

SUMMARY OF RECOMMENDATIONS

Retail investors – promoting trust

Aim: promote trust, safety and appropriate products for retail investors

Area	Recommendation	Response	Proposed Action	Timetable	Responsible Ministers
<i>Improve governance of managed funds</i>	1. Fund managers and supervisors should explicitly disclose the duties that they owe to individual investors and any restrictions on these, and should annually declare (e.g. in their statements to individual investors) that they have not breached their duties.	Support the recommendation.	Considering detail of disclosure of duties as part of the Securities Act Review.	Discussion document on potential changes by April 2010. Potential changes implemented by October 2011.	Minister of Commerce
	2. Entry, exit and unit pricing rules that are fair to all investors severally should be established and disclosed to investors.	Support the recommendation.	Considering how best to achieve this in the Securities Act Review.	Discussion document on potential changes by April 2010. Potential changes implemented by October 2011.	Minister of Commerce

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	3. Provide regulatory certainty for wrap accounts or other one-to-one products/services competing in the managed fund area.	Support the recommendation.	Consideration will be provided to this issue once resources permit.	Report back by no later than December 2011.	Minister of Commerce
	4. Improve and standardise periodic statements to managed fund investors so that asset holdings and performance are clear and comparable.	Support the recommendation.	Considering as part of Securities Act Review.	Discussion document on potential changes by April 2010. Potential changes implemented by October 2011.	Minister of Commerce
<i>Disclosure – make it meaningful for investors</i>	5. Replace the investment statement and prospectus with a new two-part disclosure document that aids understanding and comparability. The first part should be 1-2 pages long, and much more standardised than the investment statement in content and presentation.	Support the recommendation.	Intend to introduce new disclosure documents, with work underway in the Securities Act Review.	Discussion document on potential changes by April 2010. Potential changes implemented by October 2011.	Minister of Commerce

Area	Recommendation	Response	Proposed Action	Timetable	Responsible Ministers
	6. Include a warning label on disclosure documents where products are particularly risky or complex to encourage investors to exercise caution and seek independent advice.	Support.	Considering detail of disclosure documents as part of Securities Act Review.	Discussion document on potential changes by April 2010. Potential changes implemented by October 2011.	Minister of Commerce
	7. Create a centralised website for disclosure documents that allows for easy comparison between products.	Support in principle.	Considering detail as how this should be done as part of Securities Act Review.	Discussion document on potential changes by April 2010. Potential changes implemented by October 2011.	Minister of Commerce
<i>Financial advisors – strengthen regime</i>	8. Restrict the use of the words “independent adviser” and impose a clear fiduciary duty on those that use this title.	Further consideration required.	Both issues are currently being considered by the Code Committee for Financial Advisers, and MED officials as part of their work on financial adviser disclosure regulations.	Will report back on this issue in June 2010 once the Code of Professional Conduct has been completed.	Minister of Commerce
	9. Regularly monitoring the quality of financial advisers (e.g. through a “mystery shopper” programme).	Support the recommendation.	Financial Advisers Act evaluation plan is being set up. Will consider this recommendation in the evaluation plan.	Will report back on this issue by 30 June 2010 once the evaluation plan is complete.	Minister of Commerce

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<i>Improve product range for investors</i>	10. Partial stock market listing of central and local government-owned companies.	<p>Partial stock market listing of local government-owned companies should be a matter for local government to decide.</p> <p>Government policy is not to sell any state-owned company over this term in Government.</p>	<p>Partial stock market listing of local government-owned companies should be a matter for local government to decide.</p> <p>Government policy is not to sell any state-owned company over this term in Government.</p>		Minister of State Owned Enterprises
	11. Work to encourage agriculture co-operatives to access public capital markets for equity.	Further consideration required.	Review in 2011 subsequent to outcome of co-operatives tax review and taking into account the status of Fonterra's capital structure discussions.	Will be considered as resources allow.	Minister of Finance Minister for Economic Development Minister of Agriculture
	12. Investigate whether there are prudential impediments to foreign-controlled financial services businesses undertaking partial listings of local subsidiaries.	Further consideration required.		Will report back to Government by April 2010	Minister of Finance

