



# Growing New Zealand's Capital Markets 2029

A vision and growth agenda to  
promote stronger capital markets  
for all New Zealanders



Building a better  
working world





# Nāu te rourou, nāku te rourou, ka ora ai te iwi

With your contribution and mine, our people will prosper<sup>1</sup>

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### Disclaimer

This report is the work of the Steering Committee and EY as Secretariat and does not necessarily represent the views of the organisations for which any of the individuals are otherwise involved.

Neither the Steering Committee nor EY as Secretariat have sought to audit or verify any of the information sourced for this report. Neither the Steering Committee nor EY make any representation or warranty as to the accuracy or completeness of the information contained in this report.

# Foreword

**Welcome to the report of Capital Markets 2029. We are an industry-led group, sponsored by NZX and the FMA, formed to identify ideas to improve and grow New Zealand's capital markets, taking a 10-year view.<sup>2</sup>**

We have sought to maintain a focus on the end users of the capital markets by generating ideas that will see more capital flowing, more efficiently, to New Zealand enterprises and ideas that will provide more investment opportunities for a greater number of New Zealand investors. There are many components to capital markets and our focus is not limited to the listed market. We have also looked at private markets, including crowdfunding, angel investment, venture capital and private equity.

Capital markets are important to a well-functioning economy. The efficient allocation of capital to the highest value projects and the economic returns provided to risk takers is at the heart of this purpose. There is extensive research and evidence of the role capital markets fulfil spanning productivity and the wellbeing of citizens.<sup>3</sup>

Our process has included dialogue with many organisations and people across New Zealand and with offshore investors. With the support of EY, we have also researched and noted the thematic issues that capital markets are experiencing globally. Our work confirmed many global themes which are impacting New Zealand. We did not expect to find 'silver bullets' to materially enhance capital markets. Indeed, in some cases, all we have done is more accurately identify the source of a constraint. However, we believe there are many specific actions that can and should be taken to improve capital markets.

We believe the broad level of involvement and input enables us to position this report as a mandate from the industry for the recommendations.

We are excited for the opportunities that stronger and more vibrant capital markets can contribute to our country as we strive to enhance the wellbeing and productivity of our economy.

I would like to recognise the important and special contributions of the members of the Steering Committee and EY, the people who have supported us on specific workstreams and the many people and organisations who have contributed to this process. Without exception, people willingly supplied their time and insights. Appendix One acknowledges, records and thanks these contributors.

On a personal note, thank you to both the FMA and the NZX for having the foresight to commission this report and for the opportunity to be involved.



**Martin Stearne,**  
Chair of Capital Markets 2029







A night landscape featuring a starry sky with a prominent yellow and orange aurora or light streaks. In the foreground, a dark, rocky terrain is partially covered with snow, and a calm lake reflects the light from the sky. Two concentric circular lines, one yellow and one dark blue, are overlaid on the image, framing the central text.

# Vision and ambitions for 2029





New Zealanders benefit in many ways from the impact of successful capital markets, by way of employment, use of the products and services of companies funded by capital markets or by direct and indirect investment in capital markets themselves.

One of our objectives is to lift the level of engagement and interest New Zealanders have in the investment side of the capital markets so that more New Zealanders actively participate to create personal wealth. The changes we have recommended to KiwiSaver are largely focused on this objective. Over time, KiwiSaver accounts will become the predominant pool of retirement savings. We believe our KiwiSaver recommendations will retain direct personal participation in the capital markets, open access to alternative investments and, more importantly, act as a catalyst for greater innovation from existing and new KiwiSaver providers. Incentives for KiwiSaver entrants to make an active choice on the type of KiwiSaver fund to join and our recommendations on financial literacy should promote better long-term outcomes for New Zealand.

For users of capital, we envision a greater availability of capital across the spectrum of investment stages. This will provide companies choice within a New Zealand-centric system to meet their capital needs. These need to be accompanied by a regulatory system that retains its goal of fair, efficient, and transparent capital markets, while adapting to the increase in private market activity, both primary and secondary.

Lastly, it is incumbent on the industry itself to use the recommended changes for the benefit of both the users and the providers of capital. For the reasons above, we commend everyone to embrace these recommendations such that the benefits of stronger capital markets benefit all New Zealanders.

We have developed a series of visions and ambitions for the industry and the country to identify what 'success' might look like across the capital market ecosystem and against which future assessments can be made. These are presented on the following page.









# Executive summary



New Zealand's broad capital markets industry has been highly supportive of this review. This executive summary provides an overview of the process and key recommendations which we believe will have a higher impact on the New Zealand capital markets ecosystem in the coming decade.

#### Process

Independently of the FMA and NZX, we engaged with a wide array of capital markets participants to identify and understand aspects which have been working well, areas which are struggling, and where changes are needed. We have performed this review in three distinct phases.

In the first phase, we held interviews directly with capital market participants: investors, issuers, privately held companies, intermediaries, advisors, central and local government, industry bodies and associations, institutions, iwi, banks and members of the public.

The second phase summarised the interviews, from which we collated preliminary observations into a public consultation document.<sup>4</sup> All interested parties were encouraged to submit their feedback to help ensure our final recommendations reflected a breadth of New Zealanders' views.

The third phase then considered the results of the public consultation, and interviews, together with research completed by EY and global research publications (which addressed complementary topics). The Steering Committee formed the recommendations in this report by evaluating these results.



### **Key trends in New Zealand Capital Markets**

We have observed a number of trends that could undermine the effectiveness of capital markets and have long-term consequences for the country's wealth if left unaddressed:

- ▶ A KiwiSaver regime that encourages saving, but fosters investment predominantly in lower-growth assets and has limited exposure to private markets.
- ▶ A large number of New Zealanders who are not actively participating in KiwiSaver.
- ▶ A two-tier public market that is working well for the larger companies, but is less liquid and effective for smaller companies.
- ▶ A public market that is struggling to attract new listings.
- ▶ Private markets that are working well and growing, but not necessarily serving the full range of New Zealand investors, nor the full range of investment stages.
- ▶ A sound regulatory regime, albeit with areas which could be improved to assist the flow of capital.

### **Recommendations**

Each of our recommendations is designed to improve capital markets in one or more of the following ways:

- ▶ Raise the level of individual participation and engagement in capital markets.
- ▶ Offer more choice of investment for individuals, both within KiwiSaver and more generally.
- ▶ Grow the base of companies that can access the public capital market, reduce the barriers to listing where possible and increase motivation for public companies to remain listed.
- ▶ Grow the private capital ecosystem in New Zealand.
- ▶ Use the capital markets to fund infrastructure in New Zealand.
- ▶ Create greater wealth for New Zealanders.

The recommendations in this report should be viewed and considered together as they are interdependent. This report canvasses a broad range of visions and ambitions. Only the higher-impact recommendations are included in the table below (which also identifies the capital markets participant(s) best placed to lead further investigation and drive implementation).

Vision and Ambition	Recommendation	Central Government	NZX	FMA	Industry
KiwiSaver	Allow members to self-direct and invest with multiple providers.	✓			✓
	Mandate employers' contributions and a stepped contribution rate option for low income earners.	✓			✓
	Withdraw KiwiSaver default - provider status and replace with default funds.	✓			✓
	Reinstate a kickstart payment for members over 18 years old and link with an active choice on fund.	✓			✓
Financial capability	Implement an online financial capability and literacy course for young people as part of NCEA, including clear accountability for its implementation.	✓			
Regulation	Simplify disclosure requirements for regulated offers.	✓		✓	✓
	Remove requirement to provide prospective financial information for first regulated offers (IPOs).	✓		✓	
	Undertake a review of continuous disclosure liability settings.	✓	✓	✓	
	Exclude New Zealand listed bodies corporate from the definition of "overseas person" if no one overseas person (and any associate) holds more than 25% of the shares in the New Zealand listed entity.	✓			
	Establish a centralised process for compliance on anti-money laundering which market participants can rely on across Australasian capital markets.	✓			✓



Vision and Ambition	Recommendation	Central Government	NZX	FMA	Industry
Public sector assets and infrastructure	Review Crown contribution to capital markets which balances Crown control with the opportunity for broader ownership.	✓			✓
	Consider local government reform by central Government to ensure local councils assess all funding options for necessary infrastructure.	✓			✓
	Encourage the Infrastructure Commission upon its formation to engage in proactive dialogue to accelerate solutions for funding infrastructure projects in New Zealand.	✓			✓
Market development	Increase development of growth capital industry in New Zealand.	✓			✓
New listings	Greater promotion and education of the alternative pathways to the listed market supported by a range of secondary recommendations.		✓		
Tax	Move New Zealand's KiwiSaver regime from a TtE to an EET approach, providing impetus to improve our saving culture.	✓			✓
	Apply the PIE taxation regime rates and exemption from tax on trading to all direct listed share investments.	✓			✓
Technology	Develop a collaborative capital markets ICT plan.	✓	✓	✓	✓

## Implementation and follow up

Upon release of this report, we expect formal responses from our sponsors (NZX and the FMA) and from other parties to whom we have made recommendations. As one of the sponsors of this report, NZX has offered to report on progress made in respect of all recommendations, with a first assessment in 18 months' time.

Implementation of the recommendations alone is unlikely to drive the success of our capital markets. The many participants within our industry must also work more effectively to serve the needs of both users and providers of capital.





# 1 Market overview

## Global trends

We have analysed the key trends within global capital markets rather than confining our review to New Zealand's capital markets only. Some important themes from this work are directly applicable to New Zealand and have supported this review. These include:<sup>5</sup>

Shrinking public markets are an obvious trend in developed global equity markets. There has been a halving of the number of listed companies in countries such as the UK and US since the mid-1990s; new listings have decreased substantially (by around two thirds) and the amount of capital raised on stock markets has more than halved. Listed companies are getting larger, on average. This is shown by the increase in median market cap of listed US companies from US\$2 billion to US\$6 billion over a similar period. IPOs of companies are occurring later in a company's life and are also growing in average size.

There has been increased use of the IPO market to sell existing shares, and a decrease in its use to raise primary capital. Some markets are experiencing de-equitisation, where flows from the equity market (dividends, buybacks and takeovers) are greater than flows into the market (new listings and other primary raises).

Since the 1990s, changes in technology have allowed particular companies that rely on network effects to grow rapidly with relatively small amounts of capital, while building huge value in intangible assets. These companies have then bought a great number of other companies that may otherwise themselves have listed.

Companies are facing greater pressure from many investors to deliver short-term results at the expense of longer-term growth. A number of factors have arguably shifted the main role of exchanges towards the secondary side of the market at the expense of new issues. This has particularly impacted smaller companies. These factors include increased share buybacks, huge growth in trading volumes, technology developments, more complex market infrastructure and the shift in most exchanges' underlying business models from mutual to for-profit companies.

The rise in passive investment in conjunction with the increased scale and complexity of the financial services industry has changed the economics of the industry. This has helped create a highly efficient market for capital raising and trading for the larger companies and had the opposite effect for smaller companies. Trading commissions have declined and broker research coverage is generally declining.



6 The rapid growth of private capital over the past 25 years provides an alternative source of funding. This has negatively impacted public markets but has positively impacted other elements of the capital markets with private equity funds, pension funds and sovereign wealth funds offering funding. This phenomenon is seen as a mix of systemic and cyclical, with the cyclical effects largely driven by lower global interest rates.

7 The cost and burden of listing is perceived as high due to disclosure requirements and liability settings, corporate governance obligations (and expectations), and greater intervention from shareholders and media scrutiny. Over and above this, regulatory settings are variable between public and private markets.

8. Overseas jurisdictions are embracing and implementing new and emerging technologies



# We have sought to find out, in a New Zealand context, why more companies are not successfully listing

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## What's working well in New Zealand?

- ▶ Over the last ten years, the New Zealand listed equity market has outperformed key global equity markets in growth in size (11.2% pa) and returns (7.2% pa) (by reference to the benchmark S&P/NZX 50 index).<sup>6</sup> This has mainly been driven by the low interest rate environment and the yield offered by many of the larger stocks.
- ▶ We have continued to develop an efficient listed secondary market, particularly for larger companies. The adoption of the Financial Markets Conduct Act (FMCA) and related regulations has resulted in 'same class offers' allowing existing listed issuers to raise capital quickly and efficiently.
- ▶ New Zealand debt markets have grown in depth, with corporate debt offerings well subscribed. The total value of debt listed on the NZX Debt Market (NZDX) only increased from \$12.4 billion in January 2009 to \$13.5 billion in October 2015. However, the rate of growth then accelerated with the value of debt listed on the NZDX growing at a CAGR of 27.6% from October 2015 to May 2019.<sup>7</sup> Since June 2018, the NZDX has seen two new types of debt products added: green bonds and wholesale bonds.
- ▶ KiwiSaver has successfully created a pool of domestic savings. Since inception, it has given virtually all participants positive investment returns and there have been some encouraging recent developments in reducing fees and innovating products.
- ▶ The FMCA was an outcome of law reform that replaced most of New Zealand's previous securities and financial markets conduct law. It enabled new capital raising options, streamlined the disclosure regime and provided a new governance framework for financial products.
- ▶ The MOM programme has been successful. The partial sell down and public listing of Mighty River Power (now Mercury NZ), Meridian Energy and Genesis Energy has seen them grow earnings and dividends against a market backdrop of increased competition and minimal demand growth. Furthermore, the value of the Crown's cornerstone ownership interest in these entities is worth more today than the whole value of the entities when listed.<sup>8</sup>
- ▶ New Zealand's technology sector is growing rapidly. Revenue of TIN200 technology companies grew by 11% from 2017 to reach \$11.1 billion for 2018.<sup>9</sup> The success of New Zealand-founded technology companies such as Rocket Lab, Pushpay, Xero, Datacom and Fisher & Paykel Healthcare has highlighted the growing capabilities of the sector.
- ▶ New Zealand's capital markets have benefited from innovations and disruptions from new entrants. There have been recent advances in crowdfunding, peer-to-peer lending, robotic / AI advice, equity research and fractionalisation of investment opportunities. KiwiSaver providers and alternative asset exchanges have provided further investment opportunities for a greater number of domestic investors.
- ▶ New Zealand's private capital market (spanning private equity, venture capital and angel investment) has developed significantly in the last decade. There are now more fund managers here, all with larger investible funds. This trend is consistent with global themes which many see as systemic rather than cyclical change.





## What's not working well in New Zealand?

- ▶ The recent lack of IPOs in New Zealand is a more extreme version of trends in many other developed markets. We have sought to find out, in a New Zealand context, why more companies are not listing successfully. We have assessed the supply of entities that could potentially list, and the role played by various parties in the listing process.
- ▶ On the other hand, private market assets such as private equity and other unlisted investments have grown significantly in recent years. However, these are less accessible to individual investors. Again, this is a global trend, although New Zealand's capital pool is shallower than larger markets.
- ▶ We have heard from many submitters about the so-called 'funding gap', being the difficulty New Zealand businesses have in raising capital from in the region of \$2 million to \$10 million.
- ▶ Over the longer term, KiwiSaver will likely become the biggest single savings asset of most New Zealanders. Although KiwiSaver has many positive features, most managers focus almost solely on liquid assets due to transferability by members between schemes and daily unit pricing. Globally, pension funds are significant investors in illiquid asset classes. Without changes, KiwiSaver members will be unlikely to gain exposure to this growing asset class.
- ▶ Many participants in the industry have interpreted the regulations for advising retail investors in the capital markets more conservatively than perhaps was intended by the regulator. This resulted in a focus on stocks covered by research, typically larger stocks. Unless this changes, the smaller end of the listed market may stagnate over the longer term, making it less attractive or feasible for smaller companies to list. While these regulations have lifted the standard of advice, they have also reduced the availability of investment advice.

Many of the challenges identified above can be attributed to one or a combination of fundamental causes: New Zealand being a small market, a globally rising tide of regulation, and undue conservatism for risk taking.

## Local capital markets are important

Although hardly surprising, almost all respondents and submitters cited numerous reasons for our country to retain the capital markets within a New Zealand-centric system, including our public capital markets. Despite some points being driven by self-interest, we endorse the common themes in the reasons cited as to why local capital markets are important, including:



These themes are similar to those found by NZIER in their report commissioned by NZX.<sup>10</sup>

## Sustainability

The United Nations Sustainable Development Goals (SDG) and the Paris Agreement represent a significant change in the way we manage our environment, societies and economies. Governments, corporates and communities are aligning their policies with the SDG and Paris Agreement targets.

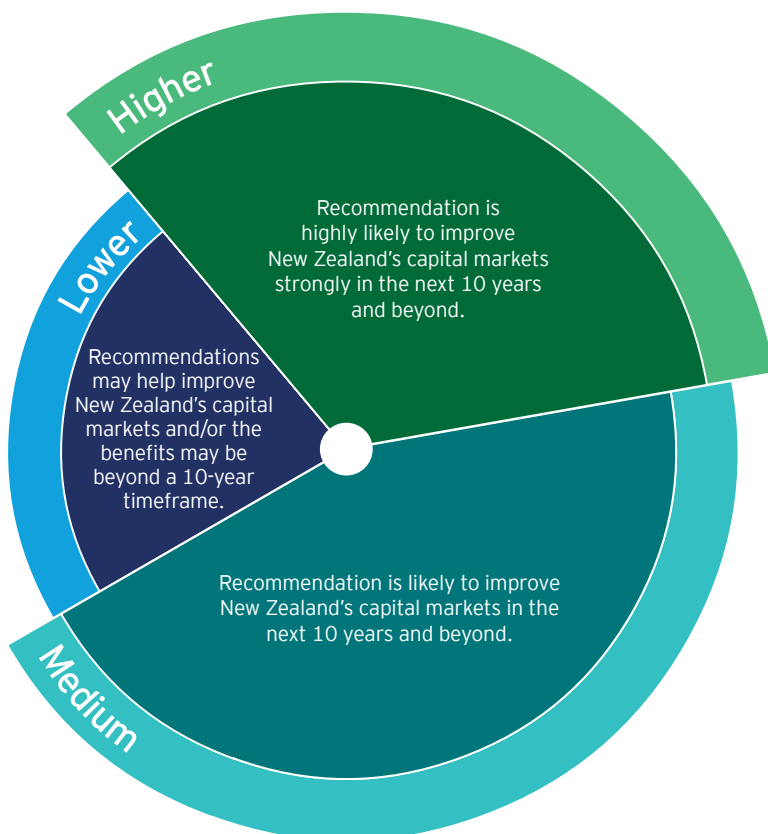
The Sustainable Finance Forum, set up under the Aotearoa Circle, is working on a roadmap to shift New Zealand's financial system to one which supports sustainable social, environmental and economic wellbeing in the long term. The work of the Sustainable Finance Forum is on changing how decisions are made by actors within the financial system to incorporate long-term sustainable outcomes.

The recommendations from this report will create the market environment to support many of the Sustainable Finance Forum's aims.

## Multi-cultural society of New Zealand

New Zealand is a diverse country comprising many ethnicities and cultures. This review considers it important to recognise the evolution of the country and remind ourselves that as our ethnicity mix varies so will the capital markets' response to the opportunities and challenges that emerge. We note the Superdiversity Stocktake published in November 2015 which provides a comprehensive overview of the state of New Zealand and its challenges.<sup>11</sup>

As the recommendations from this report are further considered and evaluated, we encourage the industry to ensure that the diversity of the population is reflected and given careful consideration.



## Basis of recommendations

To provide context, we have prefaced our recommendations with visions and ambitions for 2029.

We have weighted each recommendation according to our view of its potential positive impact on New Zealand's capital markets over a 10-year view to have more capital flowing more efficiently to New Zealand enterprises, and to provide increased investment opportunities for a greater number of New Zealand investors. We have also identified which capital markets participant(s) are best placed to investigate the matter further and drive its implementation.

