MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
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EVIDENCE, MONITORING & GOVERNANCE

Financial Markets Conduct Act

Baseline report and evaluation plan

New Zealand Government

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Executive Summary

MBIE has embarked on a five year evaluation of the effectiveness of the Financial Markets Conduct Act (FMCA or the Act). We will be collating qualitative and quantitative information to inform us whether the Act has achieved the outcomes that were expected.

The FMCA puts in place better investor information, new licensing and governance rules for issuers and new mechanisms to enable the raising of capital. Some of these changes were brought into force when the FMCA was introduced on April 1, 2014. Most changes, such as the disclosure regime and the financial products markets regime were brought into force on 1 December 2014.

What we are evaluating

The purpose of the evaluation is to assess whether the intended short and medium term outcomes of the FMCA have been achieved. There are four outcomes we will assess:

1. Can firms access capital more efficiently and easily?
2. Are New Zealand investors more confident in the financial markets and willing to invest in financial products, due to increased certainty and clarity in the rules and improved governance requirements?
3. Are compliance costs associated with raising capital more proportionate and appropriate to the financial product?
4. Has the FMCA promoted innovative and flexible ways of participating in financial markets, for example, by facilitating the development of new 'stepping stone' exchanges, making it easier for employees to own shares in their employee company and providing the capability for crowd-funding and peer-to-peer lending?

Scope

The scope is defined by MBIE's mandate to grow the New Zealand economy for all, and the legislative 'levers' that it can apply and is responsible for.

We recognise that there have been numerous other post-GFC changes to the regulation of capital all having impact on the intended policy outcomes. The evaluation will present a core set of progress indicators and seek industry comment on attribution.

What you can expect to see in 2015–2019

We will be collecting data and progressively publishing information over the five year evaluation period. Feedback on how the FMCA is working will be gathered annually from market participants and this will be combined with data from FMA, NZX, the Treasury and others. Progress indicators will be compiled into accessible 'dashboard' reports and a final aggregate report will be published in late 2019.

Baseline data

This report presents a selection of available indicators that show what was happening in financial markets before the FMCA was introduced (prior to 1 April 2014, or 1 December 2014). This data provides a baseline for the evaluation. Some examples of the baseline data in the main body of the report are:

The efficiency and ease of access by firms to capital

In the three years prior to the FMCA being introduced, 6.1% of firms reported that lack of finance was the single most restricting factor in increasing turnover.

27% of firms invested in expansion, 10% of firms sought equity finance and 24% sought debt finance. Of the firms seeking debt finance, 89% were able to do so on acceptable terms. Of the firms seeking equity finance, 80% were able to do so on acceptable terms.

The confidence and willingness of kiwi investors to invest in financial products

Prior to the FMCA being introduced, 59% of all New Zealanders and 75% of investors surveyed were confident in our financial markets, and 52% of investors surveyed believed that investor disclosure documents that were given to them helped them to make an informed investment decision.

The level and proportionality of compliance costs associated with raising capital

Prior to the FMCA being introduced, it cost:

- a firm issuing an average bond offer 0.8% of the amount being raised
- a firm issuing an average equity offer 4.8% of the amount being raised
- a unit trust an average of $8,800 per fund.

Innovative and flexible ways of participating in financial markets

Prior to the FMCA being introduced there were too many hurdles to make it possible to set up crowd-funding and peer-to-peer lending platforms, and none of them existed. Only 24 New Zealand firms had employee share schemes. The NXT Market operated by NZX for small and medium sized firms did not exist.

1. Introduction

The FMCA is designed to strengthen New Zealand's capital markets and make it easier for businesses to access capital. The Act puts in place better investor information, new licensing and governance rules for issuers and new mechanisms to enable the raising of capital. Policymakers expect that freeing up capital markets will also create more opportunities for New Zealanders to invest in business growth.

Policymakers required that the FMCA be evaluated by 2019 to identify its effectiveness at meeting its objectives.[1] The evaluation of the Act will be focused on whether it has achieved four key outcome areas identified through a consultation process with MBIE's Financial Markets team, with input from the Financial Markets Authority and New Zealand Treasury.

For the first stage of this evaluation, MBIE's Research & Evaluation team has prepared baseline of information that draws together existing data on New Zealand businesses seeking capital, and on investors who can provide that capital.

About this baseline report

This baseline report sets the scene for the monitoring and evaluation of the landmark changes in this Act in the period 2015-2019. It also presents a selection of baseline data. This data provides a high level picture of the state of capital markets in New Zealand prior to the introduction of the Act.

The intended audience for this report is MBIE's Commerce, Consumer & Communications policy branch. It will also be used to inform external groups with an interest in the outcomes of policies designed to develop capital markets in New Zealand.

The report is structured as follows;

- Section 1 and 2 provide an introduction and background to the Act.
- Section 3 outlines the framework that will be used for the evaluation.
- Section 4 explains the methodology for the evaluation. This includes discussion of the use of market participant interviews to collect ongoing information and the use of a series of annual 'dashboard' indicator reports to present monitoring results.
- Sections 5–8 then report on the current baseline picture of the capital markets, and provide an explanation about the choice of measures used to determine the baseline.
- The appendices provide more details about the measures used in this report, and also a glossary of financial terms.

[1] See Office of the Minister of Commerce, Regulatory Impact Statement pertaining to the Securities Law Review, May 2011, p 47. Available from: www.mbie.govt.nz

2. About the FMCA

The rationale for stronger capital markets

The purpose of MBIE is to grow the New Zealand economy for all, by creating an environment where businesses can become more productive and compete internationally. A strong and growing capital market that is trusted, efficient and well regulated is critical to help businesses access capital to achieve faster economic growth.

Many firms rely on retained earnings to fund their growth. However, if retained earnings are low, or if they are implementing major expansion plans, they may need external sources of capital. One important source of external capital is our capital markets. New Zealand's capital markets are considered to be underdeveloped and relatively small compared with many similar sized economies (as noted by the 2009 Capital Markets Taskforce for example)[2]. A well-developed capital market will expand New Zealand's economy by providing increased access to finance, encouraging more firms to expand and to compete internationally. Therefore the New Zealand Government has identified stronger capital markets allowing more businesses to succeed and grow as one of the six Business Growth Agenda areas to focus on.[3]

About the FMCA

The passing of the FMCA represented a significant milestone in delivery of a programme of law reform relating to financial markets which began back in 2005 with the Review of Financial Products and Providers. The Act replaced most of New Zealand's existing financial markets conduct law.

The Act is designed to facilitate the development of fairer, more efficient and more transparent capital markets in order to help businesses to fund growth and also to allow individuals to feel confident to invest. By combining a number of previous pieces of legislation into one Act, it simplifies and modernises financial markets legislation. The FMCA puts in place better investor information, new licensing and governance rules for issuers and new mechanisms to enable the raising of capital.

Some of these changes were implemented when the FMCA was brought into force on April 1, 2014. Most changes, such as the disclosure regime and the financial products markets regime were brought into force on 1 December 2014.[4]

Some notable features of the Act are summarised in Table 1. Individually or in combination, these changes are designed to reduce rigidities, enabling clearer information to be shared and introduce more effective and more proportionate rules governing investment.

[2]Capital Markets Development Taskforce 2009, 'Capital Markets Matter'. http://www.med.govt.nz/business/economic-development/pdf-docs-library/cmd-capital-markets-matter-full-report.pdf .

[3] MBIE 2013, The Business Growth Agenda Progress Report. http://www.mbie.govt.nz/what-we-do/business-growth-agenda/progress-report-2013.

[4] Firms will have up to 24 months from 1 December 2014 to comply with the new disclosure and governance/accountability requirements.

Table 1: Notable features of the FMCA[5]

Name	Summary of changes
Enhancements to facilitate new capital raising opportunities	Key changes include: • A "crowd funding" exemption that allows people to pool their investment via a registered facility (such as a website) to fund a business or project. Each investor then owns an equity share of the business. • A new type of licensed financial markets facility for "Peer to Peer (P2P) lending" that has simpler compliance obligations than a standard issue of debt securities. • Disclosure exemptions for small offers.
Amendments to simplify investor information and minimise compliance costs	Key changes include: • Changes to the disclosure regime, including disclosure exemptions for small offers, same class exemptions. • New public registers.
Exemptions that allow intermediate markets to develop	Key changes include: • amendments to allow the development of intermediate or 'stepping stone' exchanges for trading debt (bonds) or equity (shares). • new statutory exclusions designed for dividend reinvestment plans.
Amendments that smooth the path for employee investment and ownership	A key change is a new statutory exclusion designed to simplify employee share purchase schemes.
New governance and accountability framework for financial products	Key changes include: • New requirements and obligations for Licensed Supervisors and Managers of managed investment schemes, as well as Issuers of debt securities and Trustees of restricted schemes. • New requirements for schemes to be registered and new custody obligations for registered schemes. • New licence requirements for Managers. • New requirements for restricted schemes to have a Licensed Independent Trustee. • New powers of intervention for Supervisors and FMA.

What policymakers expect the FMCA to achieve

The expected outcomes achieved by 2019 include:

- More efficient access to capital for firms
- Improved investor confidence in financial markets and improved willingness to invest
- Compliance costs that are minimised and more proportionate to the type of investment
- Greater innovation and flexibility in financial markets

Because of the link between access to capital and business growth, the achievement of these outcomes will feed into the long-term outcomes of MBIE (to achieve a more dynamic and supportive business environment and ultimately, to grow New Zealand's economy for all).

