



National Council of Women of New Zealand

Te Kaunihera
Wahine O Aotearoa

National Office
Level 4 Central House
26 Brandon Street
PO Box 25-498
Wellington 6146
(04) 473 7623
www.ncwnz.org.nz

Submission to the Ministry of Economic Development on the Securities Legislation Bill Regulations Discussion Document

4 May 2006

S06.17

The National Council of Women of New Zealand (NCWNZ) is an umbrella organisation representing 38 nationally organised societies. It has 32 branches throughout the country attended by representatives of those societies and some 150 other societies. The Council's function is to serve women, the family and the community at local, national and international levels through research, study, discussion and action.

General Comment

NCWNZ found this to be a large document appropriately focusing on many process issues. Its size precluded distribution to the wider membership, such a cost being beyond our resources. To enable discussion on Securities Regulations NCWNZ also considered the effects of such regulations, particularly on women. The quality of any advice is always a concern.

NCWNZ notes and approves of the retention of the Securities Legislation Bill regarding 'strengthening the regulatory framework embodied in securities' (p 5 Discussion Document). 'Regulation' by government is not a popular concept in some circles but it is becoming increasingly important that people should know what rules apply to themselves and others.

Securities have been defined as shares, debentures, bonds, etc. offered by a company or authority (such as governments) for purposes of investment. Levels of risk apply according to the dividends or yields expected – central government securities given a nil-risk weighting (assuming national stability) by the Basle Committee of the Bank of International Settlements rising to as much as 100% risk weightings for small businesses. With many of our members involved in small to medium businesses and farms, NCWNZ is anxious that they attract confident investors who know the law is sound.

Specific Comments

NCWNZ acknowledges that the issues raised in the document are valid, many being of a process nature, and therefore will not comment on all of them. Rather, members were invited to share their experiences, mainly about the quality and availability of choices presented by advisors. Using the monthly newsletter *The Circular* which goes to all members, four questions were raised. They are set out below, each followed by a summary of the responses.

1. **At least 60% of our sharemarket is overseas owned. Should Government encourage, even regulate for more domestic control?**





Most respondents cautioned against artificial influences in sharemarket transactions. It was felt to be better for more New Zealand owned companies to seek listings and New Zealanders to be encouraged to be shareholders. Some warned about any move that could be interpreted as isolationist, thus deterring foreign investment which they felt we need. As one of the respondents said, New Zealand has considerable overseas ownership which brings money back into the country.

On the other hand there was a reminder that a speaker at our 2004 NCWZN Conference, Professor Jane Kelsey, questioned the importance given to overseas investors, pointing out that, though international corporations may pay wages here, many paid very little tax. There is also the aspect that repatriation of profits and dividends adds to our deficit on invisibles.

This view was reinforced by a member who cited monopolies like Telecom and StageCoach “making huge profits arising from the general public’s daily use”. Would this change in any way with lighter legislation? The sharemarket is often used as an example of a free-market operation to students of economics, yet our commercial markets are largely oligopolistic as companies indulge in mergers and take-overs. Then there are potential small investors afraid to buy shares lest the legislation requiring the surrendering of shares at par is enforced when a predator company succeeds in obtaining 90% of the shares.

2. The ‘health’ of the sharemarket and its publicly listed companies is too often used as a proxy for New Zealand’s general economic health. Do you think that sharemarket prosperity is a good indicator of our economic well-being?

Opinions were evenly divided on whether sharemarket prosperity was a good indicator of economic well-being. There was the view that a buoyant sharemarket shows ‘how optimistic investors are about a company’s future earnings’; but there was also concern that a company’s prosperity did not always ‘trickle down’ into better wages, employment conditions and care for the environment. Also an appearance of prosperity could be the result of ‘shady’ auditing practices – hence support for any legislation which curtails unlawful insider trading.

3. The Bill defines some products as excluded from the definition of ‘security’ for the purposes of this Bill e.g. term deposits in banks, also debt securities – the Ministry of Economic Development concentrating its discussion document on the sharemarket. Yet overseas investors, especially merchant banks, find utility and SOE debt highly attractive because of the captive markets for water, electricity etc guaranteeing steady cash-flows for their clients. Should these securities come under the Bill’s jurisdiction?

Utility and SOE securities are given low risk weighting by the Basle Committee and credit risk organisations like Standards & Poors – for obvious reasons. But for the householders watching their line charges for energy and telephones, let alone water, rise inexorably, feelings of security in their own homes are threatened. Meanwhile as consumers, they provide security for the mainly overseas investors because of relatively inelastic demand. In such circumstances we venture to suggest that such securities are best vested in public ownership.

4. Do the reforms proposed for this Bill offer greater confidence in the sharemarket for the New Zealand investor?

There was general agreement that more open reporting would be particularly valuable provided disclosure requirements were not too complicated – as reported in the New Zealand Herald 3 April, about Australia’s conditions. What often confuses would-be small investors is the image of a



company as benign when its parent company is possibly involved in unethical production. Who would have known for instance, that the American company really manufacturing 'Maori-mix' cigarettes was better known as a food distributor.

Conclusion

NCWNZ supports any legislation that enables processes to be open and transparent. Simplicity and cost effectiveness are always the optimum desired outcome, with minimal compliance costs. These issues appear to have been identified by the writers of this document, so that is applauded. Members are concerned that advice received should always be of the highest quality and readily available and therefore support regulations, particularly around disclosure, which would achieve that. Some members were uncomfortable with the concept of market manipulation while others agreed that advice that supported New Zealand companies which paid wages and supplied appropriate working conditions should be available.

NCWNZ appreciates the opportunity to comment on this discussion document and looks forward with interest to see the final outcome.

Christine Low
National President
4 May 2006

Heather M Smith
Convener, Economics Standing Committee

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