Area	Recommendation	Response	Proposed Action	Timetable	Responsible Ministers
	13. Increase retail debt issues from Debt Management Office (DMO) and government-owned companies.	Further consideration required.	Investigate why there is a lack of participation in existing government debt products already available to retail investors. Increased debt issuance by government-owned companies should be a matter for them to decide.	Will report back by December 2010.	Minister of Finance
	14. Government should support the development of the annuities market.	Further consideration required.	Review the tax treatment (see recommendation 54) and then assess what if any further changes are required.	Will consider after the tax treatment has been considered as part of the Government's tax policy work programme.	Minister of Finance Minister of Commerce
	15. When the provision of KiwiSaver default schemes is next tendered, change from conservative to schemes better tailored to long-run investment needs.	Further consideration required.	Will revise the default KiwiSaver schemes as part of next tender.	The next tender for KiwiSaver default schemes will take place in 2015.	Minister of Commerce
<i>Financial literacy</i>	16. Assign a formal coordination role in financial and investment literacy to a government agency, with appropriate resourcing.	Support	Minister Power will have oversight of Government's work on financial literacy	Minister Power will have his first meeting with relevant agencies by April 2010	Minister of Commerce

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	<p>17. Employ initiatives to help raise investment literacy amongst New Zealanders, including a campaign targeted at promoting key investment messages.</p>	<p>Further consideration required.</p>	<p>Considering further, and will report back to government.</p>	<p>Will set out next steps to help raise investment literacy by September 2010.</p>	<p>Minister of Commerce</p>
	<p>18. Include investment literacy concepts in the school curriculum and resolve the issues preventing approval of the Personal Financial Management unit standards.</p>	<p>New Zealand's schools are self-managing and are therefore able to design programmes for learning to meet their students' needs and aspirations. Schools are able to include investment literacy concepts where they consider this appropriate.</p> <p>Personal Financial Management Standards are now approved and available on the National Qualifications Framework.</p>	<p>No further action required for this recommendation.</p>		<p>Minister of Education</p>

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	<p>19. Develop improved data on household financial assets to allow for better informed policy-making around household saving and investment choices.</p>	<p>There are a number of initiatives underway that will improve information on savings and wealth. The development of balance sheets as part of the system of national accounts is seen as a priority but is not currently funded.</p>	<p>Will continue to progress development of priority statistics including:</p> <ul style="list-style-type: none"> - An experimental household income and outlays account - Statistics on Institutional Sector Accounts - Consultation on need for a second households savings survey 	<p>Already published</p> <p>June 2010</p> <p>June 2010</p>	<p>Minister of Statistics</p>

Markets

Public equity markets

Aim: greater breadth (more representative of economy), increased liquidity and greater birth rate of new companies moving on to the market

Area	Recommendation	Response	Proposed Action	Timetable	Responsible Ministers
<i>Improve the "birth rate" on to public markets</i>	20. Allow NZX (as a registered exchange) to own and operate unregistered and exempt exchanges – so that NZX capability and expertise is available to help develop the pipeline of companies coming through to fully public markets.	Further consideration required.	Considering as part of Securities Act Review.	Discussion document on potential changes by April 2010. Potential changes implemented by October 2011.	Minister of Commerce

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	21. Create an environment in which unregistered and exempt exchanges can develop their own rules with a lower regulatory burden than on NZX (e.g. without continuous disclosure), so that companies can attract the capable directors and quality intermediary resources with the ability to help companies develop business plans and raise capital for growth.	Further consideration required.	Considering as part of Securities Act Review.	Discussion document on potential changes by April 2010. Potential changes implemented by October 2011.	Minister of Commerce
<i>Increase investor involvement</i>	22. As part of the Single Economic Market programme with Australia, work to have Australian funds treating New Zealand listed equities as part of an Australasian mandate (as New Zealand funds typically do).	Further consideration required.	Investigate further and consider as part of the SEM agenda.	Will report back by December 2010.	Minister of Commerce

Area	Recommendation	Response	Proposed Action	Timetable	Responsible Ministers
	23. NZX, Treasury and MED to develop a proposal for an analyst research scheme to extend coverage to small (and particularly newly listed) firms.	Support in principle	Develop proposal.	Will report back by August 2010.	Minister of Finance Minister for Economic Development

Public debt markets

Aim: longer dated sovereign yield curve and more liquidity

Area	Recommendation	Response	Proposed Action	Timetable	Responsible Ministers
<i>A proactive approach from DMO</i>	24. Encourage DMO to expand the range of government debt securities on offer, including longer-term debt, inflation-indexed bonds and foreign currency debt. These should include publicly listed, retail issues.	Further consideration required.	DMO will consult with market participants with a view to recommending issuance of inflation-indexed bonds. Ongoing consideration of longer term debt and foreign currency debt as options for generating cost effective funding as part of the Government's debt programme. Retail issues will be considered in conjunction with work under recommendation 13.	Market consultation in Feb 2010 with a view to recommending issuance of inflation-indexed bonds by May 2010. Will report back on long term debt and foreign currency debt by May 2010.	Minister of Finance
<i>Deepen and broaden debt markets</i>	25. Continue to co-ordinate the development of a local government bond bank until it is firmly established.	Support the recommendation.	Work is underway with local government to design and assess a single debt vehicle.	Go/no-go decision by local government expected by end March 2010.	Minister of Finance

