

STATEMENT OF INTENT 2012 – 2015



FINANCIAL MARKETS AUTHORITY
TE MANA TATAI HOKOHOKO – NEW ZEALAND

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Statement of responsibility

This Statement of Intent has been prepared in accordance with Part 4 of the Crown Entities Act 2004. The prospective financial statements have been prepared in accordance with FRS-42 for the purposes of this Statement of Intent, have not been audited, and should not be relied upon for any other purpose. FMA is responsible for the preparation of this Statement of Intent, including the forecast financial statements and the assumptions on which they are based, the statement of forecast service performance, and for the judgments used in them.



Simon Allen

Board Chairman
Financial Markets Authority

30 March 2012



Murray Jack

Chairman
Audit and Risk Review Committee

30 March 2012



Chairman's foreword

Our first year of operation has signalled to New Zealand market participants, investors and the wider public that FMA is serious about its role in ensuring market integrity and sustainable market growth.

We have built a collaborative approach to regulating financial markets in New Zealand based on establishing effective and sustainable relationships with the sector, co-regulators, key government agencies and the public. We will continue to focus on ensuring our communication is open, consistent, timely, and supportive of reciprocity.

Our strategy to build fair, efficient, and transparent, financial markets that thrive on innovation is multifaceted. It is directed at:

- supporting the education of market participants and investors;
- being clear to market participants about FMA's expectations while providing the market the scope to develop the way it meets these expectations;
- vigilantly monitoring the extent to which the markets are successful; and
- exercising the full scope of our regulatory powers in a prudent manner, ensuring proportionality of our response and maximum value from the use of our resources.

This is our mandate. It does not and cannot assume investment risk decisions and outcomes for individuals.

We identified in our first Statement of Intent that our success is dependent on our internal capability, capacity and culture, effective legislation and the extent to which we can work collaboratively with others. This Statement of Intent reinforces these critical factors and outlines our priorities over the coming three years 2012 to 2015.



Simon Allen

Chairman
Financial Markets Authority



Chief Executive's foreword

In looking forward to the next three years and laying down our purpose, our goals and impacts, inevitably we take stock of the year that's been; our first months of operation since our launch in May 2011.

Global markets have continued to operate in turmoil and amidst a period of prolonged uncertainty. While our local markets have been relatively insulated, benefiting from strong ties to Australia and Asia, it has been an unsettling period for New Zealanders.

FMA has a role to play in the lives of New Zealanders by helping to build a robust economy that will deliver greater prosperity, security and opportunity for all. And it's a role we are passionate about.

This past year we have undertaken the intensive and resource hungry work of investigating failed finance companies. While this has made 2011 frustratingly retrospective in its focus, it is important work, not just to facilitate justice, but also to allow public scrutiny and lessons to be learnt from the past – by market participants, investors and FMA.

However, we need to successfully marry those needs with a clear vision for the future. We need a strong focus on looking forward and sideways, dealing with matters occurring in today's markets, seeking to work closely with participants, advisers, investors and co-regulators on identifying future trends.

The role of regulation has been debated globally and locally, and I'm sure there's more debate to come. But we can put a stake in the ground and say that the role of legislation, regulatory supervision and litigation is not to remove risk, nor is it to stifle innovation. It does need to redress the asymmetry of information so investors understand risk and make informed decisions. And it does need to bring clarity of expectations and raise the bar on the behaviour of market participants, so investors can rely on the transparency and integrity of the information they are given.

Timely and effective enforcement action remains fundamental, but we are also seeking a new market maturity and behaviour change. As the market grows and we develop as an organisation, we want to see the impact of our education programmes, our market consultation, and guidance and policy notes bring about new levels of professionalism, good governance and increased confidence. Enforcement takes a lesser role as the market proactively and willingly complies.

The first year of the FMA has been both challenging and rewarding. When I accepted the role of CEO I felt honoured to be a part of this chapter in New Zealand's history. One year on, I look forward to building on the current momentum, energy and focus to deliver the desired outcomes and impacts outlined in this Statement of Intent. We are fully committed to promoting the development of fair, efficient and transparent markets that restore and inspire investor confidence.



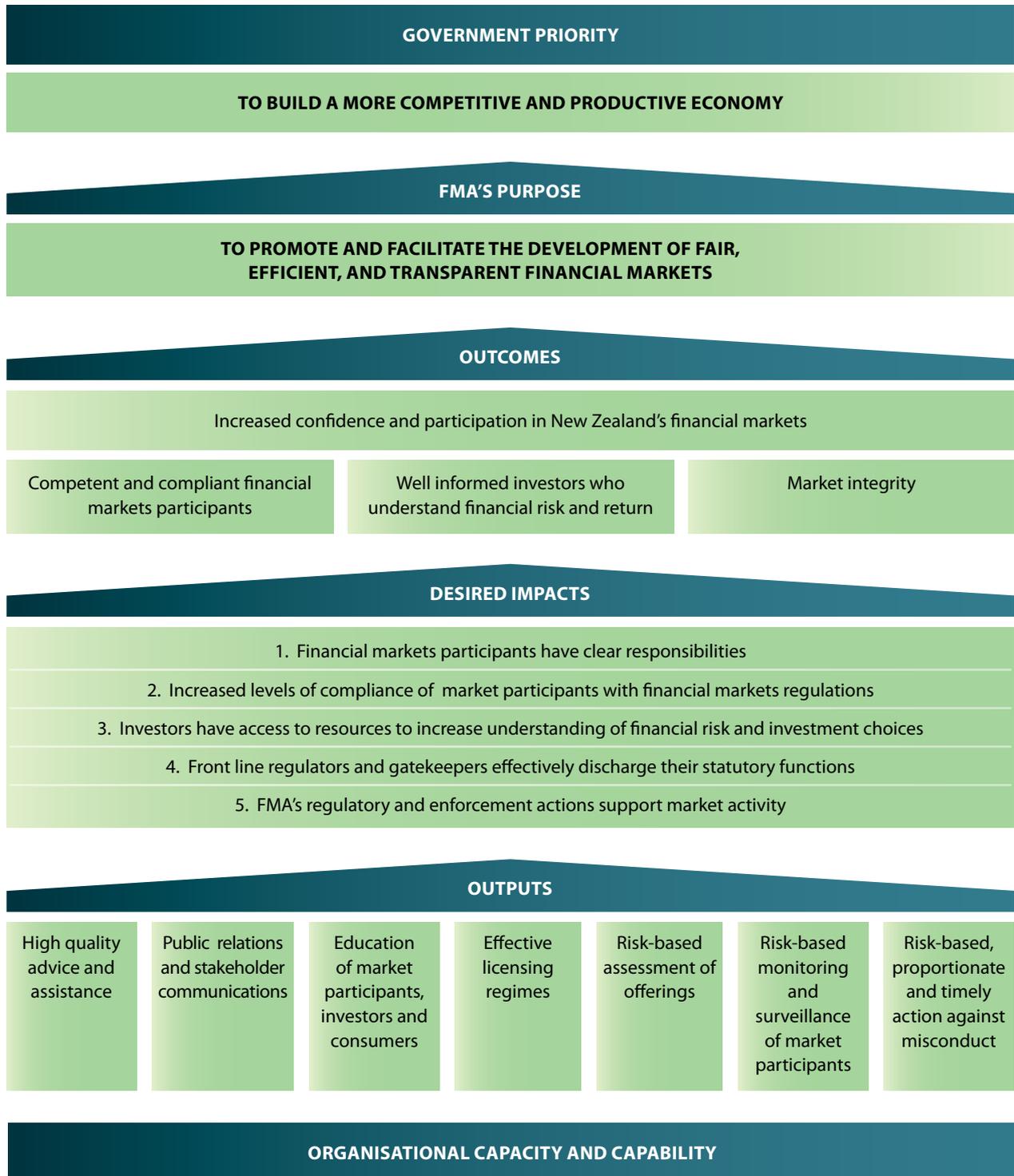
Sean Hughes
Chief Executive
Financial Markets Authority



Part One: FMA's strategic intent



Figure One: FMA's Outcome Framework 2012-2015



1. Introduction

This document is our Statement of Intent (SOI) and sets out FMA's strategy for the coming three years from July 2012 to June 2015.

A number of key stakeholders were involved in the planning process to help form our strategy. These stakeholders included: the Ministry of Economic Development (MED), Reserve Bank, Serious Fraud Office, New Zealand Institute of Chartered Accountants (NZICA), Shareholders Association, Commission for Financial Literacy and Retirement Income (CFLRI), Investment Savings and Insurance Association and representative members of the Capital Market Development Taskforce.

During this process we revisited our past, examined our progress to date, and confirmed our purpose and direction, in order to effectively achieve our dual mandate of fair, efficient and transparent financial markets, while continuing to support market activity.

Our new strategic framework will enable us to contribute to the Government's overarching goal to 'build a more competitive and productive economy', as well as increase confidence and participation in New Zealand's financial markets.

We cannot achieve these outcomes alone and there will be factors that influence these outcomes outside of FMA's control. However, we believe that we can make a difference, and have outlined our priorities over the next three years in this SOI.

The publishing of this document holds us to account as a public body and sets the standards and measures by which we can be evaluated. It is intended that this document is informative, useful and accessible to all market participants and the wider public.

Structure of this Document

The SOI is set out in three parts.

Part One: describes what we do, what we aim to achieve and how we will deliver our services.

Part Two: focuses on the first year of our strategic plan and describes the activities and standards we plan to achieve from July 2012 to June 2013.

Part Three: sets out our prospective financial statements for the current year: July 2011 to June 2012; and the following three years: July to June, 2012/2013; 2013/2014; 2014/2015.

Financial markets participant

This term is used throughout this SOI in the same sense as in the Financial Markets Authority Act 2011. A financial markets participant is a person who is, or is required to be, registered, licensed, appointed, or authorised under any financial markets legislation (such as financial advisers, auditors of issuers, and financial service providers). The term includes people who participate in financial markets in the following ways:

- in the offer of securities to the public as an issuer or a promoter;
- in respect of securities offered to the public, acts as a trustee, a unit trustee, a superannuation trustee, a statutory supervisor, a manager, an expert, or a qualified auditor; and
- an issuer.

Participant also includes the associated organisations, directors or managers of these people whether they are directly involved themselves, as a participant, or not.

Investors, while participating in financial markets, for the purposes of this document, are not included in the term participant unless they also offer the services listed above.

2. What FMA aims to achieve

Our Context

FMA was established on 1 May 2011 as part of the Financial Markets Authority Act 2011, in response to the need to address failures in the financial markets, made evident from the global financial crisis. The Government recognised that New Zealand required a single conduct regulator to proactively monitor and enforce securities legislation and to work with the Reserve Bank of New Zealand, the prudential regulator.

The Act established FMA as an independent Crown entity and described the functions of FMA as follows:

- to monitor compliance with, investigate contraventions of, and enforce securities and investment law, financial reporting law, and companies law, in respect of financial markets participants;
- to promote confident and informed participation in the financial markets;
- to license and supervise particular financial markets participants, including financial advisers, trustees and statutory supervisors, auditors, and securities markets;
- to monitor and conduct inquiries and investigations into financial markets and financial markets participants; and
- to keep the law under review.

A detailed list of FMA's functions is described in Appendix 2.

To strengthen the regulation of financial markets in 2011, the Government introduced the Auditor Regulation Act 2011 and the Securities Trustees and Statutory Supervisors Act 2011. These Acts follow other recent legislation, namely the Financial Advisers Act 2008, the Financial Service Providers (Registration and Dispute Resolution) Act 2008 and the Anti-Money Laundering and Countering of Terrorism Act 2009. Together they will provide increased regulatory oversight of market participants, regulatory obligations, scopes of practice and competence.

The Government has a continued focus on reform. The recently introduced Financial Markets Conduct Bill, if enacted, will replace the Securities Act 1978, Securities Markets Act 1988 and Unit Trust Act 1960 along with parts of the KiwiSaver Act 2006.

This legislation focuses on ensuring investors have timely access to accurate and comprehensible information from issuers, who are appropriately governed and monitored.

In this context FMA has a regulatory philosophy that is primarily principles-based. FMA will communicate its expectations to market participants and wherever possible leave open the way market participants meet these expectations.

FMA also contributes to the Government's objectives to deliver better public services and to manage public finances responsibly. Through initiatives such as the establishment of the Council of Financial Regulators and Memoranda of Understanding (MOU) with other agencies, FMA is building strong and effective relationships with co-regulators and government departments and agencies. This will help to ensure alignment of strategic priorities and enable effective

collaboration, as well as provide better regulatory services to financial markets participants and the public. FMA participates in All of Government initiatives to improve efficiency and save public money. FMA is currently participating in several All of Government procurement contracts and will join other contracts offering efficiencies as they become available. FMA will also join other agency led contracts with common usage provisions, and actively review more that offer benefits to FMA and assist in meeting the Government's objectives.

Our Purpose

FMA's role is 'to promote and facilitate the development of fair, efficient, and transparent financial markets' (Financial Markets Authority Act 2011, s8). Our mandate is to strengthen the public's confidence in New Zealand financial markets, promote innovation and grow New Zealand's capital base.

Investors rely on issuers and intermediaries to act with integrity. Businesses competing for access to capital rely on honest and transparent behaviour within the financial markets sector. Poor behaviour by some participants impacts on the reputation of the markets and the overall ability of all firms to raise capital.

Our role is to provide the public with reasonable assurance that market participants involved with an investment are acting with integrity.

Increased public confidence in the integrity of our financial markets will encourage investment, which will in turn support New Zealand's economic growth and contribute toward building a more competitive and internationally-focused economy.

