision. In turn, we believe the potential risk of unfair treatment of consumers by FIs would greatly increase, as poor conduct would be less likely to be detected by us.

Options

We considered three options in relation to the problem identified:

- Option 1: no regulatory return (**status quo**)
- Option 2: broader scope regulatory return (**consulted return**)
- Option 3: narrower scope regulatory return (**narrow return**)

In assessing these options, we considered the feedback provided as part of consultation, as well as the FMA's strategic objectives, core activities, and the resources we need to be able to fulfil our statutory purpose. We have outlined our considerations, including impact analysis for each option, below:

Option 1: No regulatory return

Description

By not using Standard Condition 3 to implement a regulatory return, we would need to rely on information such as complaints, referrals, stakeholder engagements, intensive supervision and monitoring, as well as any existing reporting obligations (including Standard Condition 2 Notification of material changes) to inform our approach to supervising and monitoring licensed FIs.

Impact analysis

Financial institutions: This option would not impose any new or additional cost or burden on any FI licence holders in terms of data collection. However, there may be consequential costs associated with more intensive FMA supervision, which could be required if we have a less-informed monitoring approach. If we do not have the data we need to inform and target our resources it means we may be allocating these to FIs that are complying sufficiently, instead of to FIs that pose greater risk of harm to consumers. This would be an inefficient use of resources for both FIs and the FMA.

FMA: This option would mean we would be unlikely to have sufficient or appropriate data (including up-to-date information) to ensure effective identification of current and/or emerging high-risk practices. We would likely allocate our resources to the most ‘visible’ misconduct without having a view of the overall conduct risks presented by FIs.

Matters reported to the FMA under section 412 of the FMC Act, regulation 191 of the FMC Regulations, and Standard Condition 2 for FIs would offer some data. However, these do not provide for the level of information needed to inform a proactive risk-based monitoring approach. To inform our risk-based monitoring approach we require consistent and regular information about an FI’s business so we can assess trends over time. The information requested as part of the narrow regulatory return will provide an annual snapshot of each FI’s business, along with information on their compliance with licensing and legislative requirements.

Consumers: This option is more likely to contribute to increased risk of unfair treatment of consumers, as potential poor conduct by FIs may go undetected. It is possible that consumers could benefit in the form of less cost passed on by FIs.

Risks: We consider that the key impact of imposing a regulatory return – increased compliance costs – is outweighed by the risks of not imposing a return. Regulatory returns are an established regulatory tool used by the FMA and are a key part of our monitoring and supervision of other licence types. We consider it would be inappropriate to have no regulatory return for such a broad and influential sector, and we do not see a justification for deviating from the approach used for other licence types.

Option 2: Broader scope regulatory return (consulted return)

Description

This option involves a regulatory return of up to 48 questions that an FI would be required to answer.

The questions cover a broader range of themes including FCPs, associated products and relevant services, distribution methods, consumer care and handling conflicts, complaints and conduct risk management, employees and agents, outsourcing, business continuity plans and operational resilience, and record keeping.

This return would help identify areas of conduct risk in FIs’ business practices, offer a more extensive sector-wide view of emerging risk themes, and provide FMA with insights on where to best focus its resources.

Impact analysis

Financial institutions: Option 2 would place moderate compliance costs on licensed FIs. While costs would vary between FIs based on resourcing, technology and data capabilities, we anticipate some level of compliance cost and/or time to prepare data would be unavoidable with this option.

More detailed reporting may impose undue costs where the required information does not exist in a readily collectable form, or there are barriers to collecting that type of information. This could potentially impact resourcing within FIs.

There may be initial and upfront one-off costs where FIs decide to invest in system and process changes. This will vary greatly depending on the size and complexity of the business and its current reporting system. The majority of submitters indicated concern about regulatory burden in relation to preparing and

completing the FI regulatory returns, and some indicated that the consulted return could require major costs or system changes for their organisation.

FMA: More detailed reporting would allow us to gain an in-depth understanding of the structure, conduct, and practices of licensed FIs, and organise our resources to focus on higher-risk areas, associated products and relevant services, and on general conduct risks.

This in turn would allow us to design our monitoring activity to be intelligence-led and risk-based, undertake thematic reviews of the sector, and issue information and guidance. These activities support the objectives of the FMC Act and CoFI regime.

Consumers: Consumers may benefit from improved risk-based monitoring from the FMA, but equally they may be impacted if higher compliance costs are passed on in the form of higher prices for products and services.