Private markets

Aim: Growing more companies and better linking to public markets

Area	Recommendation	Response	Proposed Action	Timetable	Responsible Ministers
<p><i>Clarifying boundaries with public market</i></p>	<p>26. Review Securities Act and revise current Securities Act exemptions to provide a set of clearer, broader exemptions – registered investors; the existing exemption for “those who invest money as a principal business activity”; other professional investors with clear, quantified set of criteria; investors who have obtained a recommendation from a conflict-free authorised financial adviser; a more clearly defined exemption for relatives and close business associates; wealthy investors; and small offers.</p>	<p>Support the recommendation.</p>	<p>Agree with the need to clarify the public / private distinctions. Considering detail as part of the Securities Act Review.</p>	<p>Discussion document on potential changes by April 2010. Potential changes implemented by October 2011.</p>	<p>Minister of Commerce</p>

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	27. Those advising investors who are outside the scope of the Securities Act also be excluded from the obligations of the Financial Advisers Act.	Further consideration required.	<p>Work is underway to tailor obligations to recognise the special circumstances of wholesale advisers (but not all advisers to sophisticated investors) in disclosure obligations, in the Code of Professional Conduct, and in dispute resolution schemes.</p> <p>A more fundamental assessment of this issue should wait until the Securities Act Review is further progressed and the boundaries between public and private markets are clearer.</p>	<p>The draft Code of Professional Conduct is due in March for feedback from the public.</p> <p>Regulations for disclosure obligations will issued in early April 2010.</p> <p>Exemptions from dispute resolution schemes are under consideration.</p> <p>Will report back on the more fundamental assessment in February 2011.</p>	Minister of Commerce
	28. Implement changes to the Takeovers Act around thresholds for its application as recommended by the Takeovers Panel.	Support the recommendation.	Will seek to progress the amendment in the Regulatory Reform Bill.	Intend to introduce bill by August 2010.	Minister of Commerce

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<i>Improve commercialisation of research and government funding of firms</i>	29. Consolidate commercialisation activities of Crown Research Institutes (CRIs) and universities to create a critical mass of specialist commercialisation expertise.	Further consideration required.	Being considered by CRI Taskforce.	CRI Taskforce will report early in 2010.	Minister of Finance Minister of Research, Science and Technology
	30. Explore the scope for replacing some business assistance grants with investments of equity, convertible debt, and other more commercial instruments delivered by a commercially-focussed organisation (such as New Zealand Venture Investment Funds - NZVIF).	Further consideration required.	Consider as part of ongoing discussions on access to capital and value for money issues.	Report back by April 2010	Minister for Economic Development
	31. Continue to support the venture capital market through the commercially focussed NZVIF fund of funds model of government and private sector co-investment.	Further consideration required.	Support is contingent on outcome of evaluation of VIF and persuasive business case for more capital.	To be addressed as part of Budget 2010.	Minister for Economic Development

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	32. Encourage NZVIF to look for innovative ways to attract further private sector investment, especially institutional funding.	Further consideration required.	MED to engage with NZVIF and INZ on how to attract offshore VC funding.	Report back by end of June 2010.	Minister for Economic Development

Derivatives markets

Aim: improve risk management in the New Zealand economy

Area	Recommendation	Response	Proposed Action	Timetable	Responsible Ministers
	33. Improve regulatory clarity for derivatives products.	Support in principle	Considering detail as part of Securities Act Review.	Discussion document on potential changes by April 2010. Potential changes implemented by October 2011.	Minister of Commerce
	34. The NZX and Reserve Bank work together to assess options to develop a joint clearing and settlement infrastructure for New Zealand.	Further consideration required.	NZX and the Reserve Bank currently involved in discussions on the provision of clearance and settlement services.	To be confirmed following the completion of discussions.	Minister of Finance
	35. Investigate opportunities for government issuance of a new and novel securities that take advantage of its unique role in the economy, e.g. liquid GDP-linked bond and long-term currency hedges.	Further consideration required.	Investigate whether there is likely to be any significant demand for these securities and any cost effective opportunities for DMO to supply them.	Will report back by May 2010.	Minister of Finance
	36. Work with NZX to facilitate the development of traded soft-commodity derivative products (e.g. dairy futures).	Support the recommendation.	Work is underway.	Will report back by September 2010.	Minister of Finance Minister of Economic Development Minister of Agriculture