The role of FMA, is therefore to put in place an effective regulatory framework, and ensure the public is aware of our role, responsibilities and achievements.

Our Scope

Markets involve risk. Some investments fail or lose value, not because of a lack of integrity by anyone involved with the investment, but because the business venture did not meet a customer's need or a competitor was better able to meet that need. That is, and will continue to be, the nature of competitive and dynamic markets.

Investors' understanding of investment choices, and financial risk and return, is key to increasing their ability to confidently participate in the market. Knowing the information they require, being able to discern whether the investment is appropriate and understanding the decision they make, is their responsibility.

FMA's role is not to protect investors from the risks of normal business endeavour, nor is it to direct investors' capital.

FMA's responsibility is to license and supervise market participants, monitor the financial markets, provide advice

and assistance to co-regulators and other government departments, investigate questionable activity and conduct, and use a variety of enforcement tools as required, to positively influence market behaviour.

FMA is an organisation of approximately 120 staff which oversees a wide range of financial markets participants, based both here in New Zealand and overseas, and a wide range of investments. It is therefore important that we perform our functions in an enterprising, proactive and transparent way. Table One shows the range and number of market participants and investors. Table Two shows New Zealand investment in listed securities and KiwiSaver.

Table One: Markets Participants and Investors

Market Participants	Number
AML/CFT Reporting Entities	750
Registered Financial Advisers (RFAs)	5693
Authorised Financial Advisers (AFAs)	1945
Qualifying Financial Entities (QFEs)	62
QFE Advisers (estimated)	20,000
Registered Audit Firms (estimated)	~ 30
Licensed NZ Auditors (estimated)	~ 100
Licensed Overseas Auditors (estimated)	~ 10-15
Securities Trustees	9
KiwiSaver Trustees	7
Statutory Supervisors	11
Issuers	800
Individually Authorised Futures Dealers	72
Authorised Futures Markets	2
NZX Participant Firms	20
Clearing Houses	2
Regulated Securities Exchange (NZX)	1
Registered Superannuation Schemes	554
Registered KiwiSaver Schemes	50

Public	Number
KiwiSavers	1.9 million

Table Two: Investment in Listed Securities and KiwiSaver

NZX – Total listed securities (Calendar year 2011)	Number (percent change from Dec 2010)
Equity Securities	171 (0%)
Debt Securities	107 (-7.8%)
Other Securities	11 (-21.4%)
Total Securities	289 (-4%)

NZX Capitalisation	Billion Dollars (percent change from Dec 2010)
All Equity	55.9 (-0.3%)
All Debt	16.0 (-0.1%)

KiwiSaver	Billion Dollars (percent change from Dec 2010)
	11.3 (42%)

Our Stakeholders

- Key to our success is our relationships with our stakeholders. These include:
 - market participants to enhance engagement and co-operation and ensure our regulatory regimes are understood;
 - the Minister of Commerce and MED;
 - other regulators and government agencies to ensure relevant market information is shared, and monitoring and enforcement is comprehensive and complementary across regulators;
 - the media to promote public understanding of our work and keep them informed of our significant regulatory actions; and
 - investors to increase their awareness of investment risk.

Our approach is focused on ensuring our communication with stakeholders is timely, consistent, open, and supportive of reciprocity. We need to establish and consolidate these relationships as a new regulator, and also engender mutual trust and respect through the clarity and consistency of our regulatory framework and delivery of our services.

Our consultative style of engaging with, and listening to, market participants has been well received. Despite being an entity with a relatively small number of staff in ratio to market participants, we are committed to maintaining this model, as it enables constructive discussion and guidance on the legislative requirements and our regulatory expectations.

Minister of Commerce and Ministry of Economic Development

FMA's performance contributes towards the overarching goals of the MED and the Government. FMA works with the Minister of Commerce and MED to ensure our strategic priorities align and any risks are discussed and addressed in a timely manner.

Working alongside MED, FMA aims to increase confidence and participation in New Zealand's financial markets and consolidate our role in being an effective regulator, providing advice and guidance to participants; regulatory oversight of front line regulators; and timely, proportionate and targeted enforcement action.

Co-regulators

The Council of Financial Regulators is now established, facilitating the sharing of information and identification of significant issues, trends and risks as well as enabling a co-ordinated response across agencies when required. The Council is made up of the following parties:

- FMA, the financial markets' conduct regulator;
- Reserve Bank, the prudential regulator;
- MED, providing policy advice; and
- Treasury, also contributing policy advice.

We have established MOU with the Reserve Bank, the Serious Fraud Office and Australian Securities and Investment Commission (ASIC). These formal relationships will facilitate effective collaboration and sharing of information and resources, as we work together to combat financial crime. We will work toward reducing the barriers with ASIC to form a single economic market so issuers and investors find these respective markets more robust, consistent, and easier to access.

Commission for Financial Literacy and Retirement Income

We are working closely with the Commission for Financial Literacy and Retirement Income and Retirement Commissioner, to support the effective co-ordination of the Government's efforts to improve financial literacy and investors' understanding of financial markets and risks. This work will be assisted by the newly established Consumers' Advisory Panel.

Investors

While we cannot protect investors from the risks of normal business endeavour, we are committed to ensuring investors have access to appropriate information to make well informed decisions. This includes:

- working with issuers to ensure their offer documents have clear and adequate disclosure;
- working to improve the quality of financial advice;
- providing extensive information on our website, for example, information on identified scams and details of decisions where we have taken enforcement action; and
- encouraging the public to contact us with financial market issues and complaints.

Alongside the Commission for Financial Literacy and Retirement Income, we are working with the financial markets sector to encourage their active involvement in raising investor literacy.

Consumers

Financial advisers who give advice on 'Category 2' products, such as insurance and credit products and services, though not licensed by FMA, do have an obligation to consumers, under the Financial Advisers Act 2008, and to this extent consumers other than investors, are also stakeholders of FMA.

The Media

The media are vital partners in assisting FMA to distil and communicate messages to both market participants, investors and the wider New Zealand public.

Financial commentators play an important role in raising awareness and informing the public about the different investment opportunities available to them, along with

the relative risks, particularly in the context of the current economic environment. This supports the work of FMA in increasing financial and investor literacy.

Through the media, FMA will continue to comment on issues pertinent to the integrity of the financial markets, and the expectations of behaviour and standards required within New Zealand's financial markets.

FMA will strive to strengthen investors' confidence and ensure the public are well informed, while raising their awareness of our role in regulating against financial crime.

Appendix 3 provides more details of our relationships with other key stakeholders including the International Organisation of Securities Commissions and our counterparts in Australia and overseas.

Key Outcomes

The Government's priority to build a more competitive and productive economy requires an environment where risk is understood, innovation flourishes and integrity prevails.

This vision depends on our success in ensuring fair, efficient, and transparent financial markets, and our efforts and the effort of others in achieving the following outcomes, not currently reflected in the market.



FMA's contribution to these outcomes will support the work of MED, who also share the desire to see investor confidence and participation in New Zealand's financial markets increase. This confidence and participation is not limited to New Zealanders alone, and off-shore investors will also help to strengthen the market and build the economy.

Market integrity is a key component that will underpin increased confidence in New Zealand's financial markets. In turn, market integrity is dependent upon competent and compliant market participants and well informed investors who understand risk.

While FMA will work to substantially contribute to these outcomes, in order to succeed, a collaborative effort will be required from MED, co-regulators, and other government agencies and market participants.

Indicators

FMA will monitor the following seven indicators that, over time (3 -5 years), will demonstrate to what extent these outcomes are being collectively achieved and, along with the impact measures, what influence FMA is contributing.

Table Three: Outcome Indicators

Indicator	Means	2012/13	2013/14	2014/15
Increased confidence and participation in New Zealand's financial markets				
Investor confidence in New Zealand's financial markets	Total household financial assets as a percent of household disposable income	Increase	Increase	Increase
	Percent of financial assets invested other than in registered bank deposits as a percent of household disposable income	Increase	Increase	Increase
Businesses' ease of access to capital	Business Operations Surveys	Establish baseline	Increase	Increase
Competent and compliant financial markets participants*				
Percent of market participants requiring intervention by FMA	Count as a proportion of total participants	Establish baseline	Increase	Plateau
Percent of offerings requiring intervention by FMA	Count as a proportion of total offerings	Establish baseline	Increase	Plateau
Well informed investors who understand financial risk and return				
Level of New Zealand investors' understanding of risk	Annual Financial and Investment Literacy Surveys	Establish baseline	Increase	Increase
Market Integrity				
Effectiveness of frontline regulators	Annual Assessment	Meets required standards	Meets required standards	Meets required standards
Percent of stakeholders who believe FMA's actions positively influences market behaviour	Annual Stakeholder Survey	Increase	Increase	Increase

**Note: Intervention is expected to increase when new rules and regulatory cover are implemented, then plateau as the market becomes familiar with regulations, and finally decrease as expectations are embedded. Count will be segmented where appropriate.*

Our Funding

FMA receives three appropriations from Government for its work 'to promote and facilitate the development of fair, efficient, and transparent financial markets'. These are:

- Appropriation One: Licensing and Supervision of Market Participants
- Appropriation Two: Performance of Financial Markets Monitoring Functions
- Appropriation Three: Performance of Investigation and Enforcement Functions

These appropriations enable FMA to deliver the seven key service outputs required to achieve the impacts needed to meet our mandate (Table Four).

FMA Outputs

The appropriations FMA receives support seven prime outputs.

1. High quality advice and assistance

This output relates to advice and assistance provided by FMA to Government and co-regulators. These services contribute to market integrity and increased confidence in New Zealand's financial markets by ensuring:

- Government has the information it requires to enact new legislation that will effectively achieve the purpose intended;
- Government is made aware of emerging risks and given advice on appropriate responses and mitigation; and
- co-regulators are provided with sound information and timely assistance.

2. Public relations and stakeholder communications

To achieve our impacts FMA needs to be accessible to market participants and the public. As a new organisation we need to ensure market participants and the wider public know:

- both what we do and what we don't do;
- our regulatory expectations;
- the services and information we provide;
- how they can help us improve market integrity and behaviour;
- the results we achieve; and
- where else they can access assistance and advice.

FMA staff, the media and frontline regulators can all contribute to raising market awareness of FMA. Thus the strength of the relationships we have with our staff, the media and frontline regulators is a strategic priority for FMA.

3. Education of market participants, investors and consumers

FMA recognises that interventions that support willing compliance by market participants, are more cost-effective and sustainable in changing behaviour than coercive and punitive measures alone. Educating market participants, through direct engagement, and the provision of guidance material, increases the opportunity for voluntary compliance and reduces the regulatory burden.

Financial literacy, and more importantly investor literacy, are key to investors gaining increased confidence and participation in financial markets, and in particular, capital markets. As their knowledge of the variety of investment opportunities and their understanding of risk increases investors are able to be more savvy and discerning. This in turn contributes to market integrity.

The next three years will also see the first group of KiwiSavers being eligible to withdraw their KiwiSaver funds, as well as more New Zealanders joining KiwiSaver as they enter the workforce or change jobs and are automatically enrolled.

Our work on raising the standards of disclosure, investor education and increased literacy will underpin the ability of the public to make an informed decision about these investment opportunities.

As a strategic priority, FMA will:

- work with key partners to facilitate and support their role in investor education, specifically the Commission for Financial Literacy and Retirement Income and Retirement Commissioner, to ensure the Government's focus on investor literacy is well co-ordinated and effective; and
- focus on KiwiSaver disclosure documents and closely monitor compliance.

4. Effective licensing regimes

This significant component of our role includes efficiently embedding regimes introduced over the past 24 months while simultaneously introducing new licensing regimes, to ensure the Government's objectives are achieved. FMA has primary responsibility for the licensing and oversight of auditors, statutory supervisors, securities trustees, financial advisers and exchanges.

Under the Auditor Regulation Act 2011, from July 2012 FMA will commence supervising accredited accounting bodies (initially the New Zealand Institute of Chartered Accountants (NZICA)) and the auditing profession. A well functioning auditing market will help ensure the reliability of issuers' financial statements, enabling investors and advisers to have confidence in the information provided.

5. Risk-based assessment of offerings

The primary benefit of improved disclosure is greater informed participation in the markets by investors and improved investor confidence. This, over time, will result in increased investment and market activity, benefiting both issuers and investors.

Financial market efficiency and fairness depends on the transparency of information available to investors. The information needs to be accessible, accurate and relevant. Issuers' prospectuses must provide the principal source of information for prospective investors.

FMA has consulted with market participants and issued guidelines aimed at ensuring disclosure given to investors is clear, concise and effective.

6. Risk-based monitoring and surveillance of market participants

Ensuring the financial market infrastructure is robust is a key component of strengthening investor confidence in New Zealand's financial markets and is a strategic priority for FMA.

FMA has expanded oversight of registered securities markets, derivatives markets and designated settlement systems, and under the Auditor Regulation Act 2011, will supervise accredited accounting bodies and the auditing profession as it relates to issuer audits. Similarly, in accordance with the Securities Trustees and Statutory Supervisors Act 2011, FMA has set competency and accountability requirements for those charged with acting on behalf of investors.

7. Risk-based, proportionate and timely action against misconduct

The global financial crisis and collapse of New Zealand-based finance companies resulted in the undermining of investor confidence. Strengthening market confidence is critical to increased participation by investors and economic growth and prosperity for New Zealand. FMA has dual responsibilities – to promote fair, efficient, and transparent financial markets while supporting market growth.

