

NZSE Ltd - an engine to power our economic growth

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So what's the big deal about an organisation that's been around for over 100 years becoming "a company"?

It's a question I've been asked a lot since January 1, when the New Zealand Stock Exchange took that step, and the answer is simple. Growth.

If the economy is to continue to grow at the much-needed 4 per cent rate, then the nation's capital markets need to flourish. The only way this will happen is if there's an efficient, safe market environment that's conducive to capital raising and attractive to investors. This is the mandate set down for the new NZSE Limited.

January 1, 2003, marked a historic day for us - one that I believe will have a profound effect on New Zealand's capital markets. If the exchange succeeds as a limited liability company, that is, if we can grow it into a profitable, efficient commercial organisation, it will be because New Zealand's capital markets are growing and the New Zealand economy as a whole will prosper.

The move from a mutual to a limited liability company is the first step and signals a significant change in thinking. It's a move that aligns us with several of the world's leading stock exchanges and places us back on the international map for investors and analysts alike.

Almost 40 per cent of the world's exchanges are now demutualised and there is a direct correlation between this type of restructuring and growth of the market.

There are several key differences in the new structure. Most notably, brokers are now shareholders in NZSE Ltd and their status changes from members to NZSE Ltd Stockbrokers. There is also a new executive management team to manage the strategic and operational running of the exchange, and this team reports to an independent board of directors.

This new corporate structure is important for a number of reasons. Firstly, NZSE Ltd separates ownership and operational activities. The separation of these two tasks enables both the exchange and the broking community to focus on their core strengths. For the broking community, that's identifying new listings, distribution, research, and trading. For the exchange, it's about creating an efficient capital market platform that's equally attractive to potential listing companies as it is to investors - both domestic and international.

Secondly, it allows for a more flexible management structure that can respond to changing business competitiveness in a more timely and proactive manner. Take the example of a committee versus a company, where more focused decision-makers make action easier.

It also provides significantly improved accountability and transparency since we have greater responsibility to our stakeholders to share strategic planning and decision-making.

A well-established and comprehensive Code of Practice which all brokers must comply with, combined with the recent changes to the regulatory framework, should help to engender greater confidence in both the market and us as its guardians.

Finally, the new structure allows the exchange to better represent a broader range of stakeholders and provide for a stronger and more efficient marketplace.

NZSE Ltd is now focused on:

* Opening up more opportunities for capital-raising, through the launch of the "AX market" (a new growth market for emerging companies).

* Encouraging broader participation by investors, through investor education initiatives.

* Attracting more companies to list from all areas of the economy, through an aggressive sales strategy.

* Furthering investment in market infrastructure to draw liquidity, such as the indices review and the introduction of new trading products.

The result will be more vibrant markets, greater liquidity and a lower cost of capital-raising. Our mandate is not just limited to the equities markets either. We will also be investing in the debt market and expanding the products and services we offer to financial markets participants.

So, what's it going to take to succeed?

One of the critical issues for NZSE Ltd is changing the attitudes of New Zealanders to the market. Many people still seem to immediately associate the New Zealand sharemarket with 1987. However, we've moved a long way in the past 15 years. In fact, statistics show the NZSE40 has outperformed almost every major index in the world in the past three years and we're in a strong position to continue that trend.

Many American investors are now looking to alternative markets, such as ours, as a safe haven from their own gloomy economic outlook, and perhaps our New Zealand fund managers need to start reviewing their own allocation agendas.

The real change in the market will come when individuals start taking action. We have world-class innovators running New Zealand's businesses - many of which are listed - and I would encourage investors to take another look at our top performers. More than 30 of the NZSE listed companies delivered over 20 per cent total return to shareholders last year - we're a long way from 1987.

Our company's mission is a now national imperative and our success will be measured by the growth of the New Zealand markets.