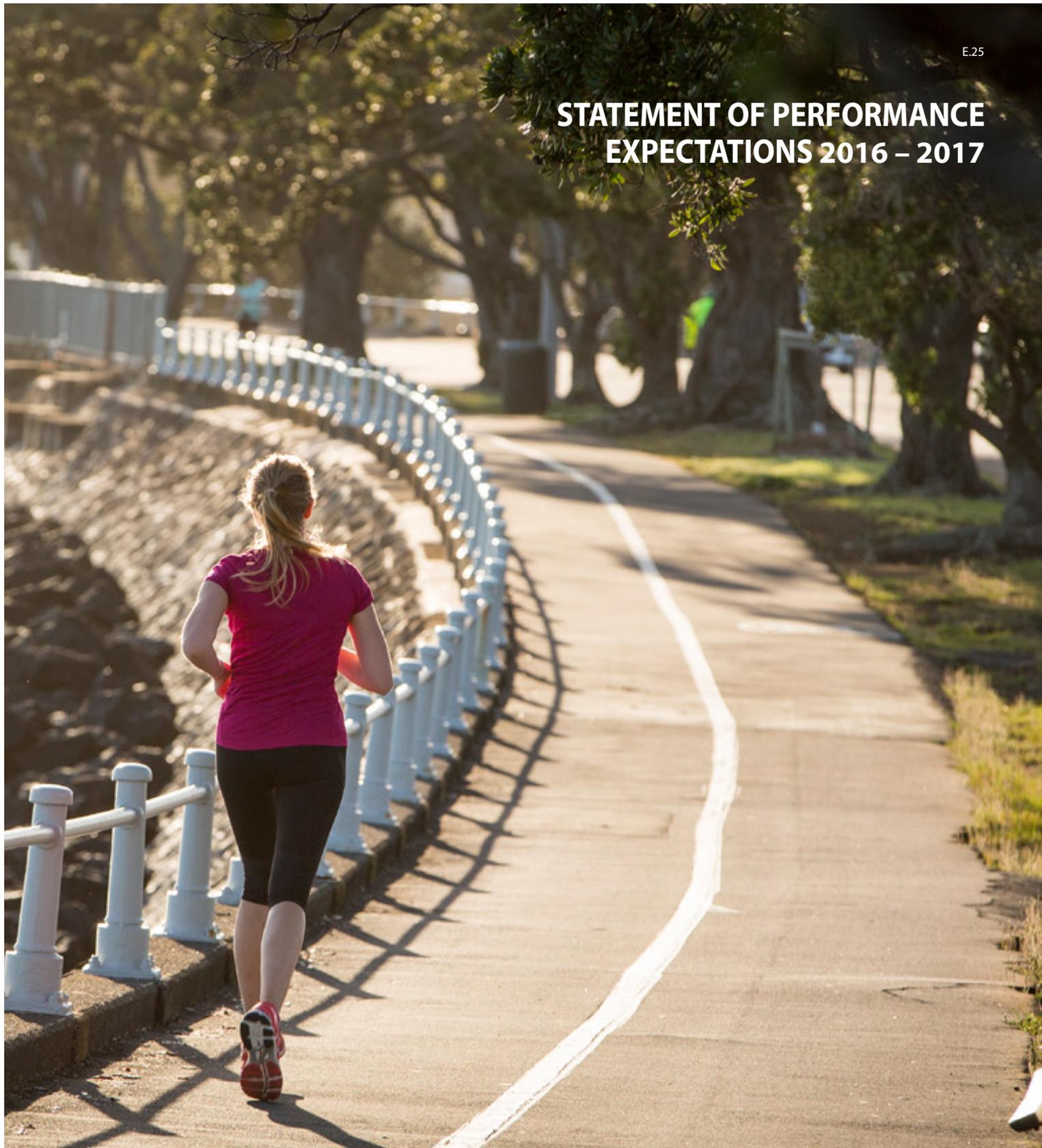


STATEMENT OF PERFORMANCE EXPECTATIONS 2016 – 2017



Statement of authorisation

This *Statement of Performance Expectations* sets out our financial forecast for the next financial year, July 2016 to June 2017, and has been prepared according to the *Crown Entities Act 2004*. It should be read with our *Statement of Intent 2015–2019*.