[5] See the glossary for fuller definitions. Full explanations of the changes can be found at www.fma.govt.nz

3. The purpose and focus of the evaluation

The purpose of this evaluation

The purpose of the evaluation is to assess whether a number of the intended short and medium term policy outcomes of the FMCA have been achieved. The aim is to monitor the achievement of those outcomes in 2015 – 2019 and present a final evaluation of the effectiveness of the Act in 2019.

The headline evaluation questions are as follows:

1. Can firms access capital more efficiently and easily?
2. Are New Zealand investors more confident in the financial markets and willing to invest in financial products, due to increased certainty and clarity in the rules and improved governance requirements?
3. Are compliance costs associated with raising capital more proportionate and appropriate to the financial product?
4. Has the FMCA promoted innovative and flexible ways of participating in financial markets, for example, by facilitating the development of new 'stepping stone' exchanges, making it easier for employees to own shares in their employee company and providing the capability for crowd-funding and peer-to-peer lending?

Scope

It is not possible to evaluate in detail all of the many changes that were introduced by the FMCA. Instead, the evaluation will provide an overall assessment of the policy settings in the Act and in particular, the policy settings that reflect MBIE's mandate to grow the New Zealand economy for all. For instance, the evaluation will not focus on the Financial Markets Authority (FMA) operation as a financial regulator despite the fact there were numerous changes introduced by the Act that affected its powers and operations.

The evaluation will present a core set of progress indicators. They have been designed to indicate high-level improvements in the policy settings in our financial markets from the FMCA.

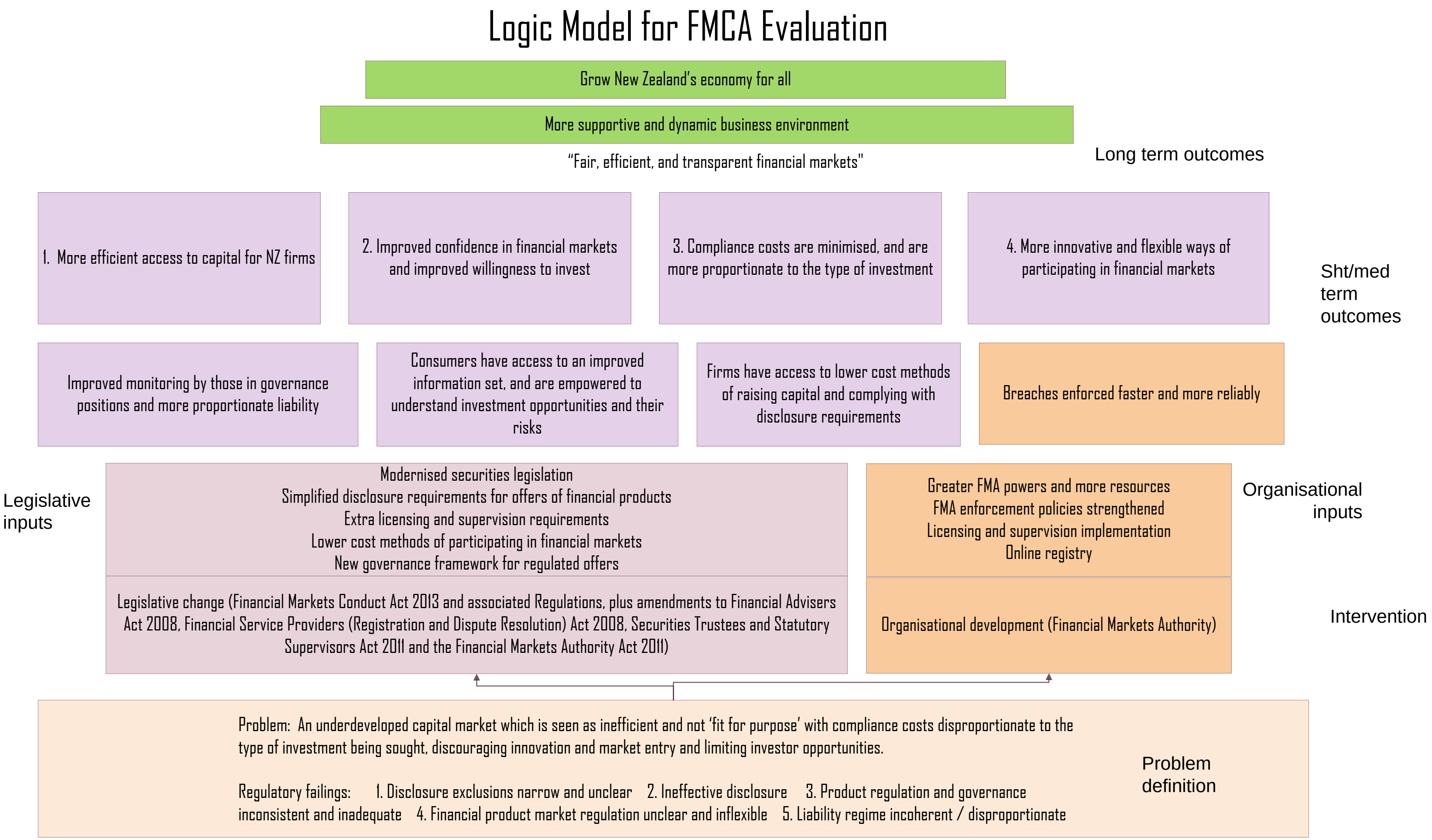
More detail on scope is provided in Section 4.

The intervention logic framework used for this evaluation

The evaluation of these outcomes and the questions to be asked are built around an intervention logic framework (see Figure 1). The framework was developed in consultation with key stakeholders, in particular the Commerce, Consumer & Communications policy branch at MBIE, Treasury and the FMA. The framework incorporates the policy problems and context, as noted in the FMCA Cabinet Paper and the Regulatory Impact Statement.

Starting from the bottom, this diagram shows the current problems and regulatory issues with the previous regime, including an underdeveloped, inefficient capital market that places disproportionate costs on those raising capital. It then shows the broad interventions. One of these is, for example, simplified disclosure and wider exemptions for financial products, which are expected to lower compliance costs and provide more options for businesses to access capital. The short, medium-term and long-term outcomes intended to occur from these interventions are shown toward the top of the diagram.

Figure 1: Logic model



4. Methodology overview

Overview of approach

The evaluation will be carried out by MBIE's Research & Evaluation team.

The evaluation team will be collecting data and progressively publishing information over the five year evaluation period. Feedback on how the FMCA is working will be gathered annually from market participants and this will be combined with data from FMA, NZX, the Treasury and others. Progress indicators will be compiled into accessible 'dashboard' reports and a final aggregate report will be published in late 2019.

The final evaluation report will bring together the material assembled over the previous five years, to draw out detailed insights about what changes have occurred and provide an overall judgement about whether the intended short to medium term outcomes have been achieved.

Twenty four metrics

The evaluation is tightly scoped to the four key evaluation questions noted in Section 3, which will be evaluated using twenty four metrics. These metrics were developed using a collaborative process between MBIE's Research & Evaluation team, the Financial Markets team, the New Zealand Treasury and the Financial Markets Authority (FMA). The metrics are summarised in Appendix A.

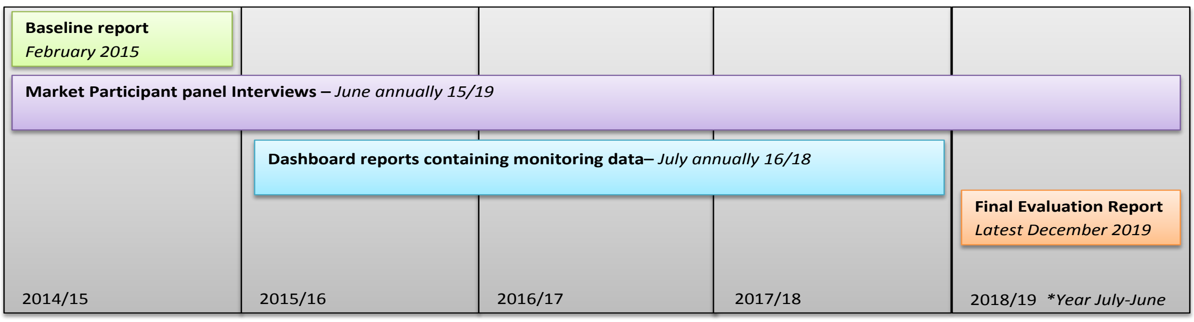
Three phases

There are three phases in the FMCA monitoring and evaluation process: the collection of data for the baseline, the ongoing monitoring activity, and the final evaluation.

1. **Baseline data:** The purpose of the baseline indicators is to provide a benchmark that will enable the pre-Act state of the world to be compared with the post-Act state of the World. The baseline data will, over time, be supplemented with other data to provide a time series. The baseline data therefore forms the foundation for the evaluation. Section 3 summarises the baseline information collected by the evaluation team. The data are grouped under each of the four outcome areas.
2. **Ongoing monitoring:** Monitoring data will be compiled into a document or spreadsheet to file, with selected metrics published into a dashboard report (see Appendix D). Qualitative information based on structured interviews with market participants (see Appendix B) will also be collected to supplement the monitoring information. This will be an important component of the final evaluation, because qualitative information more fully determines why some trends are emerging, and whether these are caused by the FMCA or by other factors.
3. **Final evaluation:** The final evaluation will consider all the data collected, both quantitative and qualitative, and answer the key evaluation questions in order to form a conclusion about the effectiveness of the FMCA at achieving its objectives. The final evaluation report to synthesise the answers to the questions and present statistical information collected on the changes observed, is scheduled for late in 2019.

The indicative timetable for the work is shown in Figure 2.

