



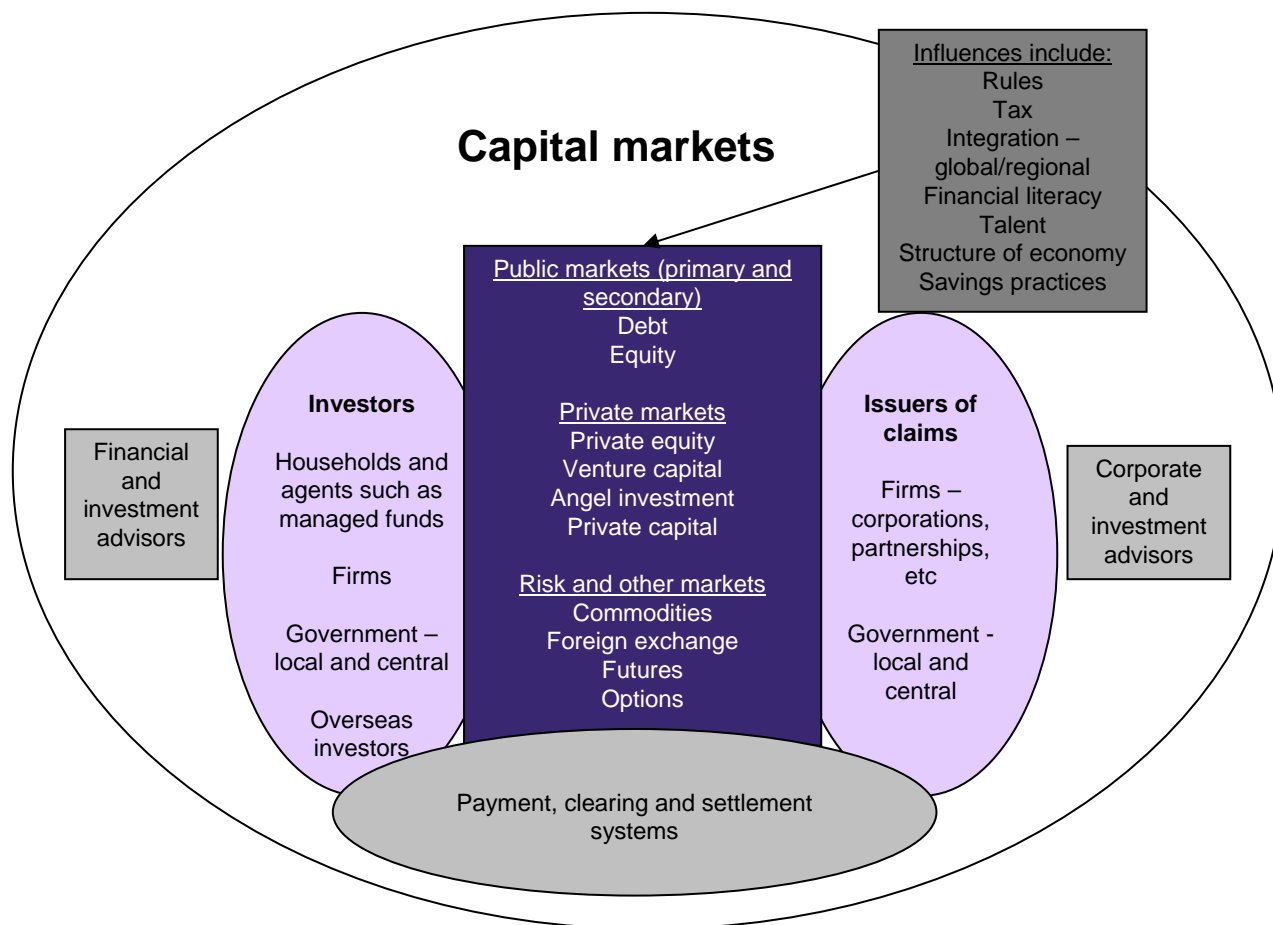
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Presentation to Property Council New Zealand
National Conference
9 September 2009

Outline of today's discussion

- What is our scope, and how are we framing our work?
- Some observations about our markets
- The underlying issues we face in our capital markets
- What have we achieved so far?
- And what remains to be done?

