MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

Financial Markets Authority funding and levy

Advising agencies	Ministry of Business, Innovation and Employment (MBIE)
Decision sought	Financial Markets Authority (FMA) funding levels and changes to the FMA levy
Proposing Ministers	Minister of Commerce and Consumer Affairs

Overview

This document is a regulatory impact assessment (RIA) for the funding of the FMA and changes to the FMA levy on some financial service providers. Given the breadth of these issues and proposals, this RIA is a hybrid of the Regulatory Impact Statement and Cost Recovery Impact Statement 1 and 2 templates and is split into three parts:

- Part 1 • Discusses how much addditional funding the FMA should receive
- Part 2 • Assesses how any increase should be split between the Crown and levy payers
- Part 3 • Sets out how increased levy funding should be recovered through the FMA levy

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Summary of proposed changes

Part 1 – FMA funding levels

MBIE recommends that the FMA's operational funding appropriation be increased by $24.805 million from $36 million to $60.805 million per annum. To respond to the recruitment challenge involved in hiring the required number of staff in a short period, as well as reflect the impact that COVID-19 will likely have on financial service businesses, MBIE proposes that this increase is phased over three years:

Financial year	Phasing of funding	New total appropriation
2020/21	$12.500 million	$48.500 million
2021/22	$17.500 million	$53.500 million
2022/23	$24.805 million	$60.805 million

Part 2 – The source of the FMA's funding

The nature of the FMA's operations and how they benefit the public and financial market participants mean that they cannot be precisely quantified and we cannot recommend a specific percentage split of Crown and levy funding for the FMA. However, after taking into account cost recovery guidance and principles and given the broad public and private benefits of the FMA's activities, MBIE does not believe there is any justification to depart from the status quo of sourcing the FMA's operational funding appropriation from a combination of Crown and third-party levy funding. Accordingly, MBIE recommends that the Crown continue to contribute at least 25 per cent of the FMA's increase in funding.

Part 3 – The FMA levy

Following a review of the FMA levy model against the objectives of the levy, MBIE recommends updating the FMA levy to:

- revise estimated population forecasts within each levy class and tier to reflect market growth
- update the levies to recover the increase in the FMA's funding
- adjust the portion of the total FMA levy recovered from each levy class
- add new classes, make technical clarifications and adjust levy tiers to reflect market developments.

General information

Purpose
MBIE is solely responsible for the analysis and advice set out in this Regulatory Impact Assessment, except as otherwise explicitly indicated. This analysis and advice has been produced for the purpose of informing key policy decisions to be taken by Cabinet.

Agency rating of evidence certainty?
MBIE considers there is an adequate evidence base for the proposed changes to the Financial Markets Authority's funding and the FMA levy. Feedback and information obtained through the public consultation process, the independent review of the FMA's organisational efficiency and effectiveness and the independent assessment of different funding options for the FMA have been considered and informed the refinement and final analysis of the options outlined in this regulatory impact assessment.

Key Limitations or Constraints on Analysis
Timing The time period for policy development and implementation of funding and levy changes was limited. The timing constraints were driven by the FMA's current financial position (forecasting a deficit of more than $4 million in 2019/20) and the need to have any new levies in place by the start of the 2020/21 financial year to ensure all levy payers pay the same levy amount in the financial year.

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Consultation and testing

Given the time period constraints, consultation through a public discussion paper was constrained to a period of four weeks between January and February 2020. Additional time would have enabled a better understanding and articulation of the problem and provided greater ability to test the funding options and their potential impacts through the levy via consultation. However, MBIE and the FMA reached out to stakeholders ahead of formal consultation to arrange face-to-face workshops and online webinars to make it as easy as possible for stakeholders to give their feedback.

Assumptions underpinning analysis

The FMA continues to operate a risk-based regulatory model of focussing on certain types of conduct and activities that it believes poses the greatest harm. The FMA's activities and focus evolves continuously in response to its assessment of risks to investors, consumers and the wider economy.

We have not been able to precisely quantify the direct benefit of the FMA's activities and well-regulated financial markets accruing to individual regulated firms or sectors and the public more generally. Accordingly, in order to assess the options we have retained the approach from the FMA's last funding review of considering the size, scope and nature of the FMA's activities and who predominantly benefits from them.

The consultation period and time available for policy development also limited the provision and our use of information from stakeholders relating to the impact of the recovery options and levies. This has constrained our ability to understand and estimate the costs and benefits of the different funding and recovery options. These aspects of our options and cost-benefit analyses are therefore caveated.

Responsible Manager

Authorised by:

Sharon Corbett
Manager, Financial Markets Policy, MBIE
2 April 2020

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Quality Assurance Reviewing Agency:

A Quality Assurance Panel with representatives from the Regulatory Quality Team at the Treasury, the Ministry for Primary Industries, and MBIE has reviewed the 'Financial Markets Authority funding and levy' RIA produced by MBIE in March 2020.

Quality Assurance Assessment:

The Panel considers that the RIA **meets** the Cabinet requirements to support its decision.

Reviewer Comments and Recommendations:

Given the complexity of the proposal, this RIA is well structured and provides transparency to the proposed changes. However, while stakeholders supporting the enhanced case have a slim majority, the additional benefits of the enhanced case over and above the base case are not always obvious. Further specific information about the activities undertaken by the Financial Markets Authority and the associated extra level of services to be delivered would aid clarity. Additional time for consultation would have allowed better understanding of the impact on regulated parties (there was also little to no feedback on some levy classes).

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Part 1 – FMA funding

Problem definition and objectives

2.1 What is the context within which action is proposed?

Context

The FMA is an independent Crown entity and New Zealand's principal conduct regulator of financial markets. It is responsible for overseeing and enforcing a range of financial market legislation[1]. The FMA's overarching statutory purpose is to promote and facilitate the development of fair, efficient and transparent financial markets.

The FMA seeks to promote and facilitate developments which enhance fairness, efficiency and transparency in financial markets by working and engaging with industry, investors and customers. It also seeks to identify and mitigate risks to achieving these conditions by:

- setting expectations and influencing industry behaviour
- monitoring adherence to regulatory and legislative requirements
- identifying breaches and taking action
- working to enhance investor and customer engagement and capability.

The FMA's current funding

The FMA's annual appropriation is made up of both Crown and third-party levy funding collected from financial market participants through the FMA levy. In addition to the $36 million appropriation, the FMA receives up to $2 million annually from the Crown for litigation funding[2]. The FMA also recovers some of its expenses through fees for services it provides, including licensing fees and auditor quality review fees. Since it was established, the FMA's operating environment and regulatory remit has expanded considerably, particularly under the Financial Markets Conduct Act (FMC Act) (passed in late 2013). In light of this, the FMA's funding was reviewed in 2016 and its appropriation was increased from around $24 million to $36 million in 2017.

The status quo

For the purposes of this analysis and for assessing the options, the status quo is where no action is taken. Under the status quo, the FMA would receive no additional funding for its operations and its appropriation would remain at $36 million per annum. Additional information as to why the status quo has been ruled out is set out in section 3.3.

In 2018/19 the FMA incurred a small operating deficit of $172,000. In 2019/20 the FMA is forecast to incur a further deficit of approximately $4 million, which is able to be covered by cash reserves built up over previous years (but these are insufficient to cover future years). This deficit is driven by a

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[1] A list of the relevant legislation is available at www.fma.govt.nz/about-us/what-we-do/our-role/legislation/.

[2] The litigation fund was increased for 2019/20 to $6 million to account for increased legal costs and growth in caseloads.

number of factors, including:

- an increase in personnel costs (including employing staff to support the conduct and culture reviews and to help with preparation for the new financial advice regime)
- funding preparation for the new financial advice regime, including significant market engagement, and development of transitional and full licensing models
- acceleration of a number of important system upgrades and capital projects which significantly increased depreciation costs, including building the new financial advice regime's licensing system as noted above.

The FMA expects approximately $1.2m of licensing fee revenue as part of the licensing of financial advice providers. This income will cover the cost of processing licence applications and the ICT system build for the new licensing system. Without this income the forecast deficit would be larger.

Reason for the review

Since the FMA's funding was reviewed in 2016, its remit has evolved to encompass activities that are not covered by its current funding. This includes the new regulatory regime for financial advice and the 2018/2019 FMA and Reserve Bank of New Zealand (RBNZ) reviews of the conduct and culture of financial institutions (conduct and culture reviews).

It is desirable for the FMA to be a credible conduct regulator that is sufficiently resourced, resilient and able to adopt a proactive, risk-based and systems-wide approach to regulation that includes contributing to wider government policy objectives, where appropriate. Accordingly, MBIE, in conjunction with the FMA, is reviewing the FMA's funding requirements and the FMA levy.

FMA efficiency and effectiveness review

To support the funding review, MBIE commissioned an independent efficiency and effectiveness review of the FMA by consultancy firm PricewaterhouseCoopers (PwC). This was intended to give confidence to government and stakeholders that the FMA is spending current funding wisely, is focused on the right outputs and activities and that the outputs effectively support the outcomes (i.e. value for money).

The independent review found that the FMA is a high performing organisation with good alignment between its activities and its main statutory objective. It also found strong indicators that the FMA uses its resources effectively and efficiently, but that the FMA is not right-sized (i.e. its funding does not match its operations or activities) and that as a result the FMA has a number of organisational pressures.

The PwC report highlighted some further areas where ongoing improvements could be made by the FMA:

a) the FMA should focus more explicitly on the development and growth of financial markets in its strategic priorities in addition to conduct and promoting trust and confidence in markets

b) the FMA's internal business plans and reporting could be improved by including financial and resource information and by strengthening the monitoring and assessment of resource use

c) there are opportunities for further investment in technology and data analytics that would improve efficiency through better tracking, reporting on and management of resources. This would also pay dividends in terms of the FMA understanding where risks

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are and what the best regulatory response is.

The FMA accepts and acknowledges the opportunities for improvement in PwC's report and is currently considering how best to respond to the recommendations. The PwC report has informed the analysis in this impact assessment and is available online at https://www.mbie.govt.nz/dmsdocument/10657-final-report-financial-markets-authority-efficiency-effectiveness-and-baseline-review.

Policy objective

The broad policy objective relating to FMA funding is that the FMA is adequately resourced to meet its statutory functions and objectives under its key legislation[3] and the expectations placed upon it (including the new financial advice regime), and can operate as a credible and effective modern financial markets regulator.

The FMA needs to be adequately resourced to operate at the level of other comparable jurisdictions and achieve the objectives set out by the International Organization of Securities Commissions (IOSCO). As the international body of the world's securities regulators, it develops and sets internationally recognised standards for securities regulation worldwide.

The standards set by IOSCO and those that the FMA are expected to achieve are notably aligned - IOSCO's three main objectives of securities regulation are:

- to protect investors (including customers of financial services)
- to ensure that markets are fair, efficient and transparent
- to reduce systemic risk.

While the FMA's key overarching objectives are:

- to promote the confident and informed participation of businesses, investors, and consumers in financial markets
- to promote, and facilitate the development of fair, efficient and transparent financial markets (as a risk-based regulator, the FMA focusses its resources on conduct that poses the most significant risk to achieving this objective).

In its 2017 document "Objectives and Principles of Securities Regulation"[4], IOSCO also states that a regulator needs to have adequate powers, proper resources and the capacity to perform its functions and exercise its powers.

Discussion on how the preferred option achieves the policy objective is included in section 5.1.

The counterfactual and why it constitutes a problem

As the FMA's responsibilities will expand once the new financial advice regime comes into force, if no further action is taken (i.e. no new funding is provided) the FMA's ability to fulfil its statutory responsibilities and meet its performance measures would be compromised as a result of significantly lower levels of activity and operations.

Combined with the FMA's broader organisational cost pressures, this would increase the risk of investor/consumer harm, undermine the FMA's ability to achieve the Government's financial markets

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[3] See sections 8 and 9 of the Financial Markets Authority Act 2011 and sections 3 and 4 of the Financial Markets Conduct Act 2013.

[4] For more information see *https://iosco.org/library/pubdocs/pdf/IOSCOPD561.pdf.*

policy objectives, risk detrimentally undermining confidence in financial markets and the FMA's credibility as New Zealand's financial regulator and could undermine wider government objectives across a number of areas including encouraging home ownership, enhancing investment in business, encouraging innovation and addressing climate change.

The FMA would have to scale back its activity and operations

Without additional funding, the FMA's cash reserves will be exhausted by the end of the current 2019/20 financial year. This situation would in effect represent a real decrease in the FMA's financial resources given the FMA's expanding remit and that current expenditure is greater than its baseline funding. A major reduction in expenditure would therefore be required. Based on current cost estimates, this would require a headcount reduction (through recruitment holds and redundancies) to an annual average of approximately 160 FTEs over a three-year period from the 199 FTEs currently budgeted for 2019/20.

Such a reduction would have impacts across all of the FMA's operations. Existing funding pressures would be significantly exacerbated in areas such as supervision, policy and governance, investigations and enforcement. This would mean a far more reactive regulator with a narrower focus, and one that is slower to respond to unexpected events when they do occur.

The current implementation and preparation for the new financial advice regime, and the need to maintain a minimum level of conduct and culture reviews follow up work would require reallocation of staff, necessitating even further reductions in supervision, monitoring of licensed entities and market engagement in other core areas.