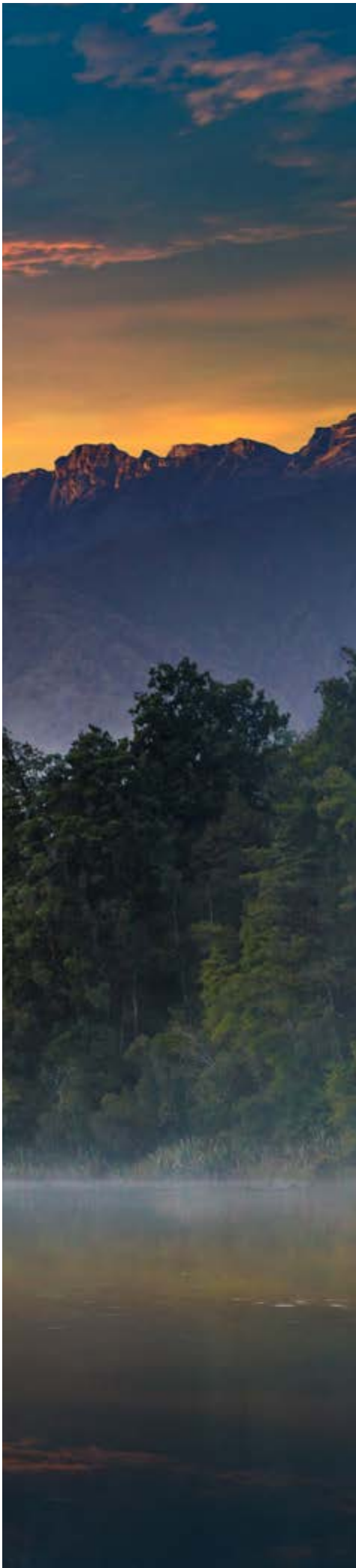






# 2 KiwiSaver and financial capability





KiwiSaver is the most common interaction New Zealanders have with our capital markets. KiwiSaver's strong brand and Government contributions have encouraged New Zealanders to have retirement savings. There are now over 2.9 million members enrolled in KiwiSaver.<sup>12</sup>

Participants have in turn reaped the rewards of KiwiSaver due to positive market performance since the global financial crisis. Contributors to this report have praised the ability to transfer between providers and Inland Revenue's central management as outstanding features. There are also signals that fees may have started to fall due to the impact of new entrants and the increasing commentary on fees and their visibility.

Feedback (both evidence-based and from anecdotal commentary) highlighted key areas for improvement:

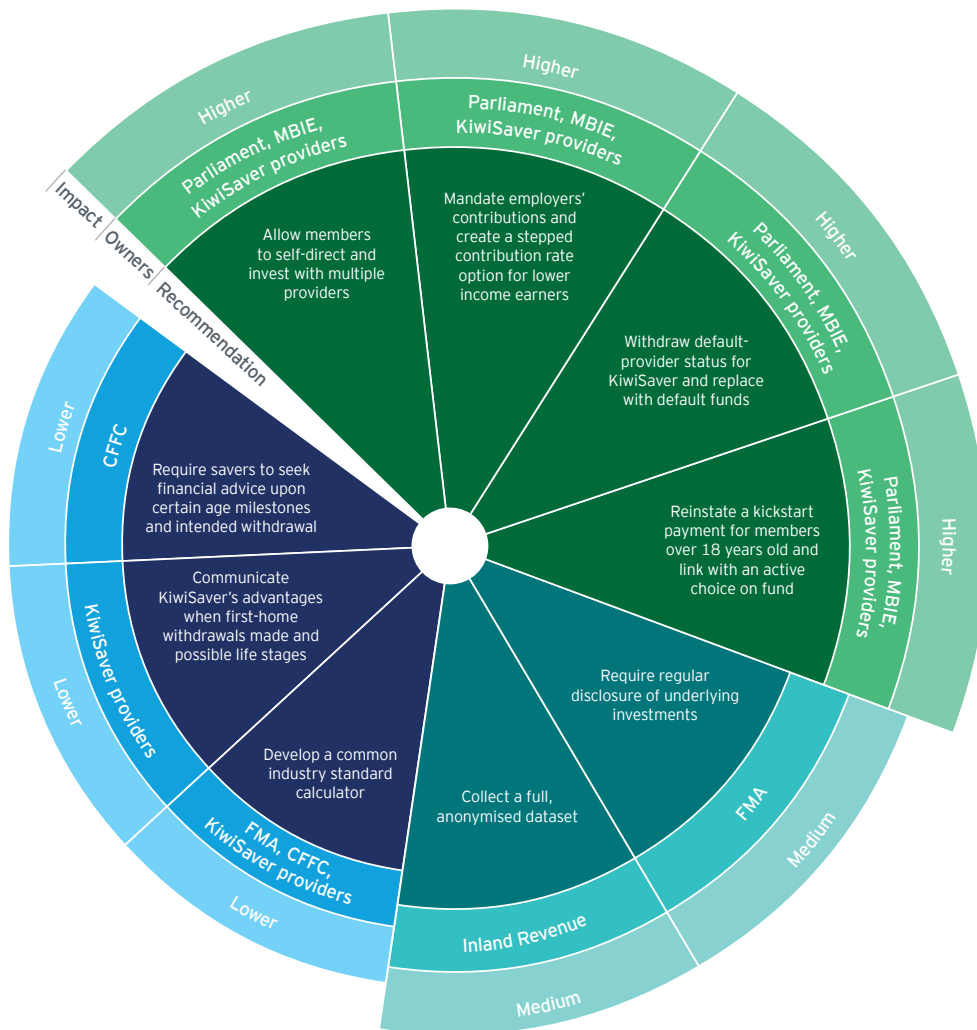
- ▶ Over 389,000 members have not made an active choice about their fund or fund provider.<sup>13</sup> Such members may be in lower-risk funds by default despite having long-term investment horizons.
- ▶ 1.2 million members were not making contributions to their KiwiSaver as at March 2018.<sup>14</sup>
- ▶ There has been little innovation from large or incumbent providers.
- ▶ There is no consistent disclosure of KiwiSaver fund holdings.

We envision KiwiSaver will become the main way individuals save for their retirement. As these savings grow, it will be the largest pool of capital available for domestic investment. For this review, we believe there may be up to \$200 billion in KiwiSaver by 2030.<sup>15</sup> As such, it is important to improve the outcomes of KiwiSaver for participating New Zealanders.



# There is a significant mismatch between the liquidity of investments owned by members and the expected investment duration of KiwiSaver

## Recommendations



### Allow members to self-direct and invest with multiple providers

KiwiSaver members have little or no access to unlisted asset classes common in overseas retirement savings plans.

There is a significant mismatch between the liquidity of investments owned by members and the expected investment duration of KiwiSaver. Most providers have highly liquid portfolios (generally concentrated in

cash, bonds and listed equities). Only a handful of managers we spoke to have funds that invest in illiquid assets and such assets are a small portion of those funds. There is a need to maintain some liquidity because members can change providers with 20 days' notice, but the majority of members in growth funds are unlikely to gain access to private market assets under current settings and existing approaches by investment managers.

We recommend that all KiwiSaver members have the ability to invest with more than one KiwiSaver provider. This will allow for greater product innovation as well as competition amongst KiwiSaver providers under this proposal. KiwiSaver members looking for a wider range of specialist investment options should have the ability to choose and allocate a certain contribution or balance to a second KiwiSaver provider who may offer greater access to a range of



investments, including illiquid investments where liquidity risk would sit with the member rather than the provider for a fixed period of time. This gives investors greater flexibility and choice without having to switch all of their investment from one provider to another.

We also recommend a full, self-directed KiwiSaver option where members choose their own investments and registered providers hold the chosen investments in a custodian-type arrangement for each specific member. Under this model, the KiwiSaver member would bear the liquidity risk of their investments, rather than the provider, as is the case under the current model. We are aware of at least one fund where members can choose their underlying investments from a given list. However, in this case, liquidity risk still sits with the provider and the investment choices are generally liquid assets. Moving to a self-directed model would allow members to invest in less-liquid assets such as private equity and other funds. This gives members greater choice and control over their investments and creates a more diverse market. It also maintains direct retail investor participation in the market.

We are not suggesting that self-directed KiwiSaver investment will suit all members or that adoption will be significant. Even if only a small fraction of members moved to this model, it would increase diversity in New Zealand's capital markets and encourage further innovation from existing and new KiwiSaver providers in investing in unlisted and less-liquid assets.

We do not support a self-management option where members manage their own KiwiSaver funds outside a registered KiwiSaver provider. This option has led to worse outcomes in Australia, particularly for accounts with smaller balances.

**Mandate employers' contributions and a stepped contribution option for low-income earners**

Currently, it is compulsory for employers to contribute to their employees' KiwiSaver accounts, unless the following circumstances apply: the employee has opted out, has signed a contract that accounts for their total employment cost (including employer contributions), is on a savings suspension or is over 65 years old. The changing composition of our workforce does not allow contract workers the same access to employer contributions. This needs to be researched to see the extent of the issue and amendments made to ensure all New Zealanders are getting the best opportunity to get the most out of their KiwiSaver scheme. We recommend mandating employer contributions regardless of employees'



employment contract and decisions to opt out or go on a savings suspension. Additionally, we recommend requiring employers to continue 3% contributions for low-wage earners who have elected a lower contribution rate (or have suspended their contribution) of their salary or wages. Capital market participants noted the difficulty of saving for low-income households with little disposable income. However, we recognise the importance of instilling a habit of saving and wish to encourage it, particularly in people who are currently struggling financially. We suggest the employees' lower contribution rate could start at 1% and then gradually increase, with stepped contribution path implemented and set at the time of joining.

This recommendation will encourage broader participation in KiwiSaver.

#### Withdraw KiwiSaver default-provider status and replace with default funds

We have heard that the default-provider scheme has limited competition and innovation and, despite mandated requirements, many default providers have not made contact with many default clients.

On 7 August 2019, MBIE released its discussion document paper "Review of the KiwiSaver Default Provider Arrangements". CM2029 plans to make a submission on certain points upon which MBIE has sought feedback. Our overarching recommendations and observations are outlined below.

We recommend the withdrawal of default providers and that an appropriate default fund setting be implemented (that considers price,

asset allocation, financial education and support), and allow all KiwiSaver providers to opt in to meet the default fund requirements.

This should provide greater competition by all providers interested in building their scheme by offering a default fund. There will be providers who choose not to offer a default fund because those new members are not their target market. This will allow smaller KiwiSaver providers to grow, and allow more personal contact to ensure every new KiwiSaver member is getting the best possible service and support.

The Inland Revenue model would still allocate members by way of carousel, the allocation numbers would just be higher. Clients of current default providers who have not been able to connect with their default members to encourage an active choice should also be reallocated to the new providers who offer a default fund.

With regard to those in default funds, if after, say, three years they haven't made an active decision to stay in the default fund, all future contributions could be directed to a balanced fund (assuming default funds retain their conservative setting).

We do not favour the specific mandate that default funds be used for capital markets' development. Although this may seem counter intuitive given the purpose of this report, we think our other recommendations are capable of achieving market development via commercial means and investor choice rather than a mandate imposed upon the default funds and their members. Indeed, this view extends to imposing any market allocation or asset allocation criteria on KiwiSaver generally.





### Reinstate a kickstart payment for members over 18 years old and link with an active choice on fund

Many KiwiSaver members are not contributing, or remain in default funds which may not be the right risk profile for them.

We recommend reinstating a kickstart payment for members over 18 years old joining KiwiSaver. This payment should be conditional on the member making an active choice on their risk category and fund. This will encourage more people to join KiwiSaver and also drive them to make an active choice in line with their risk profile. This will have flow-on benefits for our capital markets, such as improved financial literacy as people become more accustomed to investing and learn about risk.

### Regular disclosure of underlying investments

Disclosure of underlying investments in KiwiSaver varies between provider. Given the benefit of being a registered KiwiSaver provider, we recommend greater disclosure obligations to ensure transparency of investments and operations.

We recommend, each quarter, funds must disclose:

- ▶ Top 20 material exposures, looking through interposing funds.
- ▶ Percentage of equity exposure by market, percentage level of cash, statement on hedging policy, fixed interest and other holdings (by holdings) by currency exposure.

We also recommend each fund discloses to the FMA quarterly, for publication on their website:

- ▶ For funds with an equity component, the Active Share of the equity component against the benchmark index, and equity portfolio make-up by market (such as NZX, ASX).
- ▶ Nature and value of any funds invested (directly or indirectly) in a deposit in, or debt or equity of, a related party of the provider. If applicable, the disclosure should include the terms of that investment, and an affirmation from the directors or trustees that the decision to invest in the related party is in the interests of the members.
- ▶ Any related parties providing services and their terms and a positive affirmation from the directors/trustees that the decision to use the related party is in the interests of the members.

This data should be available online for transparency on active management and exposure of potential conflicts and concentrations of risk. Disclosure of this information should be public for media and analysts to scrutinise.

## The lack of aggregated Government data on KiwiSaver was surprising to this review

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### Collect a full, anonymised dataset

The lack of aggregated Government data on KiwiSaver was surprising to this review. We believe Inland Revenue should collect a full and anonymised dataset down to individual accounts of inflows and balances. Inland Revenue should also maintain all KiwiSaver aggregated data in one place. This would be a very useful set of data for Inland Revenue, FMA, CFFC, MBIE and the Treasury, among others.

### Require financial advice at certain life stage milestones

We recommend requiring KiwiSaver providers to assist members with some level of financial advice at different life stages of their members, from getting them into the right fund when they start, to buying their first home, and planning for retirement. Members should not be left waiting until they reach 65 to decide what they should do, as is the case for many today. Getting into an appropriate fund when first joining KiwiSaver can make a significant difference to a KiwiSaver's outcome in the long term. More effort from providers to offer a range of advice services is essential.

The CFFC and FMA are well positioned to support the development of educational tools and provide regulatory direction to ensure all providers deliver consistently high-quality information. With both organisations working more closely together, and not duplicating activity, they are in a very good position to provide guidance and resources. These resources should be shared with providers, given the material is of a high standard and independent of their own KiwiSaver proposition.

Changing regulations have definitely improved the quality of advice to retail investors but have reduced access to that advice. In general, average KiwiSaver balances are yet to reach the point where it is economic for an AFA to provide bespoke advice to the average member. The emergence of robotic advice may increase access, but there is still an issue regarding independence of platforms and the range of products offered.

### Communicate KiwiSaver's advantages when first-home withdrawals are made

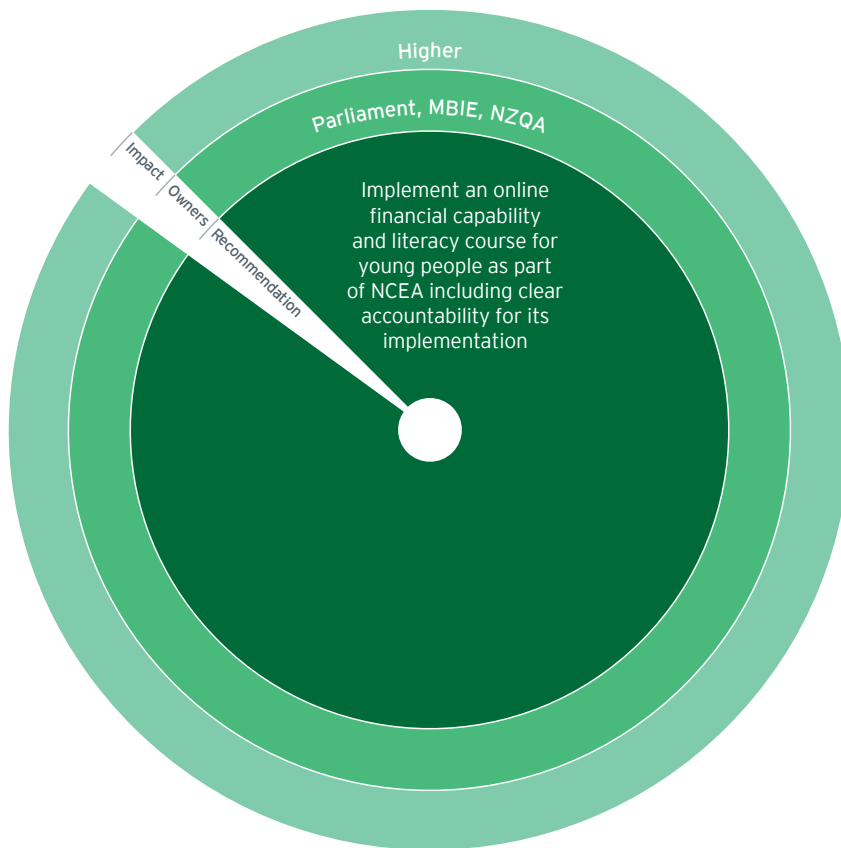
KiwiSaver members may withdraw part of their balance for the purchase of a first home. When members make a first-home withdrawal, they should receive communications highlighting the benefit of staying in KiwiSaver. One such benefit is that continued contributions to KiwiSaver lead to continued employer contributions and the Government's annual Member Tax Credit. Members should also be given information about the long-term benefits of growth funds. Another option is to offer such members a life stages product which puts their KiwiSaver into funds with the appropriate risk settings to match their age. We also note that a life stages product does not necessarily need to move to a cash setting at age 65, given overall life expectancy of another 20 years.

### Develop a common industry standard calculator

We are aware many KiwiSaver providers have developed their own online calculators to demonstrate how choice of fund, contribution rate and other inputs affect a saver's future balance. However, these calculators are often inconsistent, particularly in relation to returns, fees, tax and inflation.

We recommend the FMA creates a common industry-standard calculator for all KiwiSaver providers. In the first instance, it should allow the user to input their own assumptions to arrive at point estimates of their own future balances. Secondly, there should be a version containing a standard set of risk and return benchmarks (based on the fund's risk setting). This will allow outcomes to be ranges rather than point estimates and will show the effects of factors such as performance fees and tax. A common industry-standard calculator will enable people to make like-for-like comparisons of KiwiSaver products and understand better the range of outcomes possible.

## Recommendation



### Improve financial capability

Finally, we consider that financial capability and literacy (both knowledge and how it is applied) is very important, although its impacts are longer term. Our savings culture remains a fundamental challenge in New Zealand and many commentators and economists have commented over the years that it contributes to relatively high household debt. Although not necessarily a high impact in a 10-year time horizon, we consider there is a need to act on this fundamental feature of the New Zealand ecosystem now.

A number of capital market participants provided feedback that financial literacy is generally poor in this country. In contrast, New Zealand was 6th out of 29 countries in the 2016 OECD / INFE financial competency report. Despite this, we agree there is still a wide scope to improve the financial capability of New Zealanders. This is a difficult problem to fix. The CFFC and the FMA are well positioned to help this cause. They both need to work out their respective areas of responsibility so there is no crossover and duplication of duties and to ensure resources are used efficiently.



There is a strong need to build financial capability and literacy in schools to mitigate the problems of future generations when it comes to managing money. Teachers, too, need this support and, as a minimum, a financial capability course should be part of final-year training for teachers.

New Zealand's savings culture has improved with the introduction of KiwiSaver, but there is still some way to go. Such a shift in society and culture can only be achieved through gradual changes over time in how people behave and think. We believe that the KiwiSaver recommendations in this report may also help with this.

We recommend establishing an online course aimed at young people, 13 years old onwards, to offer NCEA achievement standard credits. This will improve financial knowledge and literacy before these students enter KiwiSaver. An additional financial incentive, such as a KiwiSaver kickstart payment conditional on completion, could encourage students to study the course. Some banks are either beginning to deliver financial literacy courses themselves or sponsoring other organisations that do. However, we believe there should be one source of truth with the capability and independence to ensure students get the best possible support and information when entering their next stage of life – whether entering the workforce or seeking a tertiary qualification. We are aware the CFFC has established the Sorted in Schools programme. It is still only halfway through its trial but, if successful, it should be rolled out across the country. CFFC should also work with other digital providers like Banqer that offer primary school children a great introduction to money in a fun and interactive way.