What are capital markets?



How are we framing up our work?

- Efficient and sound capital markets, which provide a full range of products for investors, are critical for New Zealand's economy
- Our productivity rates need to increase – ensuring that capital is allocated to its best uses is a key part of increasing productivity
- The better our capital markets work – the better for us all: as organisations seeking capital, employers, employees and as investors
- We are looking to:
 - Improve the markets as they currently are
 - Investigate ways in which we can reorient our markets in the global context to capture business

What do we observe about our capital markets?

- We have thin public capital markets
 - Limited participation by many industries / sectors and a low “birth rate”
- Patchy private markets that are not well linked to public markets
 - Government is active in some parts of private markets (e.g. angel and VC, but may be scope for gains here)
 - Private markets are the bulk of our market but are not well understood and we’re looking to find ways to allow value to be increased
- Most organisations find it difficult to readily and inexpensively access capital
- Derivatives market (especially for commodities) is underdeveloped
 - We lack both infrastructure and products
 - These products are critical for risk management

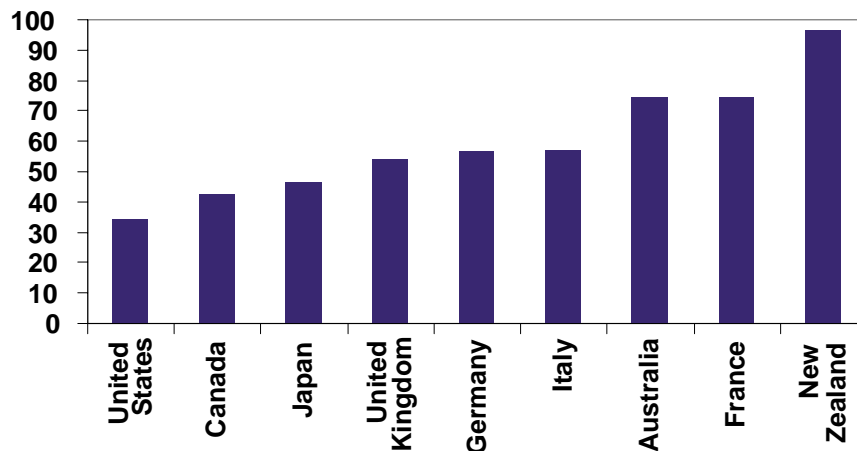
Underlying issues

- Low levels of investment in financial products
- Lack of access to products
- Investor outcomes undermined by poorly regulated participants and practices
- Outdated regulation adding compliance costs for issuers
- A settlement and clearing infrastructure that may not be optimal
- Tax settings which may constrain capital market development
- Generally low levels of financial literacy

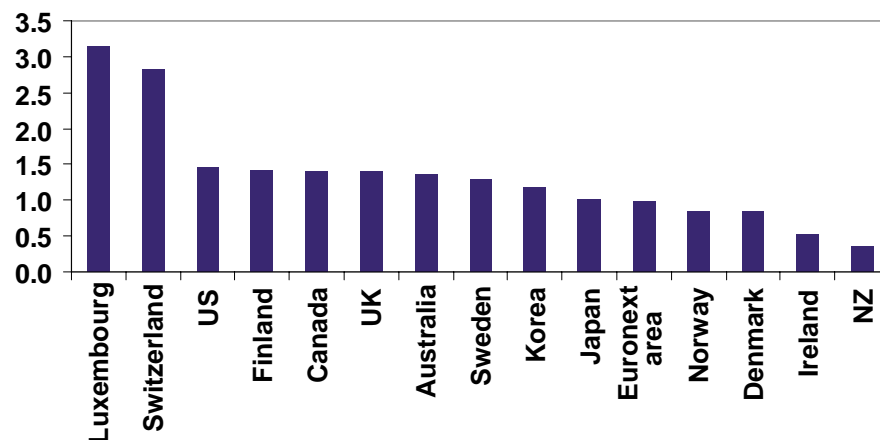
Low levels of investment in financial products