The prospective financial statements have been prepared in accordance with PBE FRS-42 for the purposes of this *Statement of Performance Expectations*, have not been audited, and should not be relied upon for any other purposes. The Financial Markets Authority (FMA) is responsible for the preparation of this *Statement of Performance Expectations*, including the forecast financial statements and the assumptions on which they are based, the non-financial measures, and the judgments used in them.



Murray Jack

Chair
Financial Markets Authority
May 18, 2016



Rebecca Thomas
(Mrs Rebecca Eele)

Chair
Audit and Risk Committee
May 18, 2016

AUCKLAND

Level 5, Ernst & Young Building 2 Takutai Square, Britomart PO Box 106 672, Auckland 1143
Phone: +64 9 300 0400 Fax: +64 9 300 0499

WELLINGTON

Level 2, 1 Grey Street PO Box 1179, Wellington 6140
Phone: +64 4 472 9830 Fax: +64 4 472 8076

ISSN: 2381-9588

FMA Statement of Performance Expectations 2016–2017

This copyright work is licensed under the Creative Commons Attribution 3.0 New Zealand licence. You are free to copy, distribute and adapt the work, as long as you attribute the work to the Financial Markets Authority and abide by the licence terms. To view a copy of this licence, visit <http://creativecommons.org/licenses/by/3.0/nz/>. Please note that the Financial Markets Authority logo may not be used in any way which infringes any provision of the Flags, Emblems, and Names Protection Act 1981. Attribution to the Financial Markets Authority should be in written form and not by reproduction of the Financial Markets Authority logo.

Contents

Statement of authorisation	previous page
Part One: Non-financial performance measures	02
Part Two: Forecast financial statements	07

Part One: Non-financial performance measures

This *Statement of Performance Expectations (SPE)* outlines our performance targets for 2016/17, and what we will do to achieve them.

It should be read with the *Statement of Intent 2015–2019 (SOI)*, which sets out our medium-term strategy.

Our strategy is aligned primarily with the Government’s goal to build a more competitive and productive economy. This requires well-functioning financial markets that support sustainable business growth and job creation.

A reflection of well-functioning financial markets is an environment where risk is understood, innovation flourishes, integrity prevails, and investors are confident and active participants.

The FMA aims to contribute to this outcome by promoting and encouraging the development of fair, efficient and transparent financial markets.

Our specific focus is on the following seven strategic priorities:

Governance & culture:	Boards and directors lead their organisation’s strategy, culture and values
Conflicted conduct:	Market participants effectively manage conflicts of interest
Capital market growth & integrity:	Regulatory activities encourage capital market growth and support market integrity
Sales & advice:	Sales processes and advisory services reflect the best interests of investors and consumers
Investor decision-making:	Investors have access to resources that help them make informed financial decisions
Effective frontline regulators:	Frontline regulators are effective in their role
FMA effectiveness & efficiency:	The FMA is an effective and efficient conduct regulator.

Our role

The aim of our regulatory activities, in line with our strategic priorities and each output class and appropriation category, is to minimise conduct risks, improve behaviour within our markets, and benefit market participants and investors.

We have developed an over-arching measure which reflects this role. It is an index of market confidence which includes four key impacts:

- stakeholders agree that FMA actions support market integrity
- investors are confident in New Zealand's financial markets

- investors believe the materials they received about their investments were helpful
- investors are confident in the quality of regulation of New Zealand's financial markets.

We note that investor confidence is largely a measure of investor sentiment, which is substantially reliant on factors out of our control. Therefore we have included in the index extra measures which reflect areas where we, and other parties, do have influence. We have given each of these impacts an equal weighting to produce a single average measure, which is explained below.

Forecast standard	2016/17 target	2015/16 forecast	2014/15 actual
Stakeholders agree that FMA actions support market integrity.	75%	73%	73%
Investors are confident in New Zealand's financial markets.	65%	59%	65%
Investors believe the materials they received about their investments were helpful.	60%	50%	56%
Investors are confident in the quality of regulation of New Zealand's financial markets.	65%	63%	46%
Investor confidence index	66%	61%	60%

Category One

Investigation and enforcement functions

This category within the appropriation is about achieving each of our seven strategic priorities.