The FMA would have to reduce its interaction with the sector

Frontline activity would need to be reduced and limited to the FMA's core mandate, that is, its licensed and authorised population. Sectors where reductions in activity would be likely include banks and insurance (such as the conduct and culture reviews follow-up work), monitoring the regulatory perimeter (such as work in response to potential scams and Financial Service Providers Register (FSPR) monitoring) and responding to emerging issues (e.g. innovation and climate change).

There would need to be less engagement with the industry, investors and customers, and reduced cross-government collaboration, potentially increasing costs and leading to greater system inefficiencies.

The FMA's monitoring and enforcement would reduce

Monitoring of the FMA's core licensed population would become more reactive, including in areas such as derivatives issuers, discretionary investment manager services (DIMS), crowdfunding and Anti-Money Laundering (AML) and less work in areas such as review of disclosure documents and financial reporting. These are areas that have already had some work deferred due to the need to allocate resource to the conduct and culture reviews.

Response times to queries and complaints would likely increase and be coupled with less and slower enforcement action with reduced resources to devote to investigating and preparing for formal enforcement action such as court proceedings.

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2.2 What regulatory system, or systems, are already in place?

Key features and objective of the regulatory system

The financial markets conduct regulatory system is a foundational system providing the legal framework for New Zealand's capital markets and financial services. That legal framework:

- provides for fair dealing in financial markets
- regulates offers of financial products and the governance of certain types of financial products
- regulates financial product markets
- regulates certain financial market services (including financial advisers and registration and dispute resolution requirements) and
- establishes and funds the FMA as the system enforcement agency.

The system excludes prudential regulation of banks, non-bank deposit takers and insurers (the Reserve Bank of New Zealand leads this) and some financial reporting matters that sit within the corporate governance regulatory system. Prudential regulation is focused on institutional soundness, and promoting the maintenance of a sound and efficient financial system.

The system also excludes the consumer credit protections in the Credit Contracts and Consumer Finance Act (this forms part of the consumer and commercial regulatory system).

The objective of the financial markets conduct regulatory system is to promote the confident and informed participation of businesses, investors and consumers in financial markets, and to promote and facilitate fair, efficient and transparent financial markets.

Key existing regulation

The Financial Markets Authority Act 2011 (FMA Act) is the establishing Act of the FMA and provided for the disestablishment of the FMA's predecessors, the Securities Commission and the office of the Government Actuary. The FMA Act sets out the FMA's regulatory functions and identifies its main objective of promoting and facilitating the development of fair, efficient and transparent financial markets.

The Financial Markets Conduct (FMC) Act 2013 is the main piece of legislation governing the financial markets conduct regulatory system. One of the primary objectives of the FMC Act and by extension of the FMA is to ensure confident and informed participation of consumers in financial markets. This is achieved through regulation of investment products and services and an emphasis on providing sufficient information for informed decision-making.

The Financial Services Legislation Amendment Act 2019 (FSLAA) amended the FMC Act by providing for a new regulatory regime for governing the provision of financial advice. This is aimed at improving access to, and the quality of, financial advice.

These regimes are regulated and enforced by the FMA.

Roles of key agencies

MBIE has primary responsibility for maintaining, monitoring, evaluating, and improving the financial markets conduct regulatory system. MBIE's role in the system is to provide policy advice on a range of issues relating to the financial markets regulatory system. MBIE is also the monitoring agency for the Financial Markets Authority and the Commission for Financial Capability, which both play key roles in

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the financial markets regulatory system, outlined below.

The FMA is the government agency responsible for acting as the market conduct regulator of New Zealand's capital markets and financial services. Broadly, the FMA is responsible for ensuring public confidence in New Zealand's financial markets and supporting the growth of New Zealand's capital base through effective regulation.

The CFFC is a Crown entity responsible for leading the government's efforts to support New Zealanders to become financially capable and improve well-being. CFFC equips New Zealanders of all ages with the financial knowledge, skills and confidence to make good financial decisions at every stage of their lives and reach retirement in strong financial health.

Fitness-for-purpose of the system

A regulatory charter for the wider financial sector has been put in place under the auspices of the Council of Financial Regulators involving MBIE, FMA, RBNZ, the Commerce Commission and Treasury.

A regulatory system assessment is expected to take place every five years. The International Monetary Fund (IMF) also carries out an in-depth analysis of New Zealand's financial sector every ten years and last completed out an assessment in April 2017. The IMF found that New Zealand's financial markets reforms had significantly improved the regulatory framework but that some further enhancements were required. The IMF made recommendations to refine and expand the FMA's supervision and regulatory perimeter to include direct monitoring of aspects of asset management relevant to financial stability, ensuring quality of financial markets supervisors and enhancing insurance intermediary and conduct regulation and supervision. The report also commented that the adequacy of the FMA's resources needed to be reconsidered.

More information about the IMF's assessment and the report is available at https://www.imf.org/en/Publications/CR/Issues/2017/05/08/New-Zealand-Financial-Sector-Assessment-Program-Financial-System-Stability-Assessment-44886.

More information about MBIE's regulatory system assessments and ratings is available at https://www.mbie.govt.nz/cross-government-functions/regulatory-stewardship/regulatory-systems/fitness-for-purpose-assessment-and-ratings/.

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2.3 What is the policy problem or opportunity?

The problem: an evolving and expanding regulatory environment without additional funding has led to organisational pressures

Since the FMA's funding was last reviewed in 2016, the FMA has operated in a constantly evolving environment driven by growth and change in financial markets, the expansion of its regulatory remit, greater stakeholder expectations of its role and activities, and the need for greater monitoring and enforcement as levels of conduct maturity of financial market participants has become apparent.

At the time of the last funding review, the FMC Act was not fully implemented and New Zealand's financial markets were still transitioning. Many market participants had not completed the licensing process and there was little practical experience under the new regime.

Shortly after the funding review was completed, the IMF visited New Zealand to conduct a financial sector assessment of the financial system. The IMF made a number of recommendations, including that greater resources should be directed towards supervising the financial services sector and that

further attention be directed at custodians, aspects of the asset management sector and the insurance sector.

The FMA's own experience as a regulator has also developed, providing it with a better understanding of the requirements and resourcing needed for effective conduct supervision and regulation, which are beyond that which it is currently funded for.

Cause: growth and change in New Zealand's financial markets

In recent years there has been significant growth in financial markets, for example, retail funds under management (FUM) (in both fund management and KiwiSaver schemes) and the number of financial service providers. Innovation has driven the emergence of new products such as binary options and green and socially responsible securities while technological developments, such as the rise of crypto-assets and digital advice, are also shaping the future of financial markets. Unexpected market developments and events/shocks also impact financial markets and the need for the FMA to quickly and effectively respond to promote confidence in markets (the spread of COVID-19 in New Zealand and its negative impact on financial markets is one pertinent example which is discussed further in the implementation section). The FMA needs to be able to anticipate and appropriately respond to these changes.

Cause: changing expectations

Governmental and societal expectations of the FMA's role have increased. This has been driven in part by declining levels of trust in financial services. In particular, the Australian Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Australian Royal Commission) highlighted major conduct and customer treatment failures across a broad section of financial services in Australia. These high-profile failings and criticisms of the regulators in identifying and responding to them have received significant coverage in New Zealand and magnified concern about both the regulation of financial services in this country and the FMA's ability to respond to misconduct.

Increased expectations have also led the FMA to dedicate significant resources to act in areas that are on the perimeter of its mandate and for which it is not currently resourced, such as the conduct and culture reviews. Coupled with this, the FMA has also noted an increase in the number of identified potential breaches requiring additional resource for enforcement activity beyond current availability.

Cause: greater monitoring and enforcement needed

Findings from the FMA's monitoring work suggest that the maturity of the systems, controls and governance around conduct risks in New Zealand financial services is lower than would be expected given the time that has elapsed since the FMC Act came into force[5]. This indicates the need for greater and deeper monitoring, investigation and enforcement activity by the FMA than had previously been anticipated at this point in time.

Cause: expansion of regulatory remit

The FMA's mandate has continued to expand and evolve since its establishment. While the FMC regime is now fully implemented and embedded, policy and regulatory reform has continued (such as

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[5] Examples include the FMA's thematic review of Qualifying Financial Entities (QFEs) in relation to insurance replacement business (QFE insurance providers' replacement business practices: *https://www.fma.govt.nz/assets/Reports/180717-QFE-insurance-providers-replacement-business-practices.pdf*), monitoring of Authorised Financial Advisers, activity of firms on the FSPR and ongoing issues with disclosure and financial reporting of listed companies.

the recent introduction of a new financial advice regime and the proposed regime regulating conduct of financial institutions). This has required significant FMA input and greater engagement and coordination with other regulators and government agencies.

A new financial advice regime is to be given effect by the Financial Services Legislation Amendment Act 2019 (FSLA Act). The new regime will require the FMA to license a large number of entities (estimated at approximately 2,300) and will increase the number of entities that are subject to the FMA's supervision. Many of those who are expected to operate in the new regime will be subject to licensing and monitoring by the FMA for the first time and thus will require more intensive engagement from the FMA. It is anticipated that significant work will be required of the FMA to assist the sector to understand and meet the requirements of the new regime.

The FMA and RBNZ 2018 and 2019 conduct and culture reviews of New Zealand banks and life insurers highlighted a lack of robustness in (and in some cases attention to) conduct risk management and good customer treatment frameworks. The reviews and ongoing follow up work have consumed significant FMA resource, much of which has been diverted from business-as-usual roles and led to a significant amount of deferred work. The FMA and RBNZ continue to monitor firms' development and progress in responding to the reviews. The Government has subsequently introduced a Bill to regulate and license this sector that is subject to Parliamentary approval (such a regime will have further resource implications for the FMA not within scope of this review).

Outcome: this evolving regulatory environment has led to cost pressures

Given the FMA's evolving environment, scope of responsibilities and remit, and general operational cost pressures, the FMA's operational funding has come under significant pressure. In addition, as highlighted by the conduct and culture reviews, the FMA does not have the resources to undertake reactive or exceptional thematic work of this scale without significant impact on business as usual functions.

To date, the FMA has not received any additional funding to prepare for implementation of the new financial advice regime or for the conduct and culture reviews. This has required the FMA to utilise existing cash reserves and divert resources from other areas already under pressure including, in some cases, reducing or deferring usual monitoring activities of some regulated populations such as:

- deferred and reduced monitoring visits relating to FMC Act, AML/CFT, AFA/QFE and MIS supervisors.
- deferred thematic reviews in relation to DIMS, derivative issuers and wrap platforms
- 75% fewer financial service provider register (FSPR) deregistration reviews
- fewer MIS supervisors and MIS manager forums
- generally lighter stakeholder relationship management and engagement
- KiwiSaver fee competition and practice work deferred from 2018/19 to 2020.

As a consequence of these organisational pressures, the FMA incurred a small deficit of $0.172 million in 2018/19 with a much larger operating deficit of more than $4 million currently forecast for 2019/20. The increased forecast deficit for the current financial year is the result of greater overall levels of activity, cost pressures and the continued expansion of the FMA's mandate without any corresponding increase in funding e.g. the preparation for implementation of the new financial advice regime). The FMA's revenue and expenditure is set out below.

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	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20 Forecast
Total income comprising:	26.89m	29.58m	28.51m	28.51m	27.94m	37.38m	37.07m	38.19m
Crown and levy revenue	25.46m	27.77m	26.18m	26.18m	26.18m	36.0m	36.0m	36.0m
Interest and other income	1.43m	1.81m	2.33m	2.33m	1.76m	1.38m	1.07m	2.19m
Total expenses comprising:	23.19m	27.96m	30.99m	32.54m	30.70m	34.13m	36.27m	42.44m
Personnel and other opex	22.15m	26.56m	28.69m	29.36m	27.62m	31.32m	34.13m	39.13m
Depreciation/amortisation	1.04m	1.40m	2.30m	3.18m	3.08m	2.81m	2.14m	3.31m
Net operating surplus (deficit)	3.70m	1.62m	(2.48m)	(4.02m)	(2.76m)	3.25m	0.80m	(4.25m)
Litigation (deficit) funded by operating fund and reserves	-	-	-	-	-	-	(0.97m)	-
Accumulated surplus (deficit)	7.42m	9.04m	6.56m	2.54m	(0.22m)	3.03m	2.85m	(1.40m)

Interaction of the problem and the regulatory system's objective

The problem and counterfactual pose a significant risk to the achievement of the objectives of both the FMA and the financial markets conduct regulatory system. This is because the FMA and the regulatory system share the same overarching objective – to promote the confident and informed participation of businesses, investors and consumers in financial markets, and promote and facilitate fair, efficient and transparent financial markets.

As a result, the risk of harm and loss of confidence in the sector goes beyond solely the operations, credibility and performance of the FMA and extends into the entire financial sector and economy as a whole.

2.4 Are there any constraints on the scope for decision making?

The FMA's litigation funding is out of scope

This review does not include the FMA's annual Crown appropriation for major litigation activity.

The new financial conduct regime is out of scope

The Government has recently announced that it will introduce legislation to create an oversight regime for regulating conduct in the banking and insurance sectors. Given these proposals are in the early stages of development, the funding and levy proposals discussed in this document do not include resourcing for this new regime. However, the enhanced funding case (option 3) does include some limited organisational capacity to prepare for the extension of its conduct remit.