Figure 2: Timetable



Other comments on method

Unpicking attribution

The evaluation will present a core set of progress indicators. They have been designed to indicate improvements in the policy settings in our financial markets from the FMCA. We recognise that all of these indicators will be influenced by factors beyond the policy settings. For example, there have been numerous other Acts and Regulations that have changed post-GFC all having impact on the intended policy outcomes. Similarly, there will be numerous changes to the implementation of the law by the FMA and others as a result of the FMCA and other pieces of regulation. For this reason, the evaluation will analyse the comments received from industry participants to attempt to unpick whether the policy changes in the FMCA have been material in the changes observed.

Avoiding duplication

We recognise that other entities (like the FMA, the Treasury, NZX and others) are actively monitoring financial markets.[6] To answer the evaluation questions, the evaluation team will combine information generated by others with targeted qualitative research and a small amount of primary research. Essentially what will be presented is a high level set of indicators that are most likely to show impacts in the market for capital in New Zealand as a result of the FMCA.

Seeking industry comment

Market Participant interviews will be used for qualitative research in each year of the evaluation. The qualitative research is to unpick attribution and seek industry comment on the impact of the Act on compliance costs, innovation and efficiency. The interviews will inform the annual monitoring Dashboard reports as well as provide more depth to the final evaluation, by drawing out how the experiences of those who participate in the market have changed as a result of the FMCA.

The panel will be selected in four main categories (explained in Appendix B). We expect to perform between 20 and 30 interviews each year. Existing industry contacts are being used to help recruit suitable panellists.

The questions asked will be tailored to each interviewee type (also explained in Appendix B) and will fall under consistent topic headings to allow for straightforward analysis. The interviews will be kept as brief as possible bearing in mind respondent burden. Participants will be asked to identify specific examples in their responses.

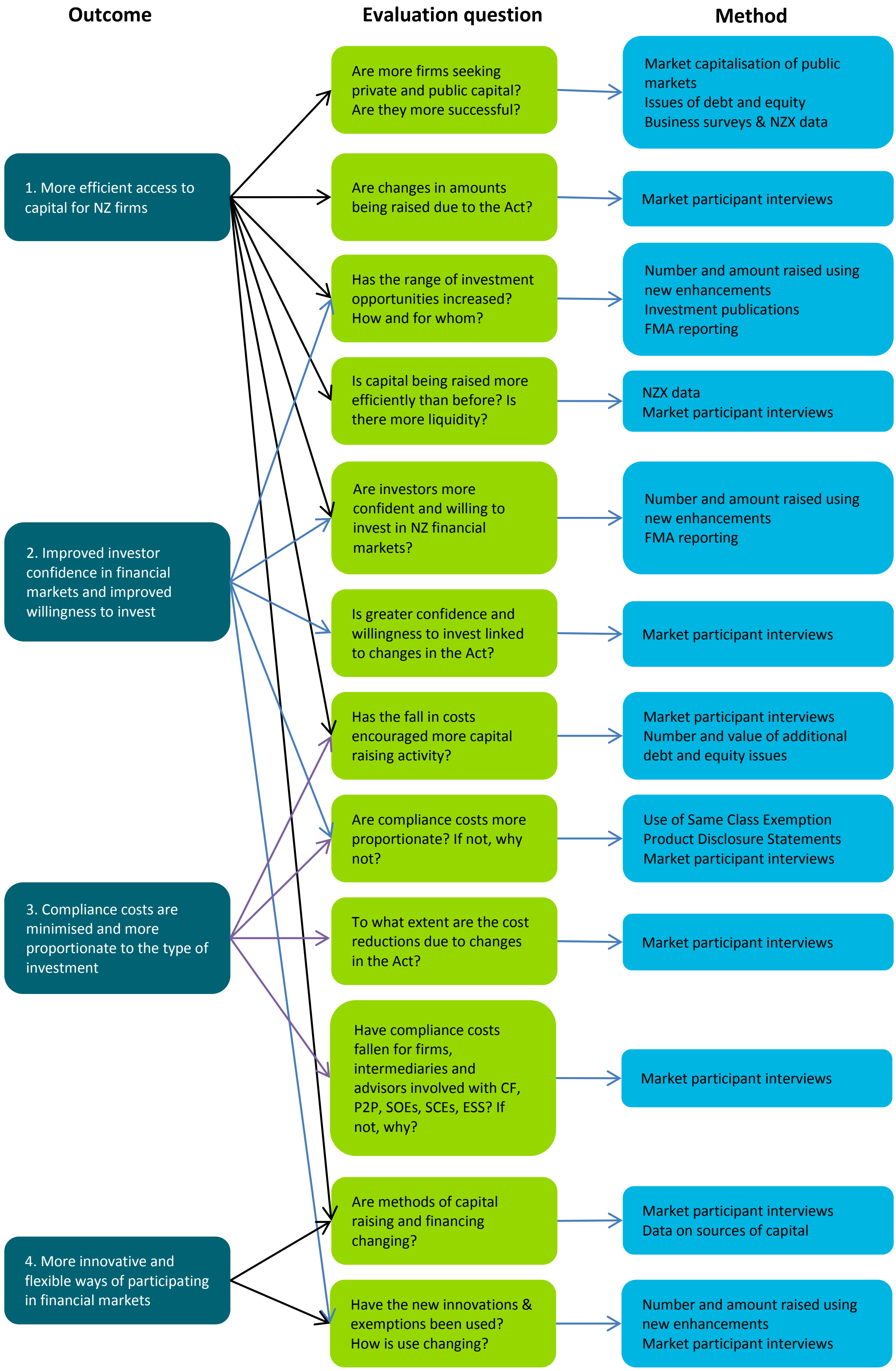
Summary of methods used

Figure 3 summarises the methods planned to be used to evaluate each of the indicators.

The final evaluation will need to unpack further sub-questions in relation to the indicators used. For example, even if costs have fallen in relation to issue size, the final evaluation will also need to reflect whether business costs are better aligned to risks which can only come from the qualitative information. In addition, some questions need to be flexible enough to explore issues that arise as the progressive changes in the Act are introduced, and as more information on the extent and nature of the changes emerges.

[6] More information on what these entities are doing is contained in Appendix C, Note on Data Sources.

Figure 3: Methods used



5. Baseline results – Enabling businesses to access capital they need more efficiently

Outcome of interest

An important aim of the FMCA is to boost economic growth by enabling more firms to raise capital more easily and efficiently. To determine if this change in performance of the capital market is occurring, it will be necessary to identify whether capital is becoming easier to access, more capital is becoming available and the market for capital is becoming more efficient. The baseline measures for this outcome therefore fall into three areas:

- Measures of the apparent ease of raising capital
- Measures of how much capital is raised, by type
- Measures of the efficiency of capital markets.

Apparent ease of raising capital prior to 2014

Few firms report severe difficulty raising capital. Just over six per cent of New Zealand firms stated that a lack of finance was the single most restricting factor in increasing turnover in the three years to March 2014.[7] This proportion is similar to the average over the five years preceding the GFC (5.5 per cent).[8]

The proportion of firms that reported that they have invested in expansion rose from about 23 per cent to 29 per cent between 2008 and 2014, and this proportion has grown amongst both larger and smaller firms (see Table 2).[9] Larger businesses are more likely to have invested in expansion than smaller ones.[10] Across all firms, on average for the period 2011 to 2014, 29 percent invested in expansion. In the year to August 2014, 8 per cent of firms used equity as a source of capital to finance the expansion and 24 per cent used debt.

Table 2: Firms investing in expansion

Business Size	% of businesses investing in expansion (Average 2011 – 2014)	% of businesses investing in expansion (2014)	% requesting equity (2014)	% requesting debt (2014)
6-19 employees	25%	25%	8%	21%
20-49 employees	33%	36%	9%	30%
50-99 employees	38%	40%	8%	28%
100+ employees	47%	50%	8%	30%
Total	28%	29%	8%	24%

Source: 2014 Business Operations Survey, Statistics NZ

[7] NZIER, *Quarterly Survey of Business Opinion*, 2011 – 2014. Average of March year data.
[8] NZIER, *Quarterly Survey of Business Opinion*, 2003 - 2008. Average of March year data.
[9] Statistics New Zealand, *Business Operations Survey*, question 9.
[10] NZIER, *Quarterly Survey of Business Opinion*, 2014.

A high proportion of firms seeking finance can access it on terms that seem acceptable from their perspective. The proportion of firms able to do so has risen to over 90 per cent for equity finance and about 85 per cent for debt finance over the past three years.[11]

Overall, the picture is of only few firms having difficulty obtaining the capital they require. Prior to 2014, the market for most forms of capital was expanding and had proven resilient following the GFC. There was growth in the three broad areas of capital-raising: the public equity share market, domestic bond market and the private equity market. However, the market was 'thin' in some respects, for example a small number of deals have a large effect on the capital market for firms at an early stage of development, and this may affect efficiency.

How much capital was raised prior to 2014

The size of the public equity market

Stock market capitalisation is a measure of the size of the public equity market. Stock market capitalisation (representing the combined NZSX and the smaller NZAX[12]) is measured for the baseline as a share of GDP. Stock market capitalisation at 31 March 2014 was 27 per cent of GDP. By this measure it remains small in international terms[13].

In 2008, at the peak of the Global Financial Crisis, stock market capitalisation fell as low as 14 per cent. It had increased to just under 24 per cent in March 2013, then rose again before March 2014 as a result of buoyant market conditions and new listings.[14] The significance of this is that there has already been an upturn in the appetite for public listings prior to the FMCA changes coming into effect.