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	37. Actively develop energy derivatives market to facilitate the development of different business models in the energy sector.	Support the recommendation.	Covered in the Ministerial Review of the Electricity Market.	By 1 June 2010 an open transparent hedge market will be established with a 1 June 2011 target of 3000 GWh of unmatched open interest contracts. The new Electricity Authority will have the ability to mandate the detail of the hedge market if the industry do not deliver on these objectives.	Minister of Energy and Resources
	38. Investigate how to ensure that New Zealand can develop financial products based on the information advantages we have (e.g. around agricultural export prices). Statistics New Zealand should work with the market to help develop the sort of information required.	Further consideration required.	There are varying ways in which Statistics New Zealand can assist markets, Statistics New Zealand will engage with industry and other stakeholders to understand more specifically what is required and what the nature of their contribution might be. Statistics New Zealand will participate in the dialogue between industry and government (recommendation 57) and proposes that any forum discussion include information and other infrastructure as one stream.	Will report back to the agency coordinating Taskforce recommendations on the outcomes of industry discussions by 30 June 2010.	Minister of Statistics

Regulatory agencies

Aim: Proactive enforcement of ethical behaviour to facilitate capital market activity

Area	Recommendation	Response	Proposed Action	Timetable	Responsible Ministers
<i>Clarify objectives of regulation</i>	39. Set of objectives to focus on healthy vibrant capital markets, which includes protecting and enhancing our reputation for transparent and ethical behaviour.	Support the recommendation.	Will progress as part of Securities Act Review.	Discussion document on potential changes by April 2010. Potential changes implemented by October 2011.	Minister of Commerce
<i>Design of regulators</i>	40. We believe that any ongoing drive for greater international capital market integration needs to be measured against clear long-term benefits for New Zealand's capital market, such a better allocation of capital, improved risk management, and increased competition.	Further consideration required.	Will consider further as part of Securities Act Review.	Discussion document on potential changes by April 2010. Potential changes implemented by October 2011.	Minister of Commerce

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976978	<p>41. Review and clarify roles and scope of regulatory agencies to reduce duplication and conflicts of interest, build capability and scale around centres of excellence, and ensure that the focus of regulatory agencies is on facilitating capital market activity. This is likely to mean:</p> <ul style="list-style-type: none"> ▪ consider consolidating parts of the Companies Office, Securities Commission and NZX Disciplinary Tribunal into a new market conduct regulator. ▪ some front-line market monitoring activity remains with NZX, with protocols around referrals to the regulator and ability of regulator to initiate investigations. 	Support.	Considering the regulatory landscape as part of Securities Act Review.	<p>Discussion document on potential changes by April 2010.</p> <p>Potential changes implemented by October 2011.</p>	Minister of Commerce

Area	Recommendation	Response	Proposed Action	Timetable	Responsible Ministers
<i>Target enforcement</i>	42. Greater emphasis on monitoring and enforcement capability and activity.	Support the recommendation.	Securities Act review is considering how to shift the balance of Commission activities in this direction.	Discussion document on potential changes by April 2010. Potential changes implemented by October 2011.	Minister of Commerce
	43. Give regulators the power to have an ongoing monitoring role of all public securities – whether listed or not – and to deem products to be securities where products appear to be securities.	Support the recommendation.	Considering this change as part of Securities Act Review.	Discussion document on potential changes by April 2010. Potential changes implemented by October 2011.	Minister of Commerce
	44. Give the regulator the power to seek civil remedies on behalf of investors and to initiate and coordinate class actions.	Support.	Considering how best to implement this change as part of Securities Act Review.	Discussion document on potential changes by April 2010. Potential changes implemented by October 2011.	Minister of Commerce

Tax

Area	Recommendation	Response	Proposed Action	Timetable	Responsible Ministers
	45. Broadly endorse the current company tax system including imputation as being a relatively neutral and efficient way of allocating capital into debt and equity investments.	nil	nil	nil	Minister of Finance Minister of Revenue
	46. Endorse the New Zealand government's position in seeking a mutual recognition of imputation and franking credits agreement with Australia.	nil	nil	nil	Minister of Finance Minister of Revenue
	47. Not endorse unilateral recognition of Australian company tax credits (or of any other country's) as this would subsidise offshore investment when it is not in New Zealand's economic interest.	nil	nil	nil	Minister of Finance Minister of Revenue

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	48. Not endorse streaming of imputation credits as it would undermine basic goals of the tax system (viz., source taxation of non-residents and foreign-sourced income taxation of residents).	nil	nil	Nil	Minister of Finance Minister of Revenue

