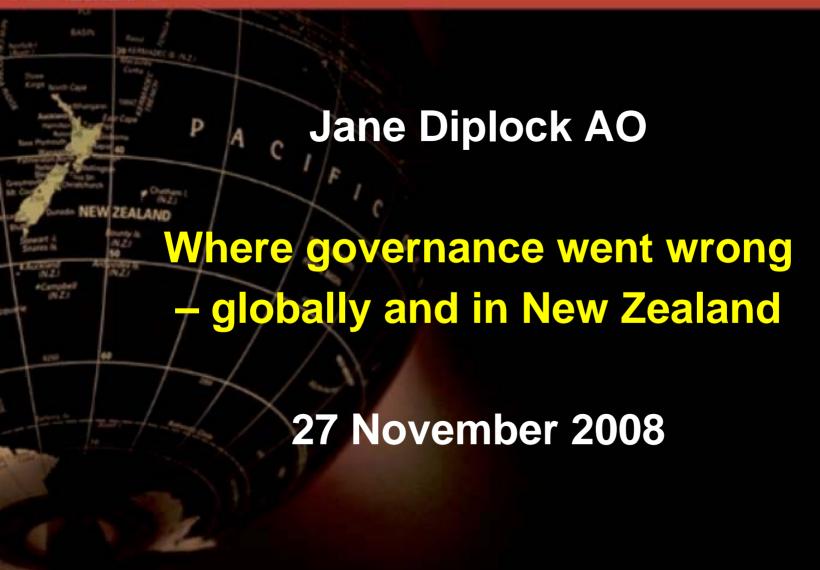
SECURITIES COMMISSION NEW ZEALAND



Introduction

- Impact of global financial crisis far-reaching
- Corporate governance key to investor confidence in capital markets
- Today's theme:
 - role of corporate governance in current market turmoil
 - NZ and global perspectives

Global financial crisis

- Exposure to complex financial products linked to US sub-prime mortgages
- Liquidity crisis sent shockwaves through debt and equity markets
- Exploration of solutions from across global financial architecture
- Policy approaches to crisis bank bailouts, fiscal stimulation packages, G20 summit

The New Zealand experience

- Credit constrictions inter-bank lending reduced
- Reduced liquidity plus declining economic conditions and falling property market
- Rescue package with government deposit guarantee scheme
- Finance company collapses damaged investor confidence

The crisis and corporate governance

- Corporate and internal governance systems 'found wanting'
- Lack of good corporate governance factor in finance company collapses
- Good corporate governance is key to successful capital markets

Global perspectives

- Emerging themes:
- conflicts of interest with credit rating agencies
- excessive remuneration leading to profligate lending
- ineffective or lack of audit committees
- inadequate internal controls and risk modelling
- lack of proper valuations
- flagrant breaches of accounting standards

Finance company failures

- Lack of good governance is common thread:
 - inaccurate disclosure and reporting
 - heroic valuations
 - blind reliance on expert advice
 - ill-informed directors
 - ineffective, or no, audit committee
 - Failure to recognise warning signs

Securities Commission actions

- Commission is pursuing breaches wide powers
- Regulatory framework can't prevent failures
- Good governance plays a role in corporate performance

Securities Commission Principles

- Commission's 'Principles and Guidelines'
 2004
- A guide (not law) to best practice Principles for all types of entity
- Poor corporate governance can result in situations where the law breached
- Commission reviews corporate governance disclosures in issuers' annual reports

Regulatory response

- Mis-selling of financial products and poor advisor conduct revealed
- Financial Advisers Act will require advisers to meet:
 - standards for competence
 - professional conduct
 - disclosure
- Will help restore investor confidence through sound advice

Balance in solutions

- Robust response required to restore investor confidence
- Balance essential to stimulate market while enabling innovation
- Important to attract capital from both NZ and offshore
- Commission working with Capital Market Development Taskforce and NZX

Global approaches to the crisis

- Coordinated approaches are vital
- IOSCO
 - global standards setter for securities regulation
 - 30 Principles and MMOU
 - May 2008-report on sub-prime crisis
 - Urgent work from three task forces to review:
 - short-selling, unregulated financial markets and products, unregulated financial entities

Conclusion

- The system has failed investors
- Balance is important in addressing this
- Good corporate governance will be important in restoring confidence

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