The FMA will require additional funding to credibly implement and regulate this new regime. Additional funding assessment work to ascertain the funding impact of the regime on the FMA will be required when the scope and details regarding the regime are clearer.

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Proposed insurance contract law changes are out of scope

In addition, the funding and levy proposals in this document do not cover any FMA funding implications and needs that will arise out of the recently announced proposed changes to New Zealand's insurance contract law.

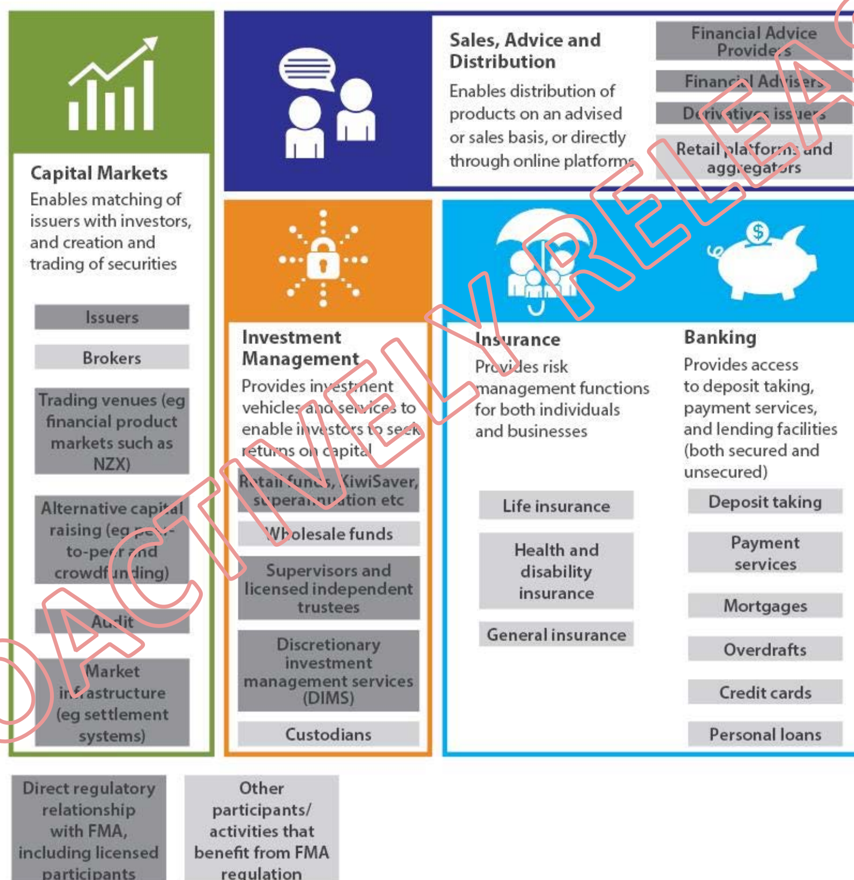
The impact of these changes on the FMA's operations and resourcing requirements are currently unknown and will need to be assessed in the future once design details are clear.

2.5 Who and what do stakeholders think?

Relevant stakeholders

Key relevant stakeholders are the FMA levy payers outlined in the Annex. Their interest stems from their responsibilities and regulatory obligations resulting from the FMA's supervision and monitoring, their financial contribution towards the FMA's funding, and the corresponding broad benefits they receive from operating in well-regulated financial markets and the FMA's activities.

The FMA's key sectors and stakeholders are shown in the diagram below:



In addition, relevant industry/sector associations and bodies are also key stakeholders as they represent and engage on behalf of a large number of firms and financial services subject to FMA oversight, e.g. financial advisers, insurers and banks. There are also other stakeholders that have an interest in the activities and funding of the FMA for reasons such as supporting well-regulated financial markets, but who do not pay a levy. These stakeholders may include other government agencies or regulators and specialist professional firms such as law and consultancy firms.

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Consultation undertaken

Formal consultation through a public discussion document occurred between 28 January and 28 February 2020. The time period for this consultation was driven by the FMA's current financial position and the need to have new levies in place by the start of the 2020/21 financial year so that the Crown can fully recover the updated amount to be collected from levy payers.

To support stakeholder engagement with the consultation and discussion document, staff from MBIE and the FMA held seven targeted stakeholder workshops with industry associations and groups of stakeholders in late February 2020 to present the proposals, answer questions, and discuss feedback with industry directly. To attempt to reach a broad range and number of stakeholders, MBIE and the FMA also held three live online webinars with over 100 individuals.

MBIE has worked closely with the FMA on the independent review of its efficiency and effectiveness, the development and refining of the funding options, the analysis of submissions received and on technical aspects relating to the FMA levy settings.

Standard inter-departmental consultation on Cabinet papers and policy proposals was also undertaken.

FMA funding

The discussion document set out information on the FMA's funding and resourcing issues, and presented a number of proposals for updating the FMA's funding and levy for feedback. Three funding options for the FMA were consulted on and which are also presented as options in this impact statement:

- current expenditure plus implementation of the new financial advice regime (an additional $9.215 million and a total appropriation of $45.215 million)
- base case (an additional $20.081 million and a total appropriation of $56.081 million)
- enhanced case (an additional $24.805 million and a total appropriation of $60.805 million).

FMA levy

In addition, two broad options were presented as to how any increase in the FMA's appropriation should be sourced:

- 100 per cent levy payer funded (as occurred in the last FMA funding review)
- a split of some level between the Crown and levy payers.

The potential impact on the levies payable under each of the funding options was shown in the discussion paper and were calculated and presented on the basis of any increase in funding being fully met from levy funding. This was to present the highest possible amount each levy payer would have to pay and allow businesses sufficient time to plan given the constrained project timeframe.

Some minor administrative changes to the levy were also presented for feedback such as adding new levy classes and/or tiers to account for market developments and legislative changes that have created the need for new levy classes.

Analysis of the proposals and feedback relating to the FMA levy is set out in Part 2 of this document.

Stakeholder feedback

49 written submissions were received on the problem and proposals during the consultation period. A

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range of individuals and groups made submissions including:

- individuals in the financial services sector
- banks and non-bank deposit takers (NBDTs)
- licensed insurers
- financial advisers
- key industry associations and groups
- managed investment scheme (MIS) managers
- discretionary investment management services (DIMS)
- accredited bodies
- law firms.

Stakeholder feedback on the problem

Nearly all of the submissions expressed support for the review of the FMA's funding and for the FMA to be a well-resourced and resilient regulator capable of effectively carrying out and meeting its functions and responsibilities. The vast majority also agreed with the problem (that the FMA's funding is currently under pressure) and that the FMA required additional funding to continue to meet its responsibilities and the greater expectations set for it.

Options identification

3.1 What options are available to address the problem?

A number of funding options for the FMA were developed as part of the independent review of the FMA's efficiency and effectiveness. There was a process of developing and revising the options over time between MBIE, the FMA and PwC.

As the options represent a specific dollar amount of additional annual operating funding, they are mutually exclusive in that each option is a progressive increase on a spectrum that enables the FMA to carry out a greater level of operations and activities as well as do so at a greater depth and breadth.

Option 1 (Current expenditure plus financial advice) $9.215 million per annum

This option would increase the FMA's funding by $9.215 million per annum to a total annual appropriation of $45.215 million and involve hiring 12 full-time equivalent (FTE) staff for the new financial advice regime with 211 total FTEs.

This amount would meet its current expenditure and operations and also provide a minimum amount of additional funding for the implementation, supervision and monitoring of the new financial advice regime. It would enable a predominantly reactive monitoring approach. This option would allow for only a limited tactical follow-up on the conduct and culture reviews by retaining staff already employed to undertake the conduct and culture reviews follow-up work.

The minimal additional resources under this option compared to the FMA's operational resourcing needs mean there would be proportionally less market engagement, monitoring and supervision, and enforcement of the core population as resources would be spread over a wider mandate with greater expectations.

The limited nature of the additional funding under this option means that organisational pressures will remain and areas of deferred activity may continue to be under-resourced and suffer further delays (e.g. thematic reviews of sectors). The option does not address concerns identified through the efficiency and effectiveness review of the FMA about the need for building capability and future-

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proofing/resilience.

Option 2 (Base case) $20.081 million per annum

The base funding option includes an additional $20.081 million of funding per annum, increasing the FMA's total appropriation to $56.081 million. This option would involve hiring an additional 54 FTE over and above option 1 and would mean a total FTE count of 265.

This level of funding would enable the FMA to moderately increase resources in key frontline areas of supervision, intelligence, enforcement and investigations, and investor/customer engagement. This would enable a move to a more portfolio based supervision approach and toward more proactive engagement and action rather than reactive intervention. Additional resources would also allow some limited organisational surge/resilience capacity for unexpected events such as the conduct and culture reviews.

Over and above option 1, option 2 would enable the FMA to:

- Apply additional resources to the new financial advice regime and move to targeted risk-based supervision of financial advisers in the new regime.
- Apply a small additional amount of resource to undertake conduct and culture reviews follow-up work including some engagement with entities on their conduct policy, systems and improvements to support better identification of, response to, and rectification of conduct issues.
- Further develop its intelligence function to help understand where risks and harms are greatest and increase its ability to monitor and respond to changes in the market driven by technology and innovation (e.g. market assessment of algorithmic trading, engagement and guidance on innovative products and proposals, and exemptions policy work).
- Allocate some resources to the monitoring and supervision areas currently subject to delays, such as wholesale asset management, custody and client-money handling and areas also identified in the IMF financial sector assessment.
- Increase engagement and provide some additional guidance to market participants, and greater activity in the investor capability area.
- Respond to misconduct issues, investigate alleged breaches and undertake enforcement action in a timely manner and faster than under option 1.
- Address a number of FMA capacity constraints and operational risks as the FMA's mandate expands through greater investment in support functions such as human resources, operations and corporate governance.

Option 3 (Enhanced case) $24.805 million per annum

Option 3 would provide an additional $24.805 million of operating funding, increasing the FMA's annual appropriation to $60.805 million. Option 3 would involve an additional 20 FTE over and above option 2 and would take total FTEs to 285.

In addition to the increased activity of option 2, this funding increase would enable the FMA to further broaden and deepen activity across the spectrum of regulatory functions, and involve a material uplift

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in the capability and capacity of the FMA to ensure it can be a well-resourced, modern and agile regulator prepared for the future of financial markets.

Over and above option 2, the marginal funding increase under option 3 would enable the FMA to:

- Allocate more resource for the implementation and supervision of the new financial advice regime. This would enable the FMA to develop a richer picture of how the financial advice market and sector risks are developing in the new financial advice regime, sooner than under option 2. This would also enable guidance to be developed sooner, and for more targeted engagement, thus reducing regulatory burden.
- Take a tactical and strategic approach to the conduct and culture reviews follow-up work with a higher level of momentum. This would also include some limited organisational capacity to prepare for the extension of the FMA's conduct remit into the banking and insurance sectors.
- Focus further on organisational capability development and on advancing the FMA's maturity as a regulator. In particular, building centres of best practice and regulatory expertise in areas such as intelligence gathering and analysis, and behavioural economics. This will support a broader focus on customer capability and supervisory practice through activities such as thematic reviews.
- Focus more on engagement with customers of financial service providers beyond the FMA's existing focus on investors, including more work on conduct and promoting good customer outcomes and employing new capabilities.
- Shift to a much stronger systems wide view of market issues and how to tackle them. This would include cross-agency system engagement and coordination to reduce impacts of regulatory change and strengthening existing cross-agency initiatives such as Council of Financial Regulators (CoFR).
- Improve capacity and efficiency through realising the benefits of new technology, IT and systems investments that, to date, have not been possible due to resource constraints.
- Further extend its focus into new areas and issues such as the implications of climate change, technological developments, and innovation in financial markets generally.

Broad differences between options

Broadly, the difference between the options is as follows. Option 1 represents a bare minimum, reactive approach to financial markets regulation and FMA capability as a regulator – it enables a low-level implementation of the new financial advice regime and covers the FMA's current level of expenditure but across a broader and expanded regime. Accordingly, it does not address the existing organisational pressures and areas that could benefit significantly from further investment and resources. Deferrals and delays in work across the FMA would likely continue as the FMA's remit continues to grow under a constrained budget.

In contrast, option 2 would involve a step-change in the FMA's funding and its capacity and capability to be a better prepared financial markets regulator. It would allow the FMA to increase engagement, monitoring and supervision across its remit, and allocate some resource to areas recommended for greater attention by the IMF that have been subject to ongoing delays. Monitoring and supervision of the new financial advice regime would also be more targeted and risk-based along with greater and

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faster enforcement of misconduct. The FMA's monitoring and supervision would also be improved by intelligence and analytics investments while organisational pressures would be alleviated. The FMA would also be somewhat more resilient to future changes and developments through some surge capacity to respond to market developments.

Option 3 is the most significant increase in funding and above and beyond option 2 would mean a strategic and modern FMA that is able to make organisational capacity and capability investments necessary for it to be an effective and efficient financial regulator. It would future proof the FMA with some resource to begin preparation for the conduct of financial institutions regime as well as capacity to focus on critical emerging areas such as climate change, technology and market innovation. In addition to faster and deeper implementation of the new financial advice regime, the FMA would also be able to take a more systems-wide focus by increasing engagement and collaboration activities with key system partners such as through CoFR.

