



MP for Mana

Minister of Broadcasting, Communications and Digital Media

Minister of Civil Defence

Minister of Commerce and Consumer Affairs

Minister of Customs

Associate Minister of Immigration

26 FEB 2019

Murray Jack
Chair
Financial Markets Authority
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Dear Murray

ANNUAL LETTER OF EXPECTATIONS FOR 2019/20

I am writing to convey my portfolio priorities and your role in achieving these priorities, along with my strategic and performance expectations for the Financial Markets Authority (FMA) in relation to the 2019/20 financial year.

The goal of this Government's economic strategy is to improve the well-being and living standards of New Zealanders through sustainable and inclusive growth. This means moving beyond narrow economic indicators and measures of success, and instead puts the well-being of our people and the environment at the centre.

Commerce and Consumer Affairs priorities and what this means for the FMA

My priorities for this year in the financial sector are as follows:

- progressing implementation of the Financial Services Legislation Amendment Bill to improve access to high quality financial advice
- introducing legislation to regulate the conduct of the banking and insurance sectors to protect consumers, and enable better financial decision-making
- reviewing the settings for the default KiwiSaver scheme to ensure that they deliver value for those individuals in default funds and help people save for retirement
- exploring how further work on retail payment systems and open banking can increase competition, innovation and consumer welfare consistent with our overall goal of building a broad-based economy.

I expect the FMA to contribute to achieving results against these priorities, as appropriate.

I understand that the reforms under the *Financial Markets Conduct Act 2013* have meant a lot of change for the FMA in recent years and the new regime for financial advice will mean a lot more change in the next couple of years.

With the work on the conduct of financial institutions now underway, I acknowledge that this is a very busy time for your organisation and appreciate the hard work that is going into adapting to and implementing these regulatory changes. I am sure the FMA will continue to meet these challenges as well as carry out its core functions effectively.

This Government's priorities extend beyond agency boundaries - many will involve you playing an effective role within an integrated and coherent system. I expect you to focus on working together with the range of agencies and parties that have a stake in achieving these priorities in the Financial Markets regulatory system including, but not limited to, the Ministry of Business, Innovation and Employment (**MBIE**), the Reserve Bank of New Zealand, the Treasury, and the Commission for Financial Capability.

The following paragraphs set out my specific expectations for the FMA.

Specific expectations for the FMA

My particular expectations for the FMA in 2019/20 are:

- ensuring effective implementation of the new regime for financial advice, particularly ensuring robust processes are in place for licensing and monitoring of financial advisers
- working with MBIE on the policy response to your conduct and culture review to ensure that banking and insurance conduct is of an appropriate standard
- promoting, with other agencies and organisations, the effectiveness and integrity of the KiwiSaver system, with a strong focus on provider transparency and engagement with investors, particularly around fees and default funds
- anticipating and enabling innovation in financial services, while also ensuring appropriate safeguards are in place and investors are adequately informed about any risks the innovation may pose
- maintaining appropriate oversight of the financial sector, including a robust approach to licensing and ongoing monitoring and supervision
- proactively monitoring conduct risks affecting vulnerable investors who might be the targets of scams or fraud
- supporting the passage of the International Financial Reform Amendment Bill, particularly ensuring robust processes are in place for licensing and monitoring financial benchmark administrators
- coordinating with MBIE, the Commission for Financial Capability and any other agencies across government where appropriate to build investor capability and confidence, including by encouraging access to information and advice. I also expect the FMA to maintain its focus on the integrity of our capital markets, including conduct and disclosure.

General expectations and good governance

As part of your role in governing a high performing FMA, I expect you to:

- maintain an effective board
- be the primary monitor of the entity's performance and maintain effective relationships with my advisors in MBIE, and
- operate a no surprises policy.

These expectations are set out in more detail in the Annex to this letter.

Strategy and performance information

All Crown entities must prepare an annual Statement of Performance Expectations (**SPE**) and have an approved Statement of Intent (**SoI**). The annual SPE should provide a clear performance framework and support excellent reporting to Parliament and the public on results.

I do not expect that a Sol will be produced this year, but I do expect that a new Sol will be needed next year to give effect to the introduction of the financial services licensing regime.

Response

Your advice by 15 March 2019 on how you propose to respond to the expectations set out in this letter and its Annex would be appreciated. I would be happy to consider approaches that best achieve our collective aims and work well for the FMA. In the first instance, please discuss your proposed response with MBIE.

I look forward to developing an effective working relationship with you over the coming year.

Yours sincerely



Kris Faafoi
Minister of Commerce and Consumer Affairs

Copy to: Rob Everett,
Chief Executive, Financial Markets Authority

James Hartley,
General Manager, Commerce, Consumers and Communications, MBIE

Annex 1: General expectations and good governance

Effective board

Ensuring the board is, and remains, high-performing is essential. Thank you for providing me with a self-assessment report about the board's performance in November 2018. I am pleased to see the positive results in this report, which indicate that the board is performing well.

I do not expect the board to carry out a self-assessment in 2019. However, I expect the board to address the identified opportunities for improvement, namely strategic focus/planning, board capability and succession, and board dynamics. Thank you for outlining in your report to me the ways in which you attend to achieve this and I look forward to hearing how the board progresses against these goals. I also expect you to continue providing MBIE with your view of the competency mix you need to work well as a board, along with your thoughts on upcoming appointments and any candidate attributes to target.

Deliver responsible governance with a broader measure of success

I ask you to be part of a public sector that builds a New Zealand we can all be proud of; a public sector that recognises the value of every New Zealander and backs all our people. To do this I expect you to think holistically about the impact of your organisation's plans and programmes prioritising interventions that make the biggest difference to lifting the current and future wellbeing of New Zealanders. In particular, I ask to you strengthen your effort to partner with Maori organisations to improve services and outcomes for Maori.

I expect you to actively promote and develop the diversity of your workforce for the long term to encompass a broad spread of experience, culture, perspective and lifestyle of those who live in New Zealand.

Effective monitoring of entity performance by boards and relationship with MBIE

In addition to setting and driving a strategy that delivers on government priorities, your board is the most important monitor of entity performance. I expect the board to provide me with high quality information and analysis on entity performance against plan, implications for future performance, and risks and opportunities facing the entity.

I expect you to have a constructive working relationship with your monitor within MBIE. This relationship should include active participation and engagement with my officials in the process of setting your organisation's strategic direction and in any review of existing strategies, priorities and plans, and data systems.

I expect you to work with and across government to integrate work of your organisation with the role and work of other agencies, and to support the state sector stewardship of government departments.

No surprises

The Government has a 'no surprises' policy. No surprises means that the Government expects a board to:

- be aware of any possible implications of their decisions and actions for wider government policy issues
- advise the responsible Minister of issues that may be discussed in the public arena or that may require a ministerial response, preferably ahead of time or otherwise as soon as possible
- inform the Minister in advance of any major strategic initiatives.

I also ask you to avoid 'pre-judging' my potential responses to risks and opportunities. I expect to hear about emerging issues and what major actions the board is considering. My reactions will be based on a range of factors, including the benefits of new initiatives and of taking different approaches to achieve our goals.