Risks: There are risks associated with a broader question set, such as requesting information that is non-essential and/or duplicates information collected from other regulatory returns. This could impose compliance costs that may be unnecessary. Due to upcoming legislative amendments to the CoFI regime proposed as part of the MBIE's 'Fit for Purpose' reforms, there may also be a risk that some of the questions in the consulted return do not align with the anticipated changes. Some questions may risk being perceived as imposing unintended prescription, e.g. interpreted by FIs as implying a particular form or method for fulfilling the legislative requirements not supported by statute, or risk being too broad or not specific enough to capture useful data.

The consulted return may also risk giving FIs insufficient time to prepare before the commencement of the reporting period on 1 July 2025.

In this case we consider that the risks around unnecessary compliance costs outweigh the benefits of a more extensive question set.

Option 3: Narrower scope regulatory return (preferred option)

Description

This option is a reduced set of 23 questions, developed to reflect consultation feedback. It focuses on a narrower set of data that we consider is likely to provide the minimum level of information required to monitor the licensed FI population in an intelligence-led and risk-based way.

The narrower return differs in scope from the consulted return, as questions regarding employees and agents, handling conflicts, operational resilience and record keeping have been removed. The return also asks fewer and more tailored questions under the remaining topics. The remaining questions are in line with licensing and legislative requirements. They will provide the FMA with a general update on each FI's business and an understanding of their compliance with their licensing obligations. We have also removed questions where we felt the topic would be more appropriately addressed (if necessary) via one of our other regulatory tools, such as engagement meetings, round tables, monitoring, thematic reviews or guidance.

We also considered the impact of the proposed nine-month first return period when weighing up options. We considered feedback received regarding answers to attestation-style questions where FIs may have completed the task within the last twelve months, but not within the nine months of the reporting period. Feedback suggested this could cause data to appear misleading against the intention of the question. We also considered our ability to compare data over time and determined that making all reporting periods

annual would allow for greater consistency in reporting, and more reliable insights. We therefore decided a twelve-month reporting period for the first return was the most appropriate option, given the changes that were made to the question set.

Impact analysis

Financial institutions: The impacts are comparable to Option 2 except that it would generally impose a lower compliance cost across all FI licence holders in terms of preparing systems to capture data. However, there is potential for higher compliance costs in relation to resourcing, in the event that we need to increase our supervisory activities to account for the narrower scope of data collected. The narrower scope of questions will have an impact on the meaningfulness of insights that can be drawn from the data.

Compared to Option 2, this option:

- has lower one-off costs (particularly as fewer and simpler quantitative questions will have fewer system and resourcing impacts)
- has lower compliance costs across all licensees because the information sought is in line with FI licensing questions, and the licensed financial advice provider (FAP) regulatory return (accounting for crossover in population). Therefore, we expect FIs will in most cases already have reporting in place to support this data collection.
- considers the potential future changes to the CoFI legislation. We have reviewed the question set through a proactive lens and made decisions to remove questions or references to wording that is likely to not be applicable should the proposed legislative changes proceed.

A narrower question set would also be simpler for FIs to prepare for before the commencement of the first reporting period on 1 July 2025.

FMA: The impacts are comparable to Option 2, except that this option would decrease expected benefits due to the narrower scope of data collected. However, while aspects of the question set have been removed or tailored under Option 3, the information should still allow us to plan and undertake intelligence-led and risk-based monitoring activities. This option also represents our ambition to focus on quality and relevance of data rather than quantity.

We may consider carrying out thematic reviews or other supervisory activities to monitor aspects of the FI sector related to questions that have been removed from the original set.

Consultation feedback referenced proposed changes to legislation, including the move to a single conduct licence in the future. Comments suggested delaying the return until any changes were implemented. As noted above, having no return is not a viable option, as the value of the data to our supervisory approach outweighs any benefits in a delay.

Consumers: The impacts on consumers are comparable to Option 2, except that consumers would be less vulnerable to flow-on effects from burdensome compliance costs.

Risks: A reduced level of data may impact our ability to understand sector risks and target our supervisory approach accordingly. This could lead to increased supervision of FIs to compensate. However, we do not anticipate significant impacts to our monitoring and supervision due to the narrower scope of data. We consider that the benefits of the data we would receive from the additional questions would not outweigh the level of burden on a FI to answer them. We also note that we can obtain some of this information through the use of other regulatory tools, such as engagement, if necessary.

