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## **Chairman's Address to NZX Annual Meeting 2014**

I'd like to focus on two main themes in this address. The first is the highlights of 2013, and the second is our goals and strategic direction for 2014 and beyond.

Clearly a lot of what 2013 will be remembered for is the strength of our capital markets businesses:

- The most number of IPOs and capital raised in more than a decade.
- Capitalisation (that is, the aggregate dollar value) of listed equity on our market up 24%, with strong growth in trading activity – volume and value traded up by approximately 31% and 48% respectively.
- A significant increase in the number of retail investors with more than 100,000 new Common Shareholder Numbers issued.

These are critical outcomes in building scale and helping to underwrite the long term viability of the New Zealand capital markets – a core role of which is to facilitate access to capital for our growing businesses.

There is a saying, which you may have heard, that “success has many fathers” and I don't want to give the impression that credit for those particular achievements is ours alone to claim. There are a large number of contributors. Some are cyclical, but importantly, a number are structural – such as the snowballing impact of KiwiSaver. We, along with New Zealand's economy and the capital markets generally, expect to enjoy the benefits of those structural factors, for many years to come.

One of the words that regularly comes up when describing NZX, is “connecting”. Connecting individuals and businesses to information and data, connecting companies and investors, connecting buyers and sellers of commodities and risk products. This isn't possible without first rate infrastructure, and without confidence in rules, technology, systems, processes and people leading to markets that are fair, orderly and transparent. Connectivity facilitates and relies on third party activity. It is not NZX that does the trading, or generates the core data that we assemble, collate and distribute, it is not us that takes the underlying risk which our risk management tools assist others to manage, and they're not our companies that raise or trade equity, or issue debt. This is why I say our success has many fathers.

I wouldn't like to leave you with the impression that our achievements in 2013 were only about the numbers. Our financial results were satisfactory, reflecting an appropriate level of investment required to deliver on our suite of opportunities. Importantly, we made great



progress in strengthening the organisation, the development of our people, continued emphasis on our customers, and looking to position NZX well for the many opportunities that lie ahead.

## **Growth Agenda**

Management has a number of key priorities for growth in the current year, and I will let Tim fill you on the details. However, in a nutshell, the Board and management are committed to deliver on the opportunities which have been identified.

We are in a sweet spot in the capital markets. We are capitalising on the positive changes that are occurring, and on delivering revenue and earnings growth: not only in our capital markets business, but as much in our other businesses. As I said in my introductory remarks, while we are accountable for delivery of these initiatives, they require extensive syndication and support from our stakeholder community to establish, launch, and operate successfully. Many require rule changes from regulators in New Zealand and in some cases abroad, and the support of our own participant community, for which we are grateful and don't take for granted.

So, on the capital market side you can expect to see:

- Continued focus on the listings pipeline and the stable embedded annuity revenue that that creates.
- Launch of the growth market, both meeting existing demand, and creating “supply driven demand” through having a more flexible listing alternative for smaller, middle size and growth companies, and incubating Main Board listings.
- Launch of equity derivatives which will provide investors with new hedging tools and result in increased liquidity.
- The launch of new funds in our Exchange Traded Funds business, building on the Smartshares brand, and offering additional passive low cost investment options. The Exchange Traded Funds sector has grown explosively abroad, but yet to in New Zealand. We see tremendous opportunity there, attracting KiwiSaver and other investment fund flows.

Aaron Jenkins, our new Head of Markets, is tasked with leading the group which has accountability for these deliverables.

At our April Investor Day, Aaron presented a set of slides which demonstrated the extent of NZX's activity with a large number of prospective listing candidates. It is a long and healthy list.

As the folks from Direct Capital point out in their recent newsletter – there are more than 10,000 companies in New Zealand that employ 20 staff or more – and approximately 1700 that employ 100 staff or more. Capital is a key component in creating larger and more successful companies – it enables growth and value creation – that injects employment and

skills into an economy. That 1700 which employ 100 or more people represent about 1.2% of the total number of companies in New Zealand (145,000) but create about 30% of revenues. We have around 160 listed companies from this 1700 – many of the others are in co-operative, state or local authority ownership or are subsidiaries of multinationals. Others are in private ownership. Private equity provides options around this ownership structure when additional capital or other goals, such as the need for succession so dictate – and so do the public capital markets: the two can operate in tandem and the numbers give some sense of the size of the opportunity for Aaron and his team.