# 3 Regulation





## Revised regulations have been applied more conservatively than intended

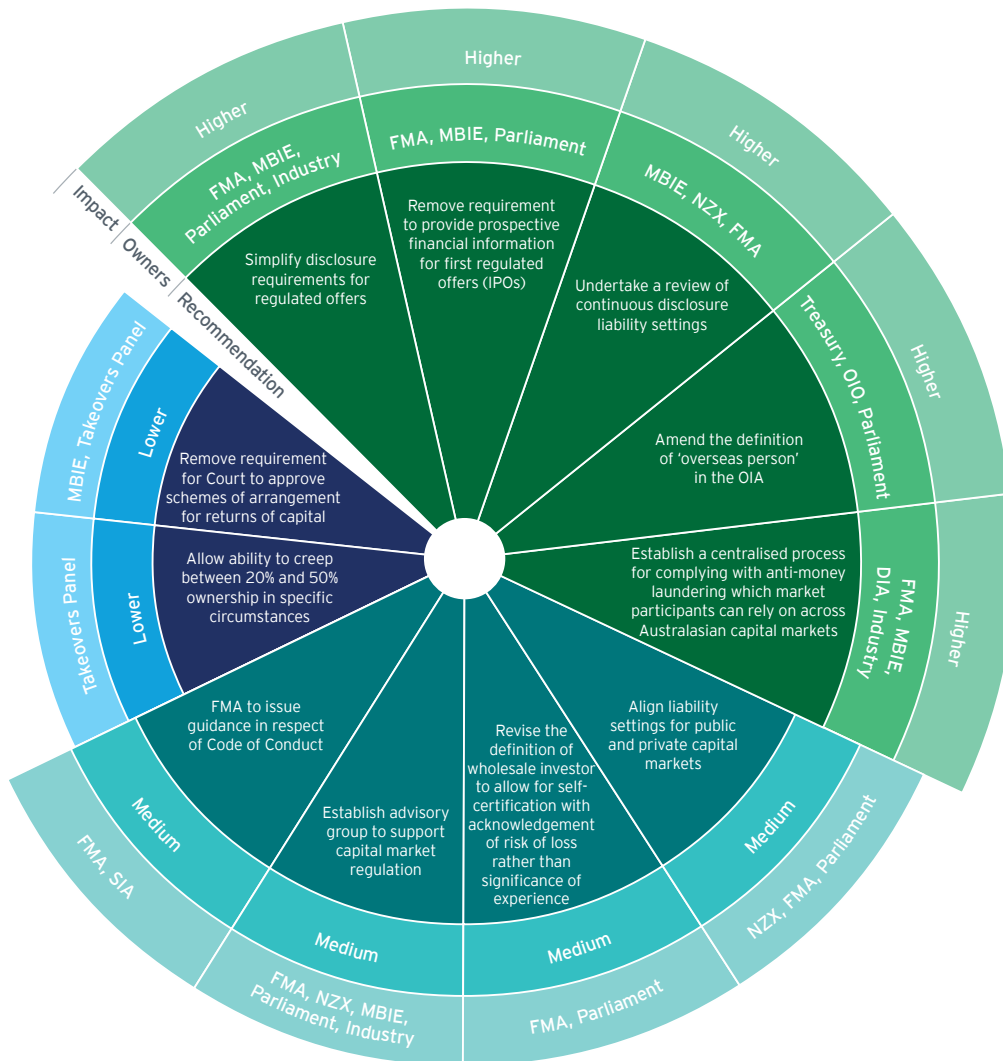
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Following the global financial crisis, there has been a rising tide of regulatory reform across the world's capital markets. Regulatory reforms have attempted to reduce the likelihood and extent of loss and disruption within capital markets and the corresponding significant economic and social costs. As discussed earlier, the FMCA replaced most of New Zealand's previous securities laws. It enabled new capital-raising options (crowdfunding and peer-to-peer lending), streamlined the disclosure regime (through the introduction of same class offers and the PDS) and provided a new governance framework for financial products.

Feedback from capital market participants is that our securities regulations are now much improved and that the FMCA has had a positive impact on capital markets. However, the feedback identified several unintended consequences or areas where further thought and refinement are needed, particularly certain instances where the industry has applied the FMCA more conservatively than intended. Our recommendations below seek to address these views.

Coinciding with the Capital Markets 2029 review, there have been several other regulatory reviews to assess the effectiveness and appropriateness of settings against current capital markets conditions. These include The Treasury's reform proposals for the Overseas Investment Act (OIA) and the current review of bank capital by the Reserve Bank of New Zealand (RBNZ).

## Recommendations



### Simplify disclosure requirements for regulated offers

The FMCA significantly revised the disclosure requirements for all offers of financial products. It brought a focus on clear, concise and effective disclosure for retail investors and comparability of financial product offerings. For an IPO of equity securities, disclosure requirements are split between: (i) a product disclosure statement (PDS), which has a highly prescribed content and length and which must be provided to every investor taking up the offer of financial products, and (ii) an entry on the Disclose

Register maintained by MBIE (Offer Register). The Offer Register contains certain prescribed information in respect of the issuer or the offer (such as full financial statements for the issuer) and any other material information not contained in the PDS, which investors may access should they wish and that is cross referred to in the PDS.

The PDS is much better than the lengthy combined investment statements and prospectuses required under the previous legislation. However, feedback indicates that they are still unnecessarily long and complex for retail audiences for IPOs of equity securities. Market

# We recommend that the NZX Regulation and FMA review the liability settings for continuous disclosure

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participants also observed that the PDS is designed for a retail audience, yet it is generally advisors and institutions making investment decisions. This is not optimal given that almost all IPOs in New Zealand over the last 10 years have not featured a general 'public pool' to allow retail investors without a broker to invest, with the notable exception of the MOM IPOs. Furthermore, disclosure requirements for retail investors are inconsistent between the public and private capital markets. Higher-risk investments in the private capital market have no legislated disclosure obligations.

Feedback from market participants indicates that many retail investors prefer to review simplified fact sheets distributed to them by their broker or made available on offer websites, rather than the full PDS. The simplified fact sheets draw their contents from the PDS and refer investors to the full PDS and Offer Register. However, the FMCA still requires that every investor receives a PDS before subscribing for shares in an IPO. The full PDS and Offer Register contents are used by analysts, advisors and institutional investors and, of course, some retail investors do use this information.

We recommend a review to determine the level of information required within the PDS versus that which can be made available to investors on the Offer Register. It seems feasible that only the information currently presented in the Key Information Summary of the current PDS regime be distributed to potential investors, with the balance of information made available on the Offer Register to any investor who wishes to access it. This would reflect better the way retail fact sheets (backed with access to the full disclosure materials) are used in practice.

The IPO timetable is lengthy.<sup>16</sup> We recommend the FMA use its power to waive the waiting period to allow listing aspirants to remove a week from the timetable where the FMA has actively engaged with the potential issuer on their disclosure documentation for IPOs.

## Remove requirement to provide prospective financial information for first regulated offers (IPOs)

The FMCA requires issuers of a first regulated offer (an IPO) to provide prospective financial information (PFI) for the next two financial years unless the issuer considers, after having made reasonable endeavours to obtain all relevant information, that PFI for that period (or part of that period) would be likely to deceive or mislead (for example,

because it is not practicable to formulate reasonable assumptions on which to base the PFI).<sup>17</sup> It has been noted by various market participants and some prospective issuers that preparing PFI is onerous and costly. PFI is not a requirement for IPOs in other major jurisdictions, including the USA and United Kingdom, nor is it a requirement for listing on many European exchanges.

We recommend removing the requirement to provide PFI, rather than retaining the current opt-out framework. Issuers would still be able to provide PFI to investors should they choose, in which case the fair dealing standard in Part 2 of the FMCA would apply to that information.<sup>18</sup> We expect larger, more mature issuers will continue to provide PFI at the time of IPO, while other issuers may look to provide simplified guidance to future performance in a similar format to the earnings guidance that the issuer intends to provide once listed.

For compliance listings, the NZX Listing Rules state that an applicant for listing must prepare a profile document which contains the information required in a PDS as if the offer was regulated under the FMCA, unless NZX determines otherwise.<sup>19</sup> We understand that, in practice, this has meant that issuers seeking to compliance list have had to prepare PFI, which is a significant deterrent to accessing the public capital markets when no new capital is being raised. Removal of the requirement to present PFI is therefore expected to make compliance listing more attractive as an alternative pathway to public capital markets. (See also page 62 for our recommendations on promoting the public markets).

## Undertake a review of continuous disclosure liability settings

Continuous disclosure principles are an important component of public markets and are a common feature of the listed environment in all comparable jurisdictions. However, market participants have noted that liability for a breach of the continuous disclosure regime in New Zealand is much stricter than many other prominent listed markets, except for Australia. Of relevance, the Australian Law Reform Commission (ALRC) has recently recommended that Australia's continuous disclosure liability regime be reviewed and noted that its current liability regime appears to have been arrived at unintentionally.<sup>20</sup>





An issuer who breaches the continuous disclosure regime in New Zealand faces a range of civil sanctions. NZX may impose a penalty for breach of the NZX Listing Rules and the issuer also faces civil liability under the FMCA (which may give rise to a pecuniary penalty or payment of damages to affected investors). Importantly, there is no requirement to establish dishonesty or recklessness (or any other state of mind on the part of the issuer) to find a breach of the continuous disclosure regime. The ALRC reported that a leading US class action expert observed that the lack of a fault element was a particularly plaintiff-friendly aspect of Australia's continuous disclosure laws. In our view, the same could be said of New Zealand. Although directors do not face primary liability for a breach of the continuous disclosure regime, they may be liable as accessories to any breach by the issuer (or may otherwise be liable where directors' duties have not been complied with, and so on).

Market participants have noted that the current continuous disclosure settings are giving rise to various negative consequences, or will certainly do so if left unabated. These include (1) an increase in class actions driven by litigation funders (as seen in Australia), (2) limiting the interest of companies in listing, (3) dissuading quality individuals from taking up directorship roles for public companies, (4) significant increases in directors' and officers' insurance costs (as seen in Australia and now being experienced by some New Zealand issuers with recent increases in premiums of more than 300% reported by S&P/NZX 50 issuers), and (5) an undue focus by the board and management on continuous disclosure issues rather than strategy.

We recommend that MBIE review the liability settings for continuous disclosure to assess whether or not the current 'no fault' regime remains appropriate, given the negative consequences noted above. MBIE should seek FMA and NZX feedback and, as part of that review, we also recommend that NZX Regulation and FMA more clearly delineate their responsibilities for investigating and prosecuting potential continuous disclosure breaches. Market participants have observed that the current system, where they receive inquiries from both FMA and NZX Regulation, results in higher compliance costs and duplication of effort in responding to the same, or overlapping, inquiries.

We also note that the New Zealand Law Commission is expected shortly to resume a review of class actions and litigation funding in New Zealand. The Australian experience of class actions and litigation funding in relation to alleged continuous disclosure breaches highlights the importance of having both fit-for-purpose continuous disclosure laws and an appropriate class action regime under which investors may seek redress for a breach.

Market participants have noted that the balance in Australia appears to have tilted too far in the direction of imposing liability on issuers and their directors. As such, we suggest the New Zealand Law Commission not to go down the same track as the Australian regime in relation to shareholder actions. In our view, a more appropriate balance would be served by an 'opt in' regime for class actions, rather than the current 'opt out' approach taken by Australia.

#### Amend the definition of 'overseas person' in the OIA

The Treasury has identified numerous issues with the current definition of overseas person in the Overseas Investment Act (as it applies to listed bodies corporate).<sup>21</sup>

We agree with their analysis. Numerous listed bodies corporate in New Zealand are categorised as overseas persons under the current definition in the Act.

However, most New Zealand listed entities have their 'centre of gravity' in New Zealand, with local incorporation, a large proportion of New Zealand ownership, New Zealand headquarters and boards and senior management located in New Zealand and comprising primarily New Zealand employees. Furthermore, being listed entities, New Zealanders can acquire interests in the entity at any time by buying shares on market.

The current definition of 'overseas person' imposes significant regulatory and commercial burdens on New Zealand listed entities. A sensible definition of 'overseas person' that excludes New Zealand listed entities with a genuine New Zealand presence is required. This would result in far fewer New Zealand listed entities being caught by the overseas investment regime, delivering the following benefits for public capital markets: (i) removal of the compliance burden and significant commercial disadvantage borne by listed entities having to obtain consent; (ii) greater certainty for listed entities and investors as to when consent is required; and (iii) attracting more companies to the public capital markets due to a more streamlined approach to OIO matters.



We have submitted our view on The Treasury's consultation document.<sup>22</sup> In summary, our recommendation is to exclude New Zealand listed bodies corporate from the definition of overseas person if no one overseas person (including any associates) holds more than 25% of the shares in the New Zealand listed entity.

### Establish a centralised process for AML

There is no central process for customer onboarding under the general know-your-client (KYC) procedures and the Anti-Money Laundering and Countering Financing of Terrorism Act. Instead, each capital market participant must undertake its own onboarding process for a new customer, with duplication of effort and inefficient use of resources. There are also inconsistencies in the approach taken to customer onboarding by institutions (for example, as to whether scanned copies of documents are suitable or whether originals must be presented). Onerous customer onboarding processes cause two negative impacts for capital markets. First, they discourage customers from signing up to new service providers, or switching between them. Second, the high compliance costs involved in running such processes act as a barrier to entry for new service providers in what is already a highly concentrated market.

We recommend that MBIE and DIA further investigate the centralisation of AML onboarding by using existing databases or by requiring appropriate regulators to conduct this onboarding. The goal should be to avoid duplication of effort and inefficient use of resources and enable investors to complete this onboarding process once, rather than having to repeat it for each interaction with a new capital market participant. Repeating the onboarding process may discourage investors from switching between banks, share brokers, managed fund providers or other aspects of the capital markets where doing so would give rise to further paperwork.

In addition, given the close ties between the New Zealand and Australian financial markets and capital market participants, we recommend reciprocity for customer onboarding with AUSTRAC, the Australian AML CFT regulator, is explored by MBIE. This will encourage greater access to services for both New Zealand and Australian residents. Alongside these initiatives, any customer onboarding that is required to be undertaken by capital market participants should be streamlined and proportionate to remove unnecessary compliance costs.

Removing duplication of AML onboarding, bringing in trans-Tasman reciprocity and streamlining onboarding processes for new customers would create greater efficiency (by reducing costs for investors and institutions) and promote competition between financial market participants by reducing the barriers that otherwise 'lock in' investors to a certain provider.

### Align liability settings for public and private capital markets

Under the FMCA, the directors of the issuer are deemed to have civil liability for any misstatement in a regulated disclosure document (ie the PDS and the Offer Register entry). In contrast, there is no such deemed liability for directors in relation to a misstatement contained in other non-regulated collateral (such as investor presentations or fact sheets) or for non-regulated offers (such as secondary capital raisings conducted under the same class exemption or crowdfunding offers).<sup>23</sup> The available defences also differ for both the issuer and its directors, depending on whether a misstatement is included in a regulated disclosure document.<sup>24</sup> In addition, differing degrees of potential criminal liability attach to documents under the FMCA, depending on whether they are regulated disclosure documents required for the purposes of the FMCA or other documents.<sup>25</sup>

These inconsistencies may lead to unintended behaviour. For example, including investor presentations or fact sheets on the Offer Register to access more meaningful defences or only including the minimum content required in regulated disclosure documents and placing additional content in non-regulated disclosure documents.

The inconsistency in disclosure standards between the public and private markets is appropriate. However, we recommend that the liability settings be aligned by removing deemed liability for directors for regulated disclosure documents and re-examining the criminal liability standards and available defences to civil liability to ensure consistency across the various types of documents used to raise capital in New Zealand.



## Revise the definition of wholesale investor

As outlined elsewhere in this report, there has been a global rise in the importance of private markets compared with public markets. This means many investment opportunities are only available to investors who can participate without needing to receive regulated disclosure documents, and many investors have had comparatively limited access to investment opportunities. In New Zealand, the FMCA sets out various tests for wholesale investors to access these private investment opportunities through the criteria set out in Schedule 1 of the FMCA, and provides for 'safe harbour' certificates to be provided (which are generally optional, but on which the issuer may rely, unless they know the certificate is wrong).

One of these types of wholesale investor is an 'eligible investor' who, unlike other types of wholesale investors, requires an eligibility certificate.<sup>26</sup> The current criteria are subjective and there may be differing interpretations as to the extent of experience required to be considered an eligible investor (for example, whether investment experience in the exact type of financial product is required, or whether general experience in investing is sufficient).

We recommend the introduction of a further avenue to eligibility. This would provide an alternative to the current requirement for eligible investors to certify their experience in acquiring or disposing of financial products that enables them to make the investment without the full regulated offer provisions applying. Under the alternative, eligible investors should be able to certify that they do not require the usual information that would be available to them for a regulated offer, that they acknowledge there is a risk they may lose some or all of their money, that they understand that there may not be liquidity or regular disclosure, and that there are risks in concentrating their investment in any one investment or type of financial product.

The procedural requirements in clause 42 to 47 of Part 3 of Schedule 1 of the FMCA should generally continue to apply. However, an eligible investor certificate (to the effect outlined above) should be required for each new investment that relies on these new criteria, rather than being a standing certificate for each eligible investor. The authorised financial adviser, qualified statutory accountant or lawyer providing written confirmation of the certification in accordance with clause 43 of Part 3 of Schedule 1 of the FMCA should not be allowed to do so if they are receiving

any financial compensation (other than a fee for signing the certificate) in relation to the investment (such as a commission or referral fee).

A broader self-certification regime, as suggested, would give all New Zealand investors increased access to private investment opportunities. All investors would be able to participate in these opportunities, so long as they certified they were willing to bear the heightened risk of doing so.

If thought necessary, monetary limits could be applied to the amount of capital to be raised from an eligible investor in this manner, with this monetary limit also applied on an investment-by-investment basis.

## Establish an advisory group to support capital market regulatory consultation

There has been a tremendous wave of regulatory change globally and locally over recent years, which shows no sign of abating. We received strong feedback from participants that the current volume of regulatory reform and associated consultation obligations is overbearing. Participants also questioned the depth of market-facing resources of local regulators. They perceive a widening gap between consultation and the enactment of reform and reported experiences of inconsistent views presented by regulators (including within the same regulator) on similar issues.

We recommend greater co-ordination between regulators on their regulatory change agendas to better manage change and consultation expectations for participants.

We also recommend the formation of an advisory group of market participants which will be able to be utilised by regulators as additional resource for regulator-initiated consultations, if requested, prior to public or targeted consultation processes. This proposed advisory group would provide regulators with practical and expert industry knowledge at the early stages of reform consultation, enabling more robust proposals to go forward to public consultation. Any such group should be transparent and open to a wide range of industry participants to minimise the risk or perception of self-interest or bias. It should not be seen as a goal to achieve unanimity amongst participants. There are divergent and strongly held views on some topics, meaning it is appropriate for the regulator or Parliament to make the final decision as to which view should be favoured. The group would not be a regulatory body or have any power to make or enforce law or regulations. Instead, its role would be to provide



regulators with access to additional industry expertise when developing proposals for reform and consultation on the same.

We recommend that regulators investigate alternative models to enable them to act more effectively and provide additional resources. In this respect, we note the Takeovers Panel and NZMDT both draw on the expertise of market participants to provide support and oversight to the staff employed by the relevant regulator.

### FMA to issue guidance in respect of the Code of Conduct

Financial advisors are hesitant to recommend equity products where research is not readily available, even though this was not the intention of the current legislation. This means that many small market capitalisation stocks receive limited focus by the broking community.

New financial advice rules were introduced in December 2010, primarily in reaction to the meltdown of the finance company sector and the consequences for retail investors who were in many cases poorly advised by conflicted and compromised advisors. The new regulations have been effective in upskilling advisors. Within the advisors that specialise in capital markets, closer attention to asset allocation and portfolio construction for retail investors has been a focus.

Additionally, the introduced regulations required advisors to have 'reasonable grounds' to recommend a financial product. In general, this has been interpreted and implemented by broking firms quite conservatively, requiring in-house research, produced by analysts with the institutional research divisions of their firms, in order for an advisor to recommend a security. Broking firms reached this conclusion in order to mitigate risk for their firms, for their advisors and ultimately for their clients. As a result, to varying degrees, retail advisors and broking firm wealth managers have concentrated on larger, more liquid financial products that are covered by research analysts.

The FMA has, in some forums, stated that reasonable grounds does not necessarily mean research must be available, and published a guidance note on this and other points in December 2011. However, this guidance note was largely ignored, and with a subsequent change in the code of conduct in 2014 this specific guidance note, "Standard-6(d) Analysis before recommendation", was withdrawn.

The industry response to these regulations has, in effect, led to the emergence of a two-tier local equity market. There is a concentration of retail investors in larger stocks and reduced interest and liquidity of smaller stocks. It can be argued that advised retail investors have not been, in the circumstances, harmed by the implementation of the advice regime. However, it has had some opportunity cost: (1) it has reduced the number of New Zealanders who have access to advice, both generally and within the capital markets, thereby reducing direct retail investor participation, (2) it has created significantly lower levels of interest and liquidity in smaller stocks, (3) it has affected the productivity of advisors.

Another consequence is that it is much more difficult to achieve IPOs of smaller companies. Advisors are generally more reluctant to recommend clients to participate in IPOs if their firm is not providing research, or due to the likelihood of the lower liquidity of shares of smaller IPOs, and the fact research coverage, if any, may not be enduring. The mixed performances of IPOs launched in 2014-16 has also done little to shift this reluctance.

In May 2019, the Minister of Commerce released a new Code of Conduct for financial advisers to be implemented in stages through to 2021. The new code focusses on fairness, integrity, suitability and understanding of financial advice. The code is intentionally high level in order to cover many products, including mortgages and insurance products. However, its application to investment advisors within capital markets could be made much clearer by the issuance of formal guidance notes.