Summary of assessment of options against objectives

We have assessed the options against the criteria below:

Key:

- ✓✓ Meets the policy objectives
- ✓ Partially meets the policy objectives
- ✗ Does not meet the policy objectives

Criteria	Avoids unnecessary compliance costs	Promotes confident and informed participation in the financial markets	Promotes and facilitates the development of fair, efficient, and transparent financial markets
Option 1: No regulatory return (status quo)	This option would not impose any new or additional costs to FI licensees; however, there may be consequential costs associated with a less-informed monitoring approach. For example, the FMA may need to monitor all entities to the same intensity if insufficient information is held to determine how much risk is posed by each entity. ✓	<p>Regulatory returns information is an important part of enabling the FMA to effectively monitor FIs and enforce financial markets legislation. This in turn helps us prioritise and target our responses.</p> <p>Without regulatory return information we would have to rely on other tools to identify and analyse patterns of risk, behaviour and capability of consumers and markets to understand the most significant risks to our objectives. This compromises our ability to promote the confident and informed participation of businesses, investors and consumers in financial markets.</p> <p>Without a well-regulated market, confident participation of businesses, investors and consumers in the financial market will decrease. ✗</p>	Without the information provided in regulatory returns, facilitation of fair customer treatment is more difficult and will require more resources for the FMA to monitor compliance and enforce FIs' obligations. ✗

Criteria	Avoids unnecessary compliance costs	Promotes confident and informed participation in the financial markets	Promotes and facilitates the development of fair, efficient, and transparent financial markets
Option 2: Broader scope regulatory return (consulted return)	Places moderate compliance cost on licensed FIs. Some level of unnecessary compliance cost (and time) may occur. ❌	<p>A more detailed return helps the FMA identify areas of risk in an FI's business, and develop a sector-wide view of current and emerging risk themes and opportunities for effective monitoring. This allows the FMA to effectively use the tools within its remit, including monitoring, enforcement, guidance and engagement, which is key to promoting the confident and informed participation of businesses, investors and consumers in the financial markets.</p> <p>However, the burden on firms collecting this data may be disproportionate to the benefit of the FMA receiving it. An overburdensome approach could detract from participation by businesses and lead to increased costs for consumers. ✔</p>	The information collected from a more detailed regulatory return allows us to assess market trends and outliers to respond to unfair treatment in a proportionate manner. This approach promotes and facilitates the development of fair, efficient, and transparent financial markets. ✔✔

Criteria	Avoids unnecessary compliance costs	Promotes confident and informed participation in the financial markets	Promotes and facilitates the development of fair, efficient, and transparent financial markets
<p>Option 3: Narrower scope regulatory return (narrow return) preferred</p>	<p>This option places a lower compliance cost on licensed FIs compared with Option 2. We consider the associated costs are reasonable and necessary when compared to the overall benefits of well-regulated markets. ✓✓</p>	<p>A narrow return helps identify the base level of risk in the sector.</p> <p>It will provide information to help the FMA identify current and emerging risk themes and opportunities for more targeted monitoring.</p> <p>The information allows the FMA to undertake a fair and reasonable risk assessment to inform our monitoring approach, making an important contribution towards confident and informed participation of businesses, investors and consumers in the financial markets. ✓✓</p>	<p>The information collected from a narrower regulatory return enables us to respond to FIs' conduct in a proportionate, risk-based manner. However, the narrower set of data means our ability to assess market trends and outliers is reduced compared with Option 2.</p> <p>This option ensures effective regulation of the financial markets while balancing the need for firms to manage compliance costs. This is key to promoting fairness, efficiency, and transparency in the financial markets. ✓</p>

Conclusion and reasons

Having carefully considered regulatory and non-regulatory impacts, and submissions received in consultation, we have decided that Option 3 (narrow return) with a twelve-month return period best addresses the identified problems and will best achieve the stated objectives. The relevant reasoning has been set out under the consideration of each section in the [key themes document](#) based on feedback received. This has also been set out in this RIS in relation to our statutory objectives.

Option 1, no regulatory return (status quo) would not achieve the stated objectives and would continue the current environment. The status quo would impose a disproportionate burden on FMA resources to effectively supervise FIs' conduct. Consumers may also not necessarily have assurance that an FI has the capability and systems in place to treat them fairly when providing core banking and insurance services.

Option 2, the consulted return, was a broader-scope regulatory return. Feedback received suggested it will create a high burden in terms of cost and system changes and/or resourcing uplift required from FIs. Therefore, we have decided to reduce this question set, and amend and provide guidance on some remaining questions.

Option 3, the narrow return, is our preferred option. It will add initial compliance costs in some cases, but we consider these to be necessary. The costs will be outweighed by the FMA having an improved ability to monitor conduct, as we will be more intelligence-led and risk-based. Having an up-to-date understanding of FIs and an improved ability to identify risk will help reduce the need for intensive or misdirected monitoring in the long term.

We consider Option 3 strikes the best balance between having a more responsive approach to supervision across the entire FI population, including those complying with their FCP and treating customers fairly, and creating unreasonable burden in terms of both resourcing and cost for FIs.

