

Stakeholder survey – Final report

Financial Markets Authority – 10 August 2012



Executive summary

Executive summary



After its first year of operation, FMA undertook research with its stakeholders to meet the following objectives:

Key stakeholders	Wider stakeholder community
Explore views of FMA's performance and stakeholder engagement	Measure FMA's performance as a regulator of New Zealand's financial markets
Identify areas where FMA might improve its regulation of New Zealand's financial markets in the future	

Key stakeholders recognise that FMA is a relatively young organisation and that on its inception it inherited significant challenges (e.g. the global financial crisis, the collapse of finance companies, and the legacy of the Securities Commission).



Given the inherited challenges FMA faced on its inception and that it was a new organisation, many key stakeholders had low expectations about FMA's potential capability and performance. However, **today**, the stakeholder community consider that FMA has mostly shown **strong performance** and **successful stakeholder engagement**.

Key stakeholders praise the amount FMA has achieved in its short life and how well it has tackled the challenges it was presented with.

FMA's performance

Overall, FMA has performed well in its first year of operation – 69% of stakeholders rate performance positively and very few (6%) hold negative views. The strong performance by FMA is all the more impressive against the background of the legacy issues which faced FMA when it was established.

FMA is already performing well on two of the four key outcomes identified in its Statement of Intent:

- 73% of stakeholders say FMA is performing well on helping to lift levels of *competency and compliance by financial market participants*
- 70% of stakeholders say FMA is performing well in *supporting the integrity of the financial markets*.

There is more uncertainty and higher negative opinion about FMA's remaining two key outcomes:

- *Building confidence in the financial markets* (54% of stakeholders think FMA is performing well, 13% say it is performing poorly)
- Its role of *promoting informed investor participation* (40% rate FMA well, 17% rate FMA poorly)

For both *building confidence in the financial markets* and *promoting informed investor participation* substantial neutral opinion exists, suggesting that many stakeholders need to see more FMA activity in these areas before they commit to an opinion. As FMA moves along the organisational lifecycle and further establishes itself, scores should improve for both of these outcomes.

Competent and compliant market participants

FMA's performance in encouraging *competent and compliant market participants* is rated highest for:

- Effective communication of expectations (67% of stakeholders agree FMA does this)
- Market participants understanding their responsibilities (66% agree).

Furthermore, six-in-ten (61%) stakeholders agree that FMA activities have helped clarify their understanding of their obligations.

Market integrity

While overall FMA is performing well in *supporting the integrity of the financial markets*, stakeholders views about specific aspects of this outcome are mixed, and many stakeholders are neutral about FMA's performance. Raising FMA's profile in this area should be effective in increasing positive sentiment.

Investor communications

Stakeholders are polarised in their opinions of FMA's investor communications. A third think FMA's investor communications are easy to access (36% agree) or that the communications assist investors to understand financial risk (29% agree). Substantial negative opinion exists (21% and 32% disagree respectively) and a third of stakeholders are neutral on these topics. Raising public awareness of financial matters and producing more financial literature are the keys ways stakeholders suggest FMA could do more to help consumers and investors.

Key stakeholders agree that FMA could be taking a more active role in informing and educating investors, as well as working with other agencies to increase New Zealanders' financial literacy. They consider it important for investors to understand financial markets to feel confident to participate in them.

Regulatory action

Key stakeholders are aware that to date FMA has had a strong presence in enforcing compliance. While stakeholders' preference is for more activity in the areas of educating market participants about their obligations and responsibilities and educating consumers so they feel confident making financial decisions, they understand that it has been necessary for FMA to undertake more enforcement activity.

When considering specific aspects of FMA's regulatory activities, the wider stakeholder community feels FMA is communicating clearly about why it takes regulatory action (63% of stakeholders agree). There is room to improve stakeholder views of regulatory action for being fair and consistent (40% agree), having the balance right between prevention and punishment (38% agree) and being proportionate (34% agree). A third of stakeholders are neutral in each of these areas. Ensuring that communications around regulation highlight the consistency of FMA's position and that regulatory action is only one aspect of FMA's remit should go some way to improving opinion in these areas.