The size of private equity markets

The value of angel investment rose by 80 per cent in 2013 to $53 million compared with $30 million in 2012. The average value over the past three calendar years was $39 million.[15]

Venture capital investment has fluctuated in value in recent years and the average value over the past three years to 2013 was $39 million.

The value of both mid-market and buy-out private equity investment peaked in 2011 and fell over the past two years. The average value over the past three years was $166 million and $168 million respectively.

The amount of debt raised through listed and wholesale domestic bonds

The amount raised each year by domestic bond (debt) issues in New Zealand was $9.9 billion in the 2013 calendar year, and $8.9 billion on average over 2011, 2012 and 2013[16]. Dollars raised in domestic bond issues represented just over 4 per cent of GDP in 2013.

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[11] Statistics New Zealand, *Business Operations Survey,* question 31. Three year moving average applied. Confidence intervals are available for these survey results. Firm size data available in the BOS is not used in this measure due to the large sample error in some categories.

[12] NZGX is nascent so data on market capitalisation is not yet available.

[13] Market Capitalisation of NZSX and NZAX as % of GDP (as at 30 June). Source: NZX and Statistics NZ. As shown, for example, in World Bank figures referenced by the New Zealand Private Equity and Venture Capital Association Inc (2013).

[14] Treasury 2014

[15] Recent Young Company Finance reports have noted that, by international standards, the number of Angel Investments in 2012 was at a healthy rate per capita and a positive result for the early-stage capital market.

[16] Data from KangaNews, via NZ Treasury. Domestic means bonds issued by New Zealander issuers. This excludes "Kauri bonds", which are bonds denominated in New Zealand dollars issued by a non –New Zealand issuer.

The large majority of bond issues were traded wholesale (ie not traded in a licensed market like NZDX). Only $0.5 billion of bonds were issued on the NZDX in the 2013 calendar year.[17]

New and additional issues (traded in licensed exchange)

As the same class exemptions in the FMCA relate to financial products quoted in a licensed market, it is important to track additional issues in licensed markets.[18] For example, changes such as same class exemptions on disclosure allow scope for considerable savings for some additional offers. This will lower costs for firms, encouraging more additional offers. We would expect to see this category growing over time.

The data below tracks new and additional bond and equity issues that are listed by NZX (on NZSX, NZDX and NZAX).

Table 3: New and additional listed debt and listed equity issues in a licensed exchange, annual average 2011-2013 calendar years

	Value of new issues ($mil)	Value of additional issues ($mil)	Number of new issues (Num)	Number of additional issues (Num)
Listed debt issues[19] annually	625	587	7	38
Listed equity issues[20] annually	1,185	9,372	5	610

Source: NZX, with analysis by MBIE

The efficiency of capital raising prior to 2014

Based on two measures, the gap in bid-ask rates and the amount of liquidity[21], New Zealand's publicly listed capital markets do not appear as efficient as overseas markets. This is partly because our markets are shallow.

The bid-ask spread (at 26 Feb 2014) was 50 basis points. Turnover as a percentage of market capitalisation was 49 per cent.

However, their efficiency may have picked up in the last few years. New Zealand's slightly lower efficiency levels are likely to reflect, among other factors, New Zealand's small markets. Therefore growth will in itself contribute towards greater efficiency over time.[22]

[17] Source: NZX
[18] In New Zealand at present, NZDX is the only licensed market.
[19] NZX, *Data for NZX Debt Market (NZDX)*
[20] NZX, *Data for NZX Main Board and NZX Alternative Market*
[21] These measures are described in more detail in Appendix A
[22] Bid-ask spread can be affected by a range of factors including market size and regulation. Wider economic conditions, like the recent global financial crisis, can make a significant difference to this indicator.

Baseline indicators used

The complete list of baseline indicators selected for this outcome and the results they show are summarised in Table 4. More detail about each of the measures is also contained in Appendix A. In cases where the information used for the baseline has been volatile in recent years, a three-year moving average is used. This volatility may in some cases reflect the presence of a relatively 'thin' market for some forms of capital (in particular private equity) as noted above.

Table 4: Baseline indicators on capital raising

Description of Indicators	What this tells us	Baseline Used
Per cent of firms reporting access to finance as a constraint to growth (3 year moving average to 31 March 2014)	Whether firms can access finance needed	6.1%
Per cent of firms that have invested in expansion (3 year moving average for calendar year to August 2014)	Whether more firms are investing in growth, whatever their source of funding	28%
6–19 employees		25%
20–49 employees		33%
50–99 employees		38%
100+ employees		47%
Per cent of firms seeking debt and equity finance (2013)	Whether more firms are seeking finance	10% equity, 24% debt (3- year moving average)
Per cent of firms obtaining debt or equity finance on acceptable terms (2013)	Extent to which firms are raising equity or finance	89% debt, 80% equity (3- year moving average)
Number of deals (and capital invested) by:	Size of the private equity capital markets	3-year moving average to 2013 financial year for number and value of deals
angel investors		107, ($39m)
venture capital		62, ($39m)
mid-market private equity		13,($166m)
buy-out private equity		1,($168m)
VC divestment		0,($0m)
Market capitalisation of NZ share market as per cent of GDP	Size of the public equity capital market	27% as at 31 March 2014
Annual amount raised by domestic corporate bonds issued (3 year moving average), wholesale and retail	Size of the domestic debt capital market	$8.9 billion (3-year moving average)
Number of firms making additional debt and equity issues on licensed exchange and the dollar value	Whether more firms are raising more debt and equity finance on licensed exchanges	Debt – 38 and $587m Equity – 610 and $9,372m (3 year moving averages)
Bid-ask spread for NZ public markets (2014)	Whether efficiency of NZ capital market improving over time	50 basis points
Turnover as per cent of market capitalisation (2014)	Whether efficiency of NZ capital market is improving over time	49%

Monitoring

In future years if the FMCA is effective at achieving its objectives we would expect the indicators of the ease of raising capital to at least remain stable and ideally show some improvement. We would expect to see improvements for firms of all sizes, as small offer exemptions become used and new capital-raising platforms establish. We would expect to see more additional issues relative to new issues, as the effect of the exemptions kicks in.

Anecdotal information suggests that Angel Investment may be less affected by the FMCA. This is because the deals made in this area come from an established, experienced pool of investors who already have their own access to capital, clear goals and a deep understanding of investment regulations. There may be a diversion away from Angel Investment toward Crowd Funding for some enterprises.

It should be noted that in an efficient capital market there should always be some difficulty in raising funds. For instance, an investment proposal might be incomplete or contain risks that are not reflected in projected returns.

6. Baseline results – Making investors more confident and informed

Outcome of Interest

This section looks at indicators that show the baseline measures for whether investors were feeling confident and informed about financial markets, and willing to invest in them. The indicators used are based on the survey run annually by FMA (see Appendix C for further details of this survey). This survey records attitudes of general public and investors towards New Zealand's financial markets. It was first run in 2013 and is planned to be repeated annually, using the same questions each year.

There are two particular changes to the regime that have been introduced to achieve the informed participation of investors and to promote their confidence: the changes to the disclosure regime (including consolidated financial reporting requirements); and a series of new or improved governance requirements for financial products.

The evaluation will use selected indicators to identify whether these changes have been effective. Whether confidence is linked to changes to governance will be assessed qualitatively, through interview questions and review of documents.

The measures look at a combination of measures of reported confidence and actual investment behaviour.

Overall confidence prior to 2014

The survey results show that the proportion of the adult population as a whole that reports they are confident in New Zealand's capital markets was 54 per cent in 2013 and 59 per cent in 2014. For those with investments (which could be shares, Kiwisaver, managed funds or bonds), confidence is at a slightly higher level (as we might expect, as investing is in itself a mark of confidence) and rose from 58 per cent to 61 per cent.

Effectiveness of disclosure documentation prior to 2014

The FMCA introduces numerous simplifications to the disclosure regime. Information about 'regulated offers' must be disclosed in a product disclosure statement (PDS) and the publicly accessible online "Disclose" register. Together, this information must include all material information about the offer of a financial product and be up-to-date, accurate and understandable. The purpose of the information is to assist investors with their decisions on financial products. In 2014, 52% of investors surveyed by the FMA believed that investor disclosure documents that were given to them helped them to make an informed investment decision.

The FMA reported results of a Colmar Brunton qualitative survey performed in the second half of 2013 that showed that investors in IPOs reported that they found that a "large proportion of the content of IPO documentation was unintelligible for them" and that "the use of jargon, acronyms and technical terms makes understanding of the information difficult."[23]

Household investment behaviour prior to 2014

To feel confident and informed, investors need a strong understanding of the opportunities and the risk profile for investment in financial products as opposed to the traditionally assumed 'safer' forms of investment such as housing and bank deposits. Reflecting this, the levels of confidence and understanding of investors is to some extent reflected in the measures that identify the extent of

[23] FMA with NZX, "Investor experience of IPOs", February 2014, p87

investment in stocks and bonds, managed investment funds and more specialised areas like peer-to-peer lending. Numerous measures of the size of investment markets are included in the previous chapter[24]. A further measure is the trend of household investment in Managed Investment Products since the introduction of the FMCA, versus the trend of other investments like deposits. This is being monitored because these products have attracted changes to licensing and governance which are expected to make them relatively more attractive to household investors. Before 1 December 2015, households held 13.1% of their investment in financial assets in managed funds. This compares to 49.3% of their financial assets in deposits and 6.3% in Kiwisaver schemes.[25]

Baseline indicators used

The baseline measures used are shown in Table 5.

