



CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND

25 February 2020

**Financial Markets Policy
Building, Resources and Markets
Ministry of Business, Innovation & Employment
PO Box 1473
Wellington 6140**

Submitted via email to FMALevyReview@mbie.govt.nz

Dear Sir or Madam

Submission on Review of Financial Markets Authority Funding and Levy

Chartered Accountants Australia and New Zealand (CA ANZ) welcomes the opportunity to provide a submission to MBIE on the Discussion Paper. Appendix A provides our detailed submission and Appendix B provides more information about CA ANZ.

Key Points:

- We are supportive of MBIE's review of the FMA's funding, and acknowledge that the FMA's role, as required by the Government, is increasing in size and complexity. The FMA must be adequately funded to deliver on its mandate.
- It is vital that the FMA's funding reflects both its expanded regulatory remit and the growing complexity of that remit.
- We believe that 'Option 3: *Enhanced Case*', provides the most appropriate level of funding for the FMA as the principal conduct regulator of New Zealand's financial markets.
- We support the increased investment in intelligence and analytical capabilities allowed under this option. This will bring about greater efficiencies, whilst enhancing the FMA's regulatory capability. We are also very supportive of the focus on the implications of climate change on financial markets made possible under Option 3.
- We believe that the Crown should continue to fund 25% of the FMA appropriation. We believe the current Crown/levy funding split fairly reflects the public good element of the FMA's operations versus the private benefit to levy payers of fair, efficient and transparent financial markets.
- We are concerned that the 113% proposed increase to the annual levy could lead to further consolidation of the already small market of licenced auditors in New Zealand. Increased costs coupled with a reduced supply of auditors is likely to result in greater difficulty for smaller FMC reporting entities in obtaining an audit at an accessible cost. This is not in the public interest

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Should you have any questions about our submission or wish to discuss it, please contact Peter Vial or Charlotte Evett via email at peter.vial@charteredaccountantsanz.com or charlotte.evett@charteredaccountantsanz.com.

Yours sincerely



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Appendix A

Introduction

Feedback on the objectives of the review

We support the Government's commitment to ensuring the FMA is sufficiently funded to fulfil its statutory functions. As the principal conduct regulator of New Zealand's financial markets, the FMA ensures that our financial markets remain fair, efficient and transparent. These factors contribute to high levels of market confidence and a strong and productive economy.

As the discussion paper acknowledges, to effectively regulate our financial markets, the FMA must be a credible regulator. To be credible, the FMA must have a firm grasp on both the current and emerging business models it is tasked with regulating, and their underlying technologies. Sufficient funding is crucial in this regard, as regulators can only act within the limits of the resources available to them.

FMA funding

Which of the FMA funding options do you consider to be most appropriate and why?

It is vital that the FMA's funding reflects both its expanded regulatory remit and the growing complexity of that remit. For many of the reasons outlined in the discussion paper, we are most supportive of 'Option 3: *Enhanced Case' funding model*. As highlighted in our whitepaper [The Regulator of 2030: Regulating our digital future](#)¹ (The Regulator of 2030), credible and effective regulators must move at least as fast as those it regulates.

The additional funding provided by Option 3 will enable a faster implementation of the new financial advice regime, and the groundwork necessary for a faster and more efficient implementation of the new conduct regime. Also, as acknowledged in the discussion paper, the additional funding would increase the speed, breadth, depth and effectiveness of the FMA's regulatory activity across its regulatory remit. We also agree that better financial markets regulation will result from the cross-agency system engagement made possible by the additional funding proposed under Option 3.

In [The Regulator of 2030](#), we found that regulators often felt underfunded in light of the size, complexity and number of entities under their remit. These regulators acknowledged the need to harness new and emerging technologies to gain efficiencies and reduce cost. Option 3 provides the FMA with funding to invest in intelligence and analytical capabilities which will bring about greater efficiencies, hence helping to reduce cost whilst enhancing capability. It will also provide the FMA with enhanced insight allowing them to better understand the markets it regulates and the customers and investors it serves.

We agree that the enhanced engagement with financial service providers and sectors, and their customers, made possible under Option 3 will enable the FMA to better understand the needs of their constituents, and to deepen their sector and regulatory expertise, and their maturity as a regulator.

We are also very supportive of the capacity provided under Option 3 for the FMA to focus on important areas such as the potential impact of climate change on financial markets. This is an

¹¹ Chartered Accountants ANZ. (June 2017). The Regulator of 2030: Regulating our digital future.

area of increasing significance to New Zealand's financial markets. We are of the view that a focus on climate change is essential component of a high performing financial markets regulator.

Funding recovery options

Do you think that the proposed additional funding for the FMA should be wholly levy recovered or should the Crown contribute towards the increase? Why?

We are in favour of Option B. We believe that any increase in the FMA's appropriation should be apportioned between the Crown and third-party levy funding according to the current funding split.

The Crown currently funds 25% of the FMA appropriation, with the remaining 75% funded by third party levies. In our view, this apportionment fairly reflects the split between the public good derived from New Zealand's reputation as a country with well regulated financial markets, and the private benefit received by levy payers from the same. Further, the current funding allocation between Crown and private levy provides an additional barrier against industry capture – making it even more likely that the FMA acts in the public interest, as opposed to that of the firms it regulates. A reduction in the level of Crown funding from 25% could potentially and proportionately weaken this barrier.

What is the appropriate Crown/levy split of the FMA's appropriation and why?

We are supportive of the status quo i.e. 25% Crown/75% levy funding split. We believe the current Crown/levy funding split fairly reflects the public good element of the FMA's operations versus the private benefit to levy payers of fair, efficient and transparent financial markets.

The magnitude of the proposed levy increase to licenced auditors and the impact on the public good.

In the period between 30 June 2013 (the first year of the licenced auditor regime) and 30 June 2019, the number of licensed auditors in New Zealand reduced by 12% from 150 to 132. In addition, the number of registered audit firms decreased by 55% from 40 to 18. Anecdotal evidence suggests that, in many of these cases, pressure on profitability resulting from increased costs was a significant contributing factor to this decline.

We are concerned that the 113% proposed increase to the per licence annual levy could lead to further consolidation in the market. Increased costs coupled with a reduced supply of auditors is likely to result in greater difficulty for smaller FMC reporting entities in obtaining an audit at an accessible cost. This is not in the public interest. All market participants, and the wider public, benefit from accessible and high-quality audit.

Appendix B

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents more than 125,000 financial professionals, supporting them to build value and make a difference to the businesses, organisations and communities in which they work and live. Around the world, Chartered Accountants are known for their integrity, financial skills, adaptability and the rigour of their professional education and training.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate in the public interest. Our thought leadership promotes prosperity in Australia and New Zealand.

Our support of the profession extends to affiliations with international accounting organisations. We are a member of the International Federation of Accountants and are connected globally through Chartered Accountants Worldwide and the Global Accounting Alliance. Chartered Accountants Worldwide brings together members of 13 chartered accounting institutes to create a community of more than 1.8 million Chartered Accountants and students in more than 190 countries. CA ANZ is a founding member of the Global Accounting Alliance which is made up of 10 leading accounting bodies that together promote quality services, share information and collaborate on important international issues.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents more than 870,000 current and next generation accounting professionals across 179 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications.