



New Zealand

Presented by Paul Atmore CEO of the
New Zealand Financial Markets Association

RESILIENCE | CONFIDENCE | OPPORTUNITY

NZ Capital Markets Performance

▼ Background

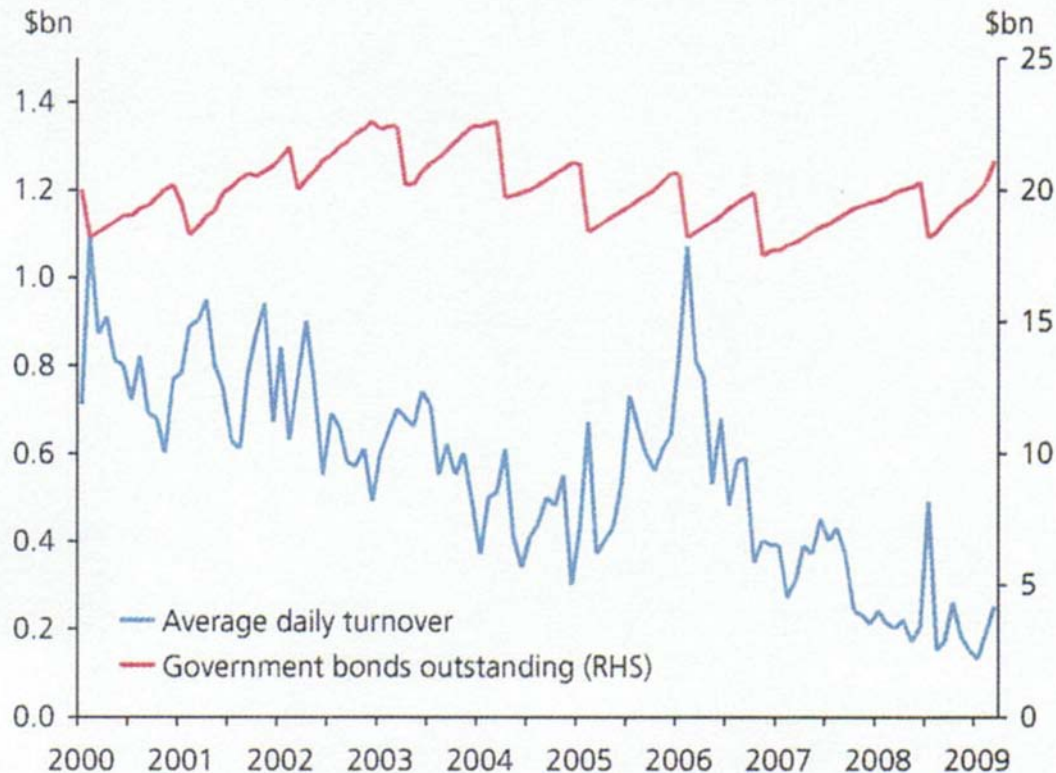
- NZ Economy has been in recession
- Weak domestic demand
- Poor commodity prices
- Repeated collapse of finance companies
- Return by government to fiscal deficits
- Recent change in government from centre left to centre right