FMA will encourage market participants to discuss any uncertainties they might have in regard to their compliance with regulatory requirements by being supportive of their proactive approach. FMA will however, take timely and proportionate action where appropriate against any misconduct, sending a clear message to market participants that FMA is serious about strengthening market integrity.

Table Four: Relationship of Outputs to Appropriations

Outputs	Appropriation One	Appropriation Two	Appropriation Three
	Licensing and Supervision of Market Participants	Performance of Financial Markets Monitoring Functions	Performance of Investigation and Enforcement Functions
High quality advice and assistance			
Public relations and stakeholder communication			
Education of market participants, investors and consumers			
Effective licensing regimes			
Risk-based assessment of offerings			
Risk-based monitoring and surveillance of market participants			
Risk-based, proportionate, and timely action against misconduct			

Table Five: The Contribution of FMA’s Key Service Outputs to FMA’s Impacts

Outputs	Impact One	Impact Two	Impact Three	Impact Four	Impact Five
	Financial markets participants have clear responsibilities	Increased levels of compliance of market participants with financial markets regulations	Investors have access to resources to increase understanding of financial risk and investment choices	Frontline regulators and gatekeepers effectively discharge their statutory functions	FMA’s regulatory and enforcement actions support market activity
High quality advice and assistance					
Public relations and stakeholder communications					
Education of market participants, investors and consumers					
Effective licensing regimes					
Risk-based assessment of offerings					
Risk-based monitoring and surveillance of market participants					
Risk-based, proportionate, and timely action against misconduct					
	Supporting output			Direct Output	

3. How FMA will deliver its key impacts

Our Impacts

To contribute to these outcomes and achieve our objective of fair, efficient, and transparent financial markets, FMA will have the following impacts:

DESIRED IMPACTS
1. Financial markets participants have clear responsibilities
2. Increased levels of compliance of market participants with financial markets regulations
3. Investors have access to resources to increase understanding of financial risk and investment choices
4. Front line regulators and gatekeepers effectively discharge their statutory functions
5. FMA's regulatory and enforcement actions support market activity

Table Five shows the outputs that support the achievement of these impacts.

This section explains why these impacts have been chosen, how they will be pursued over the next three years and how we will measure our degree of success. Over the period of the SOI we will review the appropriateness of these measures and criteria of success in achieving the impacts and the associated outcomes.

Impact One: Financial markets participants have clear responsibilities

Why this impact is important

For financial markets to function well people need to be clear about their roles and responsibilities.

FMA will continue to clearly communicate its expectations to help people comply with the law and standards of conduct.

What we will focus on to achieve this impact

We will do the following to achieve this impact:

- **Consultation:** We will consult with market participants prior to introducing any significant change to our regulatory framework. We will seek feedback on the changes and any associated guidance material to ensure the clarity of our intent and that we fully understand the impact that our regulatory expectations might have on the market.
- **Direct engagement with participants:** We will work with participants to help them to understand and comply with their responsibilities. In particular, we will facilitate innovation through resolving uncertainties about the application of the law. We will also work with participants to help their understanding of the role and functions of FMA and our compliance monitoring framework.
- **Guidance:** Through our activities we will provide guidance to participants and the wider market where we believe important aspects of their direct responsibilities are not well understood or where standards of market conduct could be improved.

How we will measure this impact

We will measure performance on this impact through:

- an annual survey of market participants to establish whether understanding of their obligations was clarified as a result of FMA activities; and
- the difference in the level of compliance by market participants in response to specific FMA guidance. This will apply where FMA identifies and undertakes targeted projects to increase compliance. New initiatives will be implemented each year.

Measure	2012/13	2013/14	2014/15
Percent of market participants whose understanding was clarified by FMA's activities	Increase on baseline	Year on year increase	Year on year increase
Percent difference in compliance of market participants in response to specific guidance	Increase on project baseline	Increase on project baseline	Increase on project baseline

Along with these impact measures are output measures that contribute to market participants having clear and well understood responsibilities. The following table describes the output measures that contribute directly to this impact. The complete set of output measures are found in the Statement of Service Performance (Part Two, p26).

Output Two: Public relations and stakeholder communications

Output reference	Output measures directly linked to Impact One
2a	The annual stakeholder survey demonstrates greater awareness and understanding of FMA and its actions
2b	Fifty public engagements are undertaken in 2012/2013
2c	The number of website visits and length of visit increases from the 2011/12 baseline

Output Three: Education of market participants, investors and consumers

Output reference	Output measures directly linked to Impact One
3a	Market participants' input is proactively gained and considered prior to establishing all new policy and/or addressing significant policy issues
3b	Publication of FMA's principles underpinning FMA's supervisory programme for reporting entities by 30 June 2013
3c	Guidance on AML/CFT for reporting entities published by December 2012
3d	90 percent of enquiries by market participants receive a substantive response from FMA within 20 working days of FMA receiving all relevant information
3f	Four reports on significant issues arising from compliance monitoring work published by 30 June 2013

Impact Two: Increased levels of compliance of market participants with financial markets regulations

Why this impact is important

The foundation of strengthening investor confidence is ensuring market participants take their responsibilities seriously and fulfil their regulatory obligations. Providing guidance for market participants and making expectations clear does not ensure all market participants will comply. FMA understands that achieving sustainable levels of compliance is about changing behaviour and attitudes. One size does not fit all, thus FMA will use a variety of means, reflective of the circumstances and proportionate to the breach, to increase levels of compliance.

FMA compliance strategy

Our strategy reflects FMA's principles-based philosophy. We will:

- proactively work with financial markets participants to help them willingly comply with our expectations, so there is an improvement in overall behaviour and performance across financial markets;
- make appropriate use of the full range of our regulatory tools so that our actions are effective, proportionate and avoid unnecessary compliance costs;
- encourage participants to promptly report and correct errors or regulatory breaches;
- endeavour to proactively identify significant breaches and address these promptly with market participants;
- consistent with our enforcement policy, take timely, effective and proportionate enforcement actions where required; and
- ensure our education and enforcement activities work effectively together.

Even with strong oversight of participants and good market intelligence, there will always be some participants who attempt, and sometimes succeed, in serious wrong doing. FMA's role here is to identify this behaviour as early as possible and take appropriate enforcement action. The quality of our surveillance and enforcement function is a critical factor in ensuring a strong deterrent effect.

FMA seeks to achieve the best 'whole of system' approach to enforcement. This means it will co-operate with other regulatory agencies, and will promptly refer any matters best investigated or enforced by those agencies.

What we will focus on to achieve this impact

FMA will continue to work with participants and be transparent in its approach in dealing with compliance issues as they arise, and to this end, we have published our enforcement policy. We prioritise those issues that present the greatest likelihood of harm to the function of 'fair, efficient and transparent financial markets'.

- **Surveillance:** We will work to identify breaches of participants' duties and responsibilities through:
 - our routine surveillance and intelligence activities;
 - following up information provided by co-regulators and other agencies both in New Zealand and overseas; and
 - following up information from complaints, tips and referrals provided.
- **Enforcement:** Where we identify a possible breach of a participant's responsibilities, we will apply our principles-based philosophy and where appropriate investigate promptly and take timely, effective and proportionate enforcement action.
 - We will identify priority areas of market activity and practices. These priorities may be selected, for example, because they pose significant risks to our objectives, are serious in nature, involve actual or potential loss for investors, or there is evidence or a risk of financial crime or market abuse.
 - We will allocate investigation and enforcement resources accordingly and will develop an enforcement policy that will include selection of appropriate cases to clarify the boundaries of the law.
 - We will encourage participants to quickly report and correct errors or regulatory breaches.
 - FMA will be proportionate when taking enforcement action. We will use notices, warnings and directions where appropriate and will proceed to suspensions, removal of licences and litigation where serious wrong doing is detected.
- **Communication:** We will be transparent by publishing the outcome of significant surveillance, monitoring, investigation and enforcement actions to deter further misconduct and inform investors and potential investors. Furthermore, we will be proactive in informing investors about activities or products that seek to take advantage of regulatory gaps or loopholes, and the risks associated with these schemes.
- **Referral management:** Tips, referrals, complaints and whistleblowers have the potential to play a critical role in enabling FMA to identify risks to market integrity. Systems will be developed to ensure these sources of information are effectively assessed and responses managed in a co-ordinated manner that contributes to organisation-wide intelligence and decision making. We will also work collaboratively with disputes resolution bodies to address referrals and systemic issues.
- **Monitor the perimeter of regulation:** There will always be uncertainty about how the law applies to some activities that sit at the 'edges' of regulation. FMA will pay particular attention to activities structured to fall outside regulatory requirements and will make policy recommendations to eliminate opportunities for regulatory arbitrage where this could harm investors. This will include, for example, requesting new regulations to declare a product to be a 'security' under the Securities Act 1978.

How we will measure this impact

We will measure:

- The extent to which market participants self-report breaches and voluntarily remedy them.
- The number of prospectuses reviewed that require intervention as a percent of total reviewed.
- In the short term this is likely to increase while market participants become familiar with the guidance and FMA regulatory standards. In the medium term the necessity for intervention is expected to fall and then to plateau as issuers gain expertise in producing clear and informative prospectuses written appropriately for their target audience.
- The improvement in market participant behaviour where FMA has previously taken targeted action, through monitoring ongoing levels of non-compliance.
- The effect on market participant behaviour is likely to lag FMA's action. We anticipate an improvement in the year following the targeted action.
- The level of compliance of license holders.

In the first year FMA will establish the baseline level of compliance. This may prove to be quite high and therefore an appropriate target may be to maintain current levels rather than increase.

Measure	2012/13	2013/14	2014/15
Percent of breaches that were self-reported and voluntarily remedied	Establish Baseline	Target to be set once baseline established	Target to be set once baseline established
Percent of prospectuses requiring intervention	Establish Baseline	Establish baseline	Decrease
Improvement in market behaviour where FMA takes action	Establish baseline in respect of targeted actions taken in year	Establish baseline in respect of targeted actions taken in year Increase in compliance from targeted actions taken previous year	Establish baseline in respect of targeted actions taken in year Increase in compliance from targeted actions taken previous year
Level of compliance of Licence holders	Establish baseline	Target to be set once baseline established	Target to be set once baseline established

Along with these impact measures are output measures that contribute to increased levels of compliance with financial markets regulations. The following tables describe the output measures that contribute directly to this impact.

The complete set of output measures are found in the Statement of Service Performance (Part Two, p26).

Output One: High quality advice and assistance

Output reference	Output measures directly linked to Impact Two
1a	Government agencies are satisfied with the quality of advice and assistance provided by FMA in regard to licensing and supervision
1b	Government agencies are satisfied with the quality of advice and assistance provided by FMA arising from FMA's monitoring and intelligence functions
1c	Quarterly report is provided to the Minister of Commerce highlighting key priorities for reform

Output Six: Risk-based monitoring and surveillance of market participants

Output reference	Output measures directly linked to Impact Two
6d	80 percent of complaints, tips and referrals once received by FMA's assistance team are processed within established time frames: <ul style="list-style-type: none"> • acknowledged within two working days • front line regulator referrals acknowledged and prioritised for action within one working day • complainants receive a substantive response from FMA within 20 working days of receiving all relevant information

Output Seven: Risk-based, proportionate and timely action against misconduct

Output reference	Output measures directly linked to Impact Two
7a	70 percent of inquiries and investigations are completed in the timeframes and standards defined in the enforcement governance framework
7b	Inquiries are undertaken in all activity at the regulatory perimeter identified as high risk
7c	MOU is implemented with the Serious Fraud Office

Impact Three: Investors have access to resources to increase understanding of financial risk and investment choices

Why this impact is important

In support of having well informed investors, increased retail participation and increased market integrity, it is important to ensure that resources are available that enable investors and consumers to make fully informed decisions. This includes ensuring effective disclosure, supporting increased investment literacy, and publicising potential risks to investors and consumers identified by FMA.

What we will focus on to achieve this impact

- **Offer document review:** Prospectuses will be automatically registered with the Companies Office and may be reviewed by FMA after registration. We will implement a new regime for reviewing prospectuses post-registration to reduce the likelihood that investments are made on the basis of false or misleading statements. We will review offer documents where we assess there is a high risk that key information will be omitted or false or misleading statements made.

- **Exemptions:** Where exemptions are granted, conditions will be placed on exemptions, to ensure investors still receive the information they need.
- **Reviewing the quality and usefulness of financial reporting:** We will perform robust, risk-based checks on the financial reports filed by issuers. As with offer documents, financial accounts will receive particular scrutiny where the quality of financial reporting by issuers is important to public confidence or there is a high risk of non-compliance.
- **Improving the quality of financial advice:** We will monitor compliance with the Code of Professional Conduct for Authorised Financial Advisers and with the other statutory obligations that apply to all financial advisers, ensuring they exercise appropriate care, diligence and skill when providing services to investors and consumers.
- **Supervision of financial advisers:** Under the Financial Advisers Act 2008 we will licence Authorised Financial Advisers and Qualifying Financial Entities and, through the Code Committee, promote the continued development of adviser standards. We will achieve regulatory visibility across the advisory sector by implementing an adviser monitoring programme, targeting areas that pose material regulatory risk. Similarly, our response to complaints, notification of breaches and suspected non-compliance with adviser licence terms and conditions will focus on areas of greatest harm.
- **Investor Education:** We will work with the Commission for Financial Literacy and Retirement Income (including the Retirement Commissioner), market participants and other key partners to ensure the Government's focus on investor literacy is well co-ordinated and effective.

How we will measure this impact

We will measure performance on this impact through:

- the percent of disclosure documents that meet FMA's guidelines;
- the percent of issuer documents that meet FMA's guidelines; and
- a survey of investors to determine their perceptions on the accessibility and usefulness of FMA's communications targeted at increasing understanding financial risk.

