

Key findings from the recent re-licensing of supervisors

During 2016 the International Monetary Fund (IMF) undertook a review of the New Zealand financial sector. The Financial Stability Assessment Programme report recommended that the FMA “continue to engage with Supervisors to ensure that they take a consistent approach to their supervision of Managed Investment Scheme (MIS) managers”.

The FMA has completed a review of the licensed supervisors during the process to update their license status in 2017¹.

Following the re-licensing application process, the FMA assessed the supervisors’ submissions, specifically reviewing their approaches to monitoring MIS managers. We wanted to determine whether supervisors were taking a consistent approach to their obligations.

We observed improvements in monitoring practices since the first round of supervisor licensing in 2012. This reflects the growing maturity of the sector. Supervisors generally have improved in their response to issues being raised by MIS managers. They have also strengthened their approach to overseeing remediation of these issues.

These are the summarised key findings identified as part of the supervisor licensing process:

- Supervisors have started to develop risk-based views to target proactive work. Continuing to develop these views to build and share sector assessments will further improve the industry risk outlook. Sector-based views will also help proactively identify possible risk areas before

issues arise.

- Monitoring activity is currently sufficient on a reactive basis. We would like to see proactive monitoring of MIS managers to assist in identifying systemic risks within firms.
- We would like to see a stronger overall risk-based approach to monitoring. This would help to understand the most significant risk and harms, and identify potential systemic issues.
- In key areas the definition of ‘materiality for a change of circumstances’ within a supervised entity needs further work, recognising that this is a matter for judgment to be applied in varying contexts.

We will build these focus areas into our monitoring priorities for each supervisor over the coming year. We expect supervisors to take note of these key areas and address any issues that require remedial action. Since the re-licensing process, some of the supervisors have started projects to address recommendations regarding risk-based and proactive monitoring approaches.

Effective frontline supervisors are a key strategic priority for the FMA and reflect the regulatory framework underpinning the Financial Markets Conduct Act 2013. We consider that a consistent approach to the monitoring of MIS managers by the licensed supervisors will assist in the development and continual improvement of an effective supervisory function.

1: Supervisors were originally licensed under the Securities Trustees and Statutory Supervisors Act 2011

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