

Statement of Performance Expectations

2020/21

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 fma.govt.nz
 0800 434 566
 questions@fma.govt.nz

 **FMA**
FINANCIAL MARKETS AUTHORITY
TE MANA TATAI HOKOHOKO - NEW ZEALAND

Statement of Authorisation

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

This SPE sets out our financial forecast for the financial year 1 July 2020 to 30 June 2021. It is prepared in line with the Crown Entities Act 2004 and should be read together with the FMA's Statement of Intent 2021-2024.

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

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



Mark Todd

Chair

Financial Markets Authority

16 June 2020



Elizabeth Longworth

Chair

Audit and Risk Committee

16 June 2020

Purpose of the Statement of Performance Expectations

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

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

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

We regularly review our performance measures to ensure they are focused on the impact we want to have on financial service providers, investors and customers.

The SPE links to the strategic intentions set out in the Statement of Intent 2021-2024.

Reporting on performance targets

We will report on how we have performed against these targets in the 2020/21 Annual Report.

Assessment of our performance against the targets will be based on the following scaled rating system.

Criteria	Rating
On target or better	Achieved
Within 5% of the target	Substantially achieved
More than 5% below the target	Not achieved

Where appropriate, we have maintained targets from previous years to allow for continuity, but recognise that our ability to achieve these targets may be impacted by the COVID-19 crisis.

SPE non-financial measures

Overarching measure

SPE 1 reflects how well financial service providers and investors believe our regulatory activities are fulfilling our overall purpose of promoting the development of fair, efficient and transparent financial markets.

The consolidated SPE 1 measure is an index of two key sub-components:

- Stakeholders (ie market participants) agree that the FMA's actions help raise standards of market conduct and integrity
- Investors of financial services are confident in the quality of regulation of New Zealand's financial markets.

Measure	2020/21 target	2019/20 forecast (target)	2018/19 actual (target)	Source of data/ information	Strategic intention links
SPE 1 Index measure Financial service providers and investors of New Zealand financial services believe that FMA's actions promote fair, efficient and transparent financial markets	Achieved*	New	New	<ul style="list-style-type: none"> • Annual Ease of Doing Business survey of market participants and FMA stakeholders • Annual Investor Confidence survey 	<ul style="list-style-type: none"> • Governance and culture • Deterrence of misconduct • Implementation of remit changes • Investor and customer decision-making • Trust and confidence in capital markets
Index measure sub-components					
Stakeholders agree that the FMA's actions help raise standards of market conduct and integrity**	85%	85% (85%)	86% (85%)	<ul style="list-style-type: none"> • Annual Ease of Doing Business survey of market participants and FMA stakeholders 	
Investors are confident in the quality of regulation of New Zealand's financial markets	65%	60% (65%)	60% (70%)	<ul style="list-style-type: none"> • Annual Investor Confidence survey 	

*The target for SPE 1 is based on an equal weighting between the stakeholders and investors survey sub-components. The targets associated with these sub-components are based on previous targets to allow for continuity. To achieve the index target will require meeting both sub-measure targets. Should either sub-target be more than 5% below the target the index measure will be reported as 'Not achieved'. If sub-measures are within 5% of the target this would be reported as 'Substantially achieved'.

**This sub-component is an average based on two survey questions relating to stakeholder perceptions of the FMA's actions to support market integrity, and the FMA helping to raise standards of market conduct.

Category one: Investigation and enforcement activities

This category is about the work we do when we need to take action against financial market misconduct. Our objective is for actions to be timely, proportionate, and subject to appropriate governance.

Measure	2020/21 target	2019/20 forecast (target)	2018/19 actual (target)	Source of data/information	Strategic intention links
SPE 2 Progress of all investigation cases is reported to the FMA Board every 40 working days	100%	Revised* (100%)	Revised* (100%)	Internal tracking of investigation and enforcement activity	• Deterrence of misconduct
SPE 3 Misconduct cases** are evaluated and decisions on follow-up actions are made within 9 working days of the information-received date	85%	New	New	Internal tracking of misconduct cases	• Deterrence of misconduct

*This is a revised sub-measure.

** Misconduct cases involve an “allegation of financial markets conduct that could result in harm”, whereas an investigation requires formal trigger points, including reasonable grounds to suspect*** a breach of any financial markets legislation.

*** This requires more than mere suspicion or hunch; a basis on objective information is required.

Category two: Licensing and compliance monitoring functions

This category is about risk-based monitoring and surveillance.

It includes:

- Ensuring licence applications, individual exemptions and other activities are processed efficiently and to an appropriate standard
- Our activities are based on and subject to an assessment of regulatory risks
- We use a range of monitoring activities to address conduct risks.