▼ Government Bond Market

- Gross issuance forecast to increase from 23 to 57 bio next four years

NZ Capital Markets Performance

Government bonds on issue and turnover

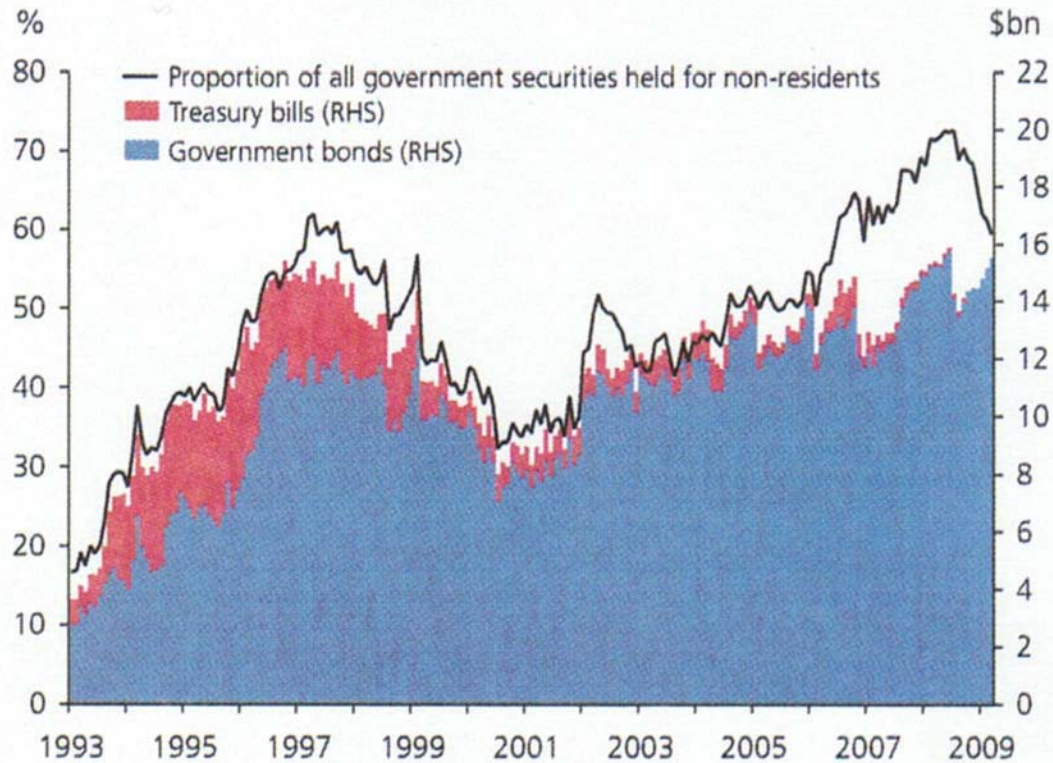


NZ Capital Markets Performance

- Secondary market activity has declined due to:
 - High % offshore investors holding to maturity
 - Recent fiscal surpluses reducing market liquidity
- NZ Treasury initiatives to improve liquidity & participation
 - Establishment of Bond Market Working Group
 - Introduction of a new ten year bond
 - Establishment of `tap' & `reverse' tenders
 - Introduction of larger tenders.
 - Conducting global road shows to promote bonds

