
Statement of Performance Expectations 2018–2019



Statement of authorisation

This Statement of Performance Expectations (SPE) is presented to the House of Representatives in accordance with Part 4 of the Crown Entities Act 2004.

This SPE sets out our financial forecast for the financial year 1 July 2018 to 30 June 2019. It is prepared in line with the Crown Entities Act 2004 and should be read together with the FMA's Statement of Intent 2017-2020.

The prospective financial statements, prepared in accordance with FBE FRS-42 for this SPE, have not been audited and should not be relied upon for any other purposes.

The FMA is responsible for the preparation of this SPE, including the forecast financial statements and the assumptions on which they are based, the non-financial measures and the judgments which used them.



Murray Jack
Chair
Financial Markets Authority
15 May 2018



Mark Todd
Chair
Audit and Risk Committee
15 May 2018

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Purpose of the Statement of Performance Expectations

The Statement of Performance Expectations (SPE) is one of two documents which set out how we measure our future performance and report on the progress of that performance against our performance targets.

The other document is our SOI (Statement of Intent) which offers a medium term view of the progress made towards achieving our strategic priorities.

The SPE covers one financial year. It describes how we intend to perform the services we receive funding for through our Government appropriation.

The SPE covers an overarching measure which we call the Investor Confidence Index. It measures a number of factors we believe contribute to whether New Zealand's financial markets are fair, efficient and transparent.

In 2017, we revised and consolidated our SPE measures. We will continue to review the measures to ensure they are focused on the impact we want to have on investors, market participants and the integrity of our financial markets.

The SPE links to the FMA's strategic priorities which are set out in our Strategic Risk Outlook 2017.

We will also report on how we have performed against these targets in the Annual Report 2019.

SPE non-financial measures

Overarching measure (SPE1)

The Investor Confidence Index reflects the purpose of our regulatory activities. This is to identify and address conduct risk, improve behaviour in our markets, and benefit investors and market participants.

The measure includes a number of contributing factors – some within our sphere of control and others for which we share a joint responsibility with other regulators, market participants and investors.

The overarching measure is an index of investor confidence which includes four key factors:

- Stakeholders agree that the FMA's actions help raise standards of market conduct and integrity
- Investors are confident in New Zealand's financial markets
- Licensed market participants show how they achieve good customer outcomes
- Investors are confident in the quality of regulation of New Zealand's financial markets.

Standard	Contributing factors	Measure	2018/19 target	2017/18 forecast	2016/17 actual
SPE 1					
Stakeholders agree that the FMA's actions help raise standards of market conduct and integrity	Stakeholders, investors and consumers of financial services view of the effectiveness of our regulatory activities	Survey	85%	70%	88%
Investors are confident in New Zealand's financial markets	Survey. Largely a measure of investor sentiment but part of a wider picture of investor confidence	Survey	70%	70%	69%
Licensed market participants show how they achieve good customer outcomes	Market participant conduct can have a direct impact and contributes to investor confidence	FMA's monitoring and supervisory work	40%	37% ¹	New measure
Investors are confident in the quality of regulation of New Zealand's financial markets	Reflects other regulators' roles and responsibilities (like NZX) that contribute to overall investor confidence	Survey	70%	68%	69%
Overall investor confidence index			66%	61%	75%

Category one: Investigation and enforcement activities

This category is about the work we do when we need to take action against financial market misconduct. Our actions are timely, proportionate, and evaluate risk and potential harm.

It includes:

- Whether the activities we carry out are of an appropriate standard, and timely
- Explaining how we have identified, evaluated, investigated, and responded to misconduct by reporting on the significant conduct outcomes achieved by the FMA.