## NZX has a greater regulatory role than exchanges in other markets

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We recommend the FMA, members of the Code Committee and the SIA jointly work to form new guidance, using the 2011 guidance as a base, with a targeted release date of 31 March 2020. The objective of this guidance will be to broaden the range of financial products upon which advice can be received (noting, however, that not all advisors will need or want to go outside current internal guidelines). Key principles of this guidance note could include:

- ▶ An acknowledgement from the FMA that asset allocation and diversification are important principles of wealth management advice and individual security selection will be viewed within this context.
- ▶ That 'reasonable grounds' for introducing a particular stock to a portfolio would include an advisor forming a reasoned positive view on the basis of receiving and understanding the materials provided by an issuer subject to continuous disclosure (including, but not limited to, presentations by management).
- ▶ That advisors within the same advisory entity can rely on internally produced analysis and assessment of a financial product of an issuer subject to continuous disclosure, by someone with the relevant experience and capability to do so, and who acts in accordance with Part 2 of the Code.
- ▶ Any other actions or information that provide reasonable grounds for a recommendation.

It would then be the broking industry's responsibility to adapt their internal policies accordingly.

Further, we note the FMA has taken very few actions against advisors in the past five years, and those cases where it has acted have been with particularly egregious circumstances.

Additionally, listed companies with low or no research coverage could consider issuing earnings guidance. In the absence of research, a track record of issuing (and ideally meeting) earnings guidance may assist advisors in forming reasonable grounds to recommend a particular stock.

### Remove court approval of capital returns via schemes of arrangement

Companies seeking to return capital to investors can do so by paying a dividend, buying back shares, or by undertaking a pro rata cancellation of shares through a scheme of arrangement. Each of these methods has positives and negatives.

Paying a dividend is administratively straightforward but it is not tax efficient to return large amounts of 'capital' (as distinct from 'income') if insufficient imputation credits are available (as resident withholding tax must be applied to the dividend at 33%, whereas the return of capital should, generally, not be taxable). A buy back can be more tax efficient but is generally voluntary – so only the shareholders who take up the offer receive the capital. For these reasons, to return capital, many companies turn to a court-approved scheme of arrangement under Part 15 of the Companies Act 1993.

A scheme of arrangement requires the approval of both the court, and shareholders. The company typically obtains initial orders directing a meeting of shareholders to be held (and addressing certain other procedural matters), holds a meeting of shareholders, and then returns to court seeking final orders to implement the scheme.

While the court approval mechanism continues to be appropriate where a company is seeking to implement a takeover by way of a scheme of arrangement, or some other more exotic transaction, the approval of the court should not be required for a straightforward pro rata return of capital.<sup>27</sup> Presently, documents for such transactions need to be reviewed by NZX (if the company is listed), the transaction approved by shareholders and the court, and a ruling is sought from Inland Revenue as to the tax consequences of the scheme.

The costs and timing consequences of involving the court are significant. There is limited additional protection provided to shareholders by doing this, given shareholders are required to vote on and approve the return of capital and such a return is pro rata by nature.

We recommend the Companies Act be amended to introduce a mechanism for companies to return capital to shareholders through a pro rata, compulsory cancellation of shares with shareholder approval, but without court approval. This would be consistent with the approach taken in several other jurisdictions, such as Australia. New Zealand companies would thus be able to return capital to their shareholders more rapidly and with lower transaction costs.











## Allow ability to creep between 20% and 50% in specific circumstances

At present, the Takeovers Code does not allow a person who holds or controls more than 20% but less than 50% of the voting rights in a code company to increase their shareholding in the absence of a full or partial takeover, shareholder approval or reliance upon an exemption. In contrast, once a shareholder holds or controls more than 50% but less than 90% of a code company, that person may increase their shareholding percentage by 5% per annum (referred to as the ability for a shareholder to 'creep').

We recommend the Takeovers Panel explore whether shareholders within the current 'no fly' zone of 20% to 50% be permitted to creep their shareholding percentage, in certain circumstances. We recommend this be applicable to capital raises undertaken by the code company where new equity is being raised. This would allow cornerstone shareholders more flexibility to support such capital raisings where they are not being undertaken on a pro rata basis or there is a pro rata subscription shortfall. The appropriate shareholding creep percentage should be considered by the Takeovers Panel. In Australia, this is 3% per annum.

To protect shareholders against the increased concentration of voting rights, a restriction could be imposed so that the shareholder relying on an ability to creep between 20% and 50% cannot cast votes on those shares acquired by creeping until shareholder approval is obtained.

## Observation

### NZX as an operator, regulator and commercial entity

Various capital markets participants have commented on NZX's role as a front-line regulator, as well as being the market operator and owner of commercial operations. Some of the views with regard to regulation included:

- ▶ NZX has a greater regulatory role than exchanges in other markets, especially in regard to trading. This is unusual in an international context, but there was no strong view that this regulatory division constrains participation in New Zealand's listed market or that changes to the split of regulatory responsibilities between the NZX and the FMA would benefit the capital market overall.
- ▶ The NZX's regulatory capability has improved since the introduction of the FMCA according to FMA reports.
- ▶ NZX is best placed to monitor market participants and we sense it is desirable to have just one entity responsible to monitor continuous disclosure (with the FMA responsible for bringing enforcement action under the FMCA).
- ▶ There is some external confusion around NZX's dual role. Some third parties such as investors and listed companies are unaware of the strict separation and roles performed by NZX and NZX Regulation. Often, they are both viewed as just being NZX, which is a frustration for the commercial activities and personnel of NZX.

With regard to commercial operations, some participants commented on the commercial tension that such ownership may create. This review concluded that this was something market participants should raise directly with the NZX and was not material to the objectives of this review.









# 4 Public sector assets and infrastructure



In 2009, the Capital Markets Development Taskforce encouraged the Government to list certain assets on the NZX. The resulting MOM programme saw the listing of Mighty River Power (now Mercury NZ), Meridian Energy and Genesis Energy.

The listings saw the government maintain majority ownership of the companies, whilst the companies themselves significantly increased dividends and generally lowered capital expenditure post listing. This process also introduced many new investors to public markets alongside the participation of KiwiSaver funds. In addition, ACC and NZ Superannuation Fund also participated in the share offers. Anecdotally, it is worth noting that a number of other IPOs occurred at around the same time and the MOM programme resulted in a period of market stimulation.

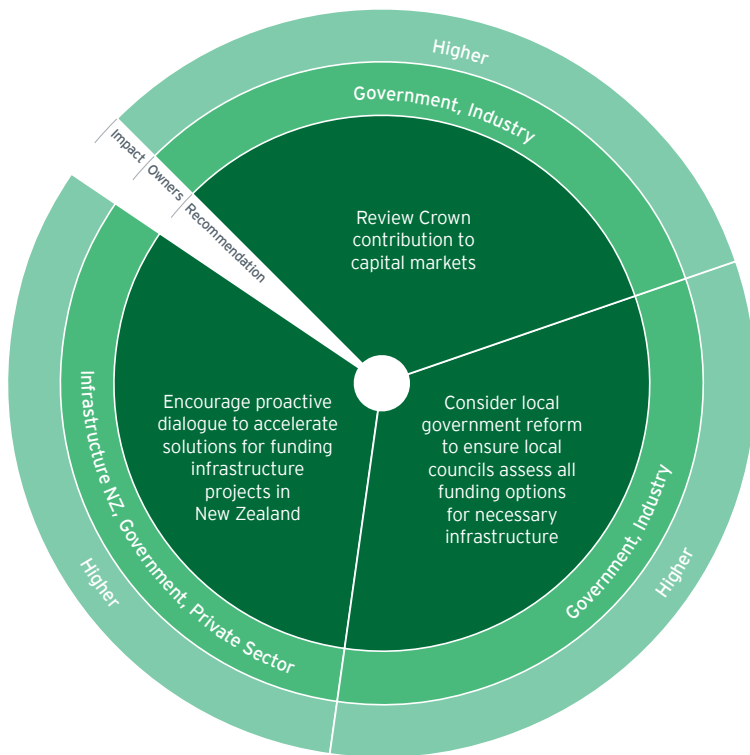
Recently, the New Zealand Productivity Commission has completed some work on local government funding and financing.<sup>28</sup> Local government plays an important role in the New Zealand economy. As of June 2016, it owned \$112 billion of fixed assets, employing 25,000 people with an annual operating income of \$8.9 billion and an annual operating expenditure base of \$9.3 billion. This review considers the link to capital markets and what more could be done.

New Zealand has a significant need for infrastructure – estimated at \$129 billion over the coming 10 years.<sup>29</sup> The recent Construction Accord and formation of the Infrastructure Commission (including most recently its Chair and Board) aim to add clarity and transparency to the New Zealand infrastructure pipeline so that the private sector can increasingly understand and help develop infrastructure. In the context of this review, many submitters made the point that the capital markets can be enabled to play a greater supporting role in infrastructure investment if the relevant charging models are considered so that the infrastructure is investible.



New Zealand has a significant need for infrastructure which has been estimated as being \$129bn over the coming 10 years

## Recommendations



### Review Crown contribution to capital markets

The MOM to date has clearly demonstrated to New Zealanders how such a model might benefit the country. Both the taxpayer (as reflected by the Crown) and investor have significantly appreciated their asset holdings. Some contributors also argue that the companies have made more efficient capital allocation decisions, as the disciplines of being listed and in the public domain have taken hold. There remain a number of assets that we believe would benefit from such a model, existing SOEs (or assets held within existing SOEs) but also some assets currently inside local council balance sheets. We have not considered an exhaustive list but in our view, this is something that could be considered in greater depth on behalf of Government. We encourage Government and local councils to consider the benefits of utilising the equity and debt capital markets to unlock capital for other purposes.

Control and related issues are frequently raised as barriers to such activity. However, we assert there is usually a range of solutions to accommodate these concerns. It is time to review and acknowledge that legislative reform may be required in some circumstances to create the catalyst for a different approach.

### Consider local government reform to ensure local councils assess all funding options for necessary infrastructure

Currently, this part of our economy is funded by rates, levies and charges. We see it as a lost opportunity for local councils to utilise the capital markets and a missed opportunity for New Zealanders to invest in their local communities. For this to occur we think central Government intervention is needed to require local councils to consider the capital markets as an option for raising funds, as opposed to rates or levy mechanisms.

This reform may also extend to the question of capital recycling whereby councils are required, as a responsibility to their ratepayers, to consider the question of using their asset portfolios to fund much-needed infrastructure (for example) far faster. Furthermore, capital market participants have suggested potential rationalisation of ownership (and contestability of ownership) for asset classes such as infrastructure for water, ports and energy distribution as it could improve economic performance and effectiveness of governance. This is based on the performance of the MOM assets highlighted earlier in this report.

This is not a new topic and it is well known that local councils have been presented with myriad capital markets ideas over the years.

We have noted (see page over) the recent consultation by the Hawke's Bay Regional Council and subsequent IPO of the Napier Port to raise capital to fund their future development while maintaining control of the asset. This is an excellent example of the sort of activity which might follow from change within the funding and financing model for local government in New Zealand.

Notwithstanding the IPO of Napier Port, there would likely be little change from local government without a firm catalyst to operate differently, which is why a review and reform of legislative settings is required.

To provide greater comfort to local councils and ratepayers that it is possible to maintain control of the assets, we recommend the Local Government Act 2002 be amended to include a new part that mirrors the provisions applying to MOM companies under Part 5A of the Public Finance Act 1989. In summary, these provisions would prohibit a reduction in local councils' control below 51% and introduce a 10% holding limit. While it is possible to achieve these goals through provisions in the constitution of the relevant company, a legislative framework would provide greater alignment between local authorities and statutory backing to underpin such restrictions.

To help maintain flexibility and local decision-making rights, we recommend empowering local authorities to designate a council-controlled organisation as being subject to the provisions suggested above (or to revoke such a designation).

### Encourage proactive dialogue to accelerate solutions for funding infrastructure projects in New Zealand

Acknowledging the infrastructure gap and challenge in New Zealand is a necessary starting point, as is establishing a single delivery organisation for infrastructure in New Zealand. Solving the infrastructure funding gap has many facets beyond the scope of this report. Equally though, when considering how to strengthen the ecosystem of the capital markets in New Zealand there must be a greater role for the capital markets to play, either via equity-like or debt-like instruments which will also bring new opportunities to New Zealand investors.

The Infrastructure Commission is in progress and expected to be in place this year. We would recommend their first assignment is to accelerate infrastructure delivery and start consulting with the industry immediately on how this needs to be enabled.



## Case study: Napier Port IPO

On 20 August 2019 Napier Port Holdings Limited listed on the main board of the NZX, in a transaction initiated by its 100% owner, the Hawke's Bay Regional Council.

Napier Port raised \$234 million of equity capital in this transaction, part of which will assist the funding of the development of a substantial new wharf. The regional council retains a 55% interest in the company.

The IPO prioritised the interests of local iwi, ratepayers and port staff by inclusion of a priority offer. Some 20% of the shares were sold in this component of the offer, with over 7,500 local ratepayers and 97% of port staff participating.

The offer was priced at the top of the indicative price range and resulted in Hawke's Bay Regional Investment Company receiving ~\$108 million in cash, about \$25 million more than indicated during the consultation process.

Rex Graham, Chair of Hawke's Bay Regional Council says from the stage of initial consultation to the listing was a process of about two years.

"The capital raising and listing transaction clearly achieved each of our five goals:

- ▶ The company is now able to build its new wharf which will contribute to our local economy.
- ▶ We protected ratepayers (many of whom have fixed incomes), from the costs of Port development.
- ▶ We have retained majority community ownership and control of Napier Port for the benefit of all Hawke's Bay residents.
- ▶ Locals who could afford the investment were prioritised in the IPO and this has been a great success, with almost 90% of local applicants getting all of the shares they requested.
- ▶ We have protected and grown our balance sheet to enable us to focus on our core environmental responsibilities and prepare for the inevitabilities of climate change.

Hawke's Bay Regional Council are delighted with the outcome. It shows what a determined council can achieve by setting out the facts for ratepayers, giving them clear information and choices and working with all its key stakeholders".

Napier Port CEO, Todd Dawson, was equally pleased with the outcome: "The IPO has given us the funds to develop the port while retaining the stability that majority council ownership provides. We can now build our capability to serve the needs of local importers and exporters – it has really set us up to deliver for the region".









# 5 New Zealand economy and market development



## We are encouraged by the Government's market development initiative to commit \$300 million to assist New Zealand firms expand beyond the early start-up phase

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Many capital markets participants have observed that there has been a significant step-up in capital availability from sources such as private capital (both globally and locally) and angel investment (locally). However, they note there seems to be a disproportionate gap in the area of venture capital raises in the region of \$2 million - \$10 million.

This means that some companies have either not accessed capital or have needed to access equity capital outside of the New Zealand capital markets. One suggested cause of this gap is that New Zealand has developed a very active angel investment community over the last 10 years, providing a large pipeline of companies seeking funding. Another suggested cause is a lack of venture capital managers who have been able to attract capital to invest, perhaps driven by the lack of track record of returns for the sector in New Zealand and the challenges of raising a fund in which management fees are sufficient to cover operating costs. That said, there is plenty of evidence that a number of companies are still successfully raising money in this range, and at this stage.

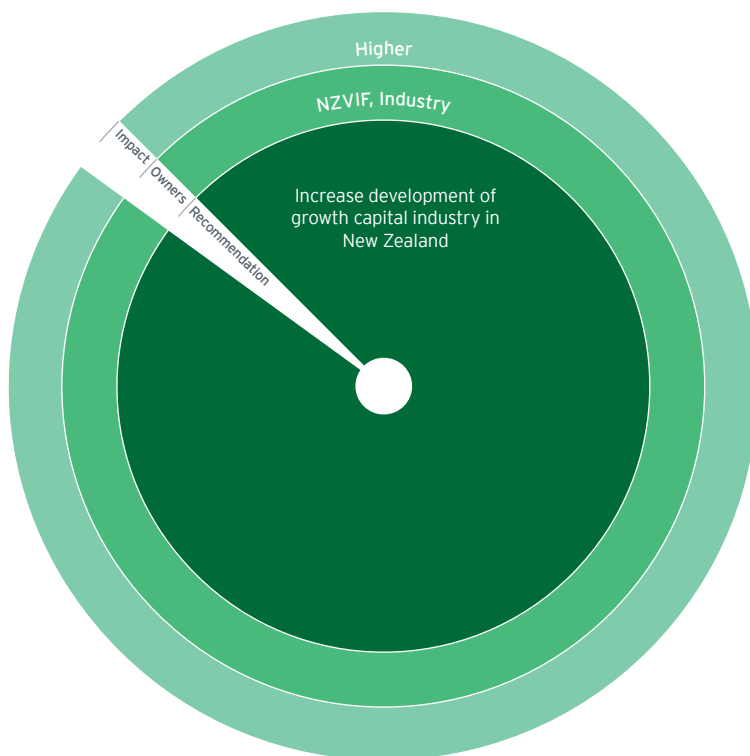
The Government has announced, as part of the 2019 Budget, it will establish a new \$300 million fund to help New Zealand firms expand beyond the early start-up phase.<sup>30</sup> The \$300 million fund will use \$240 million of contributions that would otherwise have been allocated to the New Zealand Superannuation Fund between 2018 and 2022, and \$60 million from the New Zealand Venture Investment Fund's (NZVIF's) existing assets. It is anticipated this funding will be committed to qualifying funds on a matched basis.

We are encouraged by the Government's market development initiative to commit \$300 million to assist New Zealand firms expand beyond the early start-up phase but caution that it will take time to deploy the funds, and longer to see evidence of investment outcomes.





## Recommendation



### Increase development of growth capital industry in New Zealand

Around the world and locally, many companies are electing to raise additional growth capital from private markets rather than public markets. Capital markets participants note that private capital also offers investee companies access to strategic networks and relationships. With the additional source of funds available, we would encourage NZVIF to collaborate with relevant industry bodies and existing funds to grow the industry. This would promote further benefits for the end users of capital and increase the number of growth funds locally, subsequently raising the available pool of growth capital for companies looking to expand beyond their early start-up phase.

The institutionalisation of this sector and other recommendations within this report, such as the choice of self-directed KiwiSaver funds and easier certification to invest in non-registered offers, should increase access of individuals to these type of funds, and private funds more generally. In the longer term, a more active growth capital sector based in New Zealand may increase the pool of companies that could consider a move to the local public markets.



## Observations

### Banking sector and bank capital

The RBNZ has recently proposed an increase to the minimum capital requirements of New Zealand registered banks which they see as a way to better protect depositors and consistent with their goals of soundness and efficiency. The RBNZ has acknowledged the downsides as being a potential increase in interest rates for borrowers and lower equity returns for shareholders. We acknowledge that an in-depth review of systemic risk and weighting of relative merits of the RBNZ proposals is not within the scope of this review. However, we think the following points are relevant for the capital markets in the event that the proposals are implemented:

- ▶ Many respondents to the RBNZ consultation paper have cited that the downside risk of funding for the New Zealand economy is disproportionately higher for certain important sectors of the economy, notably dairy and SMEs.<sup>31</sup> It is likely that capital allocation of banks will be reviewed (particularly for foreign owned banks) which may result in less capital being available, most likely resulting in a materially higher cost of borrowing for some. Although these observations are not necessarily evidence-based, they do speak to the importance of bank funding across the New Zealand economy. We note that, for reasons of scale, listed capital markets are generally not feasible funding substitutes for most of the businesses within the sectors most likely to be affected.
- ▶ We have a strong sense that the capital market would welcome it if the New Zealand banking industry could provide equity or debt instruments in which both domestic and offshore investors could participate. Many have noted the previous investor demand, particularly from retail investors, for capital instruments issued by banks in New Zealand – either AT1 or T2 instruments. Under the RBNZ capital proposals, some have observed there would be limited incentive to continue to issue AT1 or T2 instruments. However, instruments that qualify for T2 capital in Australia could be directly issued in New Zealand by Australian-based banks. Additionally, the RBNZ could consider allowing T2 instruments as part of a regulatory capital base, albeit with reduced weighting. This would allow domestic banks to keep issuing these instruments, and at lower cost to the issuer compared with their cost of equity (which they generally claim in their submissions to the RBNZ is somewhat invariant to the level of capital held). We suggest the RBNZ looks for ways to retain AT1 and T2 instruments that meet their objectives and the needs of investors. Allowing greater use of AT1 and T2 instruments may also assist mutually owned domestic banks to grow their capital bases.
- ▶ The RBNZ proposals may, however, promote greater use of the public markets by corporates as an alternative source of funding and, if implemented, we would expect to see growth in both non-bank lenders and private credit funds.