Forecast FMA expenditure of options

As the FMA takes a risk-based approach to supervision and monitoring, its largest area of operational expenditure is personnel costs. As a result, while other operating areas of the FMA increase with each option, the primary difference between the three funding options being assessed is the level and distribution of personnel numbers and expenditure. To illustrate this, the tables below show the number and distribution of fully phased-in personnel and the breakdown of personnel costs (using a rounded average of the four years to 2024) for the three options.

FTEs by team	19/20 budget	Option 1	Option 2	Option 3
Capital Markets	26	26	30	31
Conduct and Culture follow-up	9	9	13	15
Enforcement and Investigations	23	23	30	33
External Communications and Investor Capability	10	10	13	15
Financial Advice	0	12	25	27
Intelligence and Knowledge Management	13	13	16	17
Operations	22	22	24	26
People and Capability	9	9	11	12
Policy, Governance and Corporate Legal	26	26	30	32
Strategy and Stakeholder Relations	6	6	8	9
Supervision and Monitoring	48	48	58	61
Chief Executive, Risk and Assurance	7	7	7	7
Total FTEs	**199**	**211**	**265**	**285**

The 19/20 budget FTEs lists 0 for financial advice as a significant number of existing staff have been taken away from normal duties (largely from supervision and monitoring teams) elsewhere in the organisation to assist with financial advice. For option 1, the only difference over budget FTE is 12 FTEs for financial advice.

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Function	Option 1 $ millions	Option 2 $ millions	Option 3 $ millions
Capital Markets	3.9	4.5	4.8
Conduct and Culture follow-up	1.3	1.9	2.3
Enforcement and Investigations	3.4	4.5	5.1
External Communications and Investor Capability	1.5	1.9	2.3
Financial Advice	1.8	3.7	4.2
Intelligence and Knowledge Management	1.9	2.4	2.6
Operations	3.3	3.6	4.0
People and Capability	1.3	1.6	1.8
Policy, Governance and Corporate Legal	3.9	4.5	4.9
Strategy and Stakeholder Relations	0.9	1.2	1.4
Supervision and Monitoring	7.2	8.7	9.4
Chief Executive, Risk and Assurance	1.0	1.0	1.1
Total personnel cost	**31.4**	**39.5**	**43.9**

Personnel costs include salaries, contractor costs, recruitment costs, ACC and FMA board member and committee fees.

Overseas jurisdiction comparisons

While the Australian financial markets sector is different in size and nature to New Zealand, we note that the Australian equivalent of the FMA, the Australian Securities and Investment Commission (ASIC), is expected to receive government appropriations in 2020/21 of more than AUD$440 million (around 12 times the amount the FMA currently receives). Most of ASIC's costs are recovered from regulated industries through industry levies.

In addition, in 2018/19 the UK's Financial Conduct Authority (FCA) had approximately GBP£600 million (around 34 times the amount the FMA receives) in revenue that was collected from those it supervises and regulates through fees and levies. The FCA does not receive any UK government funding.

In 2018/19, the Hong Kong Securities and Futures Commission (SFC) collected around $1.75 billion in income with more than 90% of this being sourced through levies and fees.

3.2 What criteria, in addition to monetary costs and benefits, have been used to assess the likely impacts of the options under consideration?

Funding assessment criteria

The following criteria have been used to assess the likely impacts of the funding options.

Net benefits to financial markets of FMA's regulatory activity maximised

The expected benefit that increased regulatory activity and FMA capacity to deliver on its objectives and purpose will have for financial markets participants and consumers, as well as the functioning of markets and the economy overall. This is balanced against the associated cost and burden of that activity (both actual funding costs and estimated compliance costs), particularly on levy payers.

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Effectiveness and risk (or harm) to investors, consumers, and markets

The FMA's operational capacity to effectively deliver what is expected of it, its ability to enforce financial markets legislation and regulation and the resulting level of risk or risk of harm to investors, consumers and financial markets overall.

Resilience and future-proofing

How prepared the FMA is to effectively respond to sector risks such as unexpected market events or market/regulatory developments and still continue to be able to effectively meet its core monitoring, supervision and enforcement responsibilities.

Achievability

The extent to which the desired shape and make-up of the FMA is achievable in terms of the accommodating, recruitment, and retention of appropriate and qualified staff required, the ability of the FMA to ramp up its operational expenditure to the required level, and the size and nature of the organisational change challenge.

3.3 What other options have been ruled out of scope, or not considered, and why?

No additional funding (the status quo) has been ruled out

For the reasons outlined in the counterfactual description, the status quo (i.e. no additional funding) was identified but subsequently ruled out and not consulted on.

The status quo would require a substantial headcount reduction of around 40 FTEs over a three-year period and a consequential cut in operating expenditure that would see further reductions in supervision, monitoring of licensed entities, market engagement and enforcement action. This would be necessary to close the FMA's more than $4 million forecast operating deficit for 2019/20 and enable deployment of resources to execute the FMA's new regulatory functions in relation to the new financial advice regime and conduct and culture reviews follow-up. Capacity would also be very limited in areas such as market innovation and climate change, and efforts reduced in cross agency collaboration and coordination that could potentially increase costs and regulatory burden on industry and systems inefficiency.

When combined with the FMA's cost pressures described above, a cut in operating expenditure would be likely to have a substantial and adverse impact across all of the FMA's outputs. In turn, this would seriously restrict the FMA's ability to fulfil its statutory functions and responsibilities and risks having a detrimental effect on market confidence and conduct, as well as the reputation of New Zealand's financial markets.

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Funding impact analysis

Marginal impact: How does each of the options identified at section 3.1 compare with the counterfactual, under each of the criteria set out in section 3.2?

	Status quo	Option 1 (Current expenditure plus financial advice) $9.215 million	Option 2 (Base case) $20.801 million	Option 3 (Enhanced case) $24.805 million
Net benefits to financial markets maximised	0	0/+ Net benefit of upholding current levels of FMA activity and operations are constrained by bare minimum supervision and engagement activity of the financial advice regime, delayed monitoring and supervision work remaining deferred. There would be proportionally less engagement, monitoring and supervision, and enforcement in the market with resources being spread over a new wider mandate.	++ Moderate net benefits to markets from the FMA's efficiency capacity gains, greater focus on using intelligence in building investigation and monitoring capability, ability to undertake more targeted risk-based supervision of financial advice, as well as greater engagement and investor capability work. Further important benefits to the system could be achieved.	+++ Significant additional net benefits to financial markets from greater FMA regulatory best practice development, greater understanding of sector risks, ability to focus on new novel areas and issues, higher and more targeted engagement activity, proactive, deeper supervision and implementation of financial advice, and better financial markets system coordination and collaboration. Also enables a shift to a greater focus on customers beyond the traditional focus on investors.
Effectiveness and risk (or harm)	0	-- A reactive and redress focussed FMA with proportionally lower amounts of engagement, monitoring and supervision, and enforcement due to few additional resources being spread across a wider remit with greater expectations. Likely to result in a build-up of risk and harm to investors/consumers, participants and financial markets as more misconduct and breaches go undetected and unenforced and the perception and reputation of New Zealand's financial markets, and confidence in them, are degraded.	++ Follow up of deferred monitoring and supervision work and greater activity and investments advancing intelligence and knowledge management, investigations and enforcement, market engagement, and monitoring and supervision ultimately enable a better understanding of the drivers of risk and earlier mitigation and swift enforcement responses. This reduces the risk of and harm from regulatory failures and strengthens the reputation of, and confidence in, financial markets.	+++ A more proactive, higher capacity and internationally recognised FMA with greater capabilities through innovative regulatory approaches. More collaboration with other financial markets system players, enabling it to focus on deterrence and preventing risks and harm. The deeper and broader sector risk understanding, greater regulator maturity, and the focus shift to customers and good outcomes allows for quicker, more effective and targeted monitoring, supervision and enforcement to further reduce risk and harm and raise trust and confidence across a broader section of financial markets.
Resilience/future-proofing	0	- Organisational cost pressures/under-resourcing and deferred work and areas of regulatory risk remain unresolved. Still does not enable the FMA to anticipate and respond to unexpected market developments and events without significant disruption. Opportunities for efficiency and effectiveness gains through investment would not be taken advantage of.	++ Responds to a number of organisational cost pressures and capacity constraints deferring key monitoring and supervision work, allows better regulatory capability building and a more resilient FMA. A deeper understanding of the regulated environment and attention to areas of risk, and allows efficiency and effectiveness opportunities to be realised.	+++ Significant broader organisational capacity improvements to corporate areas to better support organisational growth and further capability developments towards best-practice innovative tools and approaches. Enables a more systems-wide focus with other system partners, reducing regulatory burden and improving financial system effectiveness, efficiencies, and resilience. Also provides some capacity to prepare for the conduct of financial institutions regime.
Achievability	0	0 Recruiting the additional 12 FTE and managing their accommodation and introduction into the organisation	-- Hiring an additional 66 FTEs on top of managing retention would be a significant challenge. Moderate	--- Substantial new recruitment, retention/attrition, and structural and organisational management change required

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		would be achievable. Retention challenges with the shortage of specialist staff in a demand heavy market remain. The level of expenditure is unlikely to be particularly challenging given the increase is only around 10% more than 2019/20 forecast expenditure.	additional design and planning would be required to successfully accommodate and incorporate additional staff into existing organisational structures. Increasing expenditure by over 30% would be challenging in the short-term.	to hire an additional 86 FTEs. Raising expenditure by around 45% would also be very challenging in the short-to-medium term.
Overall assessment	**0**	**-/0**	++	+++

Key:

+++	much better than doing nothing/the status quo	++	better than doing nothing/the status quo	+	slightly better than doing nothing/the status quo
- - -	much worse than doing nothing/the status quo	- -	worse than doing nothing/the status quo	-	slightly worse than doing nothing/the status quo
0	about the same as doing nothing/the status quo				

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Conclusions

5.1 What option, or combination of options, is likely best to address the problem, meet the policy objectives and deliver the highest net benefits?

Preferred option

Based on information provided by the FMA, PwC's independent baseline review of the FMA's funding, feedback from stakeholders and the obligations and objectives for financial markets regulators as set by IOSCO and as reflected in the purposes of the FMA Act and FMC Act, we believe that option 3 (the enhanced case) is likely to best address the problem, meet the policy objective and deliver the greatest net benefits over the other options. This is because:

- It resolves the FMA's organisational pressures and capacity constraints which have negatively impacted on usual regulatory activities and areas that the FMA believes warrant focus, and which has risked the build-up of risk and harm in financial markets.
- The FMA would be able to invest in and realise the opportunities for efficiency and effectiveness gains and improvements identified by PwC.
- The investment and development of capabilities across all FMA functions and areas is likely to result in significant benefits to financial market participants through greater engagement and guidance and better system coordination and collaboration, and significant benefits to investors and consumers through enabling greater FMA understanding of risk and harm and the better targeted monitoring, supervision and enforcement activity that will result. It will also benefit financial markets through reducing system risk and harm and building market confidence and market reputation.
- The focus on developing capacity and capability, building regulator maturity, and investing in and utilising innovative and best-practice regulatory tools and approaches will enable the FMA to be a more proactive and resilient financial markets regulator.
- It allows the FMA to expand its focus towards customers of financial services beyond the traditional 'investor' perspective, consistent with IOSCO's objective that securities regulation protects both traditional investors and consumers of financial services.
- The FMA will be able to increase its work and presence in new novel areas and issues and wider government policy objectives such as climate change and sustainable investment, financial capability and literacy, technology developments (e.g. fintech), and ongoing innovation in financial markets generally.
- It provides some resources to begin preparing and planning for the new conduct of financial institutions regime which will expand the FMA's remit into the consumer banking and insurance sector and involve a new licensing regime.
- At a crucial period of significant change and evolution in the financial sector, the FMA could be more systems-focussed in its role by engaging and collaborating with system partners, such as CoFR, to be more joined up and improve broader system efficiencies and resilience.

We note that following their independent baseline review of the FMA, PwC recommended the enhanced funding case for the FMA due to the additional features and abilities it would provide to the FMA. PwC stated that the additional funding involved between the base and enhanced case was far

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outweighed by the additional benefits delivered by the enhanced case.

Stakeholder views

The vast majority of the submitters that provided feedback on funding levels (29), including a number of industry associations or organisations, supported significantly increasing the FMA's funding (either option 2 (base case) or 3 (enhanced case)). 18 expressed support for option 3 as the most appropriate funding option for the FMA while 11 supported the base case. 3 supported the current expenditure, and the remaining 17 did not indicate support for a specific option.

The few submitters who indicated they preferred the current expenditure case (option 1) mostly outlined that they did not want to pay for and could not see what direct gains they would receive from any additional regulation and funding beyond current expenditure. They also stated that funding discussions and decisions for the FMA should be delayed until other work and regimes are clearer. Those who opposed the current expenditure case generally did so because of its stop-gap nature and that it would be a temporary solution to a deeper and larger problem. Some also commented that the FMA would be unable to be a credible regulator of financial markets.