Table 5: Baseline indicators on investor confidence

Description of Indicators	What this tells us	Baseline Used
General confidence in financial markets	Whether NZ-ers in general are more confident in NZ's financial markets	59%
Investor confidence in financial markets	Whether investors are more confident in NZ's financial markets than the prior year	61%
Percentage of investors surveyed who believe that investment disclosure documents that were given to them helped them to make an informed investment decision	Whether changes to disclosure rules have been well received by investors	52%
Household investment in managed funds as a percentage of total household investment in financial assets	Whether changes to governance and licensing rules are affecting household behaviour in relation to Managed Investment Schemes and Superannuation Schemes. Compare to trends in other financial assets.	13.1%

Monitoring

The survey results from FMA's consumer survey will be collated when they are released. The first of these is expected in third quarter 2015.

No baseline indicator for investor confidence in relation to the new enhancements (such as peer-to-peer lending) is available. However, it is expected that the annual monitoring of growth in usage of the new innovations (as noted under Outcome area 2), will also give an indication of investor confidence.

Qualitative information, both from FMA survey data, and from Market Participant panel interviews will be used to check whether greater confidence and willingness to invest is linked with changes to the FMCA. Questions in qualitative surveys will be focussed on whether changes like increased certainty and clarity in the rules around disclosure, improved disclosure documents, an online registry and stronger governance requirements have made a difference to consumer perceptions.

[24] The diagram in figure 2 identifies some of the connections between the measures and different outcome areas
[25] Source: New Zealand Treasury series C18, C17 and T43.

7. Baseline results – Compliance costs are minimised and proportionate

Outcome of Interest

A key objective of the evaluation will be to assess whether the Act's enhancements have succeeded in making compliance costs relating to issues of regulated financial products more proportionate to the products being regulated.[26] The main type of compliance costs that will be monitored are the costs associated with issues. Overall, it is debatable whether the FMCA will reduce or increase the costs associated with issues (compared to the previous position under the Securities Act). We expect that most will regard the FMCA disclosure and exemption regime as reducing compliance costs in the market overall. Some will see that the requirements have increased cost for them, however. They may cite, for example, that some of the Securities Act exemptions have been tightened or thresholds increased. In the past, some offerers may have been prepared to take the risk of relying on broad interpretations of the more general Securities Act exemption language in the past (for example, interpretations of phrases like 'habitual investors' or 'close business associates'). These offerers may regard the new regime as introducing more cost. Many will note that many compliance costs associated with issues can't be avoided. For example, senior staff must be involved in order to present the firm credibly to investors and ensure plans and forecasts are adequate. Directors are required to sign off disclosures in order to attest to the fact that the issue documentation accurately reflects the financial state of the company and the nature of the investment being offered.

On the other hand, we expect that the FMCA will reduce overly complex and onerous disclosure requirements, and that the effect of this on issue costs will be seen quite quickly. For example, the new Disclosure Regulations encourage directors and their advisors to continue to focus on producing shorter and clearer offer documents that carefully consider what might be material to an investor, looking at the offer as a whole. Instead of producing both a Prospectus and Investment Statement, firms now only need to produce a Product Disclosure Statement (PDS) and make any material disclosures that are not in the PDS in a publically accessible online Register ("Disclose"). PDSs have length limits and other presentational requirements that are designed to shorten and target these documents more appropriately.

Another example of the scope for reduced issue costs is the ability of firms to raise capital or issue shares in low-cost ways via Crowd Funding and Peer to Peer lending. These avenues did not exist before the FMCA.

Furthermore, same class exemptions (SCEs) provide substantial scope for reducing issue costs. SCEs have effectively deregulated ongoing offers by high quality issuers[27]. Since 1 April 2014, issuers have been able to offer to retail investors quoted financial products of the same class as existing quoted securities on the back of a brief cleansing notice, confirming that the issuer is current with its periodic financial reporting and continuing disclosure obligations[28]. Overall, this will result in a package that

[26] Part 3 and Schedule 1 of the FMCA set out when an offer of financial products to an investor require disclosure and the form of that disclosure. Where disclosure is required the offer is "regulated". A regulated offer can only be made if a "product disclosure statement" (PDS) has been lodged with the Registrar of Financial Service Providers (Registrar), and all information for a "register entry" has been provided to the Registrar. The register is publicly available on "Disclose", a database maintained by the Companies Office.

[27] The same class exemption will affect equity issues as much as debt. For debt, the meaning is expanded to include securities having a different redemption date or interest rate, or both. This can include moving from a fixed to a floating basis, or vice versa.

[28] There is no mandatory disclosure document at all. Any terms sheets, investor updates or other material the issuer chooses to employ will be driven by investor relations considerations as opposed to the dictates of securities law. The offer is not a "regulated offer", minimising the already reduced red tape and liabilities.

can be expected to dramatically reduce the time to market for some offers and to reduce the costs of issuance for a large number of issuers.

Lastly, small offer exemptions are another way that compliance costs of issues can be avoided. The principal purpose of this exemption is to facilitate small and medium-sized enterprise (SME) growth by permitting these entities to make offers without prescribed information where the offer complies with certain caps and the offer is not advertised to the general public.

Baseline indicators used

One set of baseline metrics is presented: Disclosed issue costs in relation to bonds, shares and managed funds (for both new and additional issues). Issue costs[29] were disclosed in company prospectuses pre-2014[30] and are disclosed in Product Disclosure Statements post-FMCA. The baseline analysis was carried out on prospectuses issued by companies issuing shares and bonds between July 2012 and May 2014, the period immediately preceding the introduction of the new Act. Older prospectuses were not included because in June 2012 new Guidelines were introduced that changed the way that issuers prepared prospectuses. Excluding prospectuses prior to this date allowed us to control the sample to avoid attributing cost reductions achieved as a result of this Guideline rather than as a result of the FMCA.

No baseline statistics are presented for issue costs associated with issues using the small offer exemption or with firms establishing employee share schemes. No baseline statistics are presented for costs associated with raising capital using peer to peer lending or crowd funding. Compliance cost changes associated with these changes to the FMCA will be monitored using qualitative feedback from market participants. We think it is sufficient to say that we know the costs of raising capital using these pathways were prohibitively high rather than obtaining a specific baseline. This finding is reflected in early feedback from stakeholders and according to the Capital Markets Development Taskforce. For example the significant cost for smaller companies to take the step of listing on the NZX was noted in the Taskforce's 2009 report. issue costs will be monitored.

Table 6 summarises how issue costs will be monitored.

Directors have no 'deemed liability' for misstatements or other defects. As a result, depending on the issuer's own governance processes, the offer and due diligence process could be performed primarily by treasury and investor relations personnel.

[29] "Issue costs" are by definition wider than compliance costs. Issue costs can include, for example, audit fees, lawyers' fees, success fees etc. As there is no established definition of issue costs it is up to the issuer to define what they include and exclude. The assumption is that if compliance costs fall, this should be reflected in an overall reduction in issue costs. We recognise that this is a crude approximation.

[30] The old legal requirements involved in issuing prospectuses are described in FMA Guidelines at http://www.fma.govt.nz/help-me-comply/issuers/prospectus-registration/

Table 6: Monitoring compliance costs

	Pre-FMCA	Post-FMCA
Share IPOs (issued on a licensed market)	Disclosed issue costs in Prospectuses. Qualitative comments about costs of preparing Investment Statements versus continuous disclosure on 'Disclose' website.	Disclosed issue costs in Product Disclosure Statements. Qualitative comments about costs of preparing Investment Statements versus continuous disclosure on 'Disclose' website.
Subsequent public share offers (issued on a licensed market)	Disclosed issue costs in Prospectuses.	Issues that are made under one of the exemptions will not have issue costs disclosed for them so the indicative cost of preparing documentation to obtain a Same Class Exemption will be sought from interviewees.
Bond issues (issued on a licensed market)	Disclosed issue costs in Prospectuses.	Disclosed issue costs in Product Disclosure Statements. Qualitative comments about costs of preparing Investment Statements versus continuous disclosure on 'Disclose' website.
Subsequent public bond offers (issued on a licensed market)	Disclosed issue costs (all public offers were made using Simplified Disclosure Prospectus format).	Issues that are made under one of the exemptions will not have issue costs disclosed for them so the indicative cost of preparing documentation to obtain a Same Class Exemption will be sought from interviewees.
Small offers	Qualitative information from NZX	Indicative cost of preparing documentation to obtain a small offer exemption will be sought from interviewees.
Peer to peer lending	Not possible pre-FMCA	Qualitative feedback from interviewees
Crowd funding	Not possible pre-FMCA	Qualitative feedback from interviewees
Employee share schemes	Qualitative information from NZX	Indicative cost of preparing documentation to establish an employee share scheme will be sought from interviewees.

The data on cost of compliance for bond issues should be read in conjunction with the indicator of the number of firms making additional bond and equity issues (which is presented under the heading of whether firms can access capital more efficiently and easily).

Baseline analysis

In total, 9 registered bonds issues, 19 registered shares issues and 66 managed funds issues were looked at[31]. For bonds and shares, the median per cent cost in relation to amount raised was then determined. For managed funds the median cost per unit trust was determined[32].

Using the indicative issue size and cost information from the prospectuses, the issue costs were calculated as a proportion of the total dollar amount of each offer. The median costs are used as they are less influenced by large outliers-such as two $1 billion plus share floats in the selection (Mighty River Power and Meridian Energy).

The cost of issuing prospectuses for managed funds measure was developed by dividing the recorded issue expenses by the number of unit trusts on offer[33]. This provided an average cost per unit trust. The median value of costs calculated per unit trust was then identified. [34]

Results showed that the median disclosed cost of making registered issues prior to the FMCA was 1.3 per cent of capital raised for firms issuing bonds, and 4.8 per cent of capital raised for firms issuing shares. This cost relates to both prospectuses and investment statements.