Measure	2020/21 target	2019/20 forecast (target)	2018/19 actual (target)	Source of data/ information	Strategic intention links
SPE 4 Once received by the FMA, fully completed licence applications are processed within 60 working days	93%	Revised* (93%)	Revised* (96%)	Internal tracking of relevant documents and activity	<ul style="list-style-type: none"> • Governance and culture • Trust and confidence in capital markets
SPE 5 New regulated offers are risk-assessed within five working days after a new Product Disclosure Statement (PDS) is registered	100%	Revised* (100%)	Revised* (100%)	Internal tracking of relevant documents and activity	<ul style="list-style-type: none"> • Governance and culture • Trust and confidence in capital markets • Investor and customer decision-making

*This is a revised sub-measure.

Measure	2020/21 target	2019/20 forecast (target)	2018/19 actual (target)	Source of data/ information	Strategic intention links
SPE 6 Applications for individual exemptions are processed within 30 working days of receiving all relevant information or as communicated with reasons to the applicant	100%	Revised* (100%)	Revised* (100%)	Internal tracking of relevant documents and activity	<ul style="list-style-type: none"> • Governance and culture • Trust and confidence in capital markets
SPE 7 The FMA undertakes a range of proactive, reactive and thematic monitoring activity to target risks identified in response to the regulatory risks identified	Achieved**	New	New	Internal tracking of relevant documents and activity	<ul style="list-style-type: none"> • Governance and culture • Deterrence of misconduct • Investor and customer decision-making • Trust and confidence in capital markets

*This is a revised sub-measure.

**To achieve this target the FMA must be able to demonstrate it has undertaken all three types of monitoring activity in response to the regulatory risks identified i.e., proactive (e.g. random or risk-based monitoring), reactive (e.g. responding to misconduct reports) and thematic (e.g. sector or issue based reviews) monitoring.

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

This category is about engaging with the market and entities, and setting and communicating our expectations, as well as providing information to aid investors and customers of financial services. It includes:

- Regular and meaningful engagement activities that bring positive results
- Maintaining an FMA website to provide information and guidance to investors and market participants on regulatory requirements, expectations and issues
- Meaningful direct engagement with larger market entities.

Measure	2020/21 target	2019/20 forecast (target)	2018/19 actual (target)	Source of data/ information	Strategic intention links
SPE 8 The FMA undertakes a range of speeches and presentations (in-person and online) to inform and assist users and providers of financial services	30	30 (30)	31 (20)	Count of speeches and presentations that meet the aims of the measure	All
SPE 9 Participants find FMA communication clear, concise and effective	75%	New	New	Annual Ease of Doing Business survey of market participants and FMA stakeholders	All
SPE 10 Number of website page-views of FMA's investor content	Increase on prior year*	New	New	Google Analytics page view data from all pages within relevant investor sections of the FMA website	• Investor and customer decision-making
SPE 11 Market participants within the stakeholder relationship management programme (SHRM), who responded to our survey, say they have benefited from the relationship	95%	95% (95%)	100% (100%)	Annual survey of SHRM members	• Governance and culture • Trust and confidence in capital markets

* This is a new measure for 2020/21. The 2019/20 actual, which will set the baseline, was not available at the time of finalising the SPE.

Forecast financial statements

Expected revenue and proposed expenses

Vote Business, Science and Innovation

For the years ending 30 June	2019/20 forecast outturn \$000	2020/21 forecast \$000
Non-departmental output expense appropriation		
Performance of investigation and enforcement functions		
Crown revenue	6,196	10,282
Other revenue	51	-
Total revenue	6,247	10,282
Expenditure	8,790	10,396
Operating surplus/(deficit)	(2,543)	(114)
Performance of licensing and compliance monitoring functions		
Crown revenue	16,072	19,060
Interest	151	68
Other revenue	864	959
Total revenue	17,087	20,087
Expenditure	18,013	19,271
Operating surplus/(deficit)	(926)	816
Performance of market analysis and guidance, investor awareness and regulatory engagement functions		
Crown revenue	13,732	19,158
Total revenue	13,732	19,158
Expenditure	16,095	19,369
Operating surplus/(deficit)	(2,363)	(211)
Total	(5,832)	491
Non-departmental other expenses appropriation		
FMA litigation fund		
Crown and interest revenue	2,386	3,000
Expenditure	2,386	3,000
Litigation surplus/(deficit)	-	-

Statement of forecast comprehensive revenue and expense

For the years ending 30 June	2019/20 forecast outturn \$000	2020/21 forecast \$000
Revenue		
Crown revenue	36,000	48,500
Interest	151	68
Other revenue	915	958
Litigation fund income - Crown revenue and bank interest	2,386	3,000
Total revenue	39,452	52,526
Expenses		
Personnel expenses	29,651	32,956
Occupancy expenses	2,125	2,973
Depreciation	3,241	3,967
Other operating expenses	7,881	9,139
Litigation fund expenses	2,386	3,000
Total expenses	45,284	52,035
Surplus/(deficit)	(5,832)	491
Comprising		
Operating surplus/(deficit)	(5,832)	491
Litigation surplus/(deficit)	-	-
Surplus/(deficit)	(5,832)	491