# Iwi businesses are likely to be at the forefront of the changing nature of our capital markets

## Iwi and the Māori economy

The size of the Māori economy has been estimated at \$50 billion.<sup>32</sup> In 2015, the Māori economy contributed \$12 billion to New Zealand's GDP.<sup>33</sup>

Assets remain largely concentrated in the primary industries, although there is increased diversification into other areas, such as geothermal, digital, services, education, tourism and housing. There is increased adoption of tikanga (Māori protocols) in a commercial context and increased commercial collaboration among Māori-owned entities.

Iwi and other Māori businesses continue to operate in the economy with a distinct conviction: inter-generational, social, cultural, environmental and economic value creation for their people. Value is predominantly generated in three ways: the skills, careers and livelihoods that tribal and Māori businesses provide through employment, growing significant commercial assets to provide long-term source of income and the social, cultural and environmental programmes they fund and deliver.<sup>34</sup>

Further growth in the Māori economy is anticipated, including growth in iwi investment capital as a result of further Treaty settlement, which would result in more active participation from iwi in the country's mergers and acquisitions market.

The formation of Te Pūia Tāpapa Investment Fund (Te Pūia Tāpapa) is evidence of collectivisation. Twenty-six iwi and Māori entities collaborated to form the first scale iwi/Māori direct investment fund. Te Pūia Tāpapa is a preferred partner of NZ Superannuation Fund. The purpose of Te Pūia Tāpapa is to protect, grow and diversify the asset base of the Te Pūia Tāpapa whānau (family) consistent with their intergenerational wealth aspirations.

Iwi and other Māori entities have been specifically accommodated in a number of share offers, including the three generators in the MOM programme, and the IPOs of NZ King Salmon and Napier Port. They are also investors in private assets such as private equity funds and property ventures. We encourage industry bodies to continue to reach out and engage with Māori investors for opportunities that yield mutual benefit. This may facilitate more Māori investment into New Zealand's capital markets.

This report does not have any recommendation per se regarding the Māori economy, however, we do think it is very important to recognise the continued importance of the Māori economy to the capital markets in New Zealand and would reasonably expect an increasing contribution to 2029 and beyond. The Māori economy will continue to grow, and its presence is only going to become greater. We anticipate it will be another positive contributor to our capital markets. Given the emerging themes of environmental and responsible investment, iwi businesses are also likely to be at the forefront of the changing nature of our capital markets.

## Other sectors

Certain sectors of the New Zealand economy are under-represented within the equity capital markets, most notably banking and agriculture. In the case of banking, this is a function of Australian ownership of the four largest banks, Government control of another and mutual/co-op type ownership of smaller banks. Only one domestic bank is listed locally.

Within agriculture, there is a greater representation within public markets than 10 years ago. Examples include the listings of firms such as Scales, NZ King Salmon and Synlait, and the success of A2 Milk, however many assets are owned by individuals (eg farmers) or are in co-operative structures (eg entities in dairy processing and export, meat processing and export and fertiliser). We believe investors would generally welcome a broader ability to invest in these two sectors. The OIA submission by the Steering Committee referenced earlier in this report would also assist in enabling the investment in agricultural businesses to be more feasible.











# 6 Promoting public markets

As discussed in the introduction to this report, the larger end of the listed market is working well. It is liquid, well-researched and relatively easy for already listed companies to raise additional capital. However, New Zealand has seen a dearth of recent IPO activity, while private markets have grown. In this section, we discuss the trends and influences which affect the New Zealand public markets.

### Primary equity market

Globally and locally, numbers of IPOs are at low levels. In larger markets, companies are staying private for longer, and the average IPO size is increasing. Private equity funds have significant levels of capital available for deployment. At the same time, the extended periods of low interest rates have given companies relatively easy access to capital outside of public equity markets. We have sought to find out why more companies are not successfully listing in New Zealand. As part of these observations we have assessed the pipeline of entities that could potentially list and analysed the role various parties play in the listing process.

#### Potential issuers

We have outlined below feedback received from potential issuers with respect to listing in New Zealand. For convenience we have grouped them into several categories. Our exercise cannot be considered a formal survey, and has some selection bias, however we think there are consistent themes within each of the groups.

#### Early stage, high growth companies with global ambitions

These companies are typically founder-led and have sourced their preliminary funding from family and friends as well as the angel investment networks. Due to their focus on product development and building scale quickly, these entities are generally not yet profitable and have minimal tangible assets. Most do not view listing as the pathway to raise capital in the short term as they view their ideal capital partner to be a high profile VC fund (usually international) who can provide not just capital, but also access to networks, advice, a halo effect and greater access to investors in subsequent rounds. Further, these companies generally believe they do not have resources at present to commit to governance and continuous disclosure standards applicable to a listing. The founders would also like to maintain a degree of control over their shareholder register and as a result do not favour a public listing.

We observe that taking investment from an offshore VC does not preclude an IPO from occurring later – there are many precedents for this – and we encourage these types of companies to retain the flexibility to have a listing as a choice for the future.

#### Small-medium size, low-to-medium growth companies

These companies (revenue, say, \$5 million to \$20 million) are typically owned by a single individual, a family or otherwise closely held and have grown organically over time, mostly with profits reinvested into the business and some use of debt financing. These owners will often only consider selling their business in conjunction with a decision to retire or step back from the business. In lower-margin sectors such as manufacturing or industrials, these businesses struggle to raise capital or sell their business for prices they would consider attractive. A trade sale or retention by family interest is common.

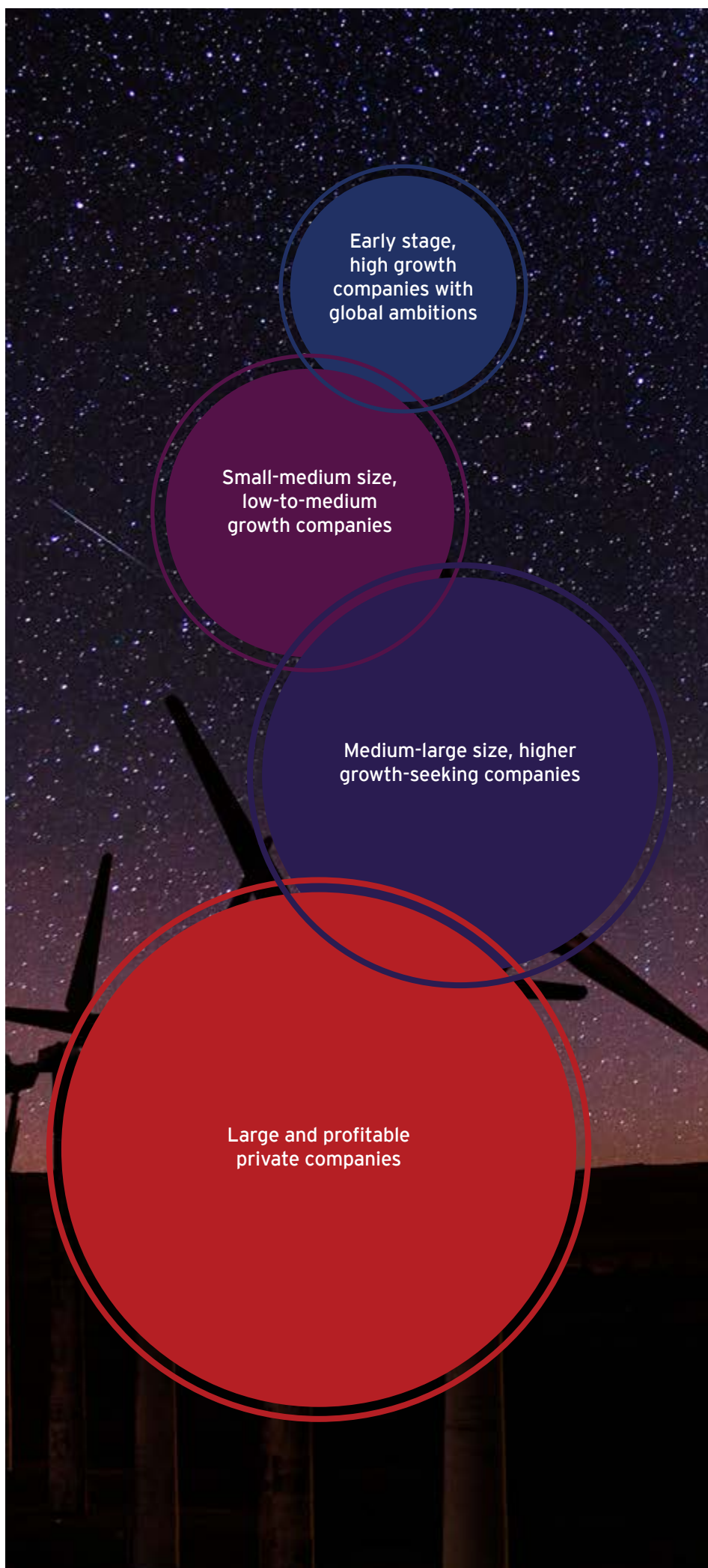
#### Medium-large size, higher growth-seeking companies

These companies are often owned by a single individual or closely held. This group of companies is generally growing at a healthy pace and profitable or very close to it, and is confident of achieving more growth, often via export or expanding offshore. These companies generally have a board in place. A subset of this type of company appears more favourably disposed to listing having been either positioned for a listing for some time, or at least to have preserved it as an option. They intend to use the capital markets to fund growth.



## Large and profitable private companies

These companies are typically owned by families and, in some cases, management and employees also. They tend to be older businesses and, as they have been profitable for some time, they are often aspiration and growth focussed. Their owners are generally not demanding of distributions. They often have low levels of gearing and a single banking relationship. Many do not have a significant requirement for equity capital. A significant portion of these companies are already operating in Australia or considering expansion there. For many of these firms the need for capital and liquidity is often driven by the time frames of their shareholders. Often, one may wish to sell but others want to continue the growth path, but don't have an appetite to debt fund the exit of a significant shareholder. Often, these companies will look to trade or financial partners, but they are a substantial opportunity for the public markets.





Direct Capital estimates there are approximately 1,200 private companies in New Zealand with revenues over \$30 million. Of these, around 720 have revenues greater than \$50 million and are profitable, and around 480 have revenues greater than \$100 million and are profitable. There are approximately 70 NZX listed operating companies with revenue greater than \$30 million which are profitable.

There are many reasons these companies are not actively considering listing. Some are based on preferences, but some are attitudinal, and some are misconceptions. Some state that they do not want the public profile associated with listing or to be subject to the disclosure requirements of a listed company.

Many acknowledged they do not have full awareness or understanding of the options for listing or benefits, as they have not sought advice in this area.

An opportunity for the NZX and the industry generally is to promote the benefits of the capital markets and dispel misconceptions. Capital markets can be flexible with regard to the preferences of vendors, and it seems too many potential issuers rely heavily on anecdotes and selected examples to form opinions.

### Local and central Government-owned assets

As discussed extensively on pages 49 to 50.

### Other views

We also note there are a number of instances of companies that could otherwise list choosing to accept private capital because they have a limited number of suppliers or customers, and believe public disclosure of their financial information would not be in their own commercial interests. They also preferred to avoid the public scrutiny associated with being a listed entity.

Our discussions with companies who chose not to list in New Zealand, or did not list at all, found that a number had been deterred because their initial interactions with potential institutional investors was an underwhelming experience. Comments include that institutions only had New Zealand stocks as their frame of reference. Many companies reported finding a better reception further afield where potential investors were more engaging and more open minded. Research analysts offshore could offer more insight due to a greater level of specialisation and a deeper pool of reference companies.

### Brokers and investor base

We received feedback that listings of companies with likely market capitalisations less than ~\$100 million receive little support from traditional brokers and investment banks, who seem less willing to support or sponsor such smaller-scale listings. New Zealand has experienced a significant consolidation in the number of brokers and investment banks capable of acting as lead manager to an issue. Causes of this are the partial or full withdrawal of international investment banks and consolidation of retail firms, generally for economic efficiency in light of increased regulation, and to achieve the benefits of scale. There are about half a dozen broking or banking firms remaining. For these firms, a small IPO can take as much resource as a larger IPO, but earns less. They can also be less certain with regard to completion, and arguably riskier to sponsor. In short, the opportunity cost of an investment bank undertaking a small IPO can be quite large.

Smaller IPOs require a similar level of work from the buy-side, but clearly cannot contribute as much to investment returns. They may not 'move the needle' for the larger investors and there are no economies of scale. Some larger managers choose not to invest in smaller IPOs, citing liquidity reasons.



# Increased passive investment is a global phenomenon

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In addition, a number of New Zealand equity fund managers who previously focussed on smaller-cap stocks have significantly increased their funds under management, to the point where they have needed to move into larger stocks. There are few, if any, pools of capital dedicated to smaller stocks, although we have indications that one or two fund managers are considering becoming more active in this area. Retail participation by brokers outside those sponsoring an IPO can be problematic too – stock allocations are uncertain, and research may not be available. Offshore stock exchange platforms have been able to provide support for some small market capitalisation New Zealand-based companies. Many of these companies (in their view) have not been well supported by the New Zealand public equity market.

The lack of recent IPOs can be characterised as more of a ‘supply’ issue rather than a demand issue. That is, there are investment dollars available for investment into IPOs, but there is a lack of sizable companies willing to come to market. However, there are several trends that, if continued, would cause constraints on the demand side, even when the supply returns. These include further consolidation of the broking sector and, a lack of institutional capital and people dedicated to smaller companies, as discussed above.

Many of the recommendations in this report are aimed at increasing the ability of smaller companies to access the public market.

## Secondary equity market

### Move from broking to wealth management models

Each of the five primary retail NZX firms has moved from broking models to wealth management models with a concentration on asset allocation and portfolio construction. This has been beneficial for those who get this advice and service but has been at the cost of smaller-cap companies and those not covered by research. Direct individual participation in the market has declined with only a few participants serving the smaller direct investor. Aspects of this are also covered on page 41.

### On-market trading

NZX has historically been at the higher level of percentage of off-market trades compared with other markets, and this was seen as somewhat negative by a selection of investors. NZX has made significant progress in increasing the proportion of turnover exposed to the market, rather than being crossed by brokers and reported (61% on market in June 2019). These changes have included changes to pricing structures and increases in the minimum size of trades eligible to be crossed. We note NZX has recently undertaken further consultation in this area.

## Increased passive investment

As noted in the Introduction, increased passive investment is a global phenomenon. Passive inflows result in indiscriminate buying of the index, typically the larger stocks. Passive funds generally don’t participate in IPOs – they wait for the index changes (typically one to four months following an IPO). Increased passive investment can make IPOs harder to achieve because a portion of the natural audience does not participate and it has implications for voting and corporate control, depending on the policies of underlying passive managers. The rise of passive investment has also concentrated liquidity around the days of index changes, the last day of the month, and the closing auction generally.

## Recent experience

The recent performance of IPOs in the local market has perhaps reduced appetite for both issuers and investors, particularly retail investors. It seems retail investors and the media have been more fixated with recent IPOs which have not performed well, while ignoring the many stories of success; examples include Scales, Serko, Vista and Gentrack.

## Research

Many participants raised the topic of research. In offshore markets, notably Europe, regulation has diminished the availability of research on listed companies.

In New Zealand, broking houses provide research to the extent that client demand, interest and economics warrant it. The majority of investor interest and broking revenue is in the larger capitalised securities and hence broker research is concentrated in this area. As a result, meaningful coverage (research completed by three or more leading research firms) is limited to the top 50 or so companies, with another 28 companies covered by at least one leading research firm.

We note previous initiatives have been considered and or implemented over the years to increase the breadth and depth of research on the NZX and ASX, particularly for smaller market capitalisation securities. The economics of providing high-quality research remain challenging with most research offerings not involving the major brokers – tending to suffer from a perceived conflict of interest (eg corporate or stock exchange sponsored), a lack of meaningful distribution or a perceived lack of credibility.

In terms of creating a more viable research model for the retail investors more generally, we note Shareclarity has an innovative new online subscription-based research platform providing “valuation in the cloud”. This model lowers the cost of research and is a potentially feasible model for research expansion.

Increasingly, fund managers are becoming less reliant on broker research and completing more analysis in-house. Anything that reduces the availability of broker research may reduce direct participation in the market.

## Public debt market

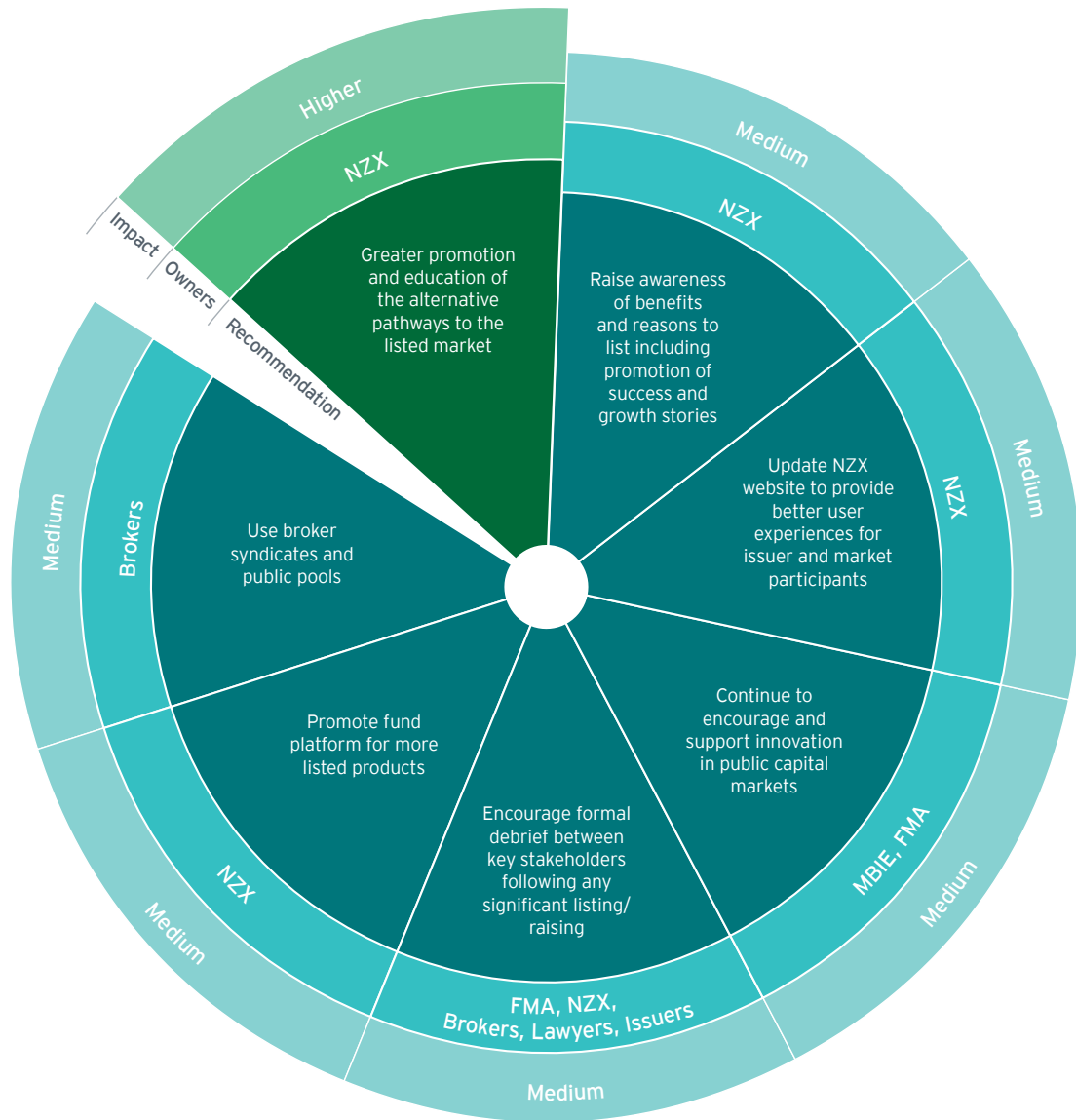
Submitters to this review generally believe that debt markets are working well in New Zealand and indeed is a strength of NZX. However, some note that since most, if not all, debt issuance in New Zealand is oversubscribed there is perhaps unfulfilled demand and the industry should consider how to increase the prospect of debt issuance, such as attracting more offshore issuance and encouraging more wholesale issuers to consider retail offers.

During the period 2009-19, private debt accounted for the majority (80.5%) of debt issued in New Zealand. The total value of private debt on issue has increased from \$307.0 billion in May 2009 to \$461.7 billion in May 2019.<sup>35</sup> Government bond debt on issue has had an increase of \$48.7 billion from \$21.6 billion in April 2009 to \$70.3 billion in May 2019 and now accounts for 12% of total debt on issue, up from 6% in April 2009.<sup>36</sup> As at May 2019, total Government debt is \$94.4 billion whereas local government debt is \$17.3 billion. Government and local government debt account for ~20% of total debt in New Zealand as at May 2019.<sup>37</sup> Listed debt has increased at a CAGR of 8.14% from \$14.5 billion in May 2009 to \$33 billion in May 2019.<sup>38</sup>





## Recommendations



### Greater promotion and education of the alternative pathways to the listed market

Typically, an entity joining the public market has combined its capital-raising event with its listing event in a traditional IPO. However, in recent times it has become a more common choice to directly list a company on an exchange without an associated capital raising.