The median issue cost for each publicly issued unit trust prior to the introduction of the FMCA was $8,800.

The key details are shown in Table 7.

[31] 64 prospectuses that did not fit the criteria were removed, such as those for rights issues and employee share schemes.
[32] See Appendix A for more details on the selection method used.
[33] Some offers involved multiple unit trusts.
[34] For this and other baseline results, details on the data source and notes are contained in Appendix A.

Table 7: Costs of issuing bonds and shares, July 2012 – March 2014

Issue type	Issue size Median	Issue size, Range	Cost of issue, Median	Cost of issue, Range	Cost of issue, %, Median	Cost of issue, %, Range	Total number of issues in sample
	($ million)				% of issue size		
Corporate Debt IPOs[35] (NZDX)[36]	$150.0	$100.0 - $200.0	$0.87	$0.4 to $1.7	0.4%	0.4% to 1.1%	3[37]
Corporate Debt additional issues	$75.0	$25.0 to $200.0	$1.5	$0.2 to $2.6	1.3%	0.2% to 8%	11 (9 used Simplified Disclosure Prospectus format)
Share IPOs	$33.5	$1.5 to $1884.0	$2.00	$0.2 to $48.7	4.8%	2.2% to 17.3%	14
Share subsequent offers	$9.1	$3.2 to $25.0	$0.15	$0.07 to $2.2	4.1%	2.2% to 8.8%	5
Per public Unit Trust**	N/A	N/A	$8,833	$0 to $250,000	N/A	N/A	359

Source: Company prospectuses registered between July 1, 2012 and March 31, 2014, accessed via NZ Companies office website. Many prospectuses were excluded from the sample because cost data was not included or because they were duplicates. NZX data has been used to verify the sample.

*** Where a prospectus contains information for multiple unit trusts/funds, the issue costs are shared between the trusts/funds.*

Baseline indicators used

The results from the baseline indicators for costs are shown in Table 8.

Table 8: Baseline indicators on costs

Description of Indicators	What this tells us	Baseline Used
Cost of preparing disclosure information in relation to registered bond issues (PDS versus Prospectus/Investment Statement)	Whether typical issue costs have fallen in relation to dollar amount of offer	0.8%
..and in relation to registered equity issues (PDS versus Prospectus/Investment Statement)	Same as above	4.8%
Cost of preparing disclosure information per publicly issued unit trust	Whether typical issue costs have fallen when offering managed funds	$8,800

[35] A debt issue is considered an IPO if it is the first time a line of debt has been issued.
[36] Some bonds are 'retail' (i.e. issued to members of the public) but do not trade on NZDX. For example, Christchurch International Airport issued bonds in 2013 to the public.
[37] There were four IPOs in the date period. Auckland City Council issued AKC060 on 18/12/12 and received a disclosure waiver. It is therefore not included in this dataset.

This baseline information provides an indication of the significant costs currently incurred by firms in raising capital and offering managed funds under the previous regime, and their current appetite for incurring further costs through follow-up debt raising activity.

Monitoring

Any data will be supplemented, as noted earlier, by panel interviews of market participants to draw out qualitative information on cost trends, including whether costs seem more proportionate to the characteristics of the investment.

Note that we do not expect there to be a large number of PDSs registered in 2015.[38] For this reason any dashboard report produced in 2015 will likely exclude the issue cost metrics, and the 2016 report should note that the data set is incomplete due to the voluntary nature of registration until the end of 2016 (as set out in the transitional provisions in the Regulations).

We expect that the first round of new documents might have relatively high issue costs reported for them, as firms adjust to the new regime and produce their first PDS. Costs will then likely tail off as PDSs are updated and modified, rather than produced from scratch.

Going forward, we expect that disclosed issue costs for the first round of documents produced under the FMCA regime to be relatively high as firms get used to the new requirements and formats. Some may require legal and commercial advice, which they may include as costs of issue. Then, we would expect costs to tail off markedly as updates are prepared using existing templates.

Caution will be needed in interpreting the effect of the FMCA (and its regulations) on compliance costs. For a start, monitoring disclosed issue costs is an imperfect measure of compliance costs as already noted. Secondly, attribution and natural variability can be a problem. International experience shows that changes in issue costs may not be solely influenced by regulatory settings. For example, an analysis of Initial Public Offer (IPO) costs for U.S. firms in 2012 found that costs directly attributable to an IPO can vary widely based on factors unrelated to regulation settings, including the complexity and size of a company and its readiness to operate in a public environment. The report also noted that even when there are provisions to defer and exempt disclosure requirements for start-up companies, it is possible investors may insist on full compliance with disclosure requirements[39]. Our baseline analysis shows that issue size has a large impact on issue costs as a proportion of amount raised, so commentary around whether the data sets compared over time are roughly comparable will be needed.

The proportionality of compliance costs is a difficult concept to evaluate. But one can determine whether there was over-regulation or under-regulation on disclosures or governance by observing high level indicators of what's happening in the market as a whole. For example, financial markets work best when investors are fully informed, the markets are free of fraud and manipulation and firms can raise the capital they need on acceptable terms. Indicators of whether investors feel confident and informed and firms ability to raise capital are included in this evaluation. The findings on compliance costs should be read in conjunction with these indicators to gauge an overall picture of proportionality.

[38] PDSs can be registered at any time from 1 December 2014. The first wave of PDSs can be expected around September 2015, but registration of PDSs for regulated financial products is not compulsory until midnight 30 November 2016.

[39] PWC http://www.pwc.com/en_us/us/transaction-services/publications/assets/pwc-cost-of-ipo.pdf

8. Baseline results – Enabling more innovative and flexible ways of participating in financial markets

Outcome of Interest

Parts of the FMCA are designed to enable firms to have access to lower cost means of raising capital or allocating shares to their employees. Before the Act, some mechanisms, like peer-to-peer lending, were not possible. Others, like employee share schemes (ESS), were possible but the regulations were onerous and they weren't widely used.

Baseline indicators used

In general, the newness of some of these changes means there is limited baseline information on financial market innovation. For most of the new enhancements, like peer-to-peer lending, the baseline figure for the activity is zero as they did not previously exist. The one area where baseline information is available is the use of employee share schemes (ESS). In the year to 1 April 2014, 24 listed firms were identified with employee share schemes. The total number of employees covered by these was 25,315. Information on the large number of unlisted firms that may have offered employee share schemes before the changes was difficult to identify, but is expected to grow following the changes that make it easier for employers to offer such schemes. This baseline figure is shown in Table 9 below.

Table 9: Baseline indicators on innovation and flexibility

Description of Indicators	What this tells us	Baseline Used
Number of firms successfully raising finance from peer to peer lending and crowd funding and amount raised	Growth of participation in new markets	Zero
Number and value of small offers and same class exemptions	Development and accessibility of new exemptions	Zero
Number of companies and employees using ESS	Development and accessibility of new exemptions	24 firms, 25,315 employees (ye April 2014).
Market capitalisation of stepping stone exchanges like NXT and number of firms listed	Whether companies are using stepping stone exchanges	Zero

Monitoring

As the new enhancements take effect, the limited baseline information on this outcome will be supplemented by annual monitoring of the usage of new enhancements, supported by market participant views.

We might expect to see an increase in the usage of the new enhancements (like peer-to-peer lending) within a year. After five years, the annual monitoring will show how much the enhancements have grown and if they are continuing to grow, beyond what may be an initial surge in interest. Anecdotally, it has been reported that the changes to ESS disclosure regulations has led to more use amongst existing firms operating such schemes, rather than use by additional firms. Further monitoring of the administrative data on such schemes will, along with key market participant panel interviews, reveal the popularity of the new changes more clearly.

9. Concluding comments and next steps

The baseline indicators provide a high-level summary of the state of capital markets in New Zealand prior to the introduction of the FMCA. While some of the data used in the baseline measures has shown some volatility, none showed a pronounced downward or upward trend in the five years preceding 2014 and therefore they look reasonably stable measures to use as a starting point for this evaluation.

Factors other than the FMCA will contribute to observed changes over time. These factors may include developments in international capital markets or sometimes may simply reflect cyclical factors. The final evaluation will attempt to take these into account as well as any unintended outcomes when assessing the impact of the changes.

Stakeholders like the Treasury, NZX and the FMA have been consulted in the baseline data collection and have indicated a strong interest in the programme of ongoing monitoring. This, and future monitoring reports should be released to these stakeholders at a minimum, and wider if there is justification.