Measure	2012/13	2013/14	2014/15
Level of quality of disclosure documents	Improve on baseline	Target to be established dependent on 2012/13 results	Target to be established dependent on 2013/14 results
Level of quality of issuer financial reports	Improve on baseline	Target to be established dependent on 2012/13 results	Target to be established dependent on 2013/14 results
Percent of investors surveyed that believe FMA's communications targeted at increasing understanding of financial risk are accessible	Establish baseline	Target to be established dependent on 2012/13 results	Target to be established dependent on 2013/14 results
Percent of investors surveyed that believe FMA's communications assist them to understand financial risk	Establish baseline	Target to be established dependent on 2012/13 results	Target to be established dependent on 2013/14 results

Along with these impact measures are output measures that contribute to investors clearly understanding and having confidence in the regulation of financial markets. The following tables describe the output measures that contribute directly to this impact. The complete set of output measures are found in the Statement of Service Performance (Part Two, p26).

Output Three: Education of market participants, investors and consumers

Output reference	Output measures directly linked to Impact Three
3d	90 percent of enquiries by market participants receive a substantive response from FMA within 20 working days of FMA receiving all relevant information
3e	Key areas of focus for FMA's investor education are identified and prioritised by 30 September 2012 and implemented to plan
3g	Consumer Advisory Panel is satisfied with FMA's performance in supporting the education of investors

Output Five: Risk-based assessment of offerings

Output reference	Output measures directly linked to Impact Three
5a	100 percent of high risk prospectuses are reviewed within five days of registration
5b	5 percent of other prospectuses are reviewed post-registration
5c	In 100 percent of cases where FMA intervenes, disclosures are improved or documents withdrawn

Output Six: Risk-based monitoring and surveillance of market participants

Output reference	Output measures directly linked to Impact Three
6c	90 percent of completed applications for exemptions are processed within six weeks or as agreed with applicant

Impact Four: Frontline regulators and gatekeepers effectively discharge their statutory functions

Why this impact is important

The integrity of our regulatory regime depends to a large extent on effective performance by frontline regulators such as exchanges, trustees, and statutory supervisors, and by others whose functions support market integrity, such as auditors and credit rating agencies.

FMA is committed to providing ongoing and timely feedback to NZX, accredited bodies (eg NZICA), trustees and statutory supervisors and other frontline regulators, and raising any issues and identified risks with them, so that they can be addressed as soon as possible.

What we will focus on to achieve this impact

- **Supervision of market infrastructure:** FMA has an expanded oversight role over registered securities markets and derivatives markets. FMA's oversight of these markets includes approving market rules, undertaking an annual oversight review of registered markets and, with the Reserve Bank, carrying out oversight of designated settlement systems. Where deficiencies in the regulatory functions of markets are identified, FMA will work with market operators to remedy these issues, and use its other supervisory powers as appropriate.
- **Implement and diligently monitor new licensing and supervision functions:** FMA will have primary responsibility for the licensing and oversight of overseas auditors, accredited bodies, statutory supervisors, trustees, financial advisers and for accreditation of securities and futures markets. Many of these oversight regimes will be new. By developing credible oversight regimes for frontline regulators and intermediaries FMA can build investor confidence.
- **Oversight of Qualifying Financial Entities:** A QFE is responsible for ensuring the compliance of its advisers and providing adequate consumer protection for its retail customers. We will focus our monitoring on areas which are key to QFEs reducing adviser compliance risks and ensuring advisers exercise the care, diligence and skill appropriate to the advice or service. Similarly, our response to complaints, notifications and suspected non-compliance by QFEs and their advisers will focus on areas of greatest harm. Our monitoring approach will be co-ordinated with our approach to other financial advisers.
- **Oversight of auditors:** Under the Auditor Regulation Act 2011, FMA will supervise accredited accounting bodies (initially NZICA) and overseas auditors of issuers. FMA will implement arrangements in respect of auditor regulation and oversight for reviewing auditing practices and investigating misconduct by auditors of issuers. The regime will come into force by 1 July 2012. A well functioning auditing market will help to ensure issuers' financial statements are reliable, and investors and their advisers can have confidence in them.
- **Supervision of statutory supervisors and trustees:** The trustee supervisory regime came into force on 1 October 2011 in response to the collapse of finance companies and perceived lack of performance of this sector. The legislation provides for us to issue temporary licenses to trustees authorised at that date. All trustees will have to be fully licensed by October 2012. From then onwards we will license, relicense and supervise trustees and statutory supervisors on an ongoing basis.

We will establish new systems for licensing and supervising trustees under the Securities Trustees and Statutory Supervisors Act 2011. Trustees and statutory supervisors are the key frontline supervisors of finance companies, corporate debt issuers, and managed funds, and are charged with acting on

behalf of investors. Similarly, statutory supervisors of retirement villages are also charged with duties in respect of retirement village occupants.

We will work with trustees and statutory supervisors to assist them to understand what is expected of them to demonstrate that they are capable, independent, and able to perform their functions effectively. We will hold them accountable for any failure to act according to the expected standards.

How we will measure this impact

We will measure performance on this impact through:

- Undertaking annual assessments of NZX and accredited bodies, to ensure they meet the standards required by FMA and undertake their regulatory functions to ensure professional standards and conduct in the financial markets.
The role of frontline regulators will be deemed to be effective if there has been no evidence of substantive issues in the market related to their performance.
- Monitoring securities trustees and statutory supervisors to determine that their licensee obligations are being met. We will measure the percent of licensees that we require to provide action plans to remedy shortfalls in meeting the standards required (Part 2 s16, Securities Trustees and Statutory Supervisors Act 2011).

Measure	2012/13	2013/14	2014/15
FMA's annual assessment of NZX	NZX meets its general obligations in respect of its registered markets (s36Y, Securities Markets Act 1988)	NZX meets its general obligations in respect of its registered markets (s36Y, Securities Markets Act 1988)	NZX meets its general obligations in respect of its registered markets (s36Y, Securities Markets Act 1988)
FMA's assessment of accredited bodies (for auditor regulation) under the Auditor Regulation Act 2011	Accredited bodies audit regulatory systems are adequate and effective (s55, Auditor Regulation Act 2011)	Accredited bodies audit regulatory systems are adequate and effective (s55, Auditor Regulation Act 2011)	Accredited bodies audit regulatory systems are adequate and effective (s55, Auditor Regulation Act 2011)
Number of action plans required expressed as a percent of total securities trustee and statutory supervisor licensees	Establish baseline	Target to be established dependent on 2012/13 results	Target to be established dependent on 2013/14 results

Along with these impact measures are output measures that contribute to frontline regulators and gatekeepers effectively discharging their statutory functions. The following tables describe the output measures that contribute directly to this impact. The complete set of output measures are found in the Statement of Service Performance (Part Two, p26).

Output Four: Effective licensing regimes

Output reference	Output measures directly linked to Impact Four
4a	<p>On receipt of fully completed application for a licence, 90 percent are processed in accordance with established process and time frames:</p> <ul style="list-style-type: none"> • QFEs will be processed within 40 working days • Statutory Supervisors and Securities Trustees received after 30 September 2012 will be processed within 40 working days • AFAs will be processed within 20 working days

Output Six: Risk-based monitoring and surveillance of market participants

Output reference	Output measures directly linked to Impact Four
6a	Annual review of registered securities market completed and published by 30 June 2013
6e	Two feedback reports on referrals received from NZX, issued to NZX by 30 June 2013

Impact Five: FMA's regulatory and enforcement actions support market activity

Why this impact is important

FMA will work to ensure standards set for participants and actions taken are cost effective and proportionate to the benefits gained through increased market integrity and investor confidence. Regulatory activity should not unduly impede financial market activity and capital formation.

What we will focus on to achieve this impact

- **Using the full range of enforcement tools:** FMA will be proportionate when taking enforcement action. It will use notices, warnings and directions where appropriate and will proceed to suspensions, litigation and removal of licences where serious wrong doing is detected.
- **Exemptions:** FMA has a range of exemption powers under the Securities Act 1978, Securities Markets Act 1988, Financial Reporting Act 1993 and Financial Advisers Act 2008. Exemptions, especially class exemptions, will be used to facilitate compliance for new products, for overseas issuers, and in other cases, where the costs of compliance are not matched by improved outcomes for investors or participants.
- **Cost effectiveness:** Over the next three years, in consultation with other regulators and participants, we will contribute to a framework for assessing the cost effectiveness of the regulation of New Zealand's financial markets.
- **Collaboration and co-ordination with co-regulators:** We will collaborate and co-ordinate with other regulatory agencies, locally and internationally, to minimise duplication, inefficiency and delay. With Australia, we will engage with ASIC on enforcement, surveillance, the ongoing Mutual Recognition of Securities Offerings, and the trans-Tasman mutual recognition of financial advisers,

auditors and trustees. Details of regulatory relationships and the establishment of MOUs are discussed in Appendix 3.

- **Information gathering and analysis:** We will gather and analyse relevant information to ensure FMA stays abreast of market developments and innovations. This will include regular, rigorous review of financial markets and participants' activities to identify and assess possible risks to investors, market fairness, efficiency and transparency, or risks to the financial system.

With FMA's new responsibilities for anti-money laundering involving financial markets participants, annual sector risk assessments will be undertaken to contribute to the NZ Police National Risk Assessments.

- **Law reform:** We will work with participants and Government to build a shared understanding of the desired scope and content of financial markets legislation and intended impact. We will monitor international market and regulatory developments and assess their relevance to the New Zealand context. Where we identify significant issues or gaps which limit our ability to effectively regulate New Zealand's financial markets, we will advise and assist the Government in addressing these matters. We will endeavour to take appropriate cases that clarify the legislation and regulatory expectations.

How we will measure this impact

We will measure performance on this impact through:

- survey of stakeholders on their perceptions of the relative costs and benefits, and proportionality, of the regulatory arrangements established by FMA;
- survey of stakeholders on their belief that FMA targets the right matters, seeks the right sanctions, and positively influences market behaviour.

Measure	2012/13	2013/14	2014/15
Percent of stakeholders surveyed who believe FMA's regulatory actions are proportionate	Target based on 2011/12 baseline	Target to be established dependent on 2012/13 results	Target to be established dependent on 2013/14 results
Percent of stakeholders surveyed who agree that FMA targets the right matters	Increase	Increase	Target to be established dependent on 2013/14 results

Along with these impact measures are output measures that contribute to FMA's regulatory actions supporting market activity. The following tables describe the output measures that contribute directly to this impact. The complete set of output measures are described in the Statement of Service Performance (Part Two, p26).

Output One: High quality advice and assistance

Output reference	Output measures directly linked to Impact Five
1a	Government agencies are satisfied with the quality of advice and assistance provided by FMA in regard to licensing and supervision
1b	Government agencies are satisfied with the quality of advice and assistance provided by FMA arising from FMA's monitoring and intelligence functions
1c	Quarterly report is provided to the Minister of Commerce highlighting key priorities for reform
1d	FMA's interaction with ASIC, IOSCO and overseas regulators meet their expectations of co-operation, timeliness and quality
1e	Government agencies are satisfied with the quality of advice and assistance provided by FMA in regard to investigation and enforcement
1f	90 percent of MOU requests for assistance are completed within agreed timeframes to the satisfaction of international regulators

Output Two: Public relations and stakeholder communications

Output reference	Outputs directly linked to Impact Five
2d	Details of all public enforcement actions are published on FMA's website
2e	An annual report on the key issues and themes arising from investigations and enforcement activities and outcomes is published by 30 June 2013

Output Four: Effective licensing regimes

Output reference	Output measures directly linked to Impact Five
4a	On receipt of fully completed application for a licence, 90 percent are processed in accordance with established process and time frames: <ul style="list-style-type: none"> QFEs will be processed within 40 working days Statutory Supervisors and Securities Trustees received after 30 September 2012 will be processed within 40 working days AfAs will be processed within 20 working days

Output Six: Risk-based monitoring and surveillance of market participants

Output reference	Output measures directly linked to Impact Five
6b	Joint supervisors are satisfied with our performance and co-operation in addressing money laundering and financing of terrorism

Output Seven: Risk-based, proportionate and timely action against misconduct

Output reference	Output measures directly linked to Impact Five
7c	MOU is implemented with the Serious Fraud Office

4. How FMA will develop and sustain its operations

Introduction

To achieve our impacts and contribute effectively to the outcomes required, FMA must have the appropriate resources and infrastructure. FMA has grown rapidly over its first year. Over the period of this SOI it is important that we embed sustainable systems and processes to support FMA's work and volume of staff employed.

Our staff are a particular strategic focus, as it is through their efforts that we will succeed. While many staff are new to FMA, there are staff that have sustained our activities through a period of considerable change. Ensuring our staff know they are valued through the leadership, management and support we provide, and developing our skill base and culture across two locations, Auckland and Wellington, will be key activities over the coming three years.

This section describes FMA's operational goals and risks, and the strategies we will employ to ensure we continue to develop in a sustainable, effective and efficient way.

Our Goals

Over the three year period of the SOI, our goals are to:

- continue to develop our organisational capability;
- develop an organisational culture that reflects our desired values;
- establish and implement effective technical infrastructure and knowledge management systems;
- implement an external risk management framework;
- build our ability to be connected with market participants, investors, co-regulators, other government agencies and the wider public;
- ensure governance and leadership of FMA is well supported; and
- deliver to our mandate on time and within budget.

Operational Risks

Rapid Growth

Risk: FMA's ability to support and integrate staff while meeting our growing regulatory functions as we continue to grow over the coming year, 2012 – 2013.

