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Key findings from the 2022 re-licensing of Supervisors

Some types of financial products, including KiwiSaver schemes, specified managed funds and superannuation schemes, must appoint an independent licensed Supervisor to look after investors' interests. In December 2022, the Financial Markets Authority – Te Mana Tātai Hokohoko (FMA) completed our third licensing process for these Supervisors.

Our assessment considered the requirements under the Financial Markets Supervisors Act 2011 and its associated Regulations, a review of each Supervisor's approach to issues raised in the 2017 licensing, and feedback provided through ongoing monitoring engagements. All five applicants were re-licensed for a further five years, after demonstrating they are capable of continuing to effectively perform the functions of a Supervisor and meeting the licence conditions on an ongoing basis.

We observed improvements in monitoring practices, with Supervisors continuing to develop a proactive, risk-based approach to their supervisory activities, which was a key issue raised in 2017. We also noted that Supervisors' boards comprise individuals with strong sector experience, and that there is focus on ensuring adequate financial resourcing is allocated to supervisory functions.

We consider that continuous improvements are required, to ensure that supervisory activities remain fit for purpose in an evolving and complex sector. Below are areas identified by the re-licensing process where improvements could be made:

- Refining a proactive, risk-based monitoring approach that is underpinned by a structured and strategic framework, which considers both existing and emerging risks at both an entity and sector level, and ensures attention is focused where it's needed in a timely manner.
- More effective governance arrangements, including better record keeping for board and sub-committee discussions and challenges. Strong governance ensures that management is held to account for achieving the organisation's long-term strategy in line with its purpose, regulatory obligations and board-approved risk appetite.
- Developing adequate succession plans for senior managers to mitigate key person risk, and to create a training and development structure that builds capability and promotes staff retention.
- Better resource capacity planning of compliance teams, to ensure an adequate frequency in testing of controls, to support the Supervisor's regulatory obligations.

Since the re-licensing process, Supervisors have been providing updates about their compliance plans, which set out how they will enhance aspects of their supervisory business and uplift standards.

In ongoing engagements with the Supervisors and as part of our monitoring, we will assess how they have addressed the areas for improvement raised.

As our expectations develop, we are committed to engaging with the Supervisors to convey our expectations for how their supervisory role may need to adapt. The continued collaboration from Supervisors is crucial to ensuring an effective supervisory function.