It provides for the activities contributing to the output 'risk-based, proportionate and timely action against misconduct'.

It includes:

- responding to complaints, tips and referrals
- investigating breaches of, and enforcing, financial markets law
- undertaking disciplinary proceedings
- providing help to other government agencies and international regulators.

Forecast standard		2016/17 target	2015/16 forecast	2014/15 actual
1.	Risk-based, proportionate and timely action against misconduct			
1.1	Inquiries and investigations are conducted within the timeframes and standards defined in the enforcement governance framework.	90%	90–95%	89%
1.2	The FMA works with the Serious Fraud Office on all investigations of joint interest according to Memorandum of Understanding (MOU) arrangements.	100%	100%	100%
1.3	Details of all public enforcement actions are published on the FMA's website.	100%	100%	100%
1.4	MOU requests for assistance are completed within agreed timeframes to the satisfaction of international regulators.	100%	100%	100%
1.5	A report on the key themes and issues arising from misconduct, and our regulatory responses, is published annually.	one report	one report	one report
1.5.1	Misconduct reports about market participants are acknowledged within two working days of receipt by the FMA's assistance team.	95%	95–100%	98.6%
1.5.2	Misconduct reports about market participants received by the FMA's assistance team are evaluated and determined for further action, referral or closing and the reporter is advised within 10 working days of receiving all relevant information.	95%	95–100%	95.9%
1.5.3	Frontline regulator referrals and misconduct reports about market participants, assessed by the FMA as requiring urgent attention, are prioritised for action within one working day of receipt by the FMA's assistance team.	95%	95–100%	100%
1.6	Stakeholders agree that the FMA's enforcement actions deter misconduct in New Zealand's financial markets.	70%	70%	new measure

Category Two

Licensing and compliance monitoring functions

This category within the appropriation is about achieving each of our seven strategic priorities. It provides for the activities contributing to our output of ‘risk-based monitoring and surveillance’.

It includes:

- regulating market licensees and intermediaries
- reviewing disclosure documents and financial reporting
- overseeing exchanges and settlement systems.

Forecast standard		2016/17 target	2015/16 forecast	2014/15 actual
2.	Risk-based monitoring and surveillance			
2.1	Once received by the FMA, fully completed licence applications ¹ are processed within 60 working days, according to established processes.	90%	95–100%	100%
2.2	Reviews of registered securities markets and accredited bodies are completed and published annually.	100%	100%	100%
2.3	The FMA reports on five thematic monitoring projects per year focusing on its strategic priorities.	five	five	six
2.4	Regulated offers are risk-assessed within five working days after a new Product Disclosure Statement (PDS) is lodged or a new prospectus is registered.	100%	100%	100%
2.5	High-risk regulated offers are reviewed post-registration or lodgement.	100%	100%	100%
2.6	Where the FMA has reviewed regulated offers and found issues of material concern, disclosures and offer information are improved or documents withdrawn.	100%	100%	100%
2.7	The FMA’s licensing decisions are unchallenged or upheld.	95%	95–100%	100%
2.8	The FMA’s strategic priorities are incorporated into its entity-based monitoring programme.	achieved	achieved	new measure

1. Includes licence renewals, variations and FMC Act licence applications. Measure does not include FMC Act licence applications received during the transition period, which concludes on 1 December 2016. Thereafter FMC Act licence applications and renewals are included.

Category Three

Market analysis and guidance, investor awareness, and regulatory engagement functions

This category within the appropriation is about achieving each of our seven strategic priorities.

It provides for activities contributing to the outputs 'market analysis and guidance' and 'market and investor education'.

It includes:

- ensuring market participants and investors are well informed
- considering and providing exemptions
- undertaking intelligence analysis and providing advice.