Measure	2018/19 target	2017/18 forecast	2016/17 actual	Strategic priorities
SPE 2 Investigation and enforcement activities are undertaken and completed according to agreed timeframes and standards ²	Achieved	Achieved	Achieved	FMA effectiveness and efficiency
SPE 3 The FMA reports on significant conduct outcomes achieved including key themes, actions and regulatory outcomes arising from market conduct ³	Achieved	Achieved	Achieved	Governance and culture Conflicted conduct Capital market growth and integrity Sales and advice Investor decision-making

1: We do not expect to meet the 2017/18 target of 75%. This is because only a small number of firms have been able to show us how they achieve good customer outcomes this financial year. The firms we monitored in the first half of FY17/18 still required improvements to their governance, and risk and compliance frameworks. These are fundamental frameworks which demonstrate and underpin a firm's culture. It is, however, a limited sample size (based on 13 reviews) and we expect to see a higher percentage in the next reporting period. We will continue with our work (through thematic reviews, good practice notes and forums) to share our expectations with firms and to help lift this result.

2: SPE 2 consolidates a number of service delivery measures from the SPE 2015/16. The FMA intends to achieve the following targets within timeframes and standards set out in the enforcement governance framework (90% of the time), Memoranda of Understanding with the Serious Fraud Office and international regulators (100% of the time), and internal standards that acknowledge and evaluate misconduct reports (95% of the time).

3: SPE3 – the FMA will report on significant conduct outcomes where there is an opportunity to highlight expectations aligned to one or more of the FMA's strategic priorities.

Category two: Licensing and compliance monitoring functions

This category is about risk-based monitoring and surveillance.

It includes:

- Ensuring licence applications, exemptions and other activities are processed efficiently and to an appropriate standard
- Publishing thematic reports which link to our strategic risks and priorities
- Ensuring our feedback is put into practice by those we regulate.

Measure	2018/19 target	2017/18 forecast	2016/17 actual	Strategic priorities
SPE 4 Fully completed licence applications, regulated offers and completed applications for exemptions are processed within agreed timeframes and standards ⁴	Achieved	Achieved	Achieved	FMA effectiveness and efficiency
SPE 5 The FMA conducts and reports on thematic reviews arising from the risks and priorities identified in its Strategic Risk Outlook and which are relevant to market conduct and investor decision-making	Five reports	Five reports	Three reports	Governance and culture Conflicted conduct Capital market growth and integrity Sales and advice Investor decision-making Frontline regulators
SPE 6 Substantive FMA feedback on licensing applications, regulated offers and disclosures that result in improvements being made or documents withdrawn	Achieved	Achieved	Achieved	Capital market growth and integrity

4: SPE 4 consolidates a number of service delivery measures from the SPE 2015/16. The FMA intends to achieve the following targets within timeframes and standards set out for processing fully completed licensed applications, in line with established processes, (90% within 60 working days), risk assessments of regulated offers after a new Product Disclosure Statement (PDS) is lodged (100% within five working days), and review of high-risk regulated offers post-registration or lodgement (100%).

Category three: Market analysis and guidance, investor awareness and regulatory engagement

This category is about engaging with, setting expectations for and informing the market and investors.

It includes:

- Regular and meaningful engagement activities that bring positive results
- Maintaining an FMA website for compliance or investment queries
- Meaningful direct engagement with larger market entities.

Measure	2018/19 target	2017/18 forecast	2016/17 actual	Strategic priorities
SPE 7 The FMA undertakes at least 20 industry or business presentations or speeches per year, with the aim of providing better information and insight for regulated populations	20	20	26	FMA effectiveness and efficiency Frontline regulators
SPE 8 Percentage of FMA website visitors surveyed who rate the content they accessed as useful in helping them to comply, or to make informed investment decisions	95%	95%	92%	FMA effectiveness and efficiency Frontline regulators And, potentially: Investor decision-making
SPE 9 Market participants who are part of the FMA's stakeholder and relationship management programme say they have benefited from the relationship	100%	100%	94%	FMA effectiveness and efficiency And, potentially: Capital market growth and integrity Frontline regulators

