



Capital Markets at the Crossroads

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The recent establishment of the Capital Markets Development Taskforce by the Ministry of Commerce to provide a forum for government and the private sector to work together to develop New Zealand's capital markets is extremely timely.

New Zealand's capital markets are at the crossroads, with one path leading to probable prosperity, the other to oblivion. The new Taskforce must not only chart the direction, but also demonstrate how the country will travel down the road that is chosen.

Some have chosen to attack the composition of the Taskforce. I have no problem with its composition. Those appointed will recognise that they do not have a monopoly on ideas.



Good leaders know they must surround themselves with the brightest minds. If the Taskforce adopts a consultative approach that is open for submissions, that will allow interested and passionate people to contribute to the process.

With this being an election year, it will also be important for the Taskforce and its recommendations to be entirely apolitical. All major political parties should be asked to take a bipartisan approach to commit to considering and implementing the recommendations immediately, so that the work is not wasted.

Given the fast changing nature of capital markets, a one-off committee is not enough. Ongoing reviews should occur to ensure continuity and that progress is being made.

The role of the Taskforce is not an enviable one. No one should expect it to effect change overnight. However, it has been given a year. It will need a full year if it adopts a consultative approach. As a corollary, it is hoped that the Taskforce takes an honest, bold, long term, macro and forward looking view of underlying issues and solutions, and not just seek short term answers to address the current symptoms.

It is important to understand the dynamics of the New Zealand market and where it sits in relation to other markets before finding solutions that fit our circumstances. It is too easy to point to Ireland and Finland, when perhaps our circumstances are more akin to Hong Kong or Singapore. It is also too convenient to simply follow our trading partners. Beyond a core regulatory system, we must look to differentiate New Zealand based on our comparative advantages.

The undeniable fact that New Zealand does not have a business culture is both a supply and demand side issue. Government has historically played too large a role in the economy and as a result, we do not value business. Recent surveys show that we trust and value the feats of our sportspeople more than we do our business leaders.

Adventurous spirit must be transformed into entrepreneurial spirit. Every child should aspire to being the owner of a listed company, or at least being their own boss, alongside All Black or Silver Fern aspirations. This starts with education. At least the dot.com boom and the success of TradeMe has encouraged a generation to aim for the sky. We must have our brightest students choosing business over medicine or (dare I say it) law. This can only happen if we make financial literacy a priority. Basic arithmetic is not enough. Young people must be encouraged to start up small businesses. If it takes scholarships and money, let's spend that money.

A review of our securities laws is required to facilitate easier and lower cost access to investment capital for small and growing businesses, within our disclosure based principles. More needs to be done to dramatically reduce the compliance costs of small businesses, especially those raising investment. New businesses should be encouraged to innovate by having greater R&D incentives. There needs to be a rethink on how public money is spent on business so that it fuels new ideas and growth. Government agencies need to do more to encourage new and small businesses, and not just exporters

Addressing the current lack of a savings culture is a long term project. Not only is it about understanding why our overall rate is very low, it is also about understanding the investment choices adopted by New Zealanders. People spend money every week on state controlled lotteries and gambling machines instead of saving. Until recently it seemed that every second person in Auckland was a property developer. The fascination with property as an investment class is simply a result of conditioned and learned behaviour. There needs to be incentives and disincentives to guide and change savings behaviour, including potentially mandatory savings and changes to taxation laws. It is hoped that the Taskforce will not sidestep the savings issue due to its sheer size or the existence of KiwiSaver.

Other commentators have focused on the disparity between the make-up of New Zealand businesses, both state and privately owned, and that of the capital markets. Until the latter properly reflects the former, there is little prospect that our capital markets will flourish. We must allow free competition and remove all institutional, regulatory or licensing obstacles to competition that are currently protecting state sector entities. Some degree of private ownership has to be considered. A good hard look at producer boards is also necessary. A way must be found to encourage large private companies to partially list and raise capital in New Zealand.

However, this will not of itself be enough. New Zealand must take radical steps to bring capital to New Zealand and to attract businesses to have some connection with New Zealand's capital markets. While steps have been taken to open New Zealand's borders for trade and capital, there is room for differentiating New Zealand. Otherwise, our larger market neighbours will ultimately attract more capital and more businesses. We can look to examples overseas, but New Zealand specific solutions are needed to make New Zealand a compelling proposition. The way forward is to leverage New Zealand's current comparative advantages- green image, low cost of business and time zone. Coincidentally, these are the foundations of TZ1, NZX's carbon trading platform.

I challenge all those who work in the New Zealand markets to rally and contribute to the work of the Taskforce. There is no reason why the Taskforce with our support cannot set a course to prosperity based on a uniquely New Zealand set of recommendations.

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