



NEW ZEALAND'S EXCHANGE
TE PAEHOKO O AOTEAROA

NZX Limited
Level 1, NZX Centre
11 Cable Street
Wellington 6140
New Zealand

www.nzx.com

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New Zealand Productivity Commission
Level 15 Fujitsu Tower,
141 The Terrace,
Wellington 6011, New Zealand

NZX Submission on New Zealand firms: reaching for the frontier

NZX Limited (**NZX**) submits this response to the New Zealand Productivity Commission (**NZPC**) consultation document 'New Zealand firms: reaching for the frontier' (**Consultation Document**).

We thank the NZPC for the opportunity to make this submission and to contribute to the Government's work of investigating the productivity of New Zealand businesses and what constitutes a frontier firm.

Nothing in this submission is confidential.

Response to consultation

We support the NZPC's investigation into what constitutes productivity in businesses, as well as how frontier firms nurture productivity within their workforce. New Zealand is unique in its small market size, innovation and high level of technological literacy. NZX shares NZPC's interest in determining the difficulties faced by New Zealand businesses when striving to achieve a frontier firm standard. As the NZPC has indicated, this is a global issue, with countries such as Australia and Denmark also sharing the same concerns as New Zealand when comparing productivity levels of their frontier firms against other firms.

We submit the following proposals for NZPC's consideration of commercial productivity in New Zealand.

Definition of a frontier firm

Defining what constitutes a "frontier firm" is complex, given the need for such a definition to be universal across different market sectors and business sizes. The NZPC has identified labour productivity as well as multifactor productivity as the markers by which to determine the productivity levels of businesses.

We recommend that the definition of a frontier firm should be 'a publicly listed firm with a top 10% productivity rating'. A frontier firm designation should only be assigned to firms who can meet the regulatory scrutiny to which publicly listed firms are subject. This will benefit New Zealand's financial reputation by increasing investor protections. Regulatory compliance should lessen the likelihood of business malpractice and increase the transparency of the business's dealings.

Looking at the recent example of Germany's Wirecard scandal¹, once arguably a German frontier firm, Wirecard is alleged to have committed commercial fraud and as a result, has become insolvent. Germany's commercial reputation, regulatory oversight and corporate governance has come under scrutiny in the wake of the Wirecard situation. Wirecard's commercial fraud was arguably identified sooner due to Wirecard being a publicly listed company on the DAX 30 Index and needing to comply with regulations and frequent audits. The need to comply with listing regulations ultimately created enough transparency into Wirecard's business dealings to help identify the commercial fraud and business malpractice that Wirecard was involved with.

We consider that establishing the criterion that a frontier firm should be publicly listed will help retain New Zealand's credibility, commercial reputation and benefit investors in the long run.

Benefits of public listing

The NZPC has identified productivity growth to be reliant on innovation, diffusion of technology and the reallocation of resources. The growth of any of these three factors of a business is reliant on the ability for a business to reinvest capital. With the disparity in net worth between frontier firms and non-frontier firms, we recommend that firms consider publicly listing their businesses to obtain access to a larger investor base, lowering their cost of capital, and providing allocative efficiency benefits to New Zealand. A business can select alternative pathways to listing than the traditional international public offering (**IPO**) route, by electing to undertake a direct listing, to obtain access to the secondary market as a source of capital.

A domestic public listing is likely to derive the most significant productivity benefits to New Zealand, by allowing New Zealand businesses to more efficiently raise capital than looking off-shore. NZIER² estimates that NZX's role in keeping the cost of capital relatively low delivers \$2.4 billion of value to the New Zealand economy.

Public listing creates accountability for a business which ultimately leads to improved productivity. In particular, the disclosure requirements to which publicly listed companies are subject ensure transparency of decisions relating to the allocation of capital, resources and risk management which in turn drives more accountability to stakeholders, ultimately resulting in a more efficient and productive business. This has been illustrated by the success of the mixed ownership model, where the dividends received by the Government from its stakes in Mercury, Meridian, and Genesis in 2019 were \$466million, a total increase of 232% in the 6 years since those companies were listed³.

Through publicly listing, New Zealand businesses can close the gap between non-frontier and frontier firms as well as between domestic and global frontier firms. The Capital Markets 2029⁴ Steering Committee identified barriers to listing that arise from certain macro-settings in the New Zealand environment, and made further recommendations designed to create

¹ More information about the Wirecard scandal is available [here](#).

² The productivity benefits of a listing on NZX, and NZX's contribution to New Zealand is described further in the NZIER Report 'The economic contribution of NZX' February 2018, available [here](#)

³ The Mixed Ownership Model has been a win-win, Devon Funds Management, available [here](#).

⁴ Capital Markets 2029, is available [here](#)

larger pools of capital for funding New Zealand enterprises, including infrastructure. NZX endorses the Steering Committee's recommendations.

Benefits of ESG reporting

As part of NZX's Corporate Governance Code, NZX actively encourages and supports listed issuers in reporting on their environmental, social and governance (**ESG**) initiatives. Recommendation 4.3 of the Code includes the requirement for listed issuers to publish information on ESG factors and practices. With the growth of impact investing and sustainability investment funds in recent years⁵, a business's sustainability and environmental impact is a growing factor that investors now consider.

Given the growing interest in the environment among investors, NZX considers that ESG reporting can provide more transparency of the sustainability of a business, thereby encouraging businesses to consider how to most productively allocate resources, in a sustainable manner.

NZX is a member of the Aotearoa Circle's Sustainable Finance Forum's Leadership Group, and we note the findings in the Interim Report⁶ that 95% of stakeholders feel that the current financial system is not sustainable. We support the work undertaken by the Sustainable Finance Forum, and the recommendations from Capital Markets 2029, that will assist in creating a market environment to support sustainable environmental wellbeing in the long term, and enhance productivity for New Zealand businesses.

Diversity in the workforce

Diversity in the workforce has been directly attributed to improving productivity as a more diverse workforce has cognitive diversity due to the unique experiences attributable to employees' gender, age, and cultural experiences⁷. The NZX Corporate Governance Code recommends that listed issuers have a written diversity policy and set measurable objectives by which to measure their diversity practices, and NZX has published a guidance note regarding the benefits of diversity reporting⁸.

NZX considers that encouraging reporting of diversity practices will enhance New Zealand's productivity by allowing investors to efficiently allocate capital towards businesses that have a more diverse workforce. These businesses are likely to use this capital more productively where broader perspectives in approach, leadership, and problem-solving exist at a management and governance level.

⁵ KPMG, Responsible Investment Benchmark Report 2019, available [here](#)

⁶ Sustainable Finance Forum' Interim Report 2019, The Aotearoa Circle, available [here](#).

⁷ [Why Diversity Matters](#), MckInsey, 2015

⁸ [Diversity Policies and Disclosure](#), January 2019

We thank the NZPC for this opportunity to submit on this consultation and are open to discussing any of the aforementioned points in greater detail with the NZPC.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Kristin Brandon', written in a cursive style.

Kristin Brandon
Head of Policy and Regulatory Affairs
NZX Limited