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Glossary of terms

Term	Definition
"Angel investment"	Investment in new, start-up companies. This generally involves a high net worth individual who directly invests in a start-up business and also provides advice to the company. Angel investors in New Zealand are usually members of syndicates or groups that pool their research and capital.
Compliance costs	Compliance costs are the administrative and paperwork costs on business in meeting government requirements. They are distinct from the direct costs of government, such as tax payable. Compliance costs include the costs associated with identifying and understanding the regulatory requirement such as accounting, legal, computer systems, research, employing new staff to satisfy regulatory obligations, training staff and monitoring compliance. At a less tangible level, costs can arise from increased liability because of new legal obligations.
Crowd funding	Crowd funding is a new type of financial market service covered by the FMCA. In general terms, a crowd funding service is where you act as an intermediary between companies issuing shares and investors – by providing the facility (such as a website) where the offer can be made to the public. Crowd funding pools a large number of contributions to fund a business or project, and is regarded as an equity security because a share of the operation is owned by the investor. Definition from *http://www.fma.govt.nz/help-me-comply/new-licences-for-financial-market-services/crowd-funding-services/who-needs-to-comply/* (The relevant exemption for Crowd Funding is Clause 6 of Schedule 1 to the FMCA and Clauses 3 to 5 of Schedule 1 of the FMC (Phase 1) Regulations).
Debt Issue	A debt issue is a financial obligation that allows the issuer to raise funds by promising to repay the lender at a certain point in the future and in accordance with the terms of a contract. This term includes bonds which are issued by businesses to raise money for certain projects or to expand into new markets
Employee share scheme (includes Employee share purchase schemes or dividend reinvestment plans) (ESS)	An employee share scheme is: an offer of equity securities as part of the remuneration arrangements of an eligible person or otherwise in connection with the employment or engagement of an eligible person; and does not have raising funds as the primary purpose of the offer; has no more than 10 per cent of their equity securities in employee shares Offers can be made in various ways, including via a new statutory exclusion introduced into the Securities Act from 1 April 2014, and from 1 December 2014 in the FMCA
Equity	A holding that signifies an ownership position (called equity or share) in a business, which represents a claim on a proportional share in that business' assets and profits.
Initial Public Offering (IPO)	The first public distribution of shares from a company that has not been publicly traded before.
NXT and NZAX	NXT is a new market for small and mid-sized businesses that will be operated by NZX. NXT has a set of simplified listing rules and a new approach to disclosure. It is a 'stepping stone exchange'. NZAX is New Zealand Alternative Exchange. NZX is no longer accepting applications for NZAX following the establishment of NXT.
Peer-to-peer lending (P2P)	Peer-to-peer lending is a new type of financial market service covered by the FMCA. A peer-to-peer lending service acts as an intermediary between

	borrowers and lenders. The lender gets a return on the amount lent, rather than a share of the equity security. The loan is generally for personal, charitable or business purposes. Definition from *http://www.fma.govt.nz/help-me-comply/new-licences-for-financial-market-services/peer-to-peer-lending-services/who-needs-to-comply/* (The relevant exemption for Peer-to-peer Lending is Clause 6 of Schedule 1 to the Act).
Private equity investment	Private equity (PE) consists of investments in established private companies that have moved beyond the initial development phase. For those with an enterprise value of below $150m these are 'mid-market' investments while those worth more than $150m are referred to as "Buyouts".
Product Disclosure Statement (PDS)	Instead of a full prospectus for retail investors, a new PDS only contains key pieces of financial information. This is intended to remove material that ordinary investors do not need.
Same class offer exemptions (SCE)	These are offers in which the financial products offered are of the same class as financial products listed on an existing, licensed market. Some disclosure exemptions for these types of offers were permitted from 1 April 2014. The relevant exemption for same class offers is Clause 19 of Schedule 1 and section 6(3) in relation to the definition of same class, and clause 48 of Schedule 1 in relation to the definition of control.
Small offer exemptions (SOE)	A small offer has a limit of 20 investors accepting the offer of debt securities or equity securities and not raising more than $2 million, each in any rolling 12-month period. Some disclosure exemptions for these types of offers were permitted from 1 April 2014.
Stepping stone exchange or market (SSM)	A regulated financial product market that provides lighter regulation for listed issuers of securities quoted on that market. The less rigorous reporting requirements and subsequently lower compliance costs are expected to provide more low cost and effective options for businesses to access capital For further definition see: *http://www.fma.govt.nz/media/1927929/consultation-paper-financial-reporting-regulatory-policy-for-financial-reporting-designations-and-exemptions.pdf* (page 6) (The relevant provision is clause 6 of Schedule 1 of the FMCA).
Unit trust	A unit trust pools money from a number of investors and then uses this money to buy a variety of investments. It encourages investment by allowing investors to share costs and gives them the benefit of professional funds management.
Venture capital	Venture capital refers to investment in early-stage, high growth companies. Unlike Angel investment, in which capital is invested by the investors themselves, venture capital is generally invested through a fund run by a third party fund manager.

Appendix A: Baseline and monitoring Indicators

Evaluation question		Indicator Description	Source	Notes	In Baseline?
1 Can firms access capital more efficiently and easily?	Quantitative	Per cent of firms reporting that lack of finance was the single most restricting factor in increasing turnover	NZIER Quarterly Survey of Business Opinion	3-year average of March year data.	Yes
		Per cent of firms that have invested in expansion, by firm size	Business Operations Survey (BOS)	3-year moving average applied to reduce volatility. Confidence intervals are available for these survey results.	Yes
		Per cent of firms seeking and obtaining debt or equity finance, by employee size group. Per cent of firms obtaining debt or equity finance on acceptable terms, by employee size group	Statistics NZ BOS	3-year moving average applied to reduce volatility. Confidence intervals are available for these survey results.	Yes
		The reasons firms do not request equity or debt finance	Statistics NZ BOS	2014 results not available until May 2015.	
		How easy it is for firms to raise (private and public) equity finance	Statistics NZ BOS	2014 results not available until May 2015.	
		Who provided the equity finance for firms' most recent request	Statistics NZ BOS	2014 results not available until May 2015.	
		Number of deals and capital invested, by Angel Investors, Venture Capital (incl. divestment), mid-market private equity, buy-out private equity.	NZVCA & Ernst & Young	3-year moving average applied to reduce volatility	Yes
		Market capitalisation of NZSX and NZAX/NXT as share of GDP	NZX; Stats NZ	Future data from NXT may be added	Yes
		Amount raised by domestic corporate bonds issued	KangaNews	Calendar Year used.	Yes
		Bid-ask spread for NZ public share markets	NZX	This measures the difference between the highest price a buyer is willing to pay for a security and the lowest price a seller is willing to sell at. A higher value represents greater market inefficiency. A ‘noisy’	Yes

				indicator as it can be impacted by a range of factors.	
		Turnover as a per cent of market capitalisation	NZX	Indicator of trading activity. The higher the level of trading activity, the greater the market liquidity.	Yes
		Number of firms making public new and additional debt and equity issues through the NZX and the dollar value	NZX	3-year moving average applied to reduce volatility	Yes
	Qual.	Information about whether firms are raising capital more easily /efficiently since the FMCA came into effect.	Market participant panel Interviews	Questionnaire to be developed. Questions to focus on Are whether changes in amounts being raised are due to the changes.	
2 Are NZ investors more confident in the financial markets and willing to invest in financial products, due to increased certainty and clarity in the rules, better disclosure documents and improved governance requirements ?	Quantitative	New Zealander confidence and investor confidence in financial markets	FMA reporting	This information is collected via a survey commissioned by FMA each year. The 2014 survey is titled "Attitudes towards New Zealand's financial markets – general public and investor views 2014" This statistic is based on a small sample of the population and is likely to have a high margin of error.	Yes
		Percentage of investors surveyed who believe that investment disclosure documents that were given to them helped them to make an informed investment decision	FMA reporting	This information is collected by the FMA for reporting in its SOI	Yes
		Household investment in Managed Funds as a percentage of total household investment in financial assets	NZ Treasury Statistics (series C17, C18, T43)	This statistic helps determine whether changes to governance and licensing rules are affecting household behaviour in relation to Managed Investment Schemes and non-Kiwisaver super schemes. Comparators to trends in Kiwisaver and deposits should be included in any commentary.	Yes
	Qual.	Is greater confidence and willingness to invest linked to changes to the FMCA?	Market Participant panel interviews; FMA reporting (Investigations and Enforcements Report; Compliance Focus Report; Qualifying Financial Entities Monitoring Report)	Market participant interviews, with questions focussed on increased certainty and clarity in the rules, better disclosure documents and improved governance requirements. Governance changes will be evaluated using responses from questionnaires and review of FMA	

				documents	
3 Are compliance costs associated with issues more proportionate and appropriate?	Qual.	Cost information from firms, intermediaries and advisors involved in raising capital via CF, P2P, SOEs, SCEs, ESS	Market Participant panel interviews	Questionnaire to be developed – note focus on 'new' pathways and key amendments	
	Quant.	Disclosed issue costs in relation to issues of bonds, shares and managed funds (for both new and additional issues)	Companies Office/ Disclose Register (requirement 65(1)(d) of the FMC Regulations requires issuers to disclose "an estimate of the sum of "Total estimated costs of offer and issue" or "Total estimated costs of offer and sale" on the register).	For issues of bonds and shares: median disclosed issue cost as a % of amount raised For managed funds: median cost per fund on offer Baseline calculated from registered prospectuses available from the Companies Office; monitoring data to include information on Investor Disclosure Documents from FMA	Yes
4 Is the FMCA promoting innovation and flexibility in the financial markets?	Quantitative	Number of firms successfully raising finance from new outlets in previous year, total value of raised amount in previous year	Platforms required to provide this information to the FMA	The FMA is considering gathering this data, but has not yet finalised its approach. Data will not be gathered until at least Q2 2015. It will be important to compare the amounts raised and number of transactions using the new outlets from traditional sources of capital, including capital raised from Angel Investors, Venture Capital (incl. divestment), mid-market private equity, buy-out private equity.	Yes
		Number of SOEs ("small offers") and SCEs (same class exemptions) in previous year, total value of raised amount in previous year	FMA (SOE); NZX (SCE)	There is a requirement to notify the FMA if a SOE is used. But FMA it will only have info about the offers that are notified to it. Likely there will be small offers made that remain un-notified if parties are unaware of the notification obligation.	Yes
		Number of companies using ESS, new ESS schemes started in previous year, total value of raised amount in previous year	Administrative data from share registries	Additional sources (to cover unlisted firms making use of the new exemptions) to be investigated	Yes

		Market capitalisation of stepping stone exchanges like NXT and number of firms listed	NZX	To be developed subject to data availability	
	Qual.	More innovative and flexible approaches to raising capital	Market Participant panel interviews	Questionnaire to be developed	

Appendix B: Details of market participant interviews

Market Participant panels will likely be recruited from a combination of existing contacts and through discussions with FMA, NZX and industry associations. Many of the participants will be known to MBIE's Financial Markets team as they were consulted during policy design and implementation. Interviews may be done as part of MBIE's ongoing engagement with market participants.