NZ Capital Markets Performance

Non-resident holdings of New Zealand government securities

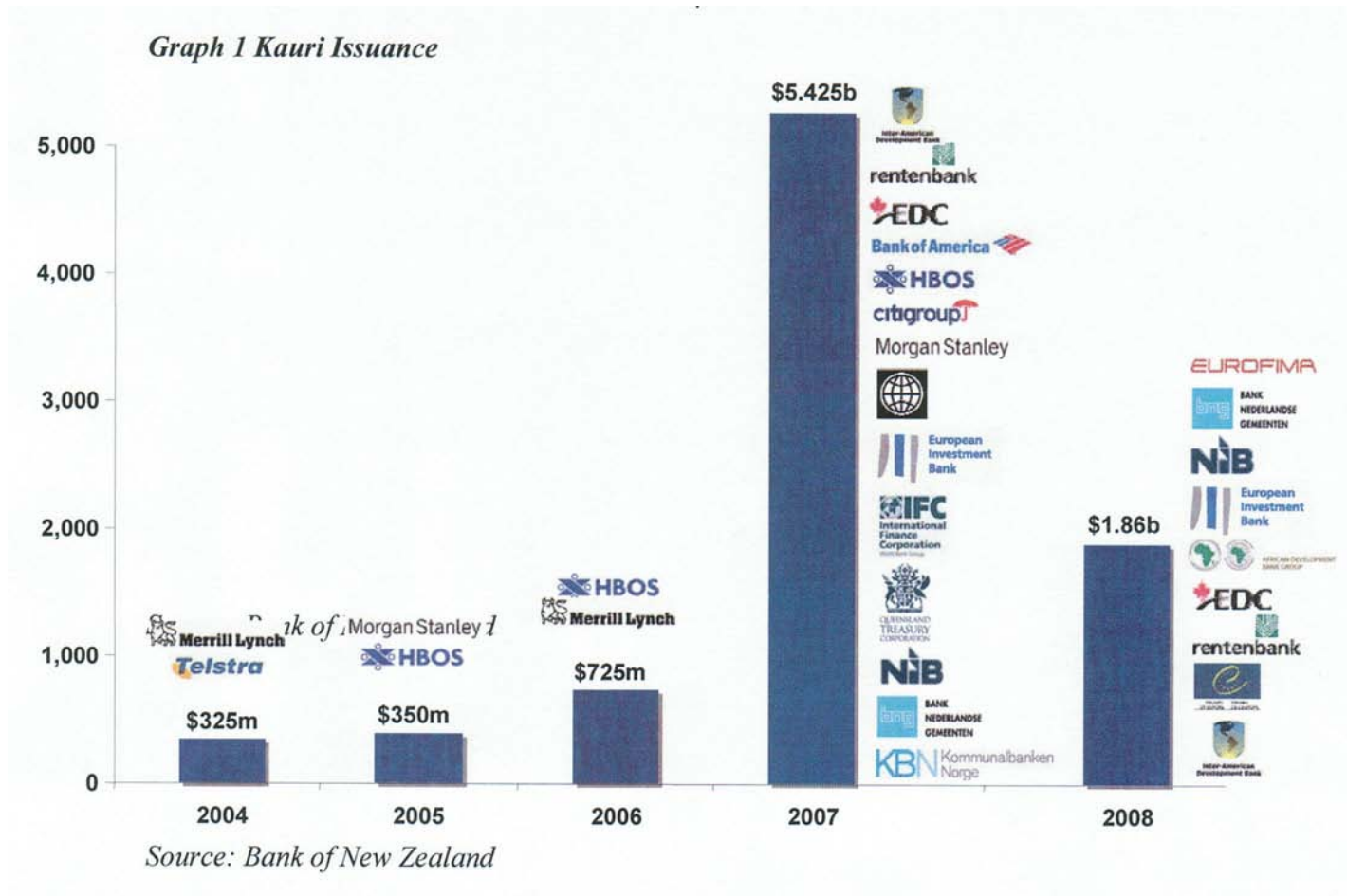


NZ Capital Markets Performance

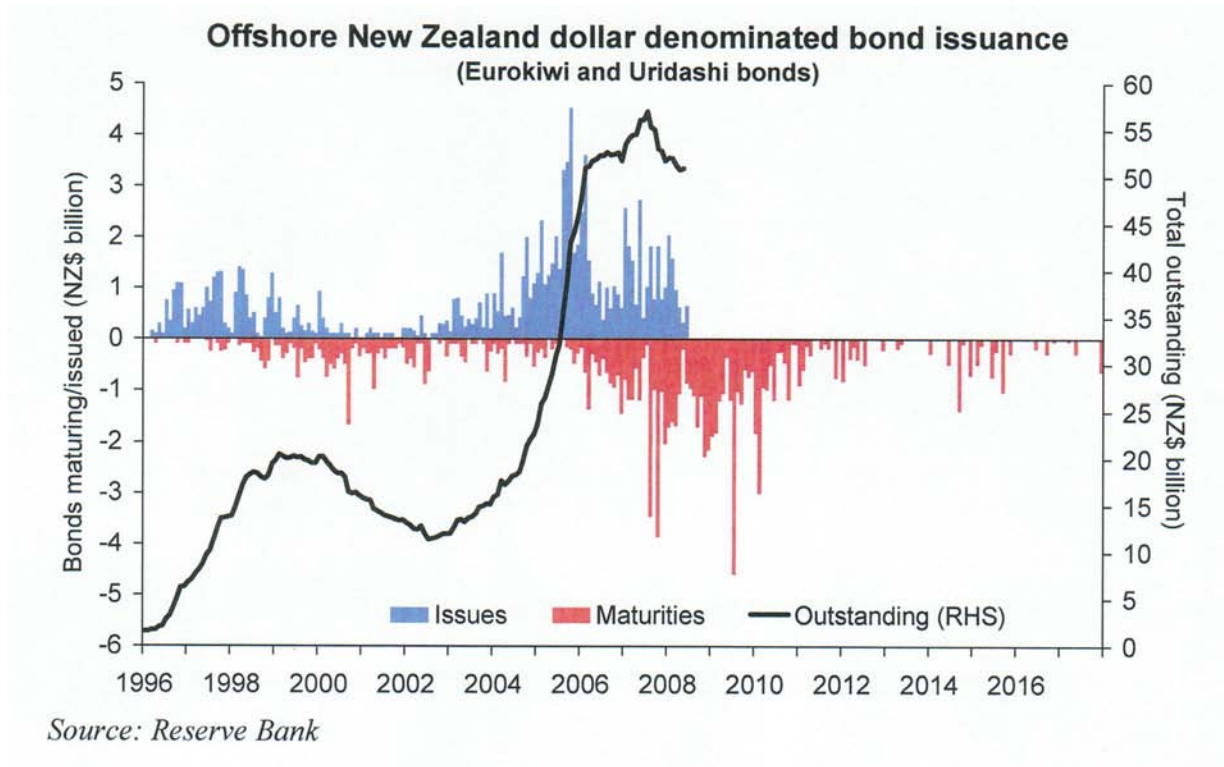
▼ The Kauri Bond Market

- Market developed in 2004
- NZD denominated bond originated by foreign issuer
- Issuers typically Supranationals i.e. European Investment Bank
- Investors a mix of onshore and offshore institutions
- 40% of issues held offshore
- Market has grown at expense of Euro-kiwi & Uridashi markets
- July 2007 saw spike in issuance due to RBNZ acceptance of AAA Kauri's as security in its domestic operations
- Issuance has since slowed but will remain an important part of the NZ Capital Markets due to diversity of security for RBNZ and local banks