Over the period of this SOI, we will be cementing our newly acquired functions and roles within the organisation. In order to perform our functions and roles effectively, we will continue to develop robust systems and processes and focus on establishing our desired culture.

Our Approach

The overall approach of FMA to manage its rapid growth is to:

- provide continuity of service to, and regulatory oversight of market participants to ensure ongoing regulatory processes are maintained; and
- continue to recruit staff with the skills and competencies required to meet the needs of the organisation to fulfil its mandate and identified priorities.

Key principles underpinning our growth include FMA:

- having a clear internal and external accountability framework that supports the delivery of FMA's objective;
- demonstrating to investors and participants that FMA has the capability, resources, and will to monitor, promptly investigate, and take enforcement action in a consistent manner;
- flexibly accommodating additional powers and oversight functions that may result from the current securities law review; and
- developing timely, well-informed and effective policy.

Organisational Capability and Capacity

People

Risk: FMA will not have the capacity and capability it requires to fully undertake its mandate.

The success of FMA will depend on the right capability, capacity and commitment of its staff to fulfil its expanding regulatory mandate and have maximum impact on key outcomes. FMA is building a competent, focused and resilient workforce. This requires specialist and highly qualified staff that are, at times, in critically short supply.

Our Approach

We will endeavour to maintain an adequate level of staff with the required skills and competencies to meet our strategic and legislative objectives. To this end we will strive to be an employer of choice for people who are aligned with FMA's values and committed to their continuing education and development. We will:

- attract and recruit appropriately skilled people by providing:
 - an employment package that meets the market;
 - a transparent remuneration and recognition framework;
 - a flexible and healthy work environment that respects work-life balance; and
 - a comprehensive induction programme.

- maintain the interest and motivation of our staff through continuing to introduce initiatives to:
 - maximise engagement and involvement in shaping the way we do business;
 - enhance staff's health and well being;
 - build and develop teams both within and across specialty functions;
 - provide regular opportunities to discuss their performance, competency and career development; and
 - ensure processes are streamlined to maximise ease of doing work well.
- design and implement a learning and development framework that enables us to maximise our ability to contribute to staff's continued growth.

We will use in-house expertise and group training initiatives whenever possible and appropriate, augmented by external resources as required.

Culture

Risk: Our developing culture does not align with the values we require and threatens our credibility as an effective regulator.

Our Approach

FMA wants to engender a culture that reflects desired values of the organisation. We will support this through developing our leadership capability and by ensuring these values are reflected in our work policies and practices and the way we reward and recognise performance.

To deliver on our goals, in all our activities we will be driven by the following organisational behaviours and attitudes:

Bold: We need to be enterprising to deliver a robust regulatory framework while supporting market growth and wealth creation. We will not be deterred from taking action when required.

Proactive: We are focused on our key impacts and will seek to be forward thinking, influencing and engaging early, with a can-do mentality. We understand the value of preventative intervention.

Respected: We are astute, consistent and fair in making decisions. Good decisions can take time and we will ensure, where possible, there is transparency about our decision making processes. We will be accountable and will build our credibility through the integrity of our people and processes.

Connected: We are actively engaged as part of the market. We understand that being heard, seen and in-the-know are important to achieving our key impacts. We want the market to engage with us and will seek to understand what is going on in the market and what trends are emerging and use that knowledge to inform our priorities and our activities.

Agile: We understand that delay can undermine public confidence. We are comfortable about balancing competing demands and articulating to the market what we see as the appropriate balance. We will adapt and respond to the changing market.

Systems

Risk: Our current systems inhibit effective and proactive oversight, monitoring and surveillance of market participants and identification of emerging risks.

Our Approach

FMA's legacy systems are not adequate to effectively support our work. Over the period of this SOI, we will implement initiatives that will enable a collaborative and knowledge-based working environment. These initiatives will:

- ensure that information both within and available to FMA becomes an FMA-wide shared resource;
- ensure that our data and information is secure and appropriately protected;
- enable managers to better track and manage workflow, and effectively prioritise effort and activity;
- support case management capability with forensic integrity for managing investigation and enforcement cases;
- enable structured processing of other non-regulatory activities, such as the response to Official Information Act (OIA) enquiries; and
- deliver effective search tools, including Fuzzy Logic, to pick up implicit relationships, with the ability to visualise data, for example relationships between entities.

This will enhance FMA-wide productivity and efficiency and the ability to actively manage and monitor our performance. It will also provide:

- improved intelligence on market participants and the ability to draw strategic insights;
- better management of stakeholder interactions;
- transparency in decision making and responsibilities; and
- increased transparency of our business processes.

We will also develop our financial management information system over the period of this SOI. This will enable FMA to better allocate costs to activities and facilitate forecasting of expenditure against outputs for each appropriation.

Finance

Risk: FMA will have insufficient funds to support the required resources to effectively fulfil its mandate.

The funding of FMA's activities over the first two years of this SOI includes transition costs funding of approximately \$1 million per year (refer page 31, Expected revenue and proposed expenses – for class of outputs), ending June 2014. This funding is not forecast in the 2014/1015 year showing the financial head-wind challenges facing FMA.

FMA is forecasting small surpluses in the first two years and begins to use reserves in the final year of this SOI. The reserves carried forward are important to enable FMA to carry out its statutory functions and in particular, to fund the continued build of systems to support FMA's data gathering, strategic intelligence and implementation of our expanded regulatory framework. This systems build will continue beyond the period of this SOI. We anticipate the volume and pace of change will continue to put pressure on FMA's systems, with each requiring specific capability build.

Our Approach

FMA will carry out the strategies necessary to deliver our outputs, on time and within our budgets and resources, by the following means:

- **Crown Appropriations** – We will work with MED and Treasury to ensure adequate resourcing to support the implementation of our strategies and any further expansion of our regulatory mandate.
- **Fees and Levies** – We will implement an adequate fees and levies model approved by MED.
- **Fiscal Accountability** – We will provide quarterly and annual reports to the Minister of Commerce and MED.

Governance and Leadership

Risk: Lack of traction in the delivery of our mandate through loss of institutional knowledge of FMA's business, governance and leadership skills and leading edge knowledge of the financial markets sector.

FMA Board and Chief Executive

Effective governance and leadership is critical to FMA delivering on its mission. It covers every aspect of how an organisation works in order to assure alignment of decision making.

FMA maintains a Non-Executive Board of five to nine Directors with up to an additional five Associate Board Members. Currently FMA has a total of twelve Board Members, of whom three are Associates.

Over the period of this SOI the terms of the Chair, six Members and two Associate Members expire, as well as the initial term of the Chief Executive. Appointments to the Board are made by the Governor-General on the recommendation of the Minister of Commerce. The Board appoints the Chief Executive.

Our Approach

To maintain the integrity of FMA's governance and leadership the Board will:

- operate in accordance with FMA's governance manual;
- provide opportunities for professional development; and
- ensure effective socialisation of new appointees to FMA's business.

Reporting and accountability

The Minister of Commerce and Ministry of Economic Development

The MED is the agency that monitors our performance on behalf of the Minister of Commerce. We will continue to work constructively with the Minister of Commerce and MED, in accordance with our output agreement, and continue to build and strengthen these relationships.

Our Approach

The Board will endeavour at all times to maintain a 'no surprises' policy with the Minister. In a manner consistent with FMA's obligations as an independent Crown entity, we will keep the Minister and MED informed through regular meetings between the Chairman, the Minister, the Chief Executive and officials from MED of:

- any key risks or matters that may impact FMA achieving its objectives and any other issues of relevance; and
- any matters likely to affect Government interests or to attract political comment.

FMA will report to the Minister and MED providing:

- an annual report as required by the Crown Entities Act 2004; and
- quarterly reports outlining performance against the SOI.

Measures

FMA has a necessary complement of staff in place to fulfil its current and new monitoring functions as they come into force by 30 June 2013.

FMA has chosen and implemented a technology solution to support FMA's monitoring and intelligence functions by 30 June 2013.

FMA will deliver its outputs for the 2012/2013 year on time and within budget.

BOLD ENTERPRISING
INTREPID
DARING

PROACTIVE STRATEGIC
CAN-DO
FORWARD-THINKING

RESPECTED ASTUTE ACCOUNTABLE
CREDIBLE CONSISTENT
FAIR TRANSPARENT

CONNECTED VISIBLE
IN-THE-KNOW
INFLUENTIAL

AGILE NIMBLE
ADAPTABLE
ENERGETIC

Part Two: Statement of service performance



FMA is funded by Government to achieve its objective through three principal appropriations. These are:

- Appropriation One: Licensing and Supervision of Market Participants
- Appropriation Two: Performance of Financial Markets Monitoring Functions
- Appropriation Three: Performance of Investigation and Enforcement Functions

Each of these appropriations has outputs that define the Government's expectations of the services we will provide and contribute to our impacts. To ensure we and our stakeholders know how we are performing against these expectations we have developed key measures for each output. These are described in the following tables. In future years FMA will endeavour to provide forecasts of the costs of each output by appropriation.

Appropriation One: Licensing and Supervision of Market Participants		2012/13 Forecast		
Total Appropriation (\$000)		12,256		
Outputs	Ref	2012/13 Forecast Standard		
High quality advice and assistance	1a	Government agencies are satisfied with the quality of advice and assistance provided by FMA in regard to licensing and supervision		
Public relations and stakeholder communications	2a	The annual stakeholder survey demonstrates greater awareness and understanding of FMA and its actions		
Education of market participants, investors and consumers	3a	Market participants' input is proactively gained and considered prior to establishing all new policy and/or addressing significant policy issues		
	3b	Publication of FMA's principles underpinning FMA's supervisory programme for reporting entities by 30 June 2013		
	3c	Guidance on AML/CFT for reporting entities published by December 2012		
	3d	90 percent of enquiries by market participants receive a substantive response from FMA within 20 working days of FMA receiving all relevant information		
Effective licensing regimes	4a	On receipt of fully completed application for a licence, 90 percent are processed in accordance with established process and time frames: <ul style="list-style-type: none"> • QFEs will be processed within 40 working days • Statutory Supervisors and Securities Trustees received after 30 September 2012 will be processed within 40 working days • AFAs will be processed within 20 working days 		
		Risk-based assessment of offerings	5a	100 percent of high risk prospectuses are reviewed within five days of registration
			5b	5 percent of other prospectuses are reviewed post-registration
		5c	In 100 percent of cases where FMA intervenes, disclosures are improved or documents withdrawn	
Risk-based monitoring and surveillance of market participants	6a	Annual review of registered securities market completed and published by 30 June 2013		
	6b	Joint supervisors are satisfied with our performance and co-operation in addressing money laundering and financing of terrorism		

Appropriation Two: Performance of Financial Markets Monitoring Functions		2012/13 Forecast
Total Appropriation (\$000)		6,237
Outputs	Ref	2012/13 Forecast Standard
High quality advice and assistance	1b	Government agencies are satisfied with the quality of advice and assistance provided by FMA arising from FMA's monitoring and intelligence functions
	1c	Quarterly report is provided to the Minister of Commerce highlighting key priorities for reform
	1d	FMA's interaction with ASIC, IOSCO and overseas regulators meet their expectations of co-operation, timeliness and quality
Public relations and stakeholder communications	2a	The annual stakeholder survey demonstrates greater awareness and understanding of FMA and its actions
	2b	Fifty public engagements are undertaken in 2012/2013
	2c	The number of website visits and length of visit increases from the 2011/12 baseline
Education of market participants, investors and consumers	3e	Key areas of focus for FMA's investor education are identified and prioritised by 30 September 2012 and implemented to plan
	3f	Four reports on significant issues arising from compliance monitoring work published by 30 June 2013
	3g	Consumer Advisory Panel is satisfied with FMA's performance in supporting the education of investors
Risk-based monitoring and surveillance of market participants	6c	90 percent of completed applications for exemptions are processed within six weeks or as agreed with applicant
	6d	80 percent of complaints, tips and referrals once received by FMA's assistance team are processed within established time frames: <ul style="list-style-type: none"> • acknowledged within two working days • front line regulator referrals acknowledged and prioritised for action within one working day • complainants receive a substantive response from FMA within 20 working days of receiving all relevant information
	6e	Two feedback reports on referrals received from NZX, issued to NZX by 30 June 2013