A moderate amount of submitters supported the base case (option 2) as the option that should be selected for the FMA. Those that preferred the base case commented that they could not see what extra services or outcomes they would receive from funding above the base case and that there was already too much costly regulatory change occurring currently. Those that did not support the base case did so because it did not enable the best possible implementation of the new financial advice regime and it did not future-proof the FMA as much as the enhanced case.

The enhanced case (option 3) received the most support in submissions. Some submitters supported the enhanced case as the most appropriate and best option in principle but ultimately chose the base case as they did not want to fund the additional increase in expenditure. The reasons for supporting the enhanced case generally focussed on the fact that it would enable the FMA to be appropriately resourced for its growing mandate as well as that it would include provision for the FMA to support cross-agency engagement and collaboration across the financial system. Reasons for opposing the enhanced case were predominantly in relation to achievability of increasing expenditure and hiring new staff and because of timing e.g. that the review should be delayed until all the upcoming regimes and changes have come into force.

General justifications provided in support of option 3 include:

- That it provides necessary resources and capability to give much needed guidance to the market about new regimes that will in turn reduce regulatory burden on industry.
- It provides the most appropriate level of funding for the FMA to be the principal conduct regulator and to reflect its expanded regulatory remit amid growing market complexity.
- It would appropriately resource the FMA to ensure the health and international competitiveness of New Zealand's capital markets.
- That option 1 or 2 would likely lead to another broad budget review being needed in the near future if the FMA again became unable to perform its growing functions appropriately.
- That it provides the necessary level of resources for the new financial advice regime to be successfully implemented and that anything less would impact on public trust and confidence in the financial advice sector.
- It is necessary for New Zealand to be seen as having strong, robust and functioning regulated

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markets where misconduct is identified and acted on.

- The FMA needs to be a well-functioning regulator which can have a more in-depth understanding of the sector based on research and evidence and be both proactive and reactive to the changing environment, plus have the necessary tools for enforcement.
- The risk that under-funding will result in a failure to detect misconduct in markets, increasing risk of regulatory failure and leading to a subsequent erosion of confidence in markets.
- A strong, well-resourced regulator is necessary for broader financial system strength and stability.
- The benefits from the increased levels of investment and capability building are major and will support the government's wider objectives like sustainable investment and financial stability.

Comments regarding not supporting option 3 include:

- The level of recruitment under option 3 is too challenging and concerns about what would happen to the budget if not spent.
- The size of the increase under option 3 and what the additional costs would mean for levy payers.
- That the level of regulatory attention they receive from the FMA was appropriate and already not conducive to the levy they pay.
- That they could not see what extra level of service or attention they would receive in return for the additional funding.
- That despite the PwC baseline funding report and information in the discussion paper, insufficient cost and benefit analysis and information was prepared for the options.
- That despite the FMA efficiency and effectiveness findings, the FMA should "work within its budget", reduce its costs and provide transparency demonstrating its efficiency and effectiveness.

Stakeholder concern raised regarding option 3 has been addressed predominantly through phasing the funding increase and levy increases over a number of years to improve achievability and reduce the financial impact on levy payers. The FMA's deployment of the increased resources will be monitored to ensure the FMA maintains appropriate levels of expenditure and financial reserves. In addition, MBIE notes that the levy is not set or calculated with reference to specific service levels or FMA time, or focus received by individual participants. More information about responding to stakeholder feedback on option 3 is set out in the implementation and monitoring sections below.

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5.2 Summary table of costs and benefits of the preferred approach

Affected parties	Comment	Impact	Evidence certainty
Additional costs of proposed approach, compared to taking no action			
Regulated parties (Schedule 2 of the Financial Markets Authority (Levies) Regulations 2012	The costs involved would be the monetary amount of the funding increase that is to be met by third-party levy-payer funding. The exact monetary impact will depend on whether, and how much of the funding increase is met by Crown revenue.	A maximum of \$24.805m ongoing across participants. An unknown l impact on the Crown as this is subject to the Government's	Medium-high

The Crown		decisions about budget bids.	
Regulators	N/A	N/A	N/A
Wider government	One-off organisational change costs for the FMA in implementing the increase in.	Low-medium	Medium
Other parties	N/A	N/A	N/A
Total Monetised Cost	Costs of third-party funding contribution from regulated parties.	Medium - maximum of $24.805m ongoing across participants.	Medium-high
Non-monetised costs	Organisational change cost for the FMA.	Low-medium	Medium

Expected benefits of proposed approach, compared to taking no action			
Regulated parties	Significant additional benefits to regulated parties from FMA regulatory best practice skills development, greater understanding and enforcement of misconduct (limiting a reduction in confidence in financial markets), ability to engage in new novel areas and innovation, higher and more targeted engagement activity, proactive, deeper and quicker supervision and implementation of financial advice, and better financial markets system coordination and collaboration leading to well-regulated financial markets.	High	Low-medium
Regulators	N/A	N/A	N/A
Wider government	The FMA will be able to mature and grow its regulatory skills and expertise, resolve organisational stress and capacity issues, invest to realise further efficiency and effectiveness gains and become a more proactive and internationally recognised regulator. The FMA's ability to take a more systems-wide focus with other regulators and partners will reduce regulatory burdens and improve broader financial system effectiveness, efficiency, and resilience.	High Medium-high	Medium
Other parties	Levels or risk and harm and trust and confidence in New Zealand's financial markets will be much improved through the FMA's better regulator capability and maturity and greater supervision, monitoring and enforcement in markets.	Medium-high	Low-Medium
Total Monetised Benefit	Without accurate quantifiable evidence, it is difficult to provide an estimate.	Not known	Not known
Non-monetised	Overall high level of benefits from a more	High	Low-medium

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benefits	resilient, effective and proactive regulator, a more coordinated financial system, and lower risks and harms in well-regulated financial markets.		

5.3 What other impacts is this approach likely to have?

We note that consistent with the last FMA funding review, it is likely that monitoring the base versus enhanced case for delivery of net benefits will be problematic as the primary evidence would be the avoidance and mitigation of risk and harm. Success would be the absence of risks and harm and so there would be no counterfactual to precisely compare the benefit against. However, we remain confident that the FMA's effectiveness and efficiency can continue to be evaluated and assessed in other ways such as baseline and efficiency and effectiveness reviews.

Given that more than 70% of the FMA's expenditure is on personnel costs, we note that achieving the level of expenditure (around 45% higher compared to 2019/20 forecasts) and additional FTEs (around 43% higher without natural attrition rates) involved under option 3 in the short-to-medium term would be a substantial challenge for the FMA. This is especially so given the labour market for regulatory and supervisory specialists is currently very tight with the large amount of regulatory change ongoing in the financial sector and that the FMA may effectively be competing for similar staff that the firms it supervises and monitors will also be seeking.

Somewhat related to the implementation of much higher expenditure and staff recruitment is how the FMA would accommodate and successfully assimilate such large numbers of additional staff into its organisational structure and set up. Successfully achieving this is likely to require significant planning and well-considered organisational management.

While the nature and size of these challenges are not insignificant, we believe that the expenditure and FTE implementation risks can be sufficiently managed and mitigated through phasing additional funding and ongoing monitoring of financial reserves and accumulated funds. More detail is set out in the implementation and monitoring sections below.

5.4 Is the preferred option compatible with the Government's 'Expectations for the design of regulatory systems'?

The preferred option is compatible with the Government's expectations for the design of regulatory systems.

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Part 2 – Sourcing the FMA's funding (CRIS 1)

Part 2 of this regulatory impact assessment discusses how any increase in FMA funding should be split between the Crown and financial market participants through the FMA levy.

Who should pay for an increase in the FMAs funding?

Status quo for why a user charge

Though the FMA receives an annual appropriation from the Crown, it is largely funded through a combination of Crown and third-party industry funding recovered through levies. The levy payers are listed in the Annex.

When the FMA was established the split of its operational funding (excluding litigation funding) was approximately 30% Crown and 70% levy funding.

The justification for this split was based on a judgement that the activities and operations of the FMA have both public and private good aspects and that the majority of this benefit accrued to financial market participants. Attempting to exclude people from the benefits of the FMA's activities and operations for the purposes of more direct cost recovery would be undesirable and costly.

The last increase to the FMA's funding was met entirely by levy funding and consequently meant the Crown's proportional contribution to the FMA's funding diluted to around 25% while industry's contribution increased to around 75%.

Options

We have consulted on and considered two options for the source of the additional funding for the FMA. We have modelled the options based on our recommendation set out in Part 1 for the enhanced funding case.

Option	Portion of total FMA appropriation (excluding litigation, fees and third party revenue)		Approximate split of total FMA appropriation	
	Crown	Levy	Crown	Levy
Option 1 (status quo): Mix Increase is 25% Crown and 75% levy funded	$15.2 million	$45.605 million	25%	75%
Option 2: Levy Increase is 100% levy funded	$9 million	$51.805 million	15%	85%

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Assessment criteria

In developing our criteria and carrying out our assessment we have considered the Office of the Auditor General's Good practice guide: *Charging fees for public sector goods and services* and the Treasury's Guidelines for *Setting Charges in the Public Sector*.

Our overarching principle in assessing how the increase in FMA funding should be sourced is that the split should reflect the benefit that both the broader public and private participants receive from the FMA's activities and from operating in well-regulated financial markets (i.e. proportionality).

In addition, we also use the following principles to guide our assessment:

- equity – the relative impacts of the proportion of Crown and third-party funding (e.g. ability to pay) are taken into account.
- sustainability – the split of funding is sustainable and viable in the long-term and the Crown operating balance and market activity are not negatively impacted as a result of the levy.

Stakeholder feedback on the source of FMA funding

The public discussion paper also sought feedback on whether an increase in FMA funding should be split between the Crown and third-party levy payers through the FMA levy or whether the increase should be wholly levy recovered.

Almost all submissions argued that the Crown should pay for at least some of the increase in FMA funding. Seven submissions argued that the Crown should meet the entire increase in funding and 28 believed that the Crown should contribute 25% or more (of those 28, nine believed that the current Crown/levy split should remain). One submitter indicated that the Crown should contribute 5% while financial market participants meet 95%, and the remaining 13 submissions did not directly state their view.

Key reasons given for why the Crown should pay for the entire increase included:

- the remit and environment changes the FMA is responding to are government driven so should be funded by the Crown.
- industry funding risks the FMA being captured by the population it regulates.
- Crown funding better ensures that the FMA is kept accountable and efficient.

Additional justifications for why the Crown should at least maintain its current contribution rate under a funding increase included:

- there are both public and private good elements to the FMA's operations and activities and the outcomes it aims to achieve.
- avoiding an unreasonable financial strain on the financial services industry.
- the FMA's scope and remit now encompasses a broader section of consumers compared to when it was established and focussed on investors.
- the FMA is often tasked with work outside of its ambit and this is likely to continue.
- there should be consistency in how agencies and entities are funded across government.

Some submissions also said that the entire FMA funding model and split should be comprehensively revisited and reviewed given the changing nature of the FMA's role and activities.

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Assessment

In order to determine who should pay for the increased funding we have assessed the scope and purpose of the increases to the areas of FMA regulatory activities and attempted to assign these to the group we consider derives the majority of benefit from that activity (i.e. proportionality). This allocation of benefit is then weighed against equity and sustainability to make our assessment.

However, given that FMA activities cannot be easily translated into quantitative benefit, it is not possible to make direct and isolated correlations between the benefit derived by particular participants or the public and the activities of the FMA. Indeed, unlike a fee, a levy can factor in benefits shared between groups or benefits that cannot be specifically assigned to individual groups. Accordingly, we cannot establish percentages or portions for the level of private and public benefit. Instead, our allocations and assessment of benefit are constrained to the more general explanations below.

FMA Activity	Comment	Benefit received by
Monitoring and supervision	The benefit is received by those participants who are subject to the monitoring and supervision as they can continue to hold a licence and operate. Monitoring and supervision also benefits participants through improving confidence in and reputation of the licensed population. There is also an aspect of broader public benefit to the FMA's monitoring of conduct, systemic risk and the health of the financial system.	Predominantly private benefit to participants but some public benefit
Investigations and enforcement	General benefit attributable to the broader public and end users of financial markets through investigation and prevention of risk and harm and enforcement action and redress against those who do breach the law. Benefit partially attributable to participants through the FMA's identification and enforcement action against those who do not comply with the law. This would work towards misbehaving participants not being able to gain from non-compliance and increasing confidence in complying participants.	Predominantly the broader public but some private benefit to participants
Policy, guidance and engagement	Benefit is received by participants from the FMA's work engaging with the market, assisting firms to comply with the law and providing exemptions and relief to decrease regulatory burden. This also leads to greater compliance levels and reputation in financial markets.	Financial markets participants
Education and information	The general population benefits from the FMA's broader education and capability work through greater consumer financial capability and wellbeing. Participants also consequentially benefit from more confident and informed consumer participation in financial markets through more business.	Predominantly the broader public but some private benefit to participants

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There are also broader pubic good aspects of the FMA's regulatory activities that cannot be attributed to specific sectors or groups. These include the benefit that the FMA's work and role can have on efficiency and stability in financial markets and on fostering the growth and innovation of confident and informed markets that support access to capital, products and advice.