### These are called compliance listings or direct listings.

Examples include Spotify on the NYSE and QEX Logistics on the NZX. In New Zealand, a company becomes eligible to make a same-class offer three months after it has listed on a regulated market. The offer relies on the company self-certifying that it complies with continuous disclosure obligations.

Accordingly, some companies may choose to list without an associated capital raising, with a view to raising capital in the future. A direct listing has some benefits for the issuer concerned:

- ▶ A greater range of listing advisors is available to advise on the listing as capital raising services ('distribution') are not required.
- ▶ A listing can be achieved with more certainty as the outcome is not dependent on investor appetite or market conditions.

An alternative means of obtaining a listing is a reverse takeover, where a larger company seeking a listing is acquired by a significantly smaller listed company, often called a shell company or special acquisition company. In these cases, a listing profile is required, and usually the acquirer helps the combined entity achieve the spread requirements.

We recommend greater promotion and education of the alternative pathways to the listed market. These options are available in New Zealand as ways for a company to become listed, and may, over time, become the route of choice for smaller companies. In addition, recommendations included within the Regulation section of this report on pages 34 to 45 would also ease the path for listing.

### Raise awareness of listing benefits in New Zealand

Capital markets participants have noted there is significantly more coverage of the risks and failures of listed entities than of the successes. The benefits and reasons to list are not well understood. That said, many noted the increased efforts of NZX in issuer relations over the past 24 months.

We encourage the NZX to devise a broader communication strategy which is consistently shared with New Zealand private enterprise, including angel investment, seed and early-stage venture capital, through to development capital and private equity and infrastructure associations. This strategy could be used to promote collaboration among the participants to develop solutions for capital requirements for their respective constituents.

We recommend the NZX implements processes to increase awareness and education of the benefits and reasons to list. We note this would take time but does not need to be expensive.

### There is a lack of awareness and understanding of the reasons and benefits of listing:

- ▶ Ability to raise capital from public
- ▶ Provides liquidity for long standing shareholders
- ▶ Increases profile with customers
- ▶ Raises credibility with counterparties
- ▶ Creates a constituency of shareholders
- ▶ Ability to attract, retain and motivate staff
- ▶ Subsequent rounds of capital raise can be achieved quickly and cost effectively (same class offers)
- ▶ Creates acquisition currency
- ▶ Exposure to market disciplines with being a listed entity
- ▶ Sell a portion of the business with option for further sales, without the need to give up control



## There are very few instances of secondary boards operated by major exchanges becoming successful

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### Update NZX website to improve user experiences

We encourage the NZX to engage with the issuer and participant community to revise its website to provide an improved front-end view of market which would help streamline dialogue between NZX, issuer and participants. This could include:

- ▶ Integrated calendar of reporting dates and other significant market events.
- ▶ Clearer delineation of securities by type (ie full listing, fund, debt).
- ▶ Highlighted and readily accessible information during reporting season.
- ▶ Schedule of investor calls, playback features for video and audio calls.

### Continue to encourage and support innovation in capital markets

If private markets are to become a greater feature of the capital markets (and companies do not list until they are much bigger), there is a role for alternative markets where owners can trade without it being on a mature registered exchange. We recommend that both the FMA and MBIE encourage innovation in support of capital markets. Recent innovations include the same class offer regime, crowdfunding and peer-to-peer lending.

NZX has experimented with three secondary boards and none has been successful. Suggested reasons for this include that they did not significantly reduce any regulatory burden or attract a critical mass of companies. There was also a lack of research and limited incentive for brokers to become involved. There are very few instances of secondary boards operated by major exchanges becoming successful. However, we note that others have proposed trading platforms, such as Syndex and MyCap Markets, which are further discussed on page 83. We believe that a workable model for issuers and investors may be the concept of limited liquidity windows, with direct participation by investors, while maintaining disclosure standards.

### Encourage formal debrief following any significant listing or raising

We recommend a formal debrief between key stakeholders including, NZXR, FMA, issuer/vendor, legal counsel, and joint lead manager(s) following any significant listing or capital raising. Revised or new guidance notes should then be provided to reflect any key findings.

### Promote the fund platform for more listed products

We encourage the NZX to promote how the revised listing rules apply to funds. As noted earlier in this report, funds allow for greater participation by a wider base of investors and they can also be used as an investment vehicle for a variety of underlying asset classes.

### Use of broker syndicates, direct investor access and after-market support

When a company is undertaking an IPO, we encourage the use of at least two brokers in a lead role. This is to spread the supply of shares further and assist with the depth of research coverage. We also suggest, as a default position, the inclusion of a public pool in each IPO to cater specifically to New Zealand's pool of DIY investors.

Following any listing, the sponsoring investment bank should continue to assist the company in transition with pro bono advice on investor relations and market communications.







# 7 Tax



Our comments in this section seek to outline those ideas with justifiable and potentially significant benefits to New Zealand's capital markets. We do not seek to analyse or outline all inherent implications arising from these proposals, nor have we undertaken economic costings of these ideas due to the many different forms in which the ideas may be implemented.

The Government supports a sustainable broad-base, low-rate framework for New Zealand's tax system.<sup>39</sup> This should allow capital to flow to its most productive use. Tax should not act as an impediment to investment.

Our broad-base, low-rate settings have a direct impact on New Zealand's capital markets. Income can be taxed when it is earned (an income tax) and when it is spent (an expenditure tax). From the viewpoint of a long-term investor, tax on investment income during the holding period has the most significant impact on long-term savings.<sup>40</sup> Therefore, any reforms should consider that holding period.

The Tax Working Group has already covered various important tax issues in its reports, albeit with a different focus. We do not intend to repeat any of this work. Our focus is instead on incremental tax points that add to the efficiency and improvement of our capital markets.

New Zealand's tax system works successfully:

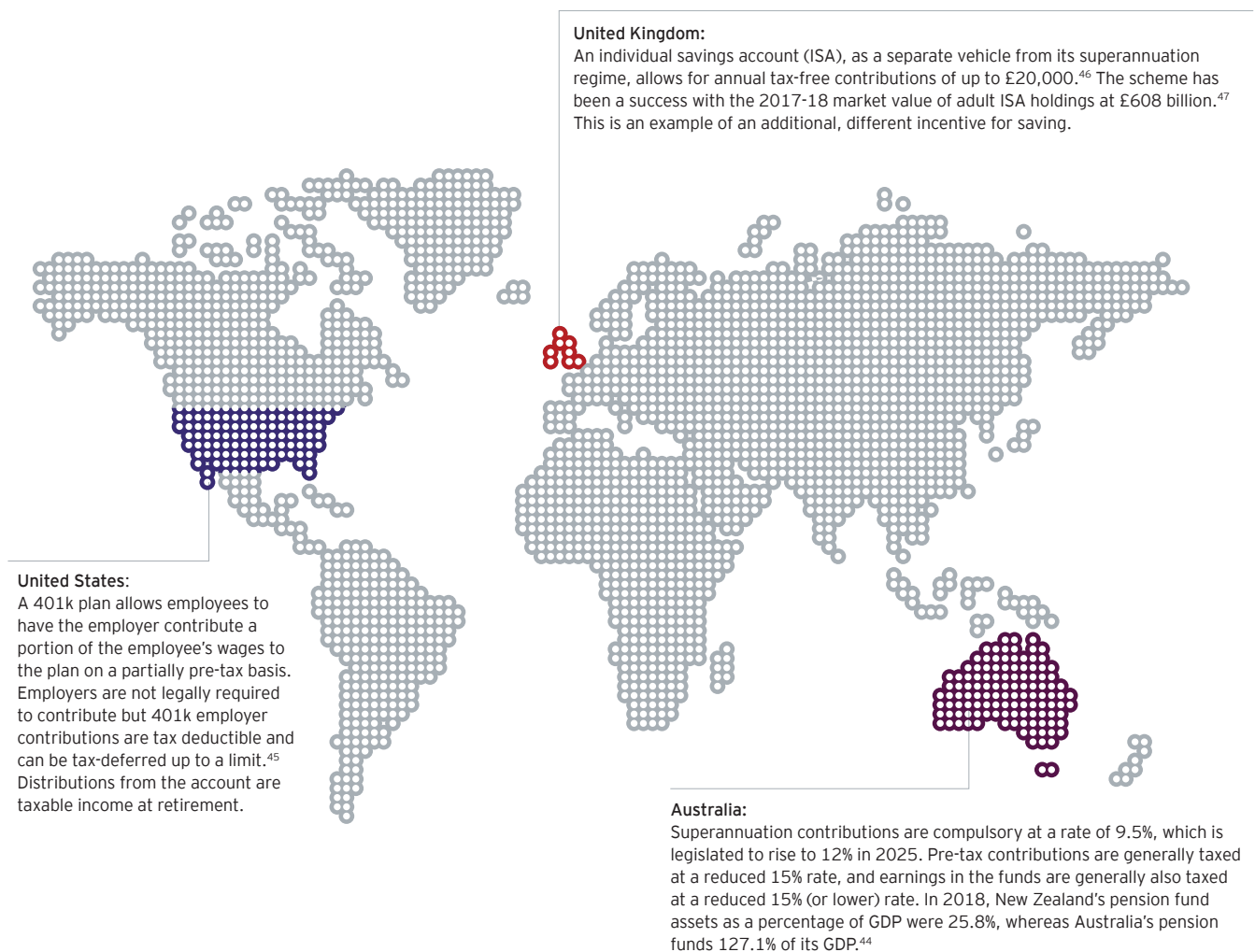
- ▶ It raises over \$80 billion each year.
- ▶ Public finances are stable.
- ▶ There is little evidence of tax-driven behaviour.

However:

- ▶ There is evidence that tax settings potentially contribute towards a private savings problem in New Zealand.<sup>41</sup>
- ▶ As highlighted in CMDT 2009, financial savings and investment products are overtaxed relative to other savings vehicles, especially residential investment property.
- ▶ A shortage of investment capital could be addressed by tax reform.
- ▶ New Zealand has an ageing population. As a nation, collectively we need to save for retirement.

Most other countries make extensive use of tax concessions to boost investment into capital markets and to assist with retirement. Currently, New Zealand taxes savings more heavily than other OECD countries. New Zealand generally taxes savings on a TtE basis; income is taxed when it is first earned (T); it is somewhat more lightly taxed as it accumulates within a fund (t); but not taxed when it is withdrawn and spent (E, meaning Exempt).<sup>42</sup> This is unusual. Most countries apply an EET ('E'xempt income contributed; 'E'xempt income in the fund; 'T'axed when withdrawn), EtT or TEE model, which leads to a lower overall level of taxation.<sup>43</sup>

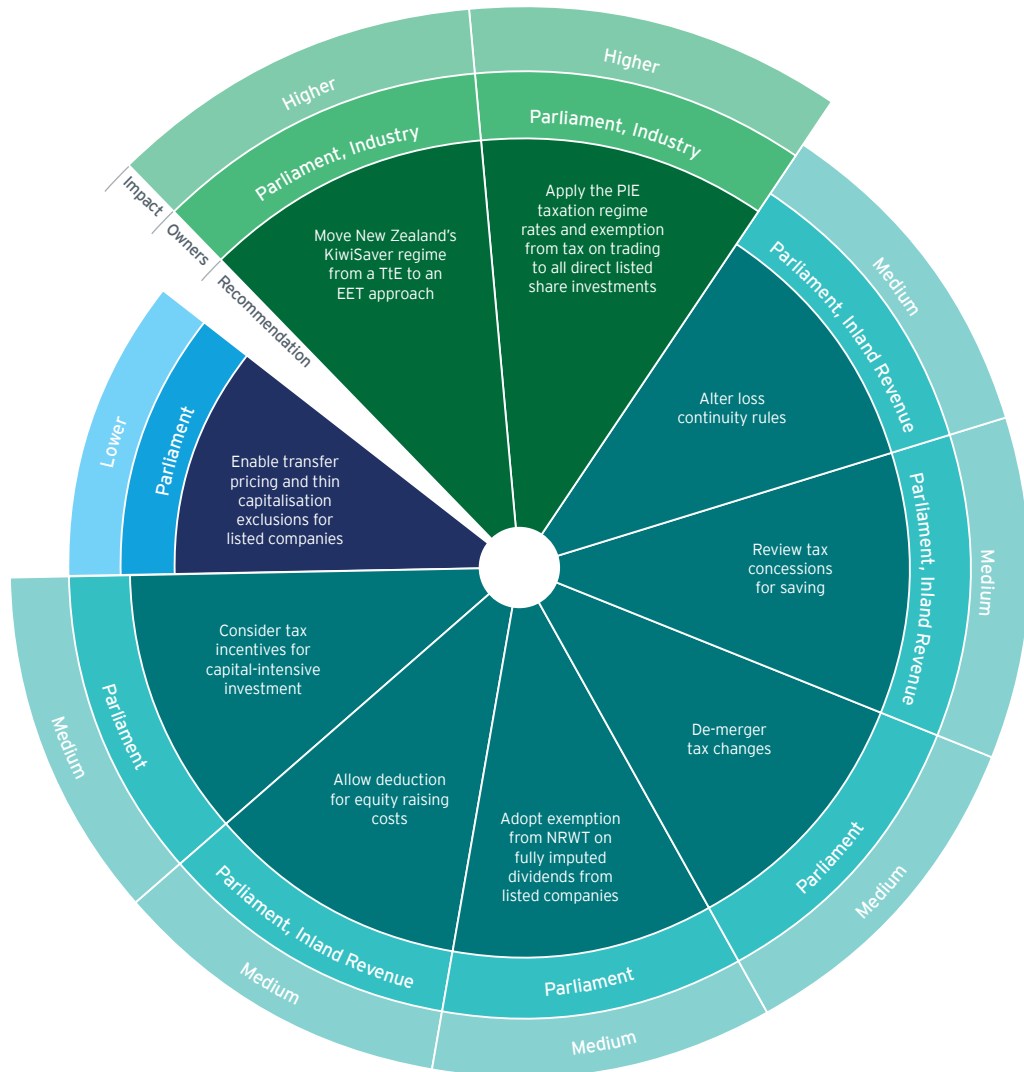
## Examples of saving regimes in other countries are:



The examples above illustrate that tax settings and product design are necessarily linked. Our approach here is to consider tax settings inside our existing tax and savings scheme recognising that KiwiSaver has a discrete section and focus for this review.



## Recommendations



### Move New Zealand’s KiwiSaver regime from a TtE to an EET approach

As outlined above, New Zealand generally taxes savings more heavily than other OECD countries (OECD, 2018). Allowing pre-tax income to be contributed or sacrificed into KiwiSaver, as opposed to after-tax cash in hand, will likely provide a significant part of the impetus required to dramatically shift New Zealanders’ psyche and rational economic decision-making towards saving for their retirement.

Furthermore, the holding period is when the taxation of a long-term investor’s investment will have the most significant impact. As such, for this change to be effective it is also important the investment income is exempt or taxed at further concessionary rates through the duration of the KiwiSaver investment.

Taxing KiwiSaver on withdrawal still ensures that tax arises on such savings and investments, but that it arises at the appropriate time and on an aspirational greater amount than that which the current savings path may project.

# Current settings tax New Zealanders' savings more heavily than certain other investments

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Alternatively, the Government should consider how the current 'Tt' components of our KiwiSaver taxation regime could be made more concessionary through lower taxation rates on contribution and ongoing investment income, to stimulate greater saving.

## Apply the PIE taxation regime rates and exemption from tax on trading to all direct listed share investments

Currently the PIE taxation regime allows for an exemption on the taxation of gains and losses on the trading of shares, and for capped taxation at lower rates than the marginal tax rates. However, uncertainty remains over the tax treatment of individuals who make gains and losses when trading their listed shares, and income derived from shares is taxed up to 33%.

We recommend that PIE taxation principles be extended to apply more broadly to all directly held listed New Zealand equities.

PIE rules themselves were originally intended to mimic individual share trading that generally occurred on capital account. So, taking any uncertainty away from the status of revenue versus capital account of direct individual investments in listed securities should simplify investing. Similarly, the rate at which income from listed securities is taxed should also match the PIE taxation treatment, with such income having capped rates at 28% or lower.

## Alter loss-continuity rules

New Zealand's current rules for carrying forward income tax losses require that at least 49% continuity of ultimate non-corporate shareholders (subject to some concessions) is maintained from the time of incurring of the losses, until the time of utilisation. Thus, as businesses grow, they require more capital and inevitably have changing shareholder bases to fund that growth, historical losses can be surrendered by virtue of these changes in shareholdings.

The TWG recommended changing the loss-continuity rules, albeit with a focus on start-up firms.<sup>48</sup> We commend the Government's announcement that its tax policy work programme will include considering the loss carry forward rules.<sup>49</sup>

We recommend altering loss-continuity rules towards a 'same business' test. This allows businesses to openly accept equity funding to fund growth without fear of surrendering existing tax losses. We see this as positive for companies generally, and the capital markets, as it will allow vendors to receive economic outcomes from past investment. In particular, some of New Zealand's early stage companies will benefit. Currently they may lose the tax benefit of losses as their capital structure changes through successive funding rounds.

The current settings discourage investment into such companies where the investors know that otherwise valuable tax losses are likely to be forfeited by subsequent capital raisings. The current settings also discourage the growth of the companies themselves as the founders are deterred from taking on such investment where losses may be forfeited. This may result in poorer growth, employment and economic outcomes for New Zealand.

## A review of tax concessions for savings

We recommend a review of the need for tax concessions for saving in order to boost the pool of investment capital and improve wellbeing in retirement.

Current settings tax New Zealanders' savings more heavily than certain other investments, such as real estate. This uneven tax treatment discourages private saving outside real property.

We therefore recommend implementing tax incentives for saving. Some options to further encourage savings, amongst many, could include:

- ▶ Inflation-indexing savings or concessions which proxy for inflation indexation.
- ▶ Lower PIE rates.
- ▶ Extend PIE and KiwiSaver treatment to all savings types (refer above).
- ▶ Increase KiwiSaver incentives, as previously discussed in the KiwiSaver section, such as making all balances below \$50,000 exempt from tax in the funds.

Some of the above suggestions are also discussed in the TWG's recommendations.<sup>50</sup> The Government is considering inclusion of such concessions for the savings of low-income earners on its work programme alongside the Government's broader work on KiwiSaver.<sup>51</sup>

## De-merger tax changes

As companies expand, a natural evolution is potential de-mergers or spinouts to provide for more focus and value creation of specific parts of a business. However, de-merger transactions can result in the de-merged entity giving rise to a dividend to shareholders even though there is no change to the ultimate ownership and no distribution of actual income has occurred. Rules have recently been introduced to allow for Australian de-mergers from ASX listed companies, but not here in New Zealand. We recommend changing the rules to allow for efficient de-mergers for New Zealand listed companies where available subscribed capital is not readily available. This could require pre-approval by Inland Revenue as an avoidance check.

Although mechanisms such as those utilised by Trustpower/Tilt may be available to New Zealand companies, the complexity, time and cost of implementing such schemes is not justified for most companies. In New Zealand, the policy rationale for allowing domestic demergers appears stronger than that which allowed the exemption for ASX listed de-mergers.

## Adopt exemption from NRWT on fully imputed dividends from listed companies

We recommend implementing an exemption from non-resident withholding tax (NRWT) on fully imputed dividends from listed companies. Currently, whether NRWT is required to be withheld on dividends paid by New Zealand companies to foreign shareholders depends on the percentage shareholding held, whether the dividends are fully imputed and any potentially applicable double tax treaties. Capital market participants noted that the foreign investor tax credit (FITC)/supplementary dividend rules, which seek to reimburse <10% foreign shareholders for NRWT that arises on imputed dividends, are troublesome.

Many double tax treaties already allow for such investors to access a lower rate at 0% or 5%. As such, an NRWT exemption on all imputed dividends (regardless of shareholding percentage) would simplify the process for investments in listed companies. However, it is noted that the current FITC regime does potentially provide foreign investors with a better outcome.





### Enable deduction for equity raising costs

Costs relating to equity raisings, particularly for IPOs, are incurred up front and are often significant and can be a deterrent to undertaking IPOs. This cost is exacerbated by the fact that most of these costs are considered non-deductible under tax law.