NZ Capital Markets Performance



NZ Capital Market Performance

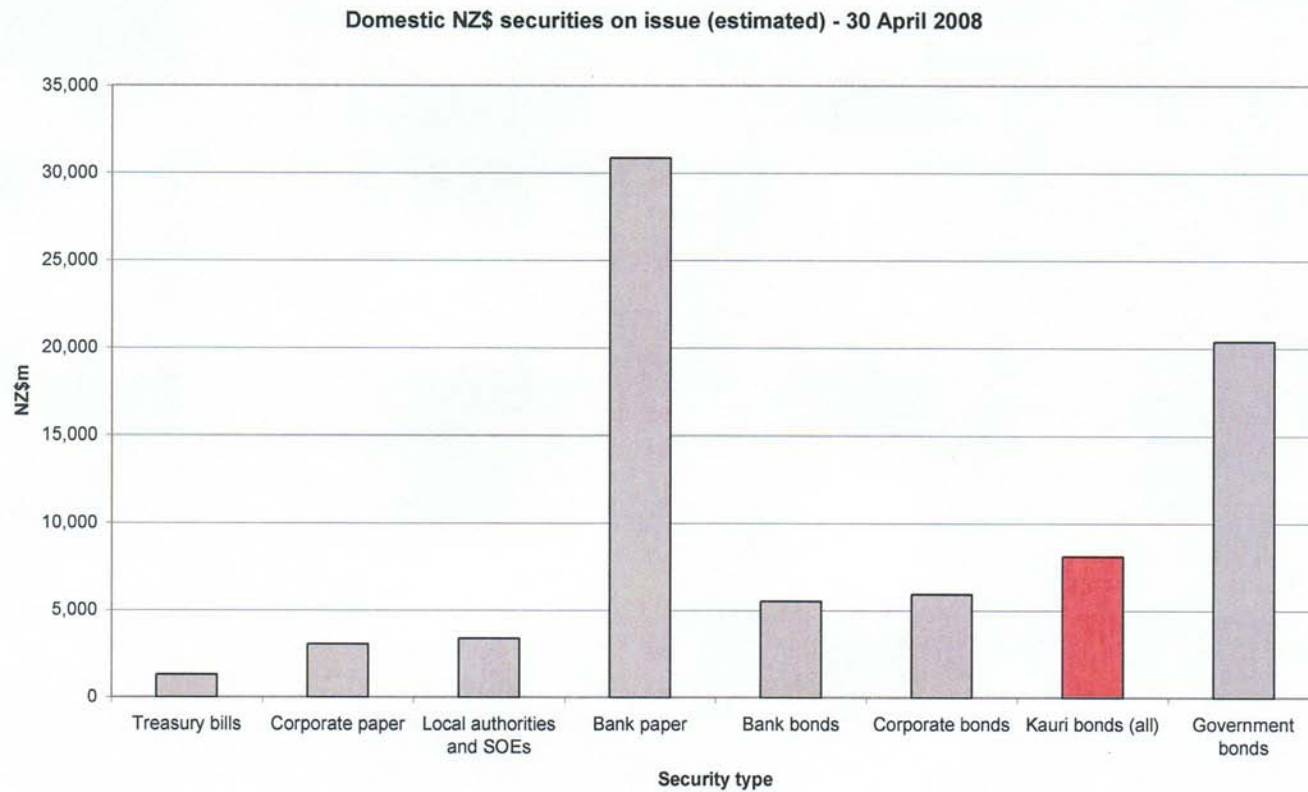


NZ Capital Markets Performance

▼ Other Debt Capital Markets

- This market continues to see re-pricing across all assets
- Remains a viable source of funding for good quality credits
- Investor dissatisfaction with equity & managed funds = strong interest in senior fixed income investments
- Retail Deposit Guarantee scheme increased retail issuance from 26% in 2007 to 56% in 2009
- Yields for Corporate & Local Body issuance peaked early 2009
- Short term bank funding now 40 over & 5 Yr 130 over swap