FMA's stakeholder engagement

In the main, key stakeholders are very positive about their engagement with FMA. The approach to stakeholder engagement taken by FMA is generally seen as:

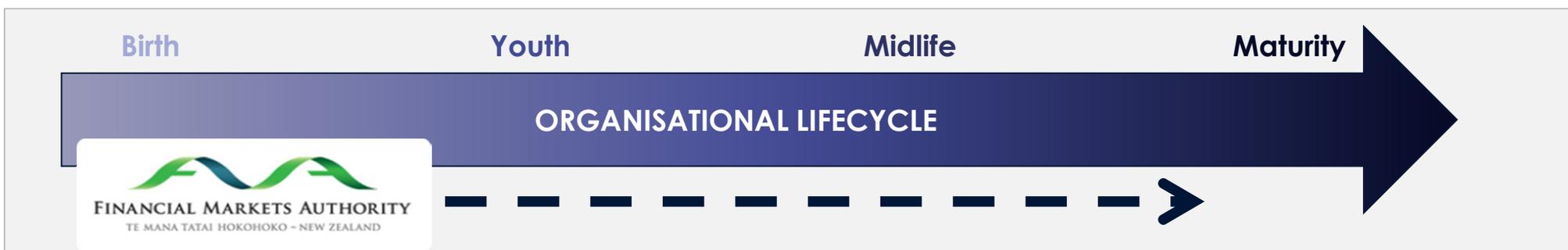
- Accessible (at senior levels within FMA)
- Consultative
- Open and frank.

Going forward, key stakeholders would like FMA's engagement approach to be "more of the same". They also identify other areas to ensure continued successful stakeholder engagement. For example:

- Ensuring FMA is accessible across the whole of the organisation
- Formal and informal contact is more regular
- Developing strong mutual trust and understanding
- Clear boundaries with other regulators and consistent messaging from all regulators
- Meeting stakeholder deliverables in a timely manner.

Key stakeholders expect these critical success factors will take place as FMA matures across the organisational lifecycle.

Despite the positive views of key stakeholders, a minority of the wider stakeholder community feel their business dealings with FMA could be improved through better communication. Specifically, they would like to see FMA being more open in its communication with them.



Future priorities

As FMA enters its second year of operation and moves out of the 'birth' phase of its organisational lifecycle, stakeholders firmly believe more should be done to protect investors. The two key areas they would like to see FMA focussing on in future are assisting investors and consumers to understand investment risk and to stop the misleading advertising of financial products and services.

Investor communications is the only area of FMA's performance to attract equal levels of positive and negative views. Addressing the priorities identified by stakeholders and moving away from enforcement to education will ensure the success of FMA's first year is reflected in subsequent stages of the lifecycle of the organisation.

As well as playing a greater role in investor education, key stakeholders would also like to see FMA collaborate more with other agencies to increase New Zealanders' financial literacy.

Key stakeholders also perceive the following areas as priorities for FMA to focus on in the coming year:

- Implementing plans made for the future
- Applying the Financial Markets Conduct Bill
- Continuing to build confidence in New Zealand's financial markets and encourage market development.

Conclusions

FMA has made an impressive start in its role as New Zealand's financial markets conduct regulator. It is widely seen as performing well, and is already rating highly on two of its four key outcomes. Performance on building confidence in the financial markets and promoting informed investor participation is not as well regarded, in large part because stakeholders are yet to make up their minds in these areas. Increasing activity in these areas should see perceptions improve for both of these outcomes.

Concern over investor education is a key theme to emerge in the first year of FMA operations. Putting investors at the heart of FMA activities and working to improve financial literacy will help FMA build on the firm foundations set during its first year of operation.