We recommend allowing costs of equity raising, such as IPO and deal costs, to be deductible. We note the 2009 CMDT report previously recommended allowing equity raising costs to be deducted over the lesser of the life of the equity or 20 years. We also note that the TWG recommended that 'black-hole' expenditure be spread over five years with a \$10,000 safe-harbour threshold of upfront deductions, which will be a focus of the tax policy work programme as at August 2019.<sup>53</sup> In Australia, our closest comparator and competitor, black-hole expenditure is allowed as a deduction spread over five years.

This remains relevant to boosting our capital markets today by encouraging businesses to seek capital in New Zealand to grow.

### Consider tax incentives for capital-intensive investment

We suggest considering incentives for capital-intensive investment. This is likely to attract and retain investment capital in New Zealand, such as infrastructure investment. The Government considers this as a high priority, and recently announced that its tax policy work programme as at August 2019 will include considering the role of the tax system in driving infrastructure investment.<sup>54, 55</sup> We support this initiative.

### Removing New Zealand transfer pricing and thin capitalisation requirements for New Zealand listed companies

Further consideration could be given to relaxing or removing the transfer pricing and thin capitalisation requirements to New Zealand listed companies.

The opportunity to artificially push excessive group expenditure or interest into New Zealand becomes extremely limited without the need for complex tax legislation and associated compliance (significant transfer pricing, benchmarking documentation etc).

This is particularly the case by virtue of having independent directors as a New Zealand listed company, corporate law obligations requiring the directors to act in the best interests of the company, plus the added transparency and scrutiny of being a listed company. It was suggested during consultation that the independent directors could provide some additional form of confirmation that all associated-party transactions were considered to be at arm's length and in the best interests of the company.

However, the likely impact of such changes may not be significant where these independent directors were still likely to require the appropriate third-party analysis and confirmation that the allocations of group expenditure are appropriate (which may equate to similar levels of analysis and advice as current tax laws require in any event).



A nighttime photograph of a cityscape with a bridge and lights reflected in water. The scene is dark, with the bridge lights creating a bright, warm glow that reflects on the water's surface. The sky is a deep blue, and the overall atmosphere is serene and modern.

# 8 New products





Recently, we have seen increased innovation and introduction of new products in the New Zealand markets, such as crowdfunding, new participants to the NZX, and collaboration between different sectors within the ecosystem. A common factor of many of these initiatives is that they open existing investment opportunities to a greater range of investors, either by lowering barriers to direct participation or creating indirect access.

We spoke to potential creators of new products to understand what may become available over the medium term. However, for competitive reasons, each requested their plans be kept confidential. Based on these conversations, we see encouraging signs that new products are being developed to add depth to our capital markets and will be launched in the near term. These products will not necessarily need to be listed, nor even themselves invest in listed securities.

We think it is important that regulators remain open to innovation in the smaller end of the markets, and in the growing continuum of private markets to public markets.

## Observations

### Stand-alone listing rules for listed funds

The NZX has recently developed a set of stand-alone listing rules specifically for listed funds. This is a positive move. Previously, listed fund issuers needed to seek substantial waivers from the main board listing rules, which required cost and time. The fund-listing rules are more fit-for-purpose, and we understand NZX is in discussion with several fund managers who are considering listing new funds.

### Passive funds

NZX itself has developed a range of passive funds, investing both in New Zealand and in a range of other markets and themes. These listed ETFs provide a simple introduction to the capital markets for new investors and provide a convenient method of diversification. NZX most recently introduced a healthcare and robotics and automation ETF, which allows New Zealand retail investors the convenience of investing in an NZX listed security but with specifically targeted offshore exposure.

### Traded options

We have received some interest in a market for traded options in New Zealand, but not enough to form a recommendation to pursue it. In any event, NZX and its participants are best placed to judge the business case for development of this market. Development of an options market would likely assist liquidity in the larger stocks and create some alternatives for the hedging or leveraging of equity exposure. However, we do not see the lack of an options market as an impediment to the capital markets generally.



## It is important that regulators remain open to innovation in the smaller end of the markets

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### Collaboration between different sectors

We have seen recent instances of collaboration between different sectors of the market. For example, Simplicity committed to invest a small proportion of funds in early stage companies via Icehouse Ventures. The various angel organisations active in New Zealand have grown rapidly since inception, and some of these networks have developed a range of their own funds and have ambitions for further growth. We are confident there will be more innovation from locally based fund managers and brokers, matching suppliers of capital (including individual investors) with investment in companies, particularly in the non-listed space – another means of accessing private markets. As discussed on page 54, the Government's market development commitment of \$300 million to the VC sector via matched funding should open further opportunities for more investors to access this part of the market.

### Emergence of responsible and ethical investment

We note the emergence of environment, social and governance (ESG) funds and other environmental ethical/impact investment funds. New Zealand had \$188 billion of responsible investment in 2018.<sup>56</sup> The market potential for New Zealand impact investing is an estimated \$5 billion.<sup>57</sup> Although it can be argued New Zealand was lagging other jurisdictions in the area, there has been a marked shift in investor awareness of these issues.

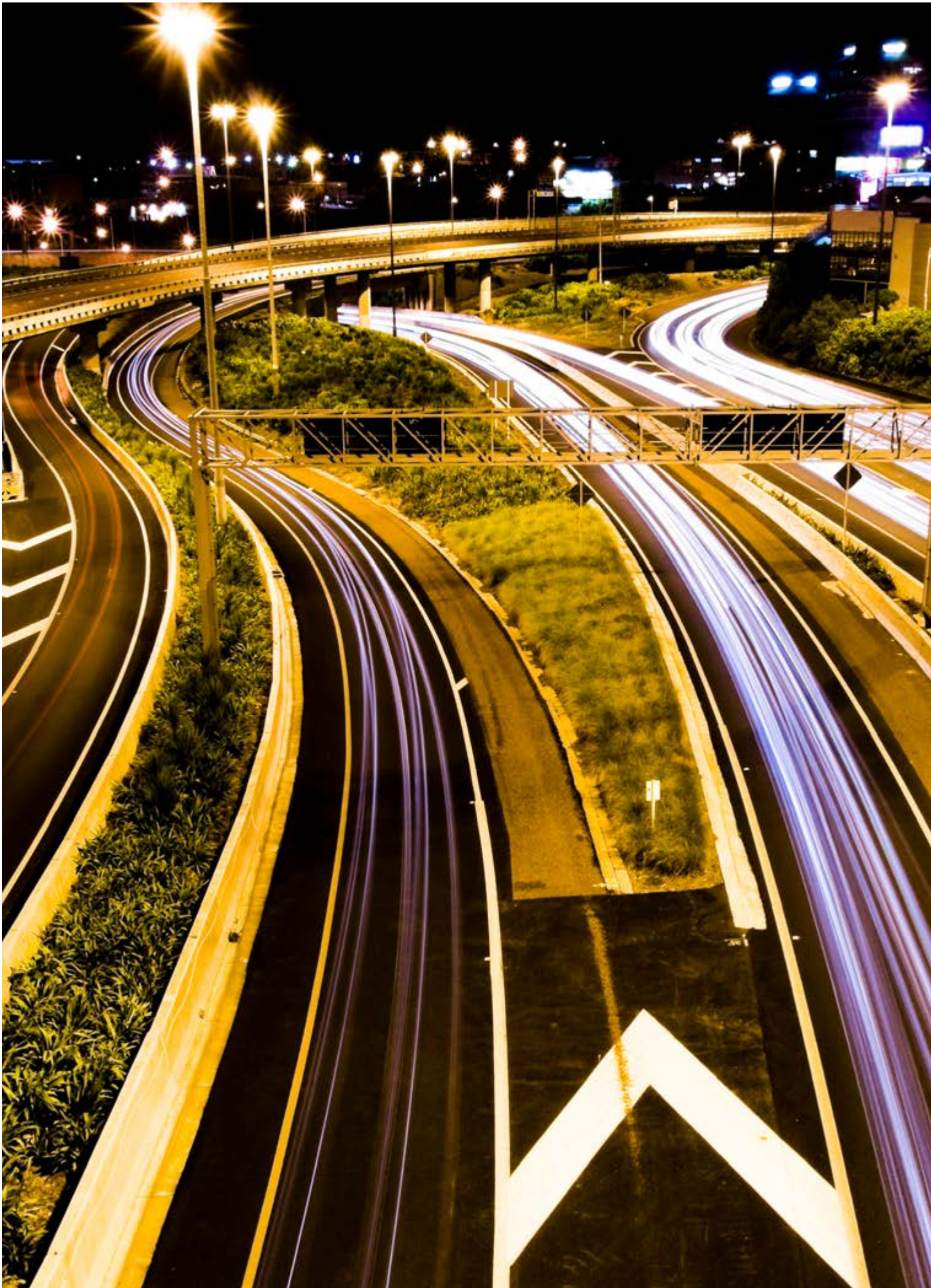
95% of KiwiSaver investors think ESG factors should be considered when investing.<sup>58</sup> As a result, products to meet investor preferences have been developed in the last three years.

We acknowledge the Government's sponsorship of the \$100 million Green Investment Fund. We encourage the market to continue to explore environmental and ethical investment. Investment in the ESG/environmental space could be grown by way of listed debt products such as green bonds or ESG bonds. Although issuance of these bonds remains small in the context of the overall global bond market, this asset class has been growing rapidly overseas.

The NZX currently supports the development of the green bonds market in New Zealand. There have been three issues of green bonds in the last three years (listed on the NZX Debt Market): Auckland Council's electric trains, Contact Energy's geothermal energy plants and Argosy Property's 5-Star Green Star buildings. We understand work is underway to address the impediment that an issue of green bonds based on existing vanilla debt would likely not meet the legal requirements to utilise a 'same class' offer.

From the issuer point of view, many international investors and markets are continuing to raise their regulatory and exchange approaches to ESG promotion and filtering. We acknowledge a significant number of current New Zealand issuers are not seeking offshore investment but any issuers seeking offshore capital should be aware of increasing standards of behaviour and disclosure.







## Observations continued

### Crowdfunding and peer-to-peer lending

Crowdfunding is a new and increasingly popular addition to New Zealand's funding landscape. It is particularly attractive for entrepreneurs who seek flexibility in who they offer the investment opportunity to, and for companies that are not large enough for IPOs.

The FMCA allows the promotion of crowdfunding investment opportunities to the general public under a reduced disclosure regime, which results in a lower cost and burden to the business. Crowdfunding also gives businesses additional marketing exposure.

When the FMA legalised crowdfunding in New Zealand in 2014, platforms began providing equity and crowdfunding opportunities for entrepreneurs and small businesses. Additionally, we have seen the emergence of dual offers via a crowdfunding platform with a simultaneous offer to exempt investors. Whether crowdfunding is the first step in a series of larger raises by different means depends almost solely on the performance of the underlying business.

Peer-to-peer lending has developed as an alternative to bank and other forms of credit, and in New Zealand continues to grow, although it remains a niche market in terms of size.

### New marketplaces and exchanges

MyCap Markets is investigating setting up an open regulated marketplace for trading and investing in small-to medium-sized Kiwi businesses. It proposes to allow issues to have periodic auctions rather than continuous trading, but with issuers required to disclose all material information ahead of each auction event. It is designed for businesses and projects that are too small to list on a public market. This provides another option for SMEs seeking capital where traditional methods may not be possible.

Syndex is an online exchange for investing in proportionally owned assets. It provides a marketplace to invest in alternative assets such as commercial property, farmland, horticulture, units in property syndicates or shares in private company assets which are held in proportional ownership structures. Investment opportunities are provided for both wholesale and retail investors. As Syndex provides the opportunity to invest in assets other than shares, it is another means of injecting capital into the New Zealand market.

### Online investment platforms

A number of online investment platforms are now available to investors across the economic spectrum. Key attributes of these platforms are modest annual fees for investing through the platform as well as very low minimum investment requirements; for example, on Sharesies where the minimum investment is \$5. Partial shares or units in funds are able to be purchased, so that investors are not having to input large sums of money in order to begin investing.

These platforms (including Sharesies, Hatch, InvestNow and Smartshares) provide a range of funds. Sharesies has recently provided the ability to invest into individual companies on the NZX whereas Hatch focuses on providing the ability to invest in US companies, as well as US funds. The platforms also provide assistance with taxes. For example, Sharesies calculates tax credits for the investor's New Zealand income tax return and Hatch will complete US tax returns on an investor's behalf.

These alternative providers can bring in new investors who previously would not have invested due to high cost or minimum investment requirements. They should help encourage saving and build financial knowledge in new investors. The assistance and education offered by the platforms should also assist with building financial knowledge.









# Technological considerations

# 9



# Technology should ultimately be viewed as an enabler to support the achievement of vision and ambitions for capital markets in 2029

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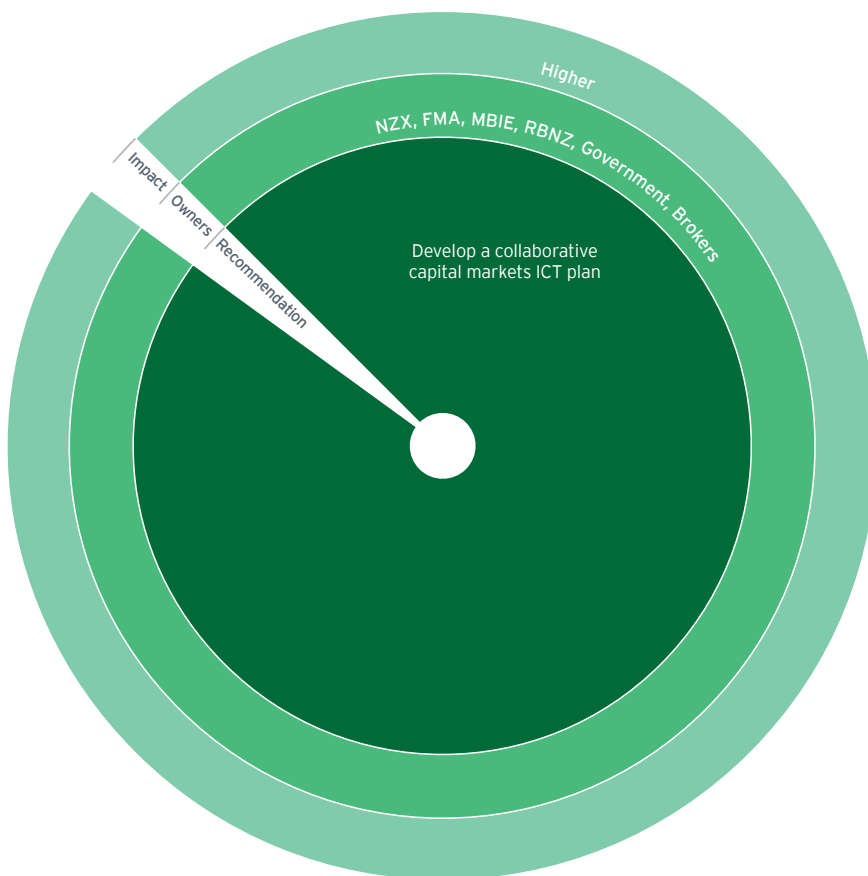
Technology is changing businesses and economies here, as in much of the rest of the world. Earlier in this report, we outlined exciting technological advances in New Zealand capital markets, such as crowdfunding, peer-to-peer lending and robotic/AI advice. Another recent innovation for this market is online-only investment platforms, a number of which have recently set up operations. This kind of technology can help overcome New Zealand's lack of scale and geographic isolation.

The Budget has set a vision of New Zealanders thriving in the digital age. This requires industries and businesses to innovate and adopt cutting-edge technology that offers productivity and job benefits to make sure all New Zealanders can take advantage of the opportunities of this time of enormous and rapid change, known as the fourth industrial revolution.<sup>59</sup>

A 10-year time frame is a challenging one, as economies, capital markets, global trade and technologies are highly dynamic and will surely change significantly. We encourage further research into the practical application of the world's emerging technology trends: cloud technology, digitisation, robotic process automation (RPA), artificial intelligence (AI), blockchain, quantum computing, data analytics, smart contracts, 5G networks and mobile-based applications. The list is by no means exhaustive but highlights the many areas where substantial investment is being made globally by capital market participants.

New Zealand's technology advances are constrained by factors common to our capital markets, as this review has noted. A key obstacle is the country's size which limits economies of scale enjoyed by larger nations. There's also a corresponding underinvestment of technology which is clearly not consistent with the visions and ambitions shared in this review. FMA's recent survey of cybersecurity in July 2019 highlights the need for financial services firms to improve their readiness, something which will require investment by participants.<sup>60</sup> Technology should ultimately be viewed as an enabler to support the achievement of vision and ambitions for capital markets in 2029 but so too should the question of how participants collaborate and consider shared services platforms such that solutions are economic for everyone and lower costs for end users.

## Recommendation

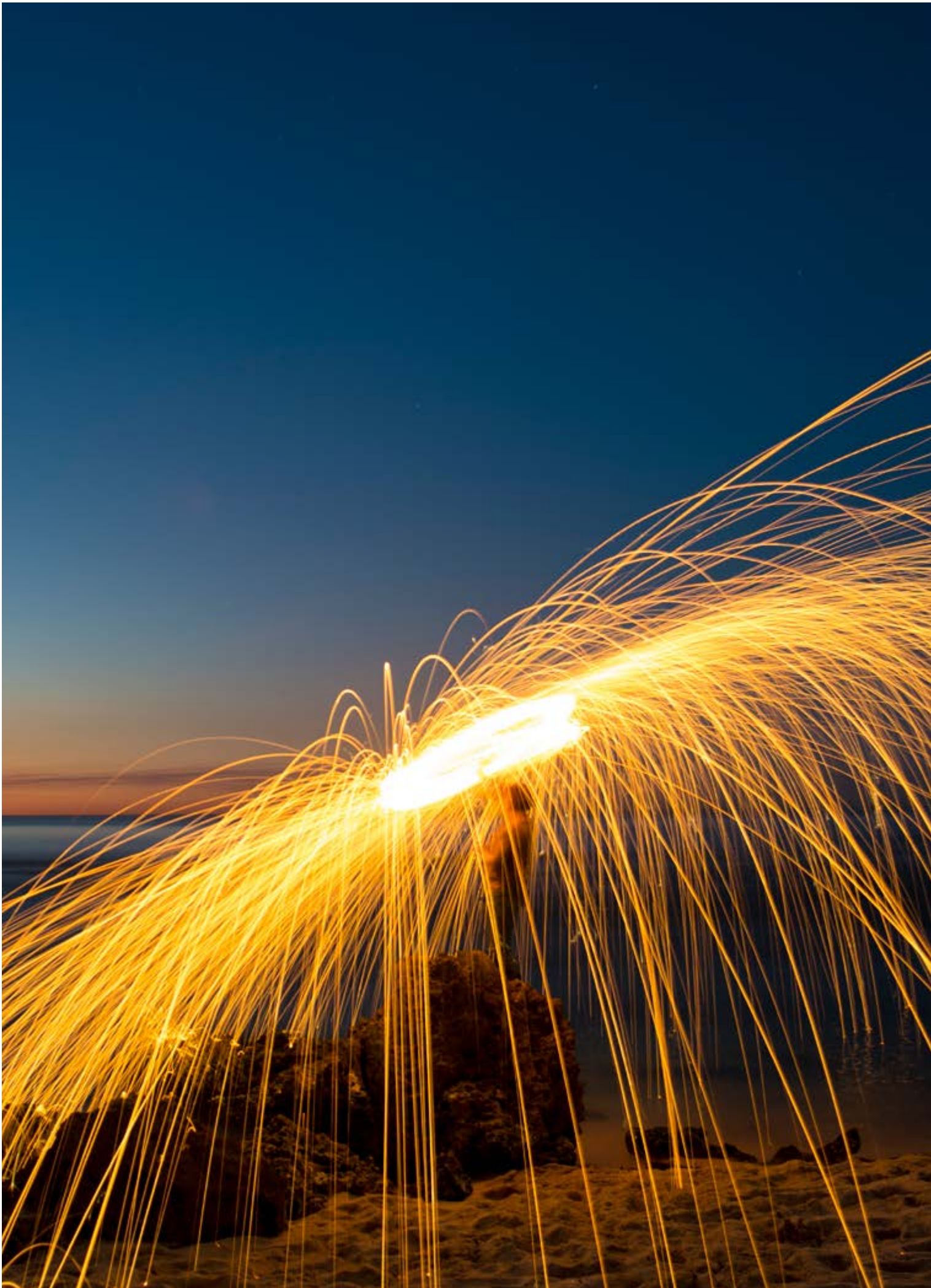


### Develop a collaborative capital markets ICT Plan

We encourage MBIE, FMA, NZX and other market participants to collaborate to pursue strategic outcomes, consistent with principles introduced by the Government's ICT strategy:

1. Customer experiences are seamless, integrated and trusted.
2. Information-driven insights are reshaping services and policies, and adding public and private value.
3. Adoption of information and technology innovations is accelerated, and value is being created.
4. Investment in innovative digital services is being prioritised and benefits are being realised.
5. Complex problems are being solved and innovative solutions are being adopted.