- New Zealanders hold very few financial assets
- A set of factors combine to see us favouring housing
 - Relatively generous government superannuation; tax treatment; bank lending policies; poor experience in financial assets and a lack of trust of financial markets and advisors

Net wealth in housing, 2007 (percent)



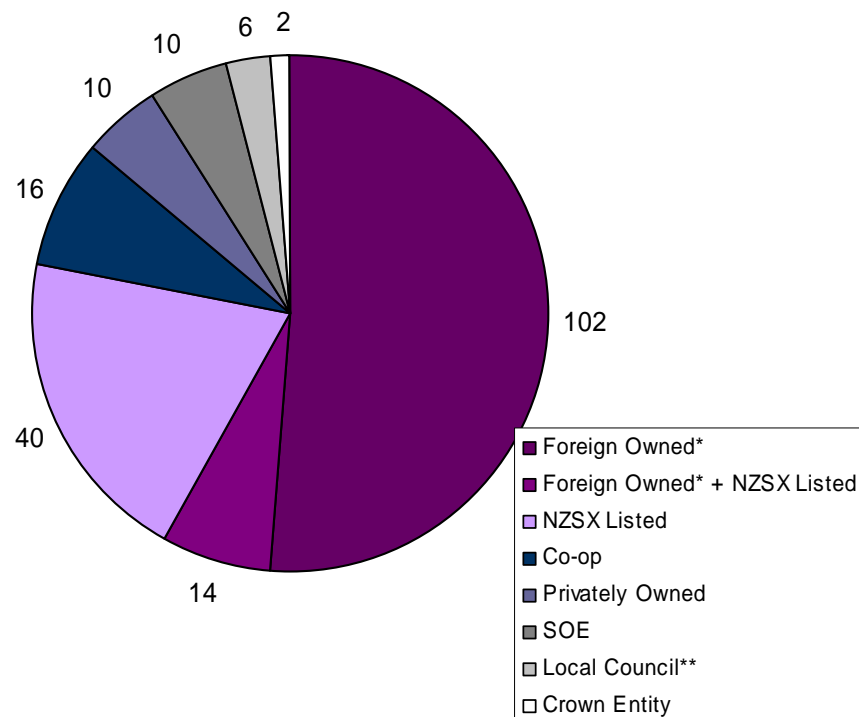
Equity market capitalisation, 2007 (ratio to GDP)



Lack of access to products

- The retail investor cannot access many products
 - Co-ops dominate the agricultural sector and most are not open to outside investment
 - Central and local government own utilities
 - We have substantial foreign ownership in some industries (e.g. financial services)

Biggest 200 Companies in NZ, Dec 2008



Poor investor outcomes

- Wide range of possible conflicts of interest in financial markets
- Investors unsure whom to trust and financial advisor competency mixed, fees not always transparent
- Regulatory regime (e.g. role of trustees) not always clear and effective
- Poor outcomes reinforce preference for property

Outdated regulation of issuers

- Despite not always providing useful information to investors, the current regulatory regime imposes considerable costs on companies raising capital
- Our November Interim Report focussed on these issues as part of a crisis response package
- We will also be focusing on private capital markets which are the bulk of our market
- We will be looking at the role and scope of regulatory agencies in our final report

Clearing and settlement infrastructure

- Crucial, but often neglected, plumbing for markets
- Has become a major focus following the crisis (“counterparty risks”)
- May be opportunities to lower transactions costs and enhance ability to develop and innovate new products