Forecast standard		2016/17 target	2015/16 forecast	2014/15 actual
3.	Market analysis and guidance			
3.1	Market participants' input is sought and considered before establishing all significant new guidance.	100%	100%	100%
3.2	The FMA briefs the Minister of Commerce on key financial markets issues and conduct priorities on a quarterly basis.	100%	100%	100%
3.3	Completed applications for exemptions are processed within six weeks of receiving all relevant information or as agreed with the applicant.	95%	95–100%	100%
3.4	Government agencies are satisfied with the quality of advice and assistance provided by the FMA.	satisfied	satisfied	satisfied
3.5	The FMA's <i>Strategic Risk Outlook</i> is reviewed annually to incorporate new market developments.	achieved	achieved	new measure
	Market and investor engagement			
3.6	Enquiries receive a substantive response from the FMA within 20 working days of the FMA receiving all relevant information.	95%	95–100%	98.5%
3.7	The FMA undertakes at least 20 industry or business presentations or speeches per year, with the aim of providing better information and insight for regulated populations.	20	20	new measure
3.8	FMA website visitors surveyed rate the content they accessed as useful in helping them to comply, or to make informed investment decisions.	75%	75%	new measure
3.9	The FMA undertakes three investor awareness initiatives per year focusing on improving investor capability.	three	three	new measure
3.10	Market participants with an FMA relationship manager say they have benefitted from the relationship.	80%	80%	new measure

Part Two: Forecast financial statements

Expected revenue and proposed expenses – for class of outputs

Vote Business, Science and Innovation

For the years ending 30 June

	2015/16 forecast outturn \$000	2016/17 forecast \$000
Non-departmental output expense appropriation, part 2.2		
Performance of investigation and enforcement functions		
Crown revenue	6,015	6,015
Interest	64	32
Total revenue	6,079	6,047
Expenditure	7,701	7,565
Operating surplus/(deficit)	(1,622)	(1,518)
Performance of licensing and compliance monitoring functions		
Crown revenue	11,298	11,298
Interest	121	61
Other revenue	1,679	723
Total revenue	13,098	12,082
Expenditure	14,465	14,210
Operating surplus/(deficit)	(1,367)	(2,128)
Performance of market analysis and guidance, investor awareness, and regulatory engagement functions		
Crown revenue	8,871	8,871
Interest	95	48
Other revenue	217	212
Total revenue	9,183	9,131
Expenditure	11,357	11,157
Operating surplus/(deficit)	(2,174)	(2,026)
Total for Part 2.2	(5,163)	(5,672)
Non-departmental other expenses appropriation, part 5.2		
FMA litigation fund		
Crown and interest revenue	1,388	2,000
Expenditure	1,388	2,000
Litigation surplus/(deficit)	–	–

Statement of forecast comprehensive revenue and expense

For the years ending 30 June

	2015/16 forecast outturn \$000	2016/17 forecast \$000
Revenue		
Crown revenue	26,184	26,184
Interest	280	141
Other revenue	1,896	935
Litigation fund income – Crown revenue and bank interest	1,388	2,000
Total revenue	29,748	29,260
Expenses		
Personnel expenses	22,579	21,748
Occupancy expenses	1,864	1,878
Depreciation	3,286	3,551
Other operating expenses	5,794	5,755
Litigation fund expenses	1,388	2,000
Total expenses	34,911	34,932
Surplus/(deficit)	(5,163)	(5,672)
Comprising		
Operating surplus/(deficit)	(5,163)	(5,672)
Litigation surplus/(deficit)	–	–
Surplus/(deficit)	(5,163)	(5,672)

Statement of forecast financial position

As at 30 June

	2015/16 forecast outturn \$000	2016/17 forecast \$000
Equity		
Accumulated funds	1,397	(4,275)
Litigation fund	844	844
Capital contributions	8,777	8,777
Total equity	11,018	5,346
Assets		
Current assets	6,630	3,792
Non-current assets	8,999	5,996
Total assets	15,629	9,788
Liabilities		
Current liabilities	2,864	2,763
Non-current liabilities	1,747	1,679
Total liabilities	4,611	4,442
Net assets	11,018	5,346