As to some of the other elements of our growth agenda:

- On the soft commodities side, volume growth in dairy derivatives continues to accelerate to the point where the NZX dairy derivatives market is the most liquid market for risk management in milk powders globally. We have outpaced much bigger global exchanges. I mentioned offshore regulators earlier, and it was a big deal for the derivatives team to win US Commodities Futures Trading Commission accreditation earlier this year, and the extension in trading hours to accommodate Northern Hemisphere traders has also been a contributor to our volume growth. We are pursuing further growth initiatives in our soft commodities business.
- Our Australian Clear Grain team has embraced the challenge for 2014 to develop new products in markets to accelerate its growth to adjacent geographies within Australia together with new product information offerings.
- Agri information is another priority growth area, and in addition to continuing to grow current print publications, the key opportunity for this team is shifting to an online model. Tremendous progress was made on this in 2013 and again the team has embraced the challenges inherent in this space. It has innovated cleverly with mobile device applications, new data displays – but with any information business, the key remains leading edge quality content.

Finally, all capital markets participants would like to see continuation of the sound progress made in the national reform agenda: the institutionalisation of a savings culture, partly through continued support for the growth of KiwiSaver, a debate on the introduction of self-managed accounts, financial literacy programmes in schools and universities, clarity around share trading tax rules are all examples of areas worthy of informed debate.

### **Organisational Focus**

Organisationally, we will continue our emphasis on excellence in technology, in the many facets of our market operations, finance, reporting and human resources – all key areas of the organisation which embrace NZX's attitudes of resilience, openness, creativity, integrity and delivery.

Our relationship with the FMA and the New Zealand Markets Disciplinary Tribunal as co-regulators continues to grow as we look to minimise areas of duplication, and maximise cooperation for the benefit of companies and market participants that we regulate.



Our regulation team dealt very capably with the pressures associated with increased IPO activity while monitoring issuer and participant compliance and enforcement. On the policy side, we have formed a dedicated regulatory policy team so that we can be more proactive in our own regulatory response to legislative and market changes, changes in behaviour and stakeholder expectation. The policy team has been heavily involved in rule formation for the growth market, is undertaking a review project on the governance elements of the listing rules, is working with participants and the FMA to minimise duplication arising from participant compliance and to ensure that from our side, the progressive coming into effect of the Financial Markets Conduct Legislation is seamless.

Our diversity rules are contributing to positive outcomes – it was always going to be the trend that would change more quickly than the underlying base statistic, and if one takes the last 11 listings (2013 and so far in 2014) the ratio of female directors is approximately 28%. As we keep saying however, diversity is about diversity of thought and skills, our agenda having been focussed on the area where that has lagged the most. We acknowledge other important stakeholders and participants in that endeavour – and again make the point that people need to look beyond just the listed space, with our approximately 160 companies, for accountability on outcomes – the opportunities go well beyond that.

### **Acknowledgments**

As Chairman, I have again enjoyed tremendous support from my Board colleagues, Tim and the senior management team. I would like to acknowledge again their contributions, along with Pip Dunphy and Peter Lockery our Clearing House Independent Directors.

A number of external stakeholders give unselfishly of their time to NZX – the Listing Committee, comprising external experts who are enlisted to review draft offer documents, members of the NZ Markets Disciplinary Tribunal to whom complaints and enforcement action is referred – in particular its chairman Derek Johnston who is retiring after many years of service, and the Special Division of NZMDT, which regulates NZX as a listed entity. I would like to acknowledge these individuals, and the entire NZX team. They all carry a heavy workload and their contributions are much appreciated.

I would also like to take this opportunity to thank you, our shareholders, for your support.

**Andrew Harmos**  
**Chairman**  
May 2014



NZX aims to continue to:

- Provide more opportunities for New Zealanders to invest in New Zealand businesses.
- Offer a broad range of information data and risk management tools to businesses to better enable and manage the price risk apparent in the businesses.
- Work collaboratively with the industry to underwrite the long-term viability of the New Zealand capital markets.
- Enhance and promote the quality of our market place for the benefit of investors and other market participants.
- Make significant investments in our people, infrastructure and our customers

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