Forecast financial statements

Expected revenue and proposed expenses Vote Business, Science and Innovation

For the years ending 30 June	2017/18 forecast outturn \$000	2018/19 forecast \$000
Non-departmental output expense appropriation		
Performance of investigation and enforcement functions		
Crown revenue	8,065	6,196
Total revenue	8,065	6,196
Expenditure	5,921	6,358
Operating surplus/(deficit)	2,144	(162)
Performance of licensing and compliance monitoring functions		
Crown revenue	15,833	16,072
Interest	256	210
Other revenue	715	646
Total revenue	16,804	16,928
Expenditure	15,357	16,489
Operating surplus/(deficit)	1,447	439
Performance of market analysis and guidance, investor awareness and regulatory engagement functions		
Crown revenue	12,102	13,732
Total revenue	12,102	13,732
Expenditure	13,121	14,089
Operating surplus/(deficit)	(1,019)	(357)
Total	2,572	(80)
Non-departmental other expenses appropriation		
FMA litigation fund		
Crown and interest revenue	1,049	2,000
Expenditure	1,049	2,000
Litigation surplus/(deficit)	-	-

Statement of forecast comprehensive revenue and expense

For the years ending 30 June	2017/18 forecast outturn \$000	2018/19 forecast \$000
Revenue		
Crown revenue	36,000	36,000
Interest	256	210
Other revenue	715	646
Litigation fund income - Crown revenue and bank interest	1,049	2,000
Total revenue	38,020	38,856
Expenses		
Personnel expenses	23,576	25,105
Occupancy expenses	1,918	1,997
Depreciation	2,683	2,704
Other operating expenses	6,222	7,130
Litigation fund expenses	1,049	2,000
Total expenses	35,448	38,936
Surplus/(deficit)	2,572	(80)
Comprising		
Operating surplus/(deficit)	2,572	(80)
Litigation surplus/(deficit)	-	-
Surplus/(deficit)	2,572	(80)

Statement of forecast financial position

For the years ending 30 June	2017/18 forecast outturn \$000	2018/19 forecast \$000
Equity		
Accumulated funds	2,352	2,272
Capital contributions	10,427	11,027
Total equity	12,779	13,299
Assets		
Current assets	10,375	7,101
Non-current assets	7,936	11,328
Total assets	18,311	18,429
Liabilities		
Current liabilities	3,948	3,641
Non-current liabilities	1,584	1,489
Total liabilities	5,532	5,130
Net assets	12,779	13,299

Statement of forecast changes in equity

For the years ending 30 June	2017/18 forecast outturn \$000	2018/19 forecast \$000
Opening balance		
Accumulated funds	(220)	2,352
Litigation fund	152	-
Capital contributions	9,027	10,427
Total opening balances	8,959	12,779
Comprehensive revenue and expense		
Forecast net operating surplus/(deficit)	2,572	(80)
Forecast net litigation surplus/(deficit)	-	-
Total comprehensive revenue and expense	2,572	(80)
Owner transactions		
Capital contribution	1,400	600
Litigation reserve repayment	(152)	-
Total owner transactions	1,248	600
Closing balance		
Accumulated funds	2,352	2,272
Litigation fund	-	-
Capital contributions	10,427	11,027
Total closing balances	12,779	13,299

Statement of forecast cashflows

For the years ending 30 June	2017/18 forecast outturn \$000	2018/19 forecast \$000
Cash flow from operating activities		
Cash was provided from:		
- Crown revenue	36,000	36,000
- Crown revenue - litigation fund	1,789	1,528
- Interest	256	210
- Other income	1,151	642
Cash was applied to:		
- Suppliers	(10,821)	(12,835)
- Employees	(22,031)	(23,338)
- Net GST	33	67
Net cash flows from operating activities	6,377	2,274
Cash flow from investing activities		
Cash was provided from:		
- Net (increase)/decrease in term deposits	(6)	1,500
Cash was applied to:		
- Purchase of fixed assets	(3,603)	(6,096)
Net cash flows from investing activities	(3,609)	(4,596)
Cashflow from financing activities		
Cash was provided from:		
- Capital contributions	1,400	600
Net cash flows from financing activities	1,400	600
Net increase (decrease) in cash balance	4,168	(1,722)
Add opening cash and cash equivalents balance	2,705	6,874
Closing cash and cash equivalents balance carried forward	6,873	5,152
Comprising		
Current account cash and cash equivalents	5,720	4,472
Litigation fund cash and cash equivalents	1,153	680
	6,873	5,152