Statement of forecast changes in equity

For the years ending 30 June

	2015/16 forecast outturn \$000	2016/17 forecast \$000
Opening balance		
Accumulated funds	6,560	1,397
Litigation fund	844	844
Capital contributions	8,777	8,777
Total opening balances	16,181	11,018
Comprehensive revenue and expense		
Forecast net operating surplus/(deficit)	(5,163)	(5,672)
Forecast net litigation surplus/(deficit)	–	–
Total comprehensive revenue and expense	(5,163)	(5,672)
Owner transactions		
Capital contribution	–	–
Total owner transactions	–	–
Closing balance		
Accumulated funds	1,397	(4,275)
Litigation fund	844	844
Capital contributions	8,777	8,777
Total closing balances	11,018	5,346

Statement of forecast cashflows

For the years ending 30 June

	2015/16 forecast outturn \$000	2016/17 forecast \$000
Cashflow from operating activities		
Cash was provided from:		
– Crown revenue	26,184	26,184
– Crown revenue – litigation fund	1,386	2,000
– Interest	335	141
– Other income	1,546	1,284
Cash was applied to:		
– Suppliers	(10,048)	(11,633)
– Employees	(21,328)	(19,868)
– Net GST	260	89
Net cashflow from operating activities	(1,665)	(1,803)
Cashflow from investing activities		
Cash was provided from:		
– Net decrease in term deposits	2,000	2,000
Cash was applied to:		
– Purchase of fixed assets	(2,797)	(548)
– Net increase in term deposit	–	–
Net cashflow from investing activities	(797)	1,452
Cashflow from financing activities		
Cash was provided from:		
– Capital contributions	–	–
Net cashflow from financing activities	–	–
Net increase (decrease) in cash balance	(2,462)	(351)
Add opening cash and cash equivalents balance	5,221	2,759
Closing cash and cash equivalents balance carried forward	2,759	2,408
Comprising		
Current account cash and cash equivalents	2,358	2,007
Litigation fund cash and cash equivalents	401	401
	2,759	2,408

Statement of significant assumptions

The following significant assumptions have been used in preparing the forecast information:

Crown revenue

Currently appropriated Crown revenue is set out in the Appropriations table on page 15; being the appropriations for the FMA's operating activities.

Other 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.

Litigation expense and fund

We assume expenditure on approved litigation of \$2 million each year. In the 2015/16 year our estimate is based on our most likely litigation portfolio, arising from anticipated cases being investigated or set down for litigation. We note the volatility inherent in predicting litigation activity. Actual litigation activity and expenditure may be materially different from forecast.

Appropriations

In the 2015–2017 period, the FMA is appropriated to supply services under Vote Business, Science and Innovation for the classes of outputs described below. These categories have been modified from previous years to best enable the FMA to implement new regulatory requirements arising from the FMC Act, based on our best estimates. While fiscally neutral, the changes better distinguish the various types of regulatory activity we undertake and better align with our statutory outputs.

Vote Business, Science and Innovation

For the years ending 30 June

	2015/16 forecast outturn \$000	2016/17 forecast \$000
Part 2.2 Non-departmental output expense appropriation		
Services and advice to support well-functioning financial markets		
Performance of investigation and enforcement functions. This category is limited to the performance of statutory functions relating to the investigation and enforcement of financial markets legislation, including the assessment of complaints, tips, and referrals.	6,015	6,015
Performance of licensing and compliance monitoring functions. This category is limited to the performance of statutory functions relating to licensing of market participants and risk-based monitoring of compliance, including disclosure requirements under financial markets legislation.	11,298	11,298
Performance of market analysis and guidance, investor awareness, and regulatory engagement functions. This category is limited to the performance of statutory functions relating to market intelligence, guidance, exemptions, investor education, and regulatory and government co-operation and advice.	8,871	8,871
Total for Appropriation	26,184	26,184
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.	1,388	2,000

Statement of significant accounting policies

Reporting entity

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

These forecast financial statements were authorised for issue by the FMA on 18 May 2016.

These forecast financial statements have been prepared for the special purpose of the 2016–2017 *Statement of Performance Expectations* of the FMA to the Minister of Commerce and Consumer Affairs. 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 of the FMA have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with PBE Accounting Standards and other pronouncements that have authoritative support and that are applicable to entities that apply PBE Standards.

Basis of measurement

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

Functional and presentational currency

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

Use of estimates and judgments

The preparation of forecast financial statements in conformity with PBE FRS-42 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors 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.