As outlined above, subject to caveats about our ability to precisely quantify the public/private benefit, we believe that the increases and improvements in the FMA's activities and operations will have benefits for the broader public (consumers and the functioning of financial markets) as well as private participants.

We are also conscious of the financial impact of large increases in levy funding on financial markets participants and the industry and in turn what unintended consequences this could have on the makeup of financial markets. Aside from considerations regarding who benefits from increased FMA funding, there is a risk that sourcing the increase in funding entirely from levy payers would unduly burden levy payers with significant additional costs and that some firms may simply pass more of these costs down to end consumers, ultimately reducing the net benefit of the FMA's activities. We see the likelihood and potential impact of this being relatively moderate.

If the increase was met entirely from the levy there is also a risk that these additional costs may lead to market distortions such as firms exiting or not entering the industry due to the cost and reductions in competitive forces and pressures in the market. While this is likely to be relatively low risk, it is particularly relevant given the relatively large number of small-and-medium businesses operating in New Zealand.

Conclusion

Based on our assessment we do not recommend recovery option 2 (100% levy funded) as it would not reflect the proportionate benefits received by both the public and wider financial markets, and levy payers. The nature of the FMA's activities and operations and how they benefit the public and participants mean that they cannot be precisely quantified and we cannot recommend a specific percentage split of Crown and levy funding for the FMA. However, given the broad public and private benefits of the FMA's activities and operations we do not believe there is any justification to depart from the status quo of sourcing the FMA's appropriation from a combination of Crown and levy funding. Accordingly, we recommend the status quo (option 1).

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Part 3 – The FMA levy model (CRIS 2)

Part 3 of this regulatory impact assessment discusses how the funding option recommended in Part 1 and the apportionment option recommended in Part 2 should be distributed between levy payers through the FMA levy. It also discusses some changes to the design and structure of the FMA levy model.

The FMA levy

The FMA levy was created in 2012 to allow the Crown to recover some of the costs of the FMA's activities and operations from industry. The levy is payable by financial market participants either on registration or annually or at the time of the prescribed event.

Statutory authority for the FMA levy is outlined in section 68 of the Financial Markets Authority Act 2011 and has been used multiple times to first introduce and then amend the levies payable by different classes of specified persons.

The FMA levy model

The high-level methodology the model has used since its inception is that each class or sector of the levy paying population is assigned a portion of the total dollar amount of FMA expenditure that has been identified as recoverable from the industry. This portion is then divided among the forecast number of participants within each levy class and, where appropriate, by the size of businesses within those classes to recognise variations in size and nature of financial market participants.

The levy is prescribed on an activity/class basis such that financial market participants make a contribution for each class in which they operate. For example, a registered bank that is also a derivatives issuer and manages a KiwiSaver scheme will pay the levy for all three activities.

The majority of the levy is collected by the Companies Office across the different registers they administer such as the FSPR or Disclose Register. The FMA also collects some levy classes from financial market participants outside of the registers.

The model was reviewed in 2016 to ensure it remained accurate and appropriate and to update the levies to account for the previous increase to the FMA's funding. It has been periodically amended over time to add new market participants or make changes required by new regulatory regimes.

The FMA has a discretionary power to waive a levy where the circumstances of a financial markets participant are exceptional when compared to others in the same levy class. The threshold is deliberately high and the waiver power is not intended to be used to revisit settled policy positions.

The levies are set out in Schedule 2 of the Financial Markets Authority (Levies) Regulations 2012 and are included in the Annex.

Review of the FMA levy

The FMA levy model was last reviewed in 2016. It is being reviewed and updated now as:

- the population forecasts for participants require updating

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- new classes are required and issues with some classes and tiers have been identified
- the levies need to be updated to reflect any increase in FMA funding.

The status quo of no change is not viable given the levy model is out of date and needs updating for accuracy improvements and to capture the additional participants required. The levy amounts also need updating to recover any increase in FMA funding.

Outputs and costing of the activity

The breakdown of FMA expenditure by function and personnel under the enhanced case is set out above in Part 1 but a table of approximate operating expenditure forecasts by FMA area is included below. Though not all of the FMA's expenditure is cost recovered, this broadly outlines the cost drivers. It should also be noted that the below forecasts are subject to future funding reviews and adjustments of funding for new regulatory regimes.

Enhanced case	FY20/21	FY21/22	FY22/23	FY23/24
Operating expenditure	**Forecast**	**Forecast**	**Forecast**	**Forecast**
Personnel costs	36,156,898	43,122,449	43,717,143	44,835,245
Occupancy expenses	2,825,782	3,528,377	3,531,706	3,535,136
Depreciation and amortisation	3,161,679	3,382,604	3,297,525	3,280,602
ICT costs	3,899,282	4,175,951	4,301,229	4,344,242
Professional services	3,250,669	3,600,588	3,742,356	3,778,305
Services & supplies	1,314,188	1,401,266	1,341,396	1,486,559
Travel & accommodation	1,483,515	1,796,074	1,820,306	1,827,516
Total operating expenses	**52,092,013**	**61,007,308**	**61,751,662**	**63,087,605**
Total FTEs	**242**	**285**	**285**	**285**

Previous and forecast levy revenue

Between 2012 and 2015 an over-recovery of the levy occurred and was subsequently refunded to levy payers through a temporary reduction in the levy amounts set in 2017. In effect, this reduced the total amount of revenue to be collected via the levy by $1.2 million per year from 2017/18 to 2022/23.

From 2017 to 2019 the levy under-recovered approximately $2.8 million (over and above the historic over-recovery which is being refunded over a five-year period). Based on the previous two years, it is expected that the levy will under-recover by a small amount again in 2019/20.

<table>
<tr><th>Year</th><th>Amount to recover</th><th>Levy revenue</th><th>Over/(under) recovery</th></tr>
<tr><td>2017/18</td><td rowspan="2">$25.780 million</td><td>$23.570 million</td><td>($2.209 million)</td></tr>
<tr><td>2018/19</td><td>$25.124 million</td><td>($0.655 million)</td></tr>
</table>

Under the enhanced case and assuming the Crown maintains its contribution rate at 25%, forecast additional annual revenue to be collected via the levy is $18.603 million while the annual forecast levy revenue based on the FMA's total appropriation is $44.383 million (taking into account the return of historic over-recovery).

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Given the FMA's funding issues and upcoming regulatory changes, it is not feasible to pursue efficiency or productivity improvements instead of increasing levies, especially when the levies are not set with reference to specific and quantifiable FMA activity levels.

Cost recovery principles and objectives

The balancing objectives set for the FMA levy are:

- The cost of the levy for market participants is consistent with the benefits they receive from well-regulated financial markets
- The levy does not discourage entry into the market for, and the supply of, financial products or services
- The levy is practical in respect of its implementation, collection and also avoids large over or under-collections.

Changes to the levy model structure

Underlying model structure

In reviewing and updating the levy model to ensure it continues to meet its objectives there are inevitable trade-offs between equity, simplicity and practicality in administration. There is also a certain element of judgement in setting the tiers within each levy class and the actual levies payable.

Under the levy model objectives, different metrics for the levy classes are used to assess the size of participants within each class (e.g. total assets for registered banks and non-bank deposit takers (NBDTs) and total managed assets (TMA) for managed investment schemes). These metrics are rough proxies for economic activity and the perceived benefit each financial market participant receives from well-regulated financial markets.

The FMA takes a risk-based approach to regulating the sectors it is responsible for. It focuses on the types of conduct and practices that may pose the most harm, and its assessment of risks drives the activities it undertakes. As risk impact and likelihood of harm changes over time and may have interactions across sectors, products and services, it would be administratively burdensome and complex to attempt to attribute the levy to individual participants or sectors in terms of their specific interaction with the FMA over a specific time period. This type of model would also create significant uncertainty for levy payers as levy amounts would differ and fluctuate each year.

We are of the view that a levy model that simply charges all types of financial markets participants a levy using a single proxy such as revenue or profit would be too blunt in that it would not sufficiently differentiate the different types of financial market participants and would not reflect the diversity of New Zealand's innovative and continually evolving financial markets.

We believe that the current model of charging a levy by classes and tiers enables an appropriate differentiation of the varying types and areas of market participants and ensures the model remains equitable and as simple as possible.

Updates to population forecasts

For simplicity, the model assumes that the forecast populations for each levy class remain static over time. However, in reality the total population of financial markets participants and the number within each levy class and tier fluctuate from year-to-year in ways that are not predictable. This necessitates that the model and its underlying forecasts are reviewed regularly.

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Since 2016, there has continued to be significant market growth and development in financial markets such that the actual number of participants paying in each class and tier vary slightly compared to forecast.

To ensure the levy continues to meet the objective of avoiding large over or under-recoveries from levy payers and ensure that the model reflects the population of financial market participants as much as possible; we have updated the earlier forecast populations of firms that operate within each levy class and tier with more accurate numbers.

New levy populations and technical clarifications

A number of market developments have created the need to add new levy classes or tiers to the model for newly regulated populations or equity issues that have arisen.

New levy class: benchmark administrators

On 30 August 2019 the Financial Markets (Derivatives Margin and Benchmarking) Reform Amendment Act 2019 received Royal assent. This Act will introduce an opt-in licensing regime for administrators of financial benchmarks under the FMC Act. It is necessary to introduce a new 'financial benchmark administrator' levy class, given these providers can apply to be licensed by the FMA and will be registered on the FSPR.

At this stage, there is only likely to be one licensed financial benchmark administrator. Having considered the objectives of the levy, and noting that a licensed benchmark administrator will play a significant role in the effective operation of New Zealand's financial markets, both domestically and internationally through ensuring continuation of critical financial contracts with EU parties, MBIE considers that it is appropriate for 0.05% of the total levy to be recovered from this class.

New tier: growth market operators

Under the current levy model, licensed market operators are required to pay an annual levy of $29,000 or approximately 0.57% of the levy. While licensed market operators benefit significantly from operating in a well regulated environment (whereby investors can confidently invest), MBIE is concerned that the levy could act as a barrier to entry for new market operators. In particular, it has been suggested that this levy may prevent the emergence of a growth market which would allow early stage small-to-medium size growth companies to access capital.

Accordingly, MBIE considers that it is appropriate to create a new class or tier for growth market operators that are subject to an FMA licence condition which imposes a limit on the size of issuers that may remain listed on its market.

MBIE considers that it is appropriate for growth market operators to contribute 0.02% of the total levy to be recovered given that very few growth operators are likely to become licensed in the near future. This would recognise the reduced benefit that growth market operators would receive, when compared to an established market operator, and would reduce the risk of the levy acting as a barrier to entry.

New tier: small issuers

Currently, listed issuers pay an annual levy of $2,600 and MBIE has received feedback that these compliance costs might deter smaller companies from listing. Further, smaller listed issuers would receive a lesser benefit, relative to large listed issuers. Taking into account the levy objectives, MBIE considers that a new tier within the existing listed issuer class should be created and that it be defined as those listed issuers with a market capitalisation of $60 million or less.

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We believe that an appropriate levy contribution from small issuers would be 0.14% given that we estimate 50 current listed issuers would fall within this new tier.

Clarification: self-select schemes

Self-select schemes are a form of managed fund that allow investors to design their own investment portfolios by choosing from a list of investment options. This differs to other forms of managed funds whereby investors can only chose from a list of pre-selected funds. Self-select schemes typically offer hundreds of possible options.

As each individual investment in a self-select scheme is technically considered a separate 'fund', the FMA has previously granted waivers of part of the FMA levy to managers who provide self-select schemes. Without this partial waiver, managers would be required to pay $530 for each individual investment option within the self-select scheme. Instead, the waivers specify that managers of self-select schemes are required to pay $2,600 on the lodgement of a Product Disclosure Statement (PDS), which is consistent with the amount payable when a PDS is lodged for a non-managed fund.

MBIE believes it would be appropriate to amend the regulations to preserve the effect of these waivers so that self-select schemes are required to pay a levy that is consistent with the amount payable when a PDS is lodged for a non-managed fund (class 9).

Updates to levy tiers and portions of the levy paid by classes

Over time the tiers within some of the levy classes have become out-of-step with the size and make-up of the participants operating within them. As a result, some new tiers and adjustments to existing ones are needed to ensure the model does not discourage entry or growth in financial markets.

In addition, adjustments to the portion of the levy paid by certain classes and tiers have been made to reflect forecast population changes (to ensure participants in one tier are not over-burdened by population changes), and the relative risk certain participants pose or the benefits they gain from the FMA's activities and operating in well-regulated financial markets.

A table summarising the changes to the structure of the levy model is included below while the detailed table in the Annex shows the changes to the portion of the total levy met by each class.

Activity/levy class	Change to levy portion	Change to levy class/tier/s
Class 1 New FSP registrations	Reduced portion to minimise barriers to entry and reflect slightly lower population than forecast.	N/A
Class 2 Registered banks or licensed NBDTs	Increased portion paid by higher tiers to better reflect risk profile and benefit of operating in market, and decreased portion for lower tiers to minimise impact on smaller firms.	N/A
Class 3 Licensed insurers	Increased portion paid by higher tiers and decreased for lower tiers to better reflect risk profile, improve equity for smaller firms and reflect population movements.	Existing top tier split into two tiers to reflect size of large participants and smooth the transition.