The table below shows the minimum number of interviewees required for the qualitative research. We expect that useful results will be able to be gained from small numbers of interviewees.[40]

Type of interviewee	Type of companies /orgs within group			Recruitment methpd
Companies submitting prospectuses /PDS for debt and equity issues and managed funds, or their lawyers (4 - 10)	Divided by prospectus type (both those issuing bonds and those issuing equities). The sample must have representation from people who have experience with an issue of a small and large share prospectus, and a small and large bond prospectus. Ideally all participants will have issued a prospectus in the two years prior to 1 April 2014 and in the 2 years following 1 April 2014.			Participants selected in consultation with NZX, and using data from company share register.
Companies that use exemptions/innovations (6)	1. Users of Crowd funding/P2P services (2)	2. Firms that apply for small offers and same class offer exemptions (2)	3.Firms that use exemptions for Share purchase schemes or dividend reinvestment plans (2)	1. Names of representative firms to be identified from platform operators online. 2. Use NZX register to obtain names 3. Industry Associations (eg NZtech.org.nz)
Intermediaries (4 - 5)	1.Platforms	2.NZX / NXT, unlisted		1. Newly registered platforms , eg Snowball effect, Pledgeme 2. Industry contacts
Brokers and financial advisors (4)	1.Angel investor advisors(1-2)	2.lawyers (1-2)	3. Capital raising advisors (1-2)	1. NZVCA 2. Business NZ 3. NZTE or others.
Register compliance manager (1)				From the Companies Office 'Disclose' register.
Corporate trustee service providers (2-3)				1. Trustee Corporations Association 2. FMA

[40] Baker, Sarah Elsie and Edwards, Rosalind (2012) *How many qualitative interviews is enough.* Discussion Paper. NCRM. (Unpublished)

Examples of the likely sort of questions used are given below. Detailed questions are yet to be developed, and will be formed with input from the FMA, Treasury and MBIE's Financial Markets team. All questions will be targeted specifically toward the type of interviewee. For example, if the interviewee is an issuer the question may include specifics about the type of issues they make, the type of exemption they may have applied for, their listing practices and so on.

RAISING CAPITAL MORE EFFICIENTLY

Which of the following changes to financial markets and securities law have affected your firm (or your clients)? (Interviewer: identify one or more that apply)

i. Enhancements to facilitate new capital raising opportunities
ii. Amendments to simplify investor information and minimise compliance costs
iii. Exemptions that allow intermediate markets to develop
iv. Amendments that smooth the path for employee investment and ownership
v. New governance and accountability framework for financial products

What changes to capital raising and investment practice has your firm (or your clients) made as a result of those changes? (Interviewer: try to identify organisational changes back to one of the five areas listed above)

Reflecting on the changes to capital raising and investment practice you've observed, would you conclude that the FMCA is prompting more efficient practices?

Do you agree that it cost firms in New Zealand too much (time and money) to raise capital in the years 2000 – 2014, prior to the Act being introduced. *Why/why not?*

Do you agree that firms in New Zealand spend too much (time and money) on raising capital now? *Why/why not?*

What trends in the wider environment, other than the FMCA, might have contributed to firms' ability to raise capital in New Zealand?

CONFIDENCE AND WILLINGNESS TO INVEST

What changes in investor behaviour and confidence, if any, have you observed in relation to changes in <u>disclosure practices</u>? Are there any differences in trend between investors in listed issuers and investors in smaller, unlisted entities?

What changes in investor behaviour and confidence, if any, have you observed in relation to changes in <u>corporate governance and corporate culture</u>? Are there any differences in trend between investors in listed issuers and investors in smaller, unlisted entities?

COMPLIANCE COSTS

Which changes have affected your firm (or your clients) in terms of the <u>issue costs</u> they face? Will this be the long term impact on compliance costs or will they change over time? (Interviewer: identify one or more that apply.

i. Enhancements to facilitate new capital raising opportunities
ii. Amendments to simplify investor information and minimise compliance costs
iii. Exemptions that allow intermediate markets to develop
iv. Amendments that smooth the path for employee investment and ownership
v. New governance and accountability framework for financial products

Are the changes that you've experienced increasing or reducing compliance costs? Will this be the long term impact on compliance costs or will they change over time?

Are these trends particularly due to the changes introduced by the Act, or could they be attributed to other things?

In your view, are the costs your firm (or your clients) face more or less proportionate to the risks that the legislation is trying to manage? *Why?*

INNOVATIVE AND FLEXIBLE WAYS TO PARTICIPATE IN FINANCIAL MARKETS

Is it possible for firms to raise capital in ways that suit them and their size in New Zealand? Has this changed since the introduction of the FMCA?

Was the change due to provisions in the Act, or due to changes in the wider commercial environment? (and other questions aimed at trying to unpick attribution).

What changes have you recently observed in range of financial products and services that the financial sector provides to businesses? Are these changes positive, in your view?

Appendix C: Note on data sources

For the baseline data collection, the following data sources were used:

1. BOS survey

The Business Operations Survey (BOS) is a sample survey of New Zealand businesses with 6 or more employees, running annually since 2005. It contains 4 backward-looking questions used for the baseline. Each year, firms are asked:

A9: For the last financial year, did this business invest in expansion? [Note this measure does not identify how much invested in expansion]

A31: Over the last financial year, did this business request any new or additional debt or equity finance?

A 32: Mark all that apply. When requesting new or additional debt finance over the last financial year, were funds:

- *available on acceptable terms*
- *available, but not on acceptable terms*
- *not available/don't know/did not request debt finance*

A33: Mark all that apply. When requesting new or additional equity finance over the last financial year, were funds:

- *available on acceptable terms*
- *available, but not on acceptable terms*
- *not available*

Details of the BOS surveys are at:
http://www.stats.govt.nz/browse_for_stats/businesses/business_growth_and_innovation/

2. NZIER Quarterly Survey of Business Opinion

Information on whether access to capital is a factor that limits turnover is drawn from this survey, based on a sample of around 1,400 respondents surveyed each quarter. The sample is drawn from enterprises selected from the Business Directory of Statistics New Zealand and the UBD New Zealand Business Directory. All firms with fewer than six employees are excluded. All firms with more than 200 employees are included. The other factors that limit turnover are sales/orders, materials, labour, capacity and 'other'.

3. Reserve Bank of NZ household statistics

The Reserve Bank (RBNZ) collects a range of individual and business balance sheet information. For this baseline report the key source was Tables C18 and C17, Household financial assets and liabilities, housing value and net wealth, and Table C 19 household financial assets. Also T43 Kiwisaver. Details of these datasets are contained at: http://www.rbnz.govt.nz/statistics/

3. FMA Investor confidence Survey

The FMA run an annual survey via Colmar Brunton of around 1,000 people, Financial Attitudes towards New Zealand's financial markets to gauge attitudes towards and investment in New Zealand's financial markets. Fieldwork was conducted in March 2014 and in March 2013. FMA's market participant survey was first run in 2014 and asks (on a scale of 1-5) whether issuers agree that new requirements will make it easier to raise capital in NZ. It is likely that the survey will continue in 2015 but FMA have not confirmed whether they intend to run it beyond that.

4. FMA data monitoring

FMA has indicated that it may be monitoring data on the number of firms raising finance through different outlets and the amount raised. They do not expect to begin formally monitoring this information until Q2 2015, and the methods to be used are not yet final.

5. KangaNews

KangaNews is a financial information service that provides information on financial offerings in the Australasian fixed income markets. The information used in this report for the NZ domestic debt market is accessed from http://www.kanganews.com/league-tables/http://www.kanganews.com/

6. Private capital reporting

Data on private capital comes from two reports: NZVCA publishes an annual report called 'New Zealand Private Equity and Venture Capital monitor', which provides information on total activity in the mid-market sector (venture and early stage investment). To cover start-up activity, NZVIF prepares an annual 'Young Company Finance report' supported by the Angel Association of NZ and its members.

Appendix D: Contents of Dashboard reports

It is proposed that three dashboard reports will be provided, in June 2016, 2017 and 2018.

The dashboard reports will inform key stakeholders about key developments in the financial markets, and reveal changes in the chosen monitoring indicators. They will contain a short, mostly visual description of the changes observed.

The first page will show 7 charts, with a brief description. The charts will show:

1. A table summarising the median cost of preparing a PDS in 2013 versus the current year, with a commentary underneath summarising qualitative feedback on compliance costs
2. A table showing trends in number of small offers, same class exemptions, employee share schemes, and a comment underneath about annual volumes
3. A time series chart showing the number of firms successfully requesting finance from new outlets and a commentary about trend
4. A summary of the dollars raised on new outlets and a commentary about trend
5. The proportion of businesses that could raise equity and debt finance on acceptable terms
6. The proportion of issuers who agree that the new capital raising requirements have made it easier to raise capital in NZ
7. Changes in investor confidence in financial markets as reflected by the FMA Investor Confidence survey.

The second page will contain a narrative developed from the market participant interviews that summarise insights about capital markets in New Zealand and how these appear to have been impacted by the FMCA.