Appropriation Three: Performance of Investigation and Enforcement Functions

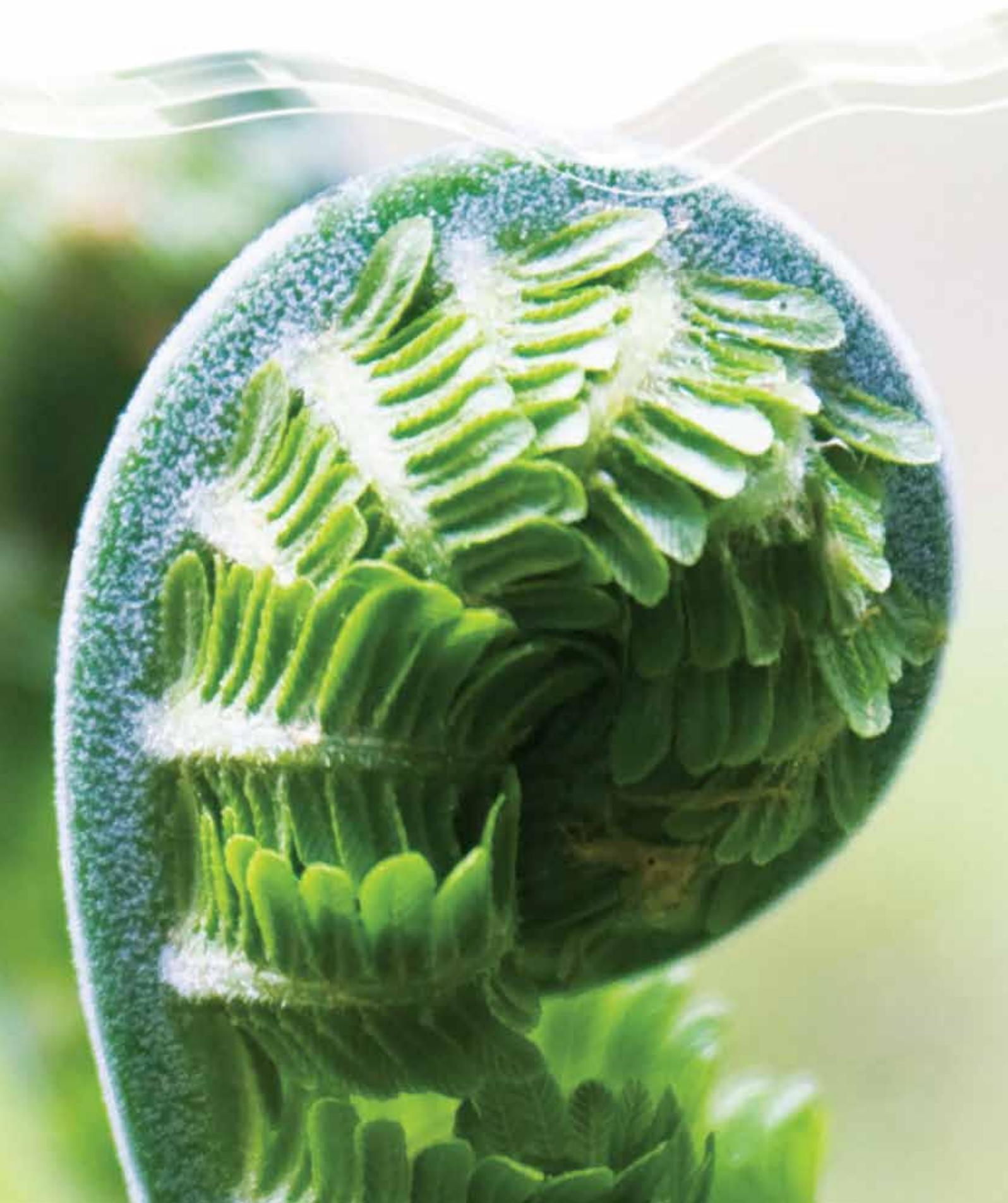
2012/13 Forecast

Total Appropriation (\$000)

6,969

Outputs	Ref	2012/13 Forecast Standard
High quality advice and assistance	1e	Government agencies are satisfied with the quality of advice and assistance provided by FMA in regard to investigation and enforcement
	1f	90 percent of MOU requests for assistance are completed within agreed timeframes to the satisfaction of international regulators
Public relations and stakeholder communications	2a	The annual stakeholder survey demonstrates greater awareness and understanding of FMA and its actions
	2d	Details of all public enforcement actions are published on FMA's website
	2e	An annual report on the key issues and themes arising from investigations and enforcement activities and outcomes is published by 30 June 2013
Risk-based monitoring and surveillance of market participants	6f	70 percent of complaints that result in the opening of an inquiry are either resolved or progressed to a formal investigation to the timeframes and standards defined in the enforcement governance framework
Risk-based, proportionate and timely action against misconduct	7a	70 percent of inquiries and investigations are completed in the timeframes and standards defined in the enforcement governance framework
	7b	Inquiries are undertaken in all activity at the regulatory perimeter identified as high risk
	7c	MOU is implemented with the Serious Fraud Office

Part Three: Forecast financial statements



Expected revenue and proposed expenses – for class of outputs

VOTE COMMERCE

For the years ending 30 June

	2011/12 Outturn \$000	2012/13 Forecast \$000	2013/14 Forecast \$000	2014/15 Forecast \$000
Non-departmental output expense appropriation, Part 2.2:				
Licensing and supervision of market participants				
Crown revenue	11,688	12,256	12,556	12,556
Interest	440	396	396	396
Other revenue	486	212	380	380
Total revenue	12,614	12,864	13,332	13,332
Expenditure	11,057	12,405	12,762	13,884
Operating surplus/ (deficit)	1,557	459	570	(552)
Performance of financial markets monitoring functions				
Crown revenue				
- Operating funding	5,807	5,407	5,651	5,651
- Transition cost funding	1,030	830	1,590	-
Other revenue	170	180	12	12
Total revenue	7,007	6,417	7,253	5,663
Expenditure				
- Operating expenditure	6,468	6,188	6,943	5,898
Operating surplus/ (deficit)	539	229	310	(235)
Performance of investigation and enforcement functions				
Crown revenue	5,749	6,969	7,973	7,973
Expenditure	5,439	6,721	7,633	8,303
Operating surplus/ (deficit)	310	248	340	(330)
Total for Part 2.2	2,406	936	1,220	(1,117)

Non-departmental other expenses, Part 5.2:

FMA litigation fund				
Crown and interest revenue	2,500	2,000	2,000	2,000
Expenditure	2,500	2,000	2,000	2,000
Litigation surplus/ (deficit)	-	-	-	-

Non-departmental capital expenditure, Part 6.2:

Investment in Financial Markets Authority				
Investment in FMA (to be confirmed following completion of opening balance review)	4,007	-	-	-
Capital expenditure	5,000	-	-	-

ANNUAL INFORMATION – FOR THE 2012-2015 FINANCIAL YEARS

Forecast financial statements

STATEMENT OF FORECAST COMPREHENSIVE INCOME

For the years ending 30 June

	2011/12 Outturn \$000	2012/13 Forecast \$000	2013/14 Forecast \$000	2014/15 Forecast \$000
Income				
Crown revenue	24,274	25,462	27,770	26,180
Interest	440	396	396	396
Other income	656	392	392	392
Litigation fund income – Crown revenue & bank interest	2,500	2,000	2,000	2,000
Total income	27,870	28,250	30,558	28,968
Expenses				
Personnel expenses	13,740	15,205	16,726	17,060
Occupancy expenses	1,622	1,668	1,701	1,735
Depreciation	929	1,638	1,971	2,210
Other operating expenses	6,673	6,803	6,940	7,080
Litigation fund expenses	2,500	2,000	2,000	2,000
Total expenses	25,464	27,314	29,338	30,085
Surplus/ (deficit) and total comprehensive income	2,406	936	1,220	(1,117)
Comprising				
Operating surplus/ (deficit)	2,406	936	1,220	(1,117)
Litigation surplus/ (deficit)	-	-	-	-
Surplus/ (deficit) and total comprehensive income	2,406	936	1,220	(1,117)

STATEMENT OF FORECAST FINANCIAL POSITION

As at 30 June

	2012 Outturn \$000	2013 Forecast \$000	2014 Forecast \$000	2015 Forecast \$000
Equity				
Accumulated funds	4,014	4,949	6,169	5,052
Litigation fund	844	844	844	844
Capital contributions	9,007	9,007	9,007	9,007
Total equity	13,865	14,800	16,020	14,903
Assets				
Current assets	11,659	11,497	11,500	10,000
Non-current assets	4,104	5,735	6,764	7,554
Total assets	15,763	17,232	18,264	17,554
Liabilities				
Current liabilities	1,898	2,432	2,244	2,651
Non-current liabilities	-	-	-	-
Total liabilities	1,898	2,432	2,244	2,651
Net assets	13,865	14,800	16,020	14,903

STATEMENT OF FORECAST CHANGES IN EQUITY

For the years ending 30 June 2012 to 30 June 2015

	Accumulated funds \$000	Litigation fund \$000	Total equity \$000
Unaudited as at 1 May 2011	4,007	844	4,850
Total estimated comprehensive income for the 2 months to 30 June 2011	1,609	-	1,609
Capital contributions	-	-	-
Unaudited as at 30 June 2011	5,615	844	6,459
Total forecast comprehensive income for the 12 months to 30 June 2012	2,406	-	2,406
Capital contributions	5,000	-	5,000
Forecast as at 30 June 2012	13,021	844	13,865
Total forecast comprehensive income for the 12 months to 30 June 2013	936	-	936
Capital contributions	-	-	-
Forecast as at 30 June 2013	13,957	844	14,800
Total forecast comprehensive income for the 12 months to 30 June 2014	1,220	-	1,220
Capital contributions	-	-	-
Forecast as at 30 June 2014	15,177	844	16,020
Total forecast comprehensive income for the 12 months to 30 June 2015	(1,117)	-	(1,117)
Capital contributions	-	-	-
Forecast as at 30 June 2015	14,060	844	14,903

STATEMENT OF FORECAST CASH FLOWS

For the years ending 30 June

	2011/12 Outturn \$000	2012/13 Forecast \$000	2013/14 Forecast \$000	2014/15 Forecast \$000
Cash flows from operating activities				
Cash was provided from				
- Crown revenue	24,274	25,462	27,770	26,180
- Crown revenue - litigation fund	2,356	2,125	2,000	2,000
- Interest	361	396	396	396
- Other income	552	392	392	392
Cash was applied to				
- Suppliers	(12,266)	(11,727)	(11,994)	(11,695)
- Employees	(13,575)	(13,950)	(15,345)	(15,652)
- Net GST	(248)	205	(100)	(100)
Net cash flows from operating activities	1,454	2,904	3,119	1,520
Cash flows from investing activities				
Cash was provided from				
- Net decrease in term deposits	4,000	-	-	2,000
Cash was applied to				
- Purchase of fixed assets	(3,800)	(3,200)	(3,000)	(3,000)
- Net increase in term deposit	(10,028)	-	-	-
Net cash flows from investing activities	(9,828)	(3,200)	(3,000)	(1,000)
Cash flows from financing activities				
Cash was provided from				
- Capital contributions	5,000	-	-	-
Net cash flows from financing activities	5,000	-	-	-
Net increase/ (decrease) in cash balances	(3,374)	(296)	119	520
Add opening cash and cash equivalents balance	6,731	3,357	3,061	3,180
Closing cash and cash equivalents balance carried forward	3,357	3,061	3,180	3,700
Comprising				
Current account cash and cash equivalents	3,113	2,777	2,931	3,451
Litigation fund cash and cash equivalents	244	284	250	250
	3,357	3,061	3,180	3,700

STATEMENT OF SIGNIFICANT ASSUMPTIONS

The assumptions used in preparing the forecast information were adopted by FMA on 1 May 2011 and are as follows:

Crown revenue

Currently appropriated Crown revenue is set out in the Appropriations table below; being the appropriations for FMA's operating activities.

FMA's appropriations are further described on page 37.

Exemptions and authorisation income

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

Personnel expenses

FMA staff numbers are assumed to be as follows annualised for each period:

- 100 FTEs in 2011/12
- 124 FTEs in 2012/13
- 135 FTEs in 2013/14
- 135 FTEs in 2014/15

Note:

1. FTE = "Full Time Equivalent" staff member
2. "1 FTE" represents a staff member available for 40 hours per week over 52 weeks of a year inclusive of normal leave entitlements

Occupancy and other operating costs

We assume that premises in Auckland will remain for the period of the forecast and that the Wellington office will be relocated to new premises in June/July 2012. The expanded role of FMA has caused some uncertainties in the precise cost structure of the new organisation and the estimated operating expenditure is based on the best available information.

Litigation expense and fund

We assume expenditure on approved litigation of \$2,500,000 in 2011/12 and \$2,000,000 each year in subsequent years. In the 2011/12 year our estimate is based on our most likely litigation portfolio, arising from anticipated cases being investigated or set down for litigation. In future periods it represents the likely level of litigation activity required as part of FMA's regulatory responsibilities.

We note the volatility inherent in predicting litigation activity. Actual litigation activity and expenditure may be materially different from forecast.

Capital Appropriations

In 2011/12 FMA received a capital appropriation of \$5,000,000 (GST not applicable) for capital expenditure.

APPROPRIATIONS

In the 2011-2015 period, FMA is appropriated to supply services under Vote Commerce for the following classes of outputs:

VOTE COMMERCE

For the years ending 30 June

	2011/12 Appropriation \$000	2012/13 Appropriation \$000	2013/14 Appropriation \$000	2014/15 Appropriation \$000
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Part 2.2. Non-departmental output expense appropriation

Licensing and supervision of market participants. This appropriation is limited to the performance of statutory functions relating to regulation of financial markets participants, including issuers, market licensees, intermediaries and exchanges, and financial advisers and qualifying financial entities (QFEs) by FMA.	11,688	12,256	12,556	12,556
Performance of financial markets monitoring functions. This appropriation is limited to the performance of statutory functions relating to monitoring of financial and securities markets, including the provision of investor education, the granting of exemptions, and other general counsel duties by FMA.	6,837	6,237	7,241	5,651
Performance of investigation and enforcement functions. This appropriation is limited to the performance of statutory functions relating to the investigation and enforcement of financial markets and securities markets law by FMA.	5,749	6,969	7,973	7,973
	24,274	25,462	27,770	26,180

Part 5.2. Non-departmental other expenses

FMA litigation fund. This appropriation is limited to meeting the cost of major litigation activity arising from the enforcement of financial markets and securities markets law by FMA.	2,500	2,000	2,000	2,000
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Part 6.2. Non-departmental capital expenditure

Investment in FMA. This appropriation is limited to meeting the cost of capital requirements for the regulation of investment and securities markets and the financial industry by FMA.	5,000	-	-	-
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Further information is available in B5 of *Budget 2011 – Estimates of Appropriation for the Government of New Zealand for the year ending 30 June 2012*.