Other issues

- Tax settings – e.g. lack of clarity about application of capital gains, role of approved issuer levy
- Financial literacy – affects quality of choices made by investors and market development
- Role of government – how do we leverage government's role as a participant and innovator in markets
 - e.g. the Debt Management Office issuing longer dated bonds
 - Facilitating the development of a local authority bond bank which:
 - Offers new, high quality products into our market
 - Potentially gives local authorities much better access to capital

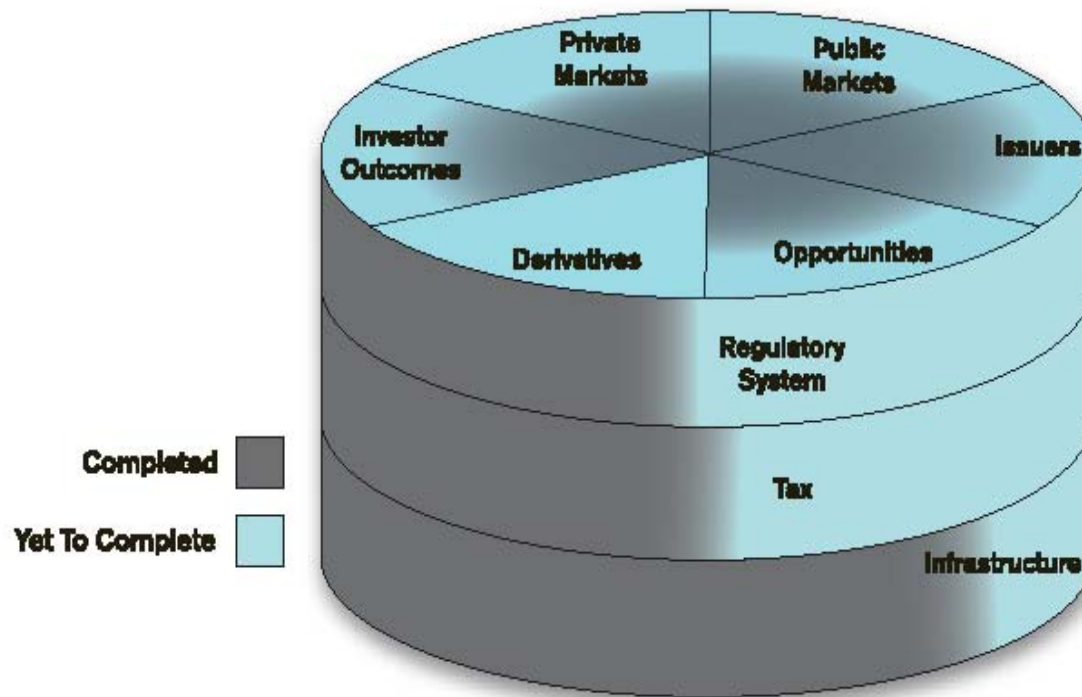
Achievements to date

- A November 2008 interim report led to:
 - Legislative changes to:
 - Allow listed firms to rely more on continuous disclosure in subsequent capital raising
 - Simplify private capital raising
 - Improvements to the Securities Regulations to make capital raising easier
 - Changes to NZX Listing Rules to simplify capital raising
- The taskforce has been working with others on developing a local authority bond bank
- A progress report in July 2009 set out our frameworks
- We have published a range of research papers
- NZX has prepared a discussion paper on the location of regulatory functions

How we are working

- Given the breadth of issues across our capital markets we are working in overlapping sub-groups which cover either parts of markets, or issues that are cross-cutting
- The sub-groups are:
 - Rules
 - Tax
 - Infrastructure
 - Public markets
 - Private markets
 - Investor outcomes
 - Derivatives
 - Opportunities internationally

Our focus in coming months will be on completing work in these various areas



Conclusion

- We're covering a wide range of issues and are due report finally in December 2009
- There's been extensive stakeholder discussion through talking with groups such as this
- We will continue to release research and analysis as it is completed
- Suggestions in our final report will look at both what industry can do as well as the role of government in our markets