Statement of forecast financial position

For the years ending 30 June	2019/20 forecast outturn \$000	2020/21 forecast \$000
Equity		
Accumulated funds	(2,974)	(2,483)
Capital contributions	11,027	13,577
Total equity	8,053	11,094
Assets		
Current assets	4,793	5,241
Non-current assets	9,968	13,367
Total assets	14,761	18,608
Liabilities		
Current liabilities	5,431	6,370
Non-current liabilities	1,277	1,144
Total liabilities	6,708	7,514
Net assets	8,053	11,094

Statement of forecast changes in equity

For the years ending 30 June	2019/20 forecast outturn \$000	2020/21 forecast \$000
Opening balance		
Accumulated funds	2,858	(2,974)
Capital contributions	11,027	11,027
Total opening balances	13,885	8,053
Comprehensive revenue and expense		
Forecast net operating surplus/(deficit)	(5,832)	491
Forecast net litigation surplus/(deficit)	-	-
Total comprehensive revenue and expense	(5,832)	491
Owner transactions		
Capital contribution	-	2,550
Total owner transactions	-	2,550
Closing balance		
Accumulated funds	(2,974)	(2,483)
Capital contributions	11,027	13,577
Total closing balances	8,053	11,094

Statement of forecast cashflows

For the years ending 30 June	2019/20 forecast outturn \$000	2020/21 forecast \$000
Cash flow from operating activities		
Cash was provided from:		
- Crown revenue	36,000	48,500
- Crown revenue - litigation fund	4,000	5,000
- Interest	197	68
- Other income	483	959
- Litigation cost award	35	-
Cash was applied to:		
- MBIE fees and levies (net)	(84)	-
- MBIE repayment of underutilised litigation fund	-	(1,878)
- Suppliers	(14,681)	(16,896)
- Employees	(27,809)	(30,789)
- Net GST	497	214
Net cash flows from operating activities	(1,362)	5,178
Cash flow from investing activities		
Cash was provided from:		
- Net decrease in term deposits	7,000	-
Cash was applied to:		
- Purchase of fixed assets	(3,750)	(7,366)
- Net increase in term deposit	-	-
Net cash flows from investing activities	3,250	(7,366)
Cashflow from financing activities		
Cash was provided from:		
- Capital contributions	-	2,550
Net cash flows from financing activities	-	2,550
Net increase (decrease) in cash balance	1,888	362
Add opening cash and cash equivalents balance	1,726	3,614
Closing cash and cash equivalents balance carried forward	3,614	3,976
COMPRISING		
Current account cash and cash equivalents	1,751	2,442
Litigation fund cash and cash equivalents	1,863	1,534
	3,614	3,976

Statement of significant assumptions

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

Crown revenue

The FMA's funding increased to \$48.5m for FY20/21.

Other income

We have determined the level of income from fees and the recovery of costs under current regulations from the information available as at the date of preparation of these statements. This includes approximate income we anticipate receiving under regulations that will be introduced as a result of the Financial Services Legislation Amendment Bill.

Litigation fund and expenditure

The FMA's litigation fund was set at \$2 million per annum when the FMA was established in 2011. In October 2019, the Government approved an increase of \$4 million for 2019/20 to ensure the FMA has access to the resources required to bring legal proceedings when it needs to. The total litigation fund available for 2019/20 was \$6 million and it is expected to spend \$2.386 million for the year.

The approved litigation fund for 2020/21 is \$5 million. Based on our most likely litigation portfolio, arising from anticipated cases being investigated or set down for litigation, the 2020/21 litigation spend is estimated at \$3 million. We note the volatility inherent in predicting litigation activity. Actual litigation activity and expenditure may be materially different from forecast.

Capital expenditure

The FMA has approved capital expenditure funding of \$3.8 million for office expansion fit outs, new website and IT system build for new FMA remit. Based on the latest capital expenditure plan, \$2.55 million is planned to be used in 2020/21 and the balance of \$1.25 million is planned for 2021/22.

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 16 June 2020.

These forecast financial statements have been prepared for the special purpose of the FMA's Statement of Performance Expectations 2020/21 for the Minister of Commerce and Consumer Affairs. They should not be relied on for any other purpose.

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

Basis of preparation

Statement of compliance

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

Basis of measurement

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

Functional and presentational currency

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

Use of estimates and judgments

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

Auckland

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

Wellington

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

fma.govt.nz