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The forecast financial statements presented here for the reporting entity, FMA, are prepared pursuant to section 154 of the Crown Entities Act 2004. 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 FMA on 6 March 2012.

These forecast financial statements have been prepared for the special purpose of the 2012-2015 Statement of Intent of FMA to the Minister of Commerce. They are not prepared for any other purpose and should not be relied upon for any other purpose.

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

Basis of preparation

Statement of compliance

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards, as appropriate for public benefit entities.

Basis of measurement

The accounting principles recognised as appropriate for the measurement and reporting of results and financial position on a historic 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.

Use of estimates and judgments

The preparation of forecast financial statements in conformity with 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 that are believed to be reasonable under the circumstances. Actual financial results achieved for the period covered are likely to vary from the information presented, and the variations may be material.

Significant accounting policies

Significant accounting policies set out below will be applied consistently to all periods presented in these financial statements.

a) *Property, plant and equipment*

Property, plant and equipment are shown at cost or deemed cost less depreciation, and less any impairment losses (see note (p)).

The following classes of property, plant and equipment have been depreciated over their economic lives on the following basis:

- office furniture – 20 percent of diminishing value;
- office equipment – straight line over three years;
- leasehold improvements – straight line over remaining life of lease.

b) *Intangible assets*

Computer software that is not integral to the operation of the hardware is recorded as an intangible asset and amortised on a straight line basis over a period of three years.

c) *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances on hand, held in bank accounts, and short term deposits that form part of FMA's day-to-day cash management. They are short term, highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in values. They are held for the purpose of meeting short term cash commitments and have short maturities of three months or less.

d) *Term deposits*

This category includes only term deposits with maturities greater than three months. These deposits are loans and receivables under NZ IFRS. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method.

e) *Trade and other receivables*

Trade and other receivables and GST receivables are stated at cost less impairment losses.

f) *Short term employee benefits*

Employee entitlements represent FMA's liability for employee annual leave entitlements. This has been calculated on an accrued entitlement basis which involves recognising the undiscounted amount of short term employee benefits expected to be paid in exchange for service that an employee has already rendered. This is calculated at current remuneration rates.

g) Superannuation schemes

Obligations for contributions to KiwiSaver and the State Sector Retirement Savings Scheme are accounted for as defined contribution superannuation schemes and are recognised as an expense in the statement of financial performance as incurred.

h) Operating leases

Leases where the lesser retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term after taking into account any lease inducements.

i) GST

All items in financial statements are exclusive of GST with the exception of trade and other receivables, and trade and other payables which are stated with GST included.

The statement of cash flows has been prepared on a net GST basis. That is, cash receipts and payments are presented exclusive of GST. A net GST presentation has been chosen to be consistent with the presentation of the statement of financial performance and statement of financial position. The net GST component of operating activities reflects the net GST paid to and received from the Inland Revenue Department (IRD). The GST component has been presented on a net basis as the gross amounts would not provide meaningful information for financial statement purposes.

j) Trade and other payables

Trade and other payables and GST payable are stated at cost.

k) Financial instruments

A financial instrument is recognised when FMA becomes party to a financial contract. All financial instruments are recognised in the statement of financial position and all revenues and expenses in relation to financial instruments are recognised in the statement of financial performance.

Financial instruments comprise trade and other receivables, cash and cash equivalents, term deposits and trade and other payables.

l) Income tax

FMA is exempt from income tax under the Income Tax Act 2004.

m) Revenue recognition

Crown revenue is recognised as revenue in the year in which it is appropriated.

Revenue from application fees and recovery of related costs is recognised when the relevant services are provided.

Interest income is recognised as it accrues, based on the effective interest rate inherent in the respective financial instrument. The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest income each period.

n) Cost allocation policy

For the purposes of the statement of service performance, direct costs are charged directly to outputs. Indirect costs are allocated on the basis of direct labour hours spent on each output.

o) Litigation fund

Reimbursements from the Crown to top up the fund are shown as income in the period to which FMA's claim for reimbursement relates.

The balance of the fund is disclosed as a component of equity in the statement of financial position. The fund is restricted for approved litigation purposes only.

p) Impairment

FMA considers at each reporting date whether there is any indication that a non-financial asset may be impaired. If any such indication exists, the asset's recoverable amount is estimated.

Given that the future economic benefits of FMA's assets are not directly related to the ability to generate net cash flows, the value in use of these assets is measured on the basis of depreciated replacement cost.

At each balance date, financial assets such as receivables are assessed for impairment. Trade and other receivables are individually assessed for impairment. This assessment is also made with reference to previous experience with debtors. The recoverable amount is the present value of the estimated future cash flows.

An impairment loss is recognised in the statement of financial performance whenever the carrying amount of an asset exceeds its recoverable amount. Any reversal of impairment losses is also recognised in the statement of financial performance.

q) Contingent assets and contingent liabilities

Contingent liabilities are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

r) Changes in accounting policy

FMA has now established its policy on the accounting treatment of library collections after a review of the opening statement of financial position as noted in the 2011-14 Statement of Intent. The financial statements in the 2012-15 Statement of Intent incorporates the new policy which is to expense all costs of new library resources in the period in which they are incurred.

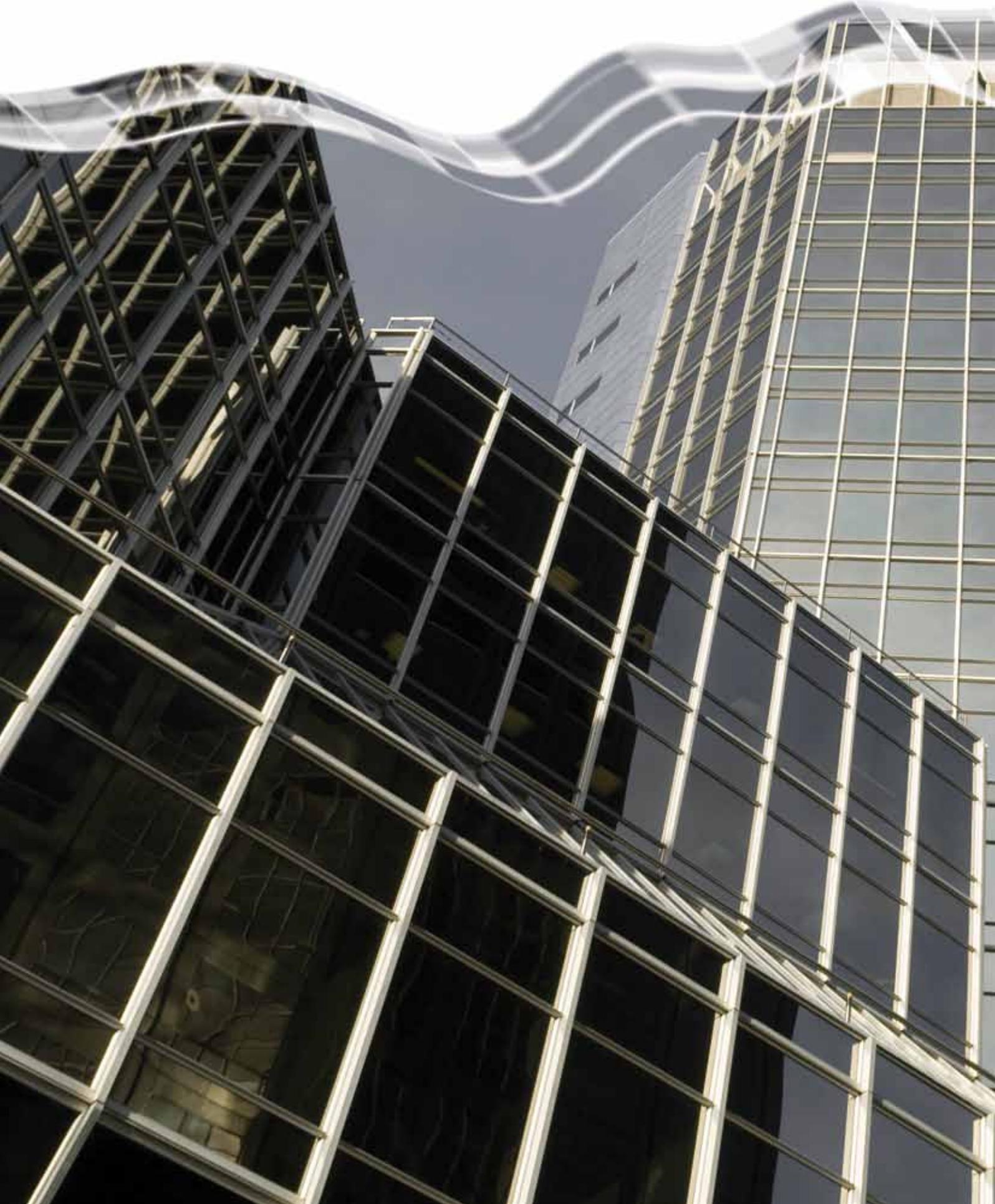
There have been no other changes in accounting policy of FMA.

CAPITAL INTENTIONS

For the years ending 30 June

	2011/12 Outturn \$000	2012/13 Forecast \$000	2013/14 Forecast \$000	2014/15 Forecast \$000
Computer hardware	550	250	150	150
Computer software	1,200	2,450	2,750	2,750
Leasehold improvements	1,800	250	-	-
Furniture and fittings	250	250	100	100
Total	3,800	3,200	3,000	3,000

Appendices



APPENDIX 1: GLOSSARY

AFA	Authorised Financial Adviser - a financial adviser who is authorised in accordance with the Financial Advisers Act 2008.
AML/CFT	Anti-Money Laundering/ Countering Financing of Terrorism - controls required to prevent, detect and report money laundering activities and financing of terrorist activities.
APRA	Australian Prudential Regulation Authority.
ASIC	Australian Securities and Investments Commission.
Auditor/Financial Auditor	A professionally qualified accountant who independently evaluates the accuracy and integrity of a company's financial statements.
AUSTRAC	Australian Transaction Reports and Analysis Centre.
CRA	Credit Rating Agency: an agency that provides an independent assessment of credit risk associated with debt securities eg bonds.
Director	An appointed member of a Board who jointly oversees the activities and direction of an organisation and represents the interests of shareholders.
FMA	Financial Markets Authority.
Frontline Regulator	A financial markets participant who has statutory obligations to ensure regulatory and professional standards of practice are met by other market participants. Frontline regulators include NZX Limited, Securities Trustees, Statutory Supervisors, and Qualifying Financial Entities.
Gatekeepers	Agents that monitor issuers' offers, disclosures and performance. Gatekeepers include auditors, credit rating agencies, financial analysts.
GFC	Global Financial Crisis - the collapse of the financial markets commencing in the US in 2007.
Impact	The contribution made by an organisation to an outcome through a specified set of outputs and/or activities of an organisation. (Public Finance Act 1989).
Intermediary	An entity or person who provides financial advice or who markets and promotes financial products and services to consumers.
Investor	A person who invests in assets, such as securities, property, or commodities with the intention of financial gain. This may include experienced investors who regularly invest, retail investors, issuers and intermediaries.
Issuer	A legal entity such as a Company, Trust, State Owned Enterprise, Territorial Local Authority or Government that issues securities.
MED	Ministry of Economic Development.
NBDT	Non-Bank Deposit Takers - entities that are not registered banks but offer to the public one or more of the following services: debt securities; borrowing and lending facilities; and financial services, for example finance companies, building societies and credit unions.
NZICA	New Zealand Institute of Chartered Accountants.
NZX	NZX Limited, New Zealand's only registered securities exchange operator.
OTC Derivatives	Over-the-counter derivative is an instrument that is traded directly between two parties without going through an intermediary or an exchange.
QFE	Qualifying Financial Entity – an entity that is registered as such by FMA in accordance with the Financial Advisers Act 2008.
Outcome	The state or condition of society, the economy, or the environment. (Public Finance Act 1989).
Output	Goods or services that are supplied by a department, Crown entity, Office of Parliament, or other person or body. (Public Finance Act 1989).
Securities	Securities are financial assets or investments which are categorised as either debt securities (for example: bonds, notes and debentures), equity securities (stocks and shares), unit trusts, investment life insurance policies, interests and superannuation schemes including KiwiSaver and participatory securities.
Statutory Supervisor	A person appointed to look after investors' interests for participatory securities, such as syndicates and limited partnerships, and supervisors of retirement villages under the Retirement Villages Act 2003.
Trustee or Securities Trustee	A securities trustee who is appointed to oversee a retail issue of debt securities.

APPENDIX 2: FUNCTIONS OF FMA

FMA was established by the Financial Markets Authority Act 2011. The Act establishes FMA as an independent Crown entity, and sets out its function and powers. The Act says FMA is to:

- Promote the confident and informed participation of businesses, investors, and consumers in the financial markets, (without limitation) by:
 - collecting and disseminating information or research about any matter relating to those markets;
 - issuing warnings, reports, or guidelines, or making comments, about any matter relating to those markets, financial markets participants or other persons engaged in conduct relating to those markets (including in relation to one or more particular persons);
 - providing information about its functions, powers and duties under this Act and other enactments (including promoting awareness by investors that all investments involve risks and that it is not the role of FMA to remove those risks); and
 - providing, or facilitating the provision of, public information and education about any matter relating to those markets.
- Perform and exercise the functions, powers, and duties conferred or imposed on it by or under financial markets legislation and any other enactments.
- Monitor compliance with, investigate conduct that constitutes or may constitute a contravention of, and enforce financial markets legislation. In the case of core financial markets legislation (for example, the Securities Act 1978, the Securities Markets Act 1988, and the Financial Advisers Act 2008), FMA will perform this function in respect of all persons. In the case of broader corporate governance law (for example, the Companies Act 1993 and the Financial Reporting Act 1993), FMA will perform this function in respect of financial markets participants. Financial markets participants include all financial service providers under the Financial Service Providers (Registration and Dispute Resolution) Act 2008.