NZ Capital Markets Performance



Source: Reserve Bank

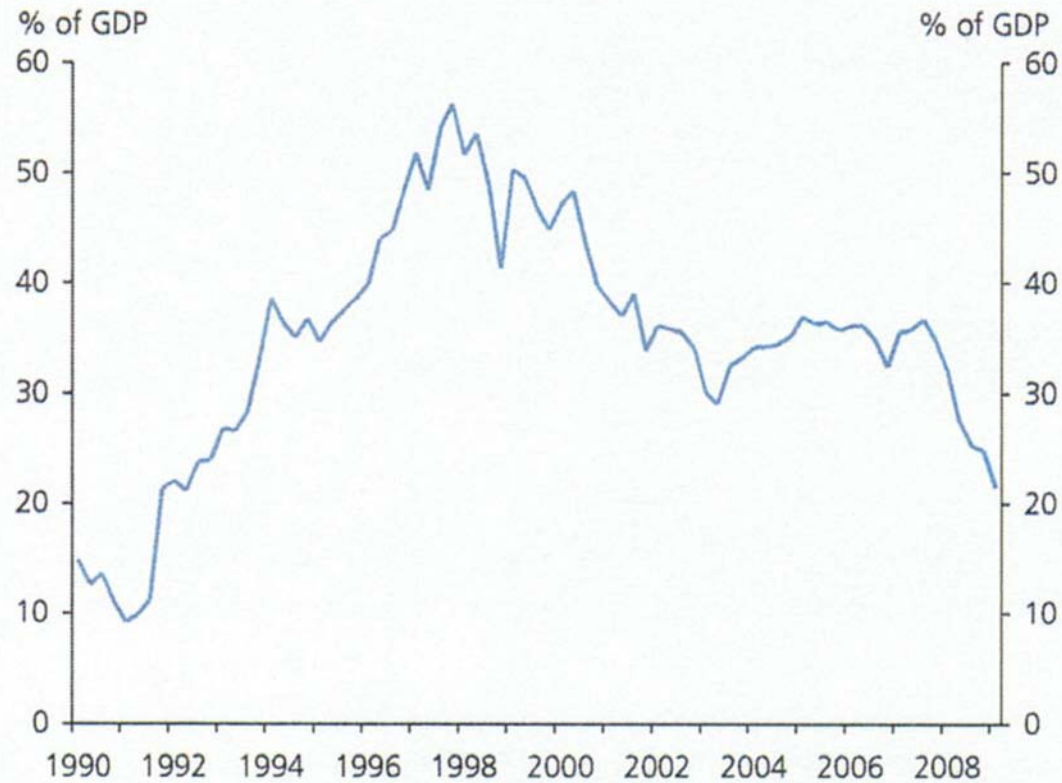
NZ Capital Markets Performance

▼ Equity Market

- NZ Equity Market cap has declined relative to GDP (graph)
- Ave size of listed companies has remained constant where comparative companies in other countries have increased
- Value of domestic equity turnover relative to GDP is small
- Equity transactions per head of population remain relatively low
- NZ equity market has a higher dividend yield compared to other countries
- Performance of the NZ equity market challenged by:
 - Geographic isolation
 - Dependence on agriculture
 - Small population

NZ Capital Market Performance

Equity market capitalisation



Major Developments

- ▼ Inland Revenue Discussion Paper Release – NRWT & AIL
 - Tax treatment of Corporate Bonds
 - Proposes the zero rating of NRWT and Approved Issuer Levy
 - Current impediment to growth of Corporate Bond market
 - Issuer often pays cost of NRWT and/or AIL
 - Applied to qualifying bonds
 - Held by at least 100 investors who are not associated
 - No investor holds more than 10% excluding underwrite
 - Would result in greater offshore investor interest

Major Developments

- ▼ Extension of Retail Deposit Guarantee Scheme
 - Implemented late 2008 to expire Oct 2010
 - Extended to Dec 2011
 - New minimum credit rating of BB
 - New fee structure based on risk
 - Will result in continued growth in retail issuance versus W/S

- ▼ Regulatory Change and Developments
 - Financial Advisers Act 2008
 - Regulation of any person providing advice that results in an investment decision.
 - Focuses on individual rather than organisational compliance

Major Developments

- **FAA Continued**
 - Key components of the Act cover disclosure, competence and dispute resolution
 - Act to be applied in 2010
- **Reserve Bank Amendment Act 2008**
 - Increased regulatory authority given to the central bank
 - Non-bank deposit takers will need to comply to a number of governance measures
- **Financial Service Providers Act 2008**
 - Stipulates obligations of advisers with regard to dispute resolution
- **Anti-Money Laundering**
 - The Ministry of Justice is leading work on this issue to bring NZ into line with the Financial Actions Task Force (FATF) standards



New Zealand

Presented by Paul Atmore CEO of the
New Zealand Financial Markets Association

RESILIENCE | CONFIDENCE | OPPORTUNITY