Statement of significant assumptions

The following significant assumptions were used to prepare the forecast information:

Crown revenue

Currently appropriated Crown revenue is set out in the Appropriations table on page 14 which is consistent with the 2018/19 Estimates of Appropriations. The FMA's funding increased to \$36m from 1 July 2017.

Other income

We have determined the level of income from fees and the recovery of costs under current regulations from the information available as at the date of preparation of these statements.

Litigation expense and fund

We assume expenditure on approved litigation of \$2,000,000 each year. In the 2018/19 year our estimate is based on our most likely litigation portfolio, arising from anticipated cases being investigated or set down for litigation. We note the volatility inherent in predicting litigation activity. Actual litigation activity and expenditure may be materially different from forecast.

Appropriations

In the 2018/19 period, the FMA is appropriated to supply services under Vote Business, Science and Innovation in the categories of outputs described below.

Vote Business, Science and Innovation

For the years ending 30 June	2017/18 forecast outturn \$000	2018/19 forecast \$000
Part 2.2 Non-departmental output expense appropriation		
Services and advice to support well-functioning financial markets		
Performance of investigation and enforcement functions	8,065	6,196
This category is limited to the performance of statutory functions relating to the investigation and enforcement of financial markets legislation, including the assessment of complaints, tips, and referrals.		
Performance of licensing and compliance monitoring functions	15,833	16,072
This category is limited to the performance of statutory functions relating to licensing of market participants and risk-based monitoring of compliance, including disclosure requirements under financial markets legislation.		
Performance of market analysis and guidance, investor awareness and regulatory engagement functions	12,102	13,732
This category is limited to the performance of statutory functions relating to market intelligence, guidance, exemptions, investor education, and regulatory and government co-operation and advice.		
Total for Appropriation	36,000	36,000
Part 5.2 Non-departmental other expenses		
FMA litigation fund	1,049	2,000
This appropriation is limited to meeting the cost of major litigation activity arising from the enforcement of financial markets and securities markets law by the FMA.		
Non-departmental capital expenditure		
Procurement of an IT intelligence system	1,400	600

Statement of significant accounting policies

Reporting entity

The FMA is a Crown entity for legislative purposes and a public benefit entity for financial reporting purposes.

These forecast financial statements were authorised for issue by the FMA on 15 May 2018.

These forecast financial statements have been prepared for the special purpose of the FMA's Statement of Performance Expectations 2018-19 for the Minister of Commerce and Consumer Affairs. They should not be relied on for any other purpose.

These forecast financial statements have not been reviewed or audited by Audit New Zealand.

Basis of preparation

Statement of compliance

The FMA's financial statements have been prepared in line with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with PBE Accounting Standards and other pronouncements that have authoritative support and are applicable to entities that apply PBE Standards. As a Tier 1 public sector PBE, we are required to report in accordance with Tier 1 PBE Accounting Standards.

Basis of measurement

The appropriate accounting principles for the measurement and reporting of results and financial position on a historical cost basis have been applied.

Functional and presentational currency

These financial statements are presented in New Zealand dollars (\$), which is the entity's functional currency. All financial information presented has been rounded to the nearest thousand dollars (\$000).

Use of estimates and judgments

The preparation of forecast financial statements that conforms with PBE FRS-42 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable in the circumstances. Actual financial results achieved for the period covered are likely to vary from the information presented, and these variations may be material.



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