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Class 4 Licensed supervisors	Increased portion paid by top tier and reduced portion paid by bottom tier to reflect lower population forecasts.	N/A
Class 5 Scheme managers	Decreased portion paid by the lower tiers (and overall) to reflect higher than forecast populations and minimise impact on smaller firms.	Split the $100m-$500m tier into two tiers to make the levy more equitable for smaller firms and smooth the transition between tiers.
Class 6 Registered FSPs where One of the following (whichever applicable amount is greatest): (a) if the person is authorised to undertake trading activities on licensed markets (b) if the person is a contributory mortgage broker (c) if the person is registered for the financial service described in section 5(1)(k) of the FSP Act (d) if the person is licensed to provide the licensed market service of acting as a derivatives issuer	Decreased the portion paid by 6(a) and 6(c) to minimise impact on small firms and reflect higher than forecast populations. Increased portion paid by 6(b) and 6(d) to reflect risk profile and benefits of operating.	N/A
Class 6A DIMS retail providers	Increased portion paid by higher tiers to reflect risk profile and decreased portion for lower tiers to minimise impact on smaller firms.	Split the $100m-$500m tier into two tiers to make the levy more equitable for smaller firms and smooth the transition between tiers.
Class 6B Brokers other than persons in class 6(a) or 6C	N/A	N/A
Class 6C Custodians and persons providing custodial services	Decreased portion to reflect lower population than forecast.	N/A
Class 6D Crowd funding service or a peer-to-peer lending service	Decreased portion to continue to encourage growth and innovation in this market.	N/A
Class 6E Authorised bodies	Decreased portion to minimise impact on small financial advice firms and maintain access to high-quality financial advice.	N/A
Class 6F Financial advisers (as defined in section 6(1) of the FMC Act)		
Class 6G Licensed financial advice providers		

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Class 7 Registered FSPs that are not included in any of classes 2 to 6G	Significantly decreased portion to reflect decreased population as a result of some class 7 payers moving to paying a financial advice levy as well as to minimise impact on small firms.	N/A
Class 8 Listed issuers	Decreased portion to reflect risk and minimise barriers.	New small listed issuer levy to minimise the impact on small issuers and encourage listings.
Class 9 Persons that lodge a PDS: All except for PDS of a managed fund (including self-select schemes from 2020/21) Per managed fund	Decreased portion to reflect lower populations than forecast.	Preserving effect of FMA waivers by including self-select schemes in PDS lodge levy for non-managed funds.
Class 10 Licensed market operators	Decreased portion to reflect lower populations than forecast.	New levy for growth market operators to improve access to listing for smaller firms.
Class 11 FMC reporting entity	N/A	N/A
Class 12 Accredited bodies	N/A	N/A
Class 13 Overseas auditors	Slight increase in portion to reflect risk profile.	N/A
Class 14 Persons that apply for registration or incorporation	Increased portion paid to better reflect benefit of operating in well-regulated financial markets.	N/A
Class 15 Registered or incorporated persons making an annual return		
New levy Benchmark administrators	N/A	New levy for licensed financial benchmark administrators.
New levy Small issuers with a market capitalisation less than $60 million	See class 8 change	
New levy Self-select managed investment schemes	See class 9 change	
New levy Growth market operators	See class 10 change	

Stakeholder feedback on FMA levy

The main feedback received on the FMA levy was on the proposed levy amounts and related to individual firms or sectors querying why they were paying more in levies. Reasons given for why firms or sectors should not be paying more in levies included:

- firms or sectors not being impacted by the new financial advice regime
- firms or sectors were not as risky as other classes that should be paying more

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- firms or sectors already self-regulate or have a supervisor
- not being able to see an increase in direct or tangible benefit or service to them

Some of submitters commented that some levy classes require additional tiers or adjustments to existing tiers to better reflect the size of participants and each sector and help smooth transitions between tiers.

Considerable feedback was received and has informed our analysis from submitters on the design and portion of the levy paid by the following levy classes:

- banks and non-bank deposit takers
- licensed insurers
- licensed supervisors
- managed investment schemes
- discretionary investment management services
- accredited bodies.

Feedback received on other levy classes was limited or non-existent. This has constrained our ability to assess the impact and appropriateness of the amount of levy apportioned to different classes of financial market participants.

Cost recovery impact analysis

Impact of updated levy amounts

The proposed levy amounts and financial impact for specific participants and types of businesses are set out in the table in the Annex and show the current and new levy amounts, portion of total levy revenue and forecast collections borne by each class and relevant tier. The table is based on the enhanced case and the Crown maintaining its 25% contribution rate. If the Crown contributes a lower or higher amount than this then the actual levy amounts will be higher or lower, respectively. The table takes into account the refund of the historic over-recovery of levies.

Given the proposals relate to the levies, the predominant impact on participants will be financial through the increased levies. These costs are modelled in both section 5.2 in part 1 and the table in the Annex and as mentioned the assessment of their impact is limited by the constrained time and consultation period.

While higher levies will inevitably increase the cost of operating for the participants, we believe these costs are proportionate to the benefit received by participants from the improvements to the FMA, its activities and the flow on benefits for financial markets. The levies charged have been static for three years even though the FMA's operations and resulting benefits have continued to expand and grow.

There is a risk that some participants may pass the higher levy costs down to end-consumers through higher fees or costs of service, or alternatively through reducing service offerings or coverage. We believe the impact of this should be relatively low and consumers will still benefit given the increase in the FMA's funding is spread over a number of years, across many levy payers and allocated proportionately according to the risk profile and the benefits received from having and continuing to operate in well-regulated financial markets. We do not expect the new levies to markedly influence the structure or make-up of market participants or the availability of financial services to consumers.

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The changes to the FMA levy classes, portions and tiers will also improve equity for many participants, particularly those smaller ones, through reductions in their portions of the levy and their relatively smaller increases in levies paid. While the additional classes and tiers do slightly increase the number of components and complexity of the levy, the resulting equity improvements make up for this.

Limitations of forecast populations

As discussed, as the levies are calculated based on forecasts of sector populations, there is always a risk of under or over-recovery of the levy over time. This is especially so for the new levy classes and tiers where forecasts were needed for the first time. Now the FMA levy has been operating for a number of years we anticipate many of the population numbers to reflect actual collections relatively accurately. However, as noted in the 2019 financial advice levy cost recovery impact statement[6], the forecast populations for the financial advice levies are uncertain and may need to be adjusted once the regime has bedded in.

The risk of significant under or over-recoveries can be mitigated. This is discussed further below in monitoring, evaluation and review.

Changes made following consultation

The following changes have been incorporated into the proposed levies in the Annex following consultation and stakeholder feedback:

- decreased the levy portion for the lower tiers in class 2 (registered banks and NBDTs) and increased the portion for the higher tiers to minimise the impact on smaller firms, smooth tier transitions as well as ensure the levy does not inhibit growth
- split the top tier in class 3 (licensed insurers) into two tiers to better reflect the size of the sector participants, improve equity and to smooth the transition between the higher tiers
- decreased the levy portion by the lower tiers and increased the portion for higher tiers in class 3 (licensed insurers) to reflect equity concerns and smooth the transitions between tiers
- split the $100 million to $500 million tier in class 5 (MIS) into two tiers and increased the levy portion for the higher tiers to smooth the transition between tiers and reflect the greater benefit and regulatory focus placed on larger MIS such as KiwiSaver schemes
- Split third from bottom tier for Class 5 (MIS) to smooth the transition for small firms.
- decreased the levy portion for the lower tiers in class 5 (MIS) and increased portion by higher tiers to better reflect the degree of benefit and regulatory attention of smaller and larger firms
- split the $100 million to $500 million tier in class 6A (DIMS) into two tiers and increased the levy portion for the higher tiers to improve equity for participants and to smooth the transition between tiers
- decreased portion paid by class 7 (registered FSPs not in any other class) to minimise impact on cost of business for the typically smaller firms in this class.

Some submitters also suggested that some types of participants within levy classes deserved to be split out to differentiate them from other firms they are currently levied together with as one class. These included KiwiSaver schemes, restricted schemes, general and life insurers, and credit unions and

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[6] See https://treasury.govt.nz/publications/risa/regulatory-impact-assessment-financial-advice-licensing-fees-and-fma-levy-cost-recovery-impact-statement

other mutual societies. We believe that the above changes should work to address these concerns. With the proposed conduct of financial institutions regime and insurance contract law changes there may be an opportunity to consider further changes to the FMA levy in the future when the impact of these changes on the FMA's funding is considered.

Conclusion for the FMA levy

We recommend that the FMA levy be updated and changed in accordance with the above analysis and the table in the Annex. These changes include updating the levy for the increase in the FMA's funding.

These changes will improve equity across and within the existing levies and also update the levy to reflect developments in the market including the need to recover from additional participants and recover in a fairer way from some participants.

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Implementation and operation

How will the new arrangements be given effect

Approach to give effect to changes

The increase to the FMA's funding and any Crown contribution will need to be effected through an update to the FMA Multi-Category Appropriation at the next available opportunity (the Budget or a baseline update).

The changes to the FMA levy will need to be made by amending the Financial Markets Authority (Levies) Regulations 2012 through amendment regulations and Order in Council. In addition, the decision to delay commencement of the upcoming financial advice regime (discussed below) will require the changes made to the FMA levy regulations in 2019[7] for the new regime to be rescinded. This will involve keeping levy class 6(e) (authorised financial advisers) and removing classes 6E, 6F, and 6G for the time being and then reinstating them when the regime commences.

Timing of changes

Due to the FMA's current financial position, both the FMA funding and FMA levy changes are intended to come into effect in time for the 2020/21 financial year. The new levies are expected to be implemented for 1 July 2020. This will ensure that the FMA has sufficient funding in place to meet its operating deficit ahead of the 2020/21 year and that the Crown can recover the relevant portion of FMA's appropriation from participants through the levy.

Levy payers were informed of the upcoming changes to levies when consultation began. We anticipate that participants will be informed of the new levy amounts after Budget day in May 2020.

COVID-19 impact on proposals and implementation

The existence and spread of COVID-19 in New Zealand as well as the Government's response and decision to slow the pace of a number of financial markets regulatory changes have significantly impacted the broader context and the implementation of the FMA's funding and levy changes. While the new financial advice regime was intended to come into force on 29 June 2020, the negative financial and business impact of COVID-19 on markets and financial service providers such as financial advisers justified delaying commencement of the regime to sometime in early 2021. This delay has two significant consequences for the FMA funding and levy proposals.

Impact on implementation of the new financial advice regime and FMA activities

With the delay, there will be a longer time period until the FMA has to supervise and monitor those operating under the new regime. While this will relieve the FMA of some immediate resourcing needs and pressures, work on upcoming regulatory reforms and implementation will still need to continue. For example, the FMA believes the financial advice sector will require significant guidance and

[7] See the Financial Markets Authority (Levies) Amendment Regulations 2019: http://legislation.govt.nz/regulation/public/2019/0254/latest/LMS237781.html

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engagement to ensure it is ready for when commencement does take place. The delay also provides additional time to improve the readiness of both the FMA and the sector for the new regime.

The FMA will also be allocating its resources towards responding to current and upcoming market conditions resulting from COVID-19. This is needed because in times of market stress there is an increased risk of misconduct. More supervision and engagement is needed with the financial services sector at this time, and the FMA needs to be resourced to do this.

As outlined below, while the FMA still requires an increase in funding in 2020/21, MBIE proposes that the funding and levy increases be phased over three years instead of two to lessen the impact that much greater levies would have upon financial services businesses when revenues may be decreasing because of the economic impact of COVID-19.

Impact on timing of new FSPR and Companies Office systems

A new FSPR was originally planned to align with commencement of the new financial advice regime in order to upgrade the current aging system and makes necessary changes for the new financial advice business/firm classifications. The subsequent regime delay mean that the existing legacy FSPR register and system must remain in place until the regime does commence.

Operational register system limitations mean that only the dollar levy amounts can be updated for the 2020/21 financial year and other changes to the levy model to improve equity and fairness in the model such as new classes and tiers will need to be made and implemented at a later time.

This could take place when the previous levy changes made in 2019 to account for the new financial advice regime are reinstated for when the regime does commence (though the exact commencement date has not been set, this is unlikely to be before March 2021 and announcements will be made by MBIE). MBIE still recommends the levy changes in the annex but that the changes that are not possible now be made at the next opportunity.

Implementation issues/risks

Achievability of funding increase and organisational change

The FMA has grown significantly since its establishment and has successfully increased recruitment in the past in response to spikes in turnover and growth in demands. However, despite this, the PwC baseline review and a number of submitters noted that the size of the preferred funding increase for the FMA would involve a significant organisational change and recruitment challenge.

As noted in our funding impact analysis for option 3, the need to recruit an additional 86 FTEs, manage retention of existing staff through change, and raise operational expenditure by around 45% will be very challenging for the FMA in the short-to-medium term. This is especially the case given the labour market for qualified regulatory and supervisory professionals is tight, the general unemployment rate is very low and the FMA spends over 70% of its budget on personnel.

We believe that mitigation steps and actions can help the FMA to achieve the level of recruitment and expenditure required.