- Monitor, and conduct inquiries and investigations into any matter relating to financial markets or the activities of financial markets participants or of other persons engaged in conduct relating to those markets.
- Keep under review the law and practices relating to financial markets, financial markets participants, and other persons engaged in conduct relating to those markets.
- Co-operate with any other law enforcement or regulatory agency or overseas regulators.

In addition to its functions under the Financial Markets Authority Act 2011, FMA has specific regulatory functions under:

- Auditor Regulation Act 2011;
- Securities Trustees and Statutory Supervisors Act 2011;
- Anti-Money Laundering and Countering Financing of Terrorism Act 2009; and
- Reserve Bank of New Zealand Act 1989 (designation of settlement systems – jointly with the Reserve Bank).

FMA will not monitor or enforce compliance of:

- prudential regulation which falls under the Reserve Bank of New Zealand Act 1989 and the Insurance (Prudential Supervision) Act 2010 (once enacted);
- laws enforced by the Commerce Commission (the Fair Trading Act 1986 and the Commerce Act 1986);
- laws monitored and enforced by the MED (company and other governance laws for non-financial service providers, insolvency and personal property securities laws);
- registrar and associated functions under any of the relevant Acts, with the exception of the superannuation and KiwiSaver registration and supervision functions previously performed by the Government Actuary (including monitoring, on a quarterly basis, the current default KiwiSaver providers);
- Takeovers Code compliance; and
- occupational regulation of professions involved in the provision of financial services, including lawyers, accountants, tax agents and real estate agents.

These specialist functions will continue to be fulfilled by the specialist organisations entrusted with them. FMA will however, co-operate with and maintain close working relationships with these and other organisations.

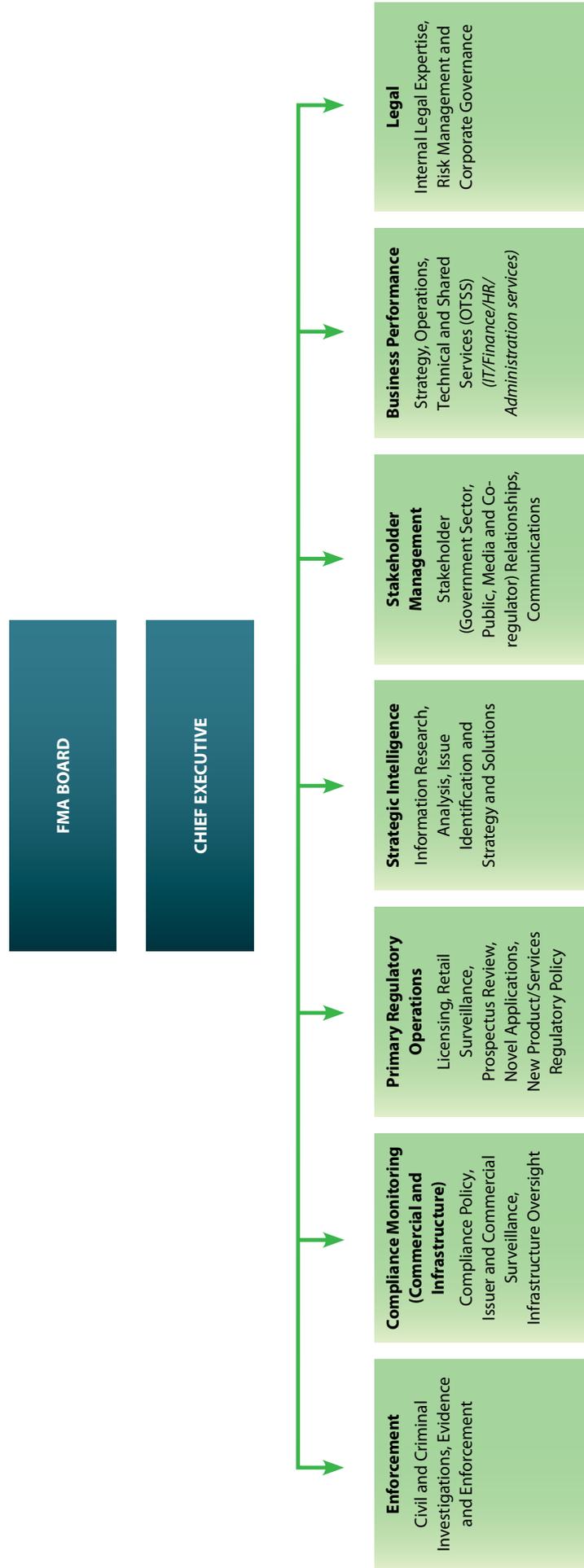
FMA's creation comes at a time of legislative review. In particular, the review of securities law is expected to have changes in place during 2012-2013. FMA will work closely with policy-makers to progress these reviews and implement changes arising from them.

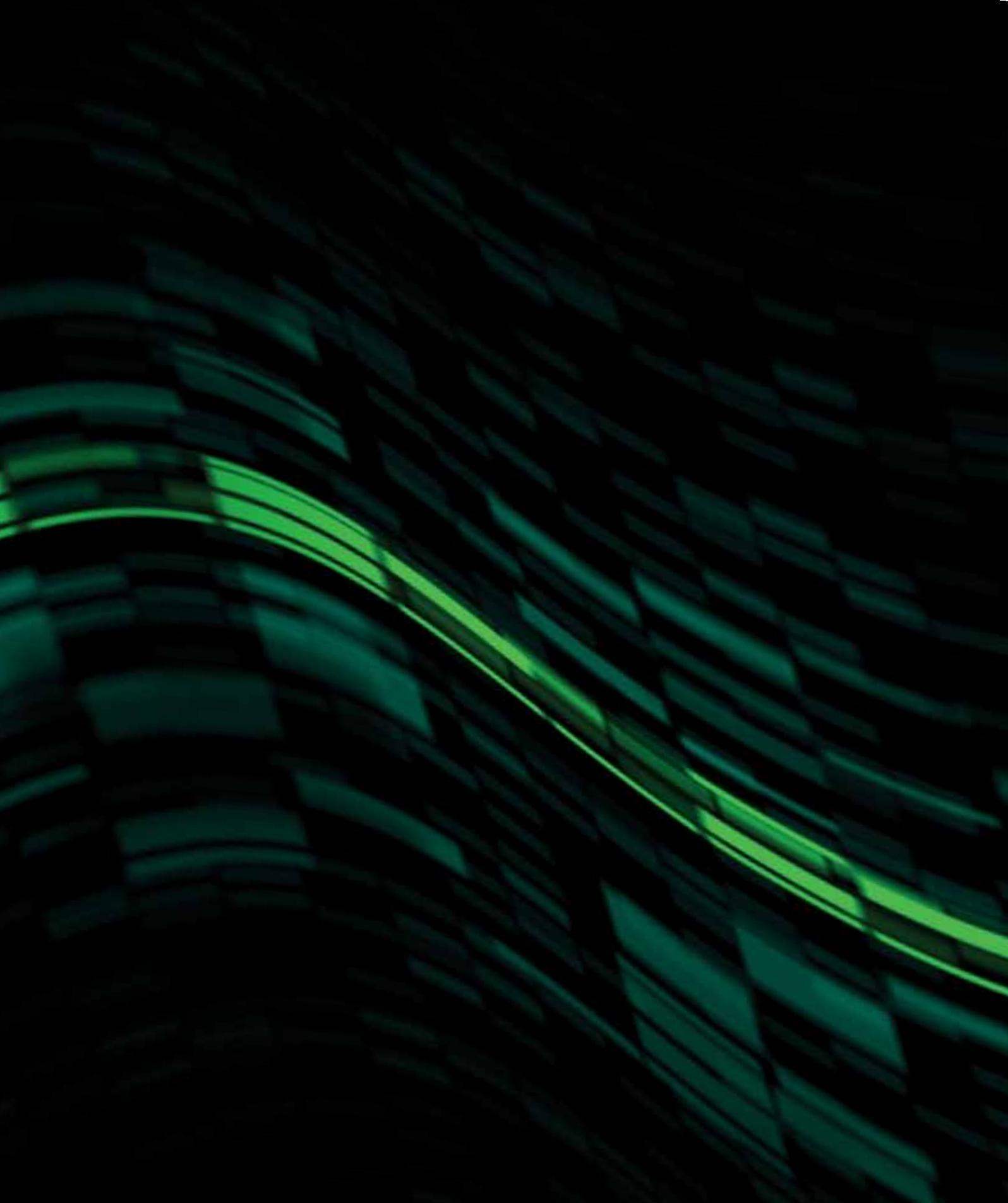
FMA performs function in respect of all persons	FMA performs functions in respect of financial markets participants
<ul style="list-style-type: none"> • Financial Advisers Act 2008 • Financial Service Providers (Registration and Dispute Resolution) Act 2008 • Parts 4 and 5 and Schedules 1 and 2 of the KiwiSaver Act 2006 • Securities Act 1978 • Securities Markets Act 1988 • Securities Transfer Act 1991 • Superannuation Schemes Act 1989 • Unit Trusts Act 1960 • Auditor Regulation Act 2011 • Securities Trustees and Statutory Supervisors Act 2011 	<ul style="list-style-type: none"> • Anti-Money Laundering and Countering Financing of Terrorism Act 2009 • Building Societies Act 1965 • Companies Act 1993 • Corporations (Investigation and Management) Act 1989 • Sections 228, 229, 240, 242, and 256 to 260 of the Crimes Act 1961 • Financial Reporting Act 1993 • Friendly Societies and Credit Unions Act 1982 • Industrial and Provident Societies Act 1908 • Part 5C of the Reserve Bank of New Zealand Act 1989 • Trustee Companies Act 1967 • Co-operative Companies Act 1996 • Limited Partnerships Act 2008

APPENDIX 3: OTHER KEY STAKEHOLDERS

Agency	Focus of relationship
Reserve Bank of New Zealand	<p>Building on existing relationships to strengthen co-operation and information sharing to enable more effective prudential and conduct regulation of New Zealand's financial markets and, where appropriate, co-ordination of response to emerging risks.</p> <p>To this end, FMA and the Reserve Bank have co-sponsored the development of a Council of Financial Regulators, to which MED and Treasury will contribute as Associate Members. The purpose of the Council is to foster co-operation between financial and prudential regulators in New Zealand.</p>
NZX Limited	<p>FMA has responsibilities for oversight of NZX and enforcement of the Securities Markets Act and associated regulations.</p> <ul style="list-style-type: none"> • Approval of rule changes • Notice of significant contraventions of market rules, and referrals for suspected contravention of market integrity regulations or the Securities Markets Act • Formal oversight
Registrar of Companies	<p>The boundary between the Registrar and FMA is much clearer than it was in the past. We will work closely with the Registrar, with whom we share some responsibilities, to ensure there is an appropriate level of information sharing especially where misconduct is detected by either agency which is relevant to the other.</p>
Serious Fraud Office (SFO) & Commerce Commission	<p>FMA recognises the importance of achieving the optimal deterrent effect from enforcement actions so it will establish MOUs with the SFO and Commerce Commission. Advice should be sought whenever appropriate and referrals made, if FMA suspects offences may have been committed relating to Acts overseen by either regulator.</p>
Inland Revenue Department (IRD)	<p>FMA will strengthen and formalise our relationship with IRD to ensure, where possible and appropriate, information is shared to uphold the integrity and robustness of financial markets.</p>
International Organisation of Securities Commission (IOSCO) and foreign regulators	<p>FMA is a member of IOSCO and signatory of the Multilateral Memorandum of Understanding Concerning Consultation and Co-operation and the Exchange of Information. FMA intends to continue to build on existing strong relationships with its international counterparts to ensure that skills, information and knowledge are world class.</p>
New Zealand Institute of Chartered Accountants (NZICA)	<p>NZICA is an accredited body under the Auditor Regulation Act 2011. FMA will work with NZICA to ensure appropriate standards are set for the licensing of auditors and registration of audit firms. FMA will have oversight of NZICA as an accredited body.</p>
Trustee Corporations Association (TCA)	<p>FMA will liaise with TCA to promote co-operation and co-ordination between it and the trustee corporations.</p>
Dispute Resolution Schemes	<p>FMA will continue to build relationships with Dispute Resolution Scheme providers to ensure FMA's expectations of their role are clearly understood to strengthen investor confidence.</p>
Australian Securities and Investments Commission (ASIC)	<p>FMA intends building on existing strong relationships with ASIC to continue to share intelligence and resources to achieve the New Zealand and Australian Governments' aspiration for a single economic market that is robust and resilient.</p>
Australian Transaction Reports and Analysis Centre (AUSTRAC)	<p>FMA will facilitate the strengthening of the relationship with AUSTRAC with other New Zealand co-regulators including the Reserve Bank, Department of Internal Affairs and New Zealand Police to uphold market integrity and minimise fraud and corruption across Australasia.</p>
Australian Prudential Regulation Authority (APRA)	<p>FMA will explore the need for an MOU with a focus on KiwiSaver and portability of superannuation funds.</p>

APPENDIX 4: FMA'S ORGANISATIONAL CHART





FINANCIAL MARKETS AUTHORITY

TE MANA TATAI HOKOHOKO - NEW ZEALAND