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	<p>49. Reduce any tax biases between different investments – including PEs. Potential solutions identified are: a risk-free return method tax (in the case of housing or buildings), denial of depreciation deductions for buildings, specific capital gains taxes (on any under-taxed asset) and a general capital gains tax. However, in line with its terms of reference and membership, the Taskforce will be guided in this area by the analysis and recommendations of the Victoria University Tax Working Group. If these issues are not addressed in the context of the Tax Working Group they should be considered as part of the Government's tax policy work programme.</p>	<p>Further consideration required.</p>	<p>Considering further, and will report back to government.</p>	<p>Report back in the first half of 2010.</p>	<p>Minister of Finance Minister of Revenue</p>

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	<p>50. Clarification of the tax treatment for profit distribution plans (PDPs) should be enacted as soon as possible to remove uncertainty. We consider that PDPs and other share reinvestment plans should have the same tax treatment as they are largely substitutable.</p>	<p>Further consideration required.</p>	<p>Considering further, and will report back to government.</p>	<p>Report to Ministers in 2010.</p>	<p>Minister of Finance Minister of Revenue</p>
	<p>51. Review the thin capitalisation safe harbour for non-resident controlled companies with a view to reducing the safe harbour threshold from 75% to 60%. The 110% of worldwide debt-to-assets ratio alternative test should remain to ensure that legitimate debt financing is not disturbed.</p>	<p>Further consideration required.</p>	<p>Considering further, and will report back to government.</p>	<p>Report to Ministers in first half of 2010.</p>	<p>Minister of Finance Minister of Revenue</p>

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	<p>52. Endorse the government's proposal that the approved issuer levy of 2% be reduced to nil for some public issues of debt by New Zealand residents. This should encourage the development of a domestic corporate debt market and improve the efficiency of attracting debt investment from non-residents.</p>	<p>Support the recommendation.</p>	<p>Consider submissions on proposal. Possible inclusion of proposal in a tax bill in second half of 2010.</p>	<p>Report back in the second half of 2010.</p>	<p>Minister of Finance Minister of Revenue</p>
	<p>53. Inland Revenue should provide guidance to reduce uncertainty in how non-resident partners of New Zealand limited partnerships are taxed on the partnership's offshore income in certain circumstances.</p>	<p>Further consideration required.</p>	<p>Considering further, and will report back to government.</p>	<p>Report back in the second half of 2010.</p>	<p>Minister of Revenue</p>

Area	Recommendation	Response	Proposed Action	Timetable	Responsible Ministers
	54. Consider options that would tax annuities in a similar manner to other substitutable investments to remove a tax distortion that may discourage the development of a domestic annuities market.	Further consideration required.	Consider as part of Government's tax policy work programme when resources allow.	As resources allow.	Minister of Finance Minister of Revenue
	55. Reduce the disparity between tax treatment of equity capital raising costs and debt capital raising costs by allowing the cost of raising equity capital to be deducted over the lesser of the life of the equity or 20 years.	Further consideration required.	Considering further, and will report back to government.	Report back in 2010.	Minister of Finance Minister of Revenue

General

Area	Recommendation	Response	Proposed Action	Timetable	Responsible Ministers
	56. Better coordination to capital market policy development through the designation of a Minister for Capital Markets, or through a group of Ministers (supported by joined up advice from officials) that meets to actively consider capital market policy issues as they arise.	Support the recommendation.	Appoint Minister Power as the lead and coordinator of the group of Ministers (English, Brownlee and Dunne).	Ministerial Group has been established.	Minister of Finance Minister of Economic Development Minister of Commerce Minister of Revenue
	57. Work with the Institute of Finance Professionals (INFINZ) to organise a forum for continuing the dialogue between industry and government.	Support the recommendation.	Details will be considered over next few months.	Report back in April 2010.	Minister of Commerce
	58. Provide greater clarity and certainty around the Overseas Investment Act regime to protect property rights.	Support the recommendation.	A review of the Overseas Investment Act is already underway.	Cabinet decisions will be sought by the end of February 2010.	Minister of Finance

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	59. Allowing employers in the sector to more easily obtain work visas for offshore staff they wish to hire.	Further consideration required.	There is a policy that enables employers to seek accreditation with the Department of Labour and that supports them to more easily obtain work visas/permit for offshore staff they wish to hire. The Department will review this policy to identify if any enhancements can be made	Review complete by July 2010.	Minister of Immigration
	60. Pursue opportunities for New Zealand to develop as an exporter of high-value middle and back office services for fund management companies.	Further consideration required.	Business case under development.	Advise on implementation and government role in Asia Pacific funds domicile by 31 May 2010.	Minister for Economic Development