Phasing of funding increase to increase achievability and reduce impact of levy increases

One way to improve the achievability of the increased expenditure and recruitment levels for the FMA as well as reduce the financial impact of the levy increases on participants is to phase in the funding and levy increases. Before COVID-19 MBIE considered that phasing the increases in over two years would be sufficient. However, to reflect the financial impact on participants of COVID-19 and the

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difficulties in recruiting staff with restrictions on usual business operations, MBIE considers that phasing over three years is appropriate.

Given the FMA needs to continue preparing for the implementation of the new financial advice regime and the FMA's current organisational pressures, we believe that increasing the FMA's funding by $12.500 million in 2020/21, $17.500 million in 2021/22 and then the full $24.805 million in 2022/23 and outyears is an appropriate phasing of funding. This would mean the FMA's operational appropriation would increase to $48.5 million in 2020/21, $53.500 million in 2021/22 and $60.805 million in 2022/23 and outyears.

This responds to the slightly lower FMA resourcing requirements under a delay to the financial advice regime. With most financial services being essential services continuing to operate in some form, the potential financial impact of COVID-19 on financial services should be limited. However, given the potential for an impact to occur, the phasing also works towards improving the affordability over time of the levy increases on financial service providers.

Internal strategies to achieve organisational change required

In addition, with significant recruitment, retention and organisational structure challenges for the FMA we believe that the use of internal strategies and plans can improve the achievability of the enhanced case. In its report, PwC noted that the FMA currently has several initiatives ongoing to prepare for large-scale recruitment:

- reaching into international markets (on the assumption it is unlikely that all positions can be filled from domestic candidates)
- procuring support from a range of suppliers of recruitment and related services (including entities with proven experience in recruiting from international markets)
- engaging with relevant Government agencies (NZTE and Immigration NZ in particular) to assist with networking in source countries as well as providing hosting opportunities for events at which FMA can have physical presence
- reviewing the approach to market in terms of the types of media and channels used to raise awareness of employment opportunities with the FMA
- refreshing its employee value proposition to ensure it remains as relevant as possible.

We believe that these initiatives will be critical and that the FMA should develop recruitment and retention and organisational change strategies or plans to best prepare the organisation for meeting its organisational challenges.

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Monitoring, evaluation and review

How will the impact of the new arrangements be monitored

Assessing whether the anticipated impacts and outcomes will materialise will be difficult given one of the primary pieces of evidence to assess this is the effective prevention and mitigation of risk and harm in financial markets. Success in this regard would mean risk or harm not occurring and so there would be no activity or event to evaluate against.

However, we are confident that the FMA's formal performance framework (i.e. its statement of intent, its annual statement of performance expectations, parliamentary scrutiny processes and MBIE's monitoring activities) as well as informal methods of assessing the FMA's performance (e.g. the PwC review and FMA surveys of performance) can adequately measure its continued effectiveness and efficiency.

Given the challenge involved in achieving the expenditure and recruitment levels under the enhanced case, MBIE will continue to monitor the FMA's financial position and recruitment. Should the required level of recruitment not be achieved the FMA would prioritise its recruitment and resources to ensure it is able to fulfil its statutory functions and responsibilities e.g. implementing the new financial advice regime and monitoring and supervision under the FMC Act. Under this circumstance, unused resources from lower recruitment would be carried over into future years to ensure the necessary recruitment still occurs.

MBIE will also monitor the FMA levy with both the FMA and the Registrar over time to ensure it operates as intended.

Transparency and accountability of the FMA under funding increase

Some feedback was received that the large increase in funding under the enhanced case meant that there should be strengthened oversight, transparency and accountability of and from the FMA to ensure that the additional funding is being used efficiently and the expected outcomes are being achieved. Reference was also made to the fact that ASIC publishes its annual regulatory costs that set out how much it spends across its different regulated sectors.

We note that similar themes were also made at the time of the last FMA funding review.

PwC also noted in its report that the FMA's internal business unit plans do not include any financial or resourcing information and that it makes it harder to assess ex-ante whether deployment of resources is right.

Given these observations on the importance of oversight and transparency within the FMA and the importance of public entities adhering to strong financial management, transparency and accountability practices, we believe that the FMA should include financial and resource information in its internal business plans. This will improve internal information recording for the FMA's own internal tracking and benefit and make it easier in future for MBIE and other relevant parties to assess and evaluate the organisation's use and deployment of funding.

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When and how will the new arrangements be reviewed

The FMA's funding and levy was last comprehensively reviewed in 2016/17. As part of its regulatory stewardship role, MBIE reviews both the funding of the Crown entities it monitors and any cost recovery regimes for these entities. These changes will be reviewed consistent with this approach.

The population forecasts for the levies under the new financial advice regime is being estimated based on the best information available at the time. When this is combined with the proposals for a regime regulating the conduct of financial institutions with the FMA as the regulator, MBIE may need to review the FMA's funding and levy, in part or full, sooner than would normally occur. MBIE will monitor the impact of these factors on the FMA's funding and levy.

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Annex: Current and recommended FMA levy changes

Levy class	Type of levy	Current levy excl. GST	Approximate current % of total levy	Previous forecast $ collection	New phased levy excl. GST	New outyears levy excl. GST	Approximate new % of total levy	Approximate forecast $ collection under outyears
Class 1 New financial service provider (FSP) registrations	Fixed levy	$460	4.09%	$1.03m	$441	$526	2.50%	$1.10m
Class 2 Registered FSPs that are registered banks or licensed NBDTs	Total assets exceed $50 billion	$535,000	11.11%	$2.80m	$854,536	$1,020,826	12.96%	$5.75m
	Total assets exceed $10 billion but not $50 billion	$130,000			$252,646	$301,810		
	Total assets exceed $2 billion but not $10 billion	$38,000			$72,270	$86,334		
	Total assets exceed $1 billion but not $2 billion	$22,000			$35,746	$42,702		
	Total assets exceed $500 million but not $1 billion	$10,500			$13,375	$15,978		
	Total assets exceed $40 million but not $500 million	$7,700			$8,455	$10,100		
	Total assets do not exceed $40 million	$2,400			$2,533	$3,026		
Class 3 Registered FSPs that are licensed insurers	New tier: Annual gross premium revenue exceeds $1 billion	N/A new tier	7.36%	$1.85m	$416,122	$497,098	10.04%	$4.45m
	New tier: Annual gross premium revenue exceeds $500 million but not $1 billion				$232,211	$277,398		
	Deleted tier: Annual gross premium revenue exceeds $500 million	$150,000			N/A tier to be deleted			
	Annual gross premium revenue exceeds $100 million but not $500 million	$38,000			$83,390	$99,617		
	Annual gross premium revenue exceeds $50 million but not $100 million	$24,000			$42,520	$50,795		
	Annual gross premium revenue exceeds $10 million but not $50 million	$11,000			$16,536	$19,753		

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	Annual gross premium revenue does not exceed $10 million	$2,200			$4,835	$5,776		
Class 4 Registered FSPs that are supervisors licensed under the Financial Markets Supervisors Act 2011 in respect of the supervision of debt securities and managed investment products in registered schemes	Total supervised interests exceed $5 billion	$138,000	2.24%	$566k	$198,675	$237,337	2.16%	$1.13m
	Total supervised interests exceed $1 billion but not $5 billion	$76,000			$109,530	$130,844		
	Total supervised interests exceed $100 million but not $1 billion	$26,000			$37,471	$44,763		
	Total supervised interests do not exceed $100 million	$6,400			$9,512	$11,363		
Class 5 Registered FSPs that are managers	TMA exceed $10 billion	$380,000	20.99%	$5.29m	$484,856	$579,208	19.46%	$8.63m
	TMA exceed $5 billion but not $10 billion	$270,000			$314,878	$376,152		
	TMA exceed $2 billion but not $5 billion	$120,000			$162,957	$194,667		
	TMA exceed $1 billion but not $2 billion	$80,000			$109,338	$130,615		
	TMA exceed $500 million but not $1 billion	$45,000			$65,638	$78,411		
	New tier: TMA exceed $250 million but not $500 million	N/A new tier			$31,034	$37,073		
	New tier: TMA exceed $100 million but not $250 million				$17,599	$21,024		
	Deleted tier: TMA exceed $100 million but not $500 million	$25,000			N/A tier to be deleted			
	TMA exceed $20 million but not $100 million	$6,400			$7,325	$8,750		
	TMA do not exceed $20 million	$1,400			$1,515	$1,809		
Class 6 Registered FSPs where One of the following amounts apply (being whichever applicable amount is the greatest):	(a) if the person is authorised to undertake trading activities on licensed markets	$4,500	0.25%	$63k	$6,629	$7,920	0.12%	$55k
	(b) if the person is a contributory mortgage broker	$1,800	0.11%	$27k	$2,605	$3,112	0.15%	$68k
	(c) if the person is registered for the financial service described in section 5(1)(k) of the FSP Act	$5,300	3.34%	$842k	$8,088	$9,662	0.81%	$357k
	(d) if the person is licensed to provide the licensed market service of acting as a derivatives issuer	$9,600	0.57%	$144k	$13,601	$16,248	0.92%	$406k

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Class 6A Registered FSPs that are DIMS retail providers	FUM exceed $2 billion	$36,000	1.28%	$322k	$62,055	$74,131	1.55%	$689k
	FUM exceed $500 million but not $2 billion	$14,000			$25,851	$30,882		
	New tier: FUM exceed $250 million but not $500 million	N/A new tier			$13,375	$15,978		
	New tier: FUM exceed $100 million but not $250 million				$6,900	$8,243		
	Deleted tier: FUM exceed $100 million but not $500 million	$4,800			N/A tier to be deleted			
	FUM exceed $50 million but not $100 million	$2,400			$4,161	$4,971		
	FUM do not exceed $50 million	$950			$1,709	$2,042		
Class 6B Registered FSPs that are brokers other than persons in class 6(a) or 6C	Fixed levy	$1,800	0.71%	$180k	$2,846	$3,400	0.78%	$346k
Class 6C Registered FSPs that are custodians and persons providing custodial services	Fixed levy	$6,300	5.29%	$1.33m	$9,382	$11,208	1.09%	$482k
Class 6D Registered FSPs that provide a crowd funding service or a peer-to-peer lending service	Fixed levy	$2,600	0.12%	$31k	$2,940	$3,512	0.09%	$42k
Class 6E Registered FSPs that are authorised bodies	Fixed levy	$460	N/A calculated separately through FSLAA	N/A did not exist	$663	$792	0.59%	$261k
Class 6F Registered FSPs that are financial advisers (as defined in section 6(1) of the FMC Act)	Fixed levy	$265			$313	$373	6.89%	$3.05m

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Class 6G Registered FSPs that are licensed financial advice providers	Fixed levy	$225			$264	$316	1.63%	$725k
	Plus every nominated representative engaged by the financial advice provider	$179			$233	$278	2.92%	$1.29m
	Plus if the financial advice provider gives advice on its own account	$737			$867	$1,036	0.23%	$103k
Class 7 Registered FSPs that are not included in any of classes 2 to 6	Fixed levy	$460	13.44%	$3.39m	$514	$614	3.27%	$1.45m
Class 8 Listed issuers	Fixed levy	$2,600	1.99%	$501k	$3,927	$4,691	1.33%	$591k
Class 9 Persons that lodge a PDS	All except for PDS of a managed fund (new addition: self-select schemes from 2020/21)	$2,600	2.79%	$704k	$3,576	$4,272	0.60%	$205k
	Per fund, multi-fund investment option, or life-cycle stage covered by a PDS, in the case of a manged fund	$530		N/A was no forecast	$713	$851		$66k
Class 10 Licensed market operators	Fixed levy	$29,000	0.57%	$145k	$50,629	$60,481	0.14%	$60k
Class 11 FMC reporting entity	Fixed levy	$48	0.13%	$33k	$61	$73	0.12%	$51k
Class 12 Accredited bodies	Fixed levy per specified licence	$2,600	1.49%	$377k	$3,911	$4,672	1.46%	$649k
Class 13 Overseas auditors	Fixed levy	$2,600	0.21%	$52k	$4,286	$5,120	0.30%	$133k
Class 14 Persons that apply for registration or incorporation	The Building Societies Act 1965	$9	1.76%	$444k	$16.3	$19.3	2.50%	$1.11m
	The Companies Act 1993	$9			$16.3	$19.3		
	The Friendly Societies And Credit Unions Act 1982	$9			$16.3	$19.3		
	The Limited Partnerships Act 2008	$9			$16.3	$19.3		

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Class 15 Persons that are registered or incorporated, and make an annual return	The Building Societies Act 1965	$9	17.37%	$4.38m	$16.3	$19.3	25.13%	$11.15m
	The Companies Act 1993	$9			$16.3	$19.3		
	The Friendly Societies And Credit Unions Act 1982	$9			$16.3	$19.3		
	The Limited Partnerships Act 2008	$9			$16.3	$19.3		
New levy Growth market operators	Market operators licensed with conditions imposing a limit on the size of issuers that may remain listed on its market	N/A class did not exist			$7,345	$8,775	0.02%	$10k
New levy Benchmark administrators	Fixed levy				$17,024	$20,337	0.05%	$23k
New levy Small issuers	With a market capitalisation less than $60 million				$1,007	$1,202	0.14%	$73k

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