Market participants need to collaborate and work with Government (acknowledging the intention to appoint a Chief Technology Officer role or similar) on a coordinated review of the technological environment and how it should be deployed to improve the New Zealand capital markets ecosystem. We consider such a review important to ensure New Zealand's capital markets continue to evolve in the context of local and international technology developments.







We note with keen interest the appointment of a Government Chief Data Steward (GCDS) who published a data strategy and roadmap for New Zealand in December 2018, which is also likely to have intersecting insights for the capital markets ICT plan. Unfortunately, other than this, the New Zealand Government is yet to frame policies for adopting emerging technology. In contrast, other developed countries such as US, Australia, UK, France, Singapore and Canada have plans, policies or initiatives underway to address the opportunities and challenges.

This review encourages market participants to continue their consideration of the following topics:

**Robotic Process Automation (RPA)** is enabling capital market firms to overcome issues related to legacy infrastructure by automating middle- and back-office operations. Potential high-impact areas for RPA are client onboarding, trade reconciliations, reporting and tracking corporate actions. How should RPA be considered in New Zealand and what are the impacts for market participants?

**Artificial Intelligence (AI)** – firms are hunting for an edge in the market. Instead of just relying on market data for price discovery, they are focusing on the factors that influence price. AI can also be deployed in surveillance to ensure capital markets integrity.

**Data** – how do we capture data coherently and use analytical tools to identify information and insight for market participants?

**Research** – this has been identified as being an area for clarity and improvement. There are existing tech platforms providing some research. What further developments could be undertaken in this area?

**KiwiSaver** – this has been a strong feature of this review within which technology could potentially play a vital role in implementing a number of recommendations and initiatives.

**Blockchain technology** – Nasdaq, Australian Securities Exchange, the New York Stock Exchange, the Tokyo Stock Exchange and the Deutsche Bourse have either started to use blockchain technology for some of their transactions or are studying its feasibility. In particular, the ASX is developing this distributed ledger technology to replace its existing clearing and settlement system. It has a target date of April 2021 to introduce this and is attracting interest from other exchanges and many commercial and investment banks. New Zealand should frame a clear roadmap and regulatory landscape for advancement of blockchain technology. The NZX does have a memorandum of understanding with major international stock exchanges (Singapore, Shanghai, Hong Kong, Nasdaq) which allows for a collaborative approach to serve their end customers better.

**Smart contract technology** could replace ineffective, costly human oversight in blockchain-driven trading platforms. The contracts execute as soon as some prerequisite criteria are fulfilled, like a buyer and seller agreeing on a price point. Quicker trades mean shorter time lags, freeing up equity.



# Appendices





## Appendix One: Acknowledgements

Capital Markets 2029 Steering Committee	Capital Markets 2029 Secretariat - EY	Market Participants
Martin Stearne	Andrew Taylor, Partner	Aaron Tregaskis
Rob Campbell, Chair of SKYCITY and THL	Brad Wheeler, Partner	Aidan Vince, ASB
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James Lee, CEO, Jarden	<b>Special Thanks</b>	Andrew Allan, ANZ
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	Shane Edmond, Forsyth Barr	





## Appendix Two: Glossary / definitions

Term	Definition
Active Share	<p>Active Share is the percentage of fund holdings that is different from the benchmark holdings. A fund that has no holdings in common with the benchmark will have an Active Share of 100%, and a fund that has exactly the same holdings as the benchmark considered will have an Active Share of 0%. If a fund has an Active Share of 60%, then 40% of the holdings of the fund are identical to the holdings of the benchmark, and 60% of the holdings are different (constituting either over-weights or under-weights relative to the holdings of the benchmark).</p> <p>Active Share is not a measure of skill but rather measures how different the fund's holdings are relative to the holdings of the particular benchmark considered. Any difference in performance can only come from fund positions that are different from the benchmark positions, i.e., that are 'active', and for any given fund, higher Active Share could lead to either underperformance or outperformance.</p>
AFA	<p>Authorised Financial Advisors are registered on the Financial Services Provider Register and belong to a Disputes Resolution Scheme. They also go through a detailed approval process by the Financial Markets Authority and have higher competency standards than Registered Financial Advisors. Authorised Financial Advisors can provide personalised advice on complex investments, such as shares, bonds, futures contracts etc.</p>
AML/CFT	<p>The Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) Act 2009 outlines the requirements that are imposed on New Zealand's businesses and professions to mitigate money laundering.</p> <p>The purpose of the Act is to ensure that businesses are taking appropriate measures to guard against money laundering and terrorism financing, to detect and deter money laundering and the financing of terrorism, and to contribute to public confidence in the financial system.</p>
ASX	<p>The Australian Securities Exchange is Australia's primary public capital market, operated by ASX Limited (which is itself listed on the ASX).</p>
AUSTRAC	<p>AUSTRAC (the Australian Transaction Reports and Analysis Centre) is Australia's financial intelligence unit and its anti-money laundering and counter-terrorism financing regulator.</p>
CAGR	<p>Compound annual growth rate (CAGR) is the rate of return that would be required for an investment to grow from its beginning balance to its ending balance, assuming the profits were reinvested at the end of each year of the investment's lifespan.</p>
CFFC	<p>The Commission for Financial Capability (CFFC) is an independent Government-funded organisation helping people to get ahead financially.  <a href="https://www.cffc.org.nz/">https://www.cffc.org.nz/</a></p>
CMDT	<p>Capital Market Development Taskforce, chaired by the late Rob Cameron, formed in 2008 and reported in 2009. This was a group formed in response to the financial crisis in July 2008. The members included investment bankers, economists and government advisors.</p>
Crowdfunding	<p>Crowdfunding is a process of funding a project or venture by raising money from many people. This is most commonly done through the internet.</p>
DIA	<p>The Department of Internal Affairs work includes managing passports, citizenships, name changes, birth, death, marriage and civil union registration and certificates, providing grants, supporting charities, supporting local Government and linking ethnic communities with the Government.  <a href="https://www.dia.govt.nz/">https://www.dia.govt.nz/</a></p>

Term	Definition
DMO	<p>The Debt Management Office is one of the functions of the Capital Markets Directorate at the New Zealand Treasury, the Government's lead advisor on economic, financial and regulatory policy.</p> <p>They oversee the Government's borrowing requirements and associated activities, with a goal of managing debt in a way that minimises costs while keeping risk at an appropriate level. <a href="https://debtmanagement.treasury.govt.nz/">https://debtmanagement.treasury.govt.nz/</a></p>
EET	<p>A tax framework on savings where income contributed to the savings vehicle is exempt from taxation, the income earned from the savings scheme / vehicle is exempt from taxation and the income drawn from the savings vehicle is taxed when withdrawn.</p>
ESG	<p>Environmental, Social and Governance are the three central factors in measuring the sustainability and ethical impact of an investment in a company or business.</p>
First-Home Withdrawal	<p>A First-Home Withdrawal allows a KiwiSaver member to withdraw money to purchase their first home that is not an investment property, after having been a KiwiSaver member for three or more years.</p>
FMA	<p>The Financial Markets Authority is responsible for enforcing securities, financial reporting and company law as they apply to financial services and securities markets. They also regulate securities exchanges, financial advisors and brokers, auditors, trustees and issuers including issuers of KiwiSaver and superannuation schemes. They jointly oversee designated settlement systems in New Zealand with the Reserve Bank of New Zealand. <a href="https://www.fma.govt.nz/">https://www.fma.govt.nz/</a></p>
FMCA	<p>The Financial Markets Conduct Act 2013 is New Zealand's primary legislation governing capital markets in New Zealand. It includes the rules that apply to offering financial products, as well trading those financial products on a stock exchange.</p> <p>The main purpose of the Act is to promote the confident and informed participation of businesses, investors, and consumers in the financial markets; and promotes and facilitate the development of fair, efficient and transparent financial markets.</p>
GDP	<p>Gross domestic product (GDP) provides a snapshot of the performance of the economy. GDP is New Zealand's official measure of economic activity.</p>
INFINZ	<p>INFINZ is the member based industry body for professionals working and participating in New Zealand's financial and capital markets eco-system.</p>
ICT	<p>Information and Communication Technologies, including the Internet, wireless networks, cell phones, and other communication mediums.</p>
Inland Revenue	<p>Inland Revenue is a Government department that collects most of the revenue that the Government needs to fund its programmes. Inland Revenue also administer a number of social support programmes. <a href="https://www.ird.govt.nz/">https://www.ird.govt.nz/</a></p>
IPO	<p>Initial Public Offering is a type of offering where financial products are sold to institutional investors and retail investors at the same time as those financial products are quoted on one or more stock exchange. Typically, an IPO is the first time that the financial products are offered widely to the public.</p>
KiwiSaver	<p>KiwiSaver is a voluntary, work-based savings initiative to help with long-term saving for retirement. KiwiSaver contributions can be made by members (both through deductions from their pay or additional voluntary contributions), their employers and there is also an annual Government contribution. <a href="https://www.kiwisaver.govt.nz/">https://www.kiwisaver.govt.nz/</a></p>



Term	Definition
MBIE	Ministry of Business, Innovation and Employment is the Government's lead business-facing agency. They focus on delivering policy, services, advice and regulation that contributes to New Zealand's economic productivity and business growth. <a href="https://www.mbie.govt.nz/">https://www.mbie.govt.nz/</a>
MOM	The Mixed Ownership Model, established in 2011 and completed in 2014, resulted in the IPOs of Mercury NZ (then Mighty River Power), Meridian Energy and Genesis Energy, as well as a reduction in the Crown's shareholding of Air New Zealand, with the Crown maintaining a shareholding of at least 51% in each MOM company
NRWT	Non-resident withholding tax, which is a tax deducted from interest or dividend income before the non-resident customer receives it.
NZMDT	The NZ Markets Disciplinary Tribunal is an independent regulatory body established under the NZ Markets Disciplinary Tribunal Rules. The NZMDT's principal role is to determine whether an issuer or market participant has breached NZX's market rules in any matter referred to it by NZX Regulation. The NZMDT does not supervise the market conduct of issuers or market participants. That role is performed by NZX Regulation and the Financial Markets Authority. A Special Division of the NZMDT exercises the powers and functions of NZX Regulation as they apply to NZX and any related listed entity.
NZIER	New Zealand Institute of Economic Research is an independent economic consultancy. NZIER generally provides membership services that include access to regular forecasts, commentary and expert advice. <a href="https://nzier.org.nz/">https://nzier.org.nz/</a>
NZQA	New Zealand Qualifications Authority is the New Zealand Crown entity tasked with providing leadership in assessment and qualifications. Their purpose is to help learners succeed in their chosen endeavours and contribute to the New Zealand society. <a href="https://www.nzqa.govt.nz/">https://www.nzqa.govt.nz/</a>
NZVIF	New Zealand Venture Investment Fund Limited. NZVIF is governed by a private sector board of directors and plays an active role in market development. <a href="https://www.nzvif.co.nz/">https://www.nzvif.co.nz/</a>
NZX	New Zealand's public capital market, including the NZX Main Board and NZX Debt Market, operated by NZX Limited (which is itself listed on the NZX Main Board). NZX also owns Smartshares, New Zealand's only issuer of listed Exchange Traded Funds, and KiwiSaver provider SuperLife. NZX also provides wealth management services for New Zealand advisers via its Wealth Technologies business. <a href="https://www.nzx.com/">https://www.nzx.com/</a>
NZX Debt Market	The debt security financial product market operated by NZX.
NZX Main Board	The main board financial product market operated by NZX.
NZX Regulation	NZX's regulatory function.
NYSE	New York Stock Exchange, owned and operated by Intercontinental exchange.
OIO	The Overseas Investment Office administers New Zealand's overseas investment laws.
PDS	The Product Disclosure Statement is the offering document that must be provided to investors in a regulated offer under the FMCA.
PFI	Prospective Financial Information.

Term	Definition
PIE	Portfolio investment entities (PIEs) an entity or fund which invests the contributions from its investors in different types of investments.
RBNZ	Reserve Bank of New Zealand is New Zealand's central bank. It is primarily a policy organisation that exists to formulate and implement monetary policy to maintain price stability and support maximum sustainable employment, promote the maintenance of a sound and efficient financial system; and meet the currency needs of the public. <a href="https://www.rbnz.govt.nz/">https://www.rbnz.govt.nz/</a>
SME	Small and Medium-sized Enterprises play a key role in the New Zealand economy. They comprise of over 97 per cent of enterprises in New Zealand.
SOE	State owned enterprises in New Zealand are registered companies listed under Schedules 1 and 2 of the State-Owned Enterprises Act 1986. Most SOEs are former Government departments or agencies that were corporatised.
TtE	A tax framework on savings where income is taxed when it is first earned (T); it is somewhat more lightly taxed as it accumulates within a fund (t); but not taxed when it is withdrawn and spent (E, meaning Exempt).
VC	Venture Capital is capital that has been invested in a project in which there is a substantial element of risk, typically in new or expanding businesses. These businesses are essentially start-up companies with the potential to grow from a certain amount of investment.

## Appendix Three: References

- <sup>1</sup> This whakataukāi refers to the reciprocity of support between enterprise and investors to create a prosperous New Zealand.
- <sup>2</sup> See <https://www.ey.com/nz/cm2029> for the definition of capital markets we have referenced.
- <sup>3</sup> Many references, refer Wright, Asimakopoulou & Hamre (January 2019) The New Financial Global Capital Markets Growth Index, Analysis of the Size, Depth & Growth Potential of Capital Markets in 60 Economies around the world, [www.newfinancial.org](http://www.newfinancial.org); FCLT Global (January 2019) Public Markets for the Long Term: How Successful Listed Companies Thrive; European IPO Task Force (March 2015) Rebuilding IPOs in Europe - Creating jobs and growth in European capital markets; Xiaohui Gao, Jay R. Ritter, and Zhongyan Zhu, "Where have all the IPOs gone", Journal of financial and quantitative analysis.
- <sup>4</sup> See <https://www.ey.com/nz/cm2029>
- <sup>5</sup> Many references, refer Wright, Asimakopoulou & Hamre (January 2019) The New Financial Global Capital Markets Growth Index, Analysis of the Size, Depth & Growth Potential of Capital Markets in 60 Economies around the world, [www.newfinancial.org](http://www.newfinancial.org); FCLT Global (January 2019) Public Markets for the Long Term: How Successful Listed Companies Thrive; European IPO Task Force (March 2015) Rebuilding IPOs in Europe - Creating jobs and growth in European capital markets; McKinsey Global Private Markets Review (2019) Private Markets come of age; CFA Institute Capital Formation - The Evolving Role of Public and Private Markets; Wright, "What are stock exchanges for and why should we care?", New Financial.
- <sup>6</sup> Compound annual growth rate, from December 2008 to December 2018, size refers to free float adjusted market capitalisation and value refers to value of capital indices.
- <sup>7</sup> NZX Debt Market source data.
- <sup>8</sup> See TDB Advisory A Review of the Mixed Ownership Model, [www.tdb.co.nz](http://www.tdb.co.nz)
- <sup>9</sup> Technology Investment Network (2018) TIN Report, 14th Edition.
- <sup>10</sup> NZIER (February 2018) The economic contribution of NZX.
- <sup>11</sup> Mai Chen (November 2015) Superdiversity Stocktake Implications for Business, Government and New Zealand, [www.superdiversity.org/wp-content/uploads/Superdiversity\\_Stocktake.pdf](http://www.superdiversity.org/wp-content/uploads/Superdiversity_Stocktake.pdf)
- <sup>12</sup> Sourced from Financial Markets Authority
- <sup>13</sup> Sourced from Financial Markets Authority
- <sup>14</sup> Sourced from Financial Markets Authority
- <sup>15</sup> In Review of the KiwiSaver Fund Manager Market Dynamics and Allocation of Assets (2015), Treasury forecasts KiwiSaver funds under management to be \$70b by 2020. Extrapolating the same assumptions out to 2030 brings the figure to \$200b funds under management.
- <sup>16</sup> Section 68 of the FMCA grants the FMA the power to waive the waiting period, but we are not aware of this power ever being used, even where the FMA has conducted extensive pre-registration reviews of IPO disclosure materials. Accordingly, an amendment to automatically waive the waiting period in the circumstances outlined above would be appropriate, or a regulatory or legislative direction as to the circumstances in which the FMA should utilise this existing power.
- <sup>17</sup> See clause 39(c)(i) of Schedule 3 of the Financial Markets Conduct Regulations 2014.
- <sup>18</sup> The fair dealing provisions in Part 2 of the FMCA apply to any statement made in connection with any dealing in financial products by prohibiting misleading or deceptive conduct or conduct which is likely to mislead or deceive. This would include publishing statements including PFI that is misleading (for example, because it was based on entirely unreasonable assumptions). It is worth noting that if the PFI was included in a regulated disclosure document, the liability provisions in Part 3 of the FMCA would also apply - under section 82(2), a statement about a future matter (such as PFI) is taken to be misleading if the person making the statement does not have reasonable grounds for making it. If the PFI were not included in the regulated disclosure documents, then the provisions relating to unsubstantiated representations at section 23 of the FMCA would be relevant to similar effect.
- <sup>19</sup> A compliance listing is where an issuer is listed, and its equity securities are quoted, on the NZX Main Board without any capital being sought through an offer of securities. Under NZX Listing Rule 7.3.1, an applicant for listing must prepare and issue an Offer Document or a Profile (if required to do so by NZX) when seeking initial quotation of a class of financial products (and in certain other circumstances where there has been a fundamental change in an existing issuer). For initial listings, we understand practice has generally been for a Profile to be provided.
- <sup>20</sup> Australian Law Reform Commission (January 2019) Integrity, Fairness and Efficiency—An Inquiry into Class Action Proceedings and Third-Party Litigation Funders (ALRC Report 134).
- <sup>21</sup> The Treasury (April 2019) Reform of the Overseas Investment Act 2005: Facilitating productive investment that supports New Zealanders' wellbeing.



22. See <https://www.ey.com/nz/cm2029> for copy of full submission.
23. See section 534 of the FMCA.
24. See section 500 of the FMCA, which provides for a true “due diligence” defence in relation to regulated disclosure documents only.
25. See sections 510 to 512 of the FMCA. Note that no criminal liability presently attaches to documents which are not “required” for the purposes of the FMCA - such as investor presentations or fact sheets, unless they are incorporated into a regulated disclosure document.
26. See clause 41 of Part 3 of Schedule 1 of the FMCA.
27. Part 15 of the Companies Act enables virtually any ‘arrangement’ involving a company to be approved by a court, so could, in theory, be used to affect any conceivable corporate transaction.
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30. The Government (May 2019) the Wellbeing Budget.
31. RBNZ (January 2019) Capital Review Paper 4: How much capital is enough?.
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33. NZTE (June 2017) Māori Economy Investor Guide, page 42.
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35. <https://www.rbnz.govt.nz/statistics/c5>
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38. NZDX source data.
39. Hon Grant Robertson (2019) The Wellbeing Budget, page 127.
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41. EY (2018) Future of Tax: EY’s submission to the Tax Working Group.
42. KiwiSaver and Portfolio Investment Entities generally have some preference within the New Zealand system but remain heavily taxed by international norms, so the New Zealand system is often described as TTE.
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45. <https://www.irs.gov/retirement-plans/401k-plans-deferrals-and-matching-when-compensation-exceeds-the-annual-limit>
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47. [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/797786/Full\\_ISA\\_Statistics\\_Release\\_April\\_2019.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/797786/Full_ISA_Statistics_Release_April_2019.pdf), page 13.
48. See Tax Working Group (21 February 2019) Future of Tax: Final Report Volume I - Recommendations, page 73.
49. Government tax policy work programme (<https://taxpolicy.ird.govt.nz/work-programme>)
50. See Tax Working Group (21 February 2019) Future of Tax: Final Report Volume I - Recommendations, page 80.
51. Government response to TWG, <https://www.beehive.govt.nz/release/govt-responds-tax-working-group-report>, see #43.
52. See Tax Working Group (21 February 2019) Future of Tax: Final Report Volume I - Recommendations, page 74.
53. Government tax policy work programme (<https://taxpolicy.ird.govt.nz/work-programme>).
54. Government response to TWG, see #36 <http://taxpolicy.ird.govt.nz/news/2019-04-17-government-responds-twg-recommendations#business>
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