MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

MARKETS EVIDENCE AND INSIGHTS

Financial Markets Conduct Act 2013

Monitoring and Evaluation Report 2020: Phase Two

New Zealand Government

Contents

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1. Executive Summary

This report provides insights that will help key stakeholders better understand the extent that the Financial Markets Conduct Act 2013 (the Act)[1] is contributing to its goals since its implementation in 2014. It also provides an opportunity to identify any enhancements that could make the Act more effective. The results from several indicators and stakeholder interviews have been consolidated to answer three key questions[2]:

1. To what extent is the FMCA enabling New Zealand investors to be more confident in the regulation of the financial markets?
2. To what extent can firms access capital more efficiently and easily?
3. To what extent is the FMCA promoting innovative and flexible ways of participating in financial markets?

The overarching evaluation question is:

To what extent has the FMCA promoted and facilitated the development of fairer, more efficient and more transparent financial markets that help businesses to fund growth and also to allow individuals to confidently invest?

The Financial Markets Conduct Act 2013 (The Act) came into effect from 2014, with the Financial Markets Authority (FMA) responsible for monitoring and enforcing compliance with the Act (and other financial markets legislation). The Act replaced many of New Zealand's existing financial markets conduct laws. The Act states that its main purposes are to:

a. Promote confident and informed participation of businesses, investors, and consumers in the financial markets
b. Promote and facilitate the development of fair, efficient, and transparent financial markets.

In addition to these key objectives, the Act's purposes also include to:

c. Provide timely, accurate and understandable information to people so that they can make decisions relating to financial products or the provision of the financial services
d. Ensure that appropriate governance arrangements apply to financial products and certain financial services to allow for effective monitoring and reduced governance risks
e. Avoid unnecessary compliance costs
f. Promote innovation and flexibility in the financial markets.

Some of the key findings from this evaluation include:

There is confidence in financial markets

- The vast majority of key stakeholders interviewed were complimentary in their description of the Act. In particular, interviewees spoke of improvements, relative to the previous (Securities Act) regime, around clarity, fitness for purpose and flexibility. The objectives were considered well-defined and in general the principles, boundaries and definitions were easy to understand.

[1] Referred to as the 'Act' in this report
[2] Please note that the all data and stakeholder feedback were collected pre-Covid 19.

- Investor confidence has improved since 2016 and remains higher than general public and non-investor confidence[3].
- The majority of investors are confident that New Zealand's financial markets are effectively regulated.
- Approximately six in ten investors found the information they receive useful for making investment decisions.
- Stakeholders noted that the Act has encouraged a diverse range of investors to participate in capital markets rather than just professional investors as was the case previously.

There is more efficient access to capital

- The majority of firms seeking to raise capital did so on acceptable terms.
- There has been a gradual increase in the number of firms seeking investment for expansion purposes.
- Market capitalisation as a share of Gross Domestic Product has seen steady growth
- Stakeholders observed that the introduction of instruments such as Product Disclosure Statements had reduced costs and assisted with raising capital.
    - Same class offer exclusions were also viewed positively.
    - Impact on compliance costs generally positive (i.e. compliance costs have reduced).
    - The impact of the Act is likely to be more apparent when economic conditions worsen, but no specific parts of the Act were suggested as being more likely to come under strain.

More innovative and flexible ways of participating in financial markets have emerged

- Angel investment and venture capital have seen substantial growth, leading to a steady increase in the value of individual deals. The wholesale investor and small offers exclusions in the Act may have helped this growth.
- The same class offers exclusion was used approximately 270 times between 2014 and 2019.
- Nearly 100 million dollars of capital has been raised using licensed crowdfunding platforms.

Overall, stakeholders stated that the Act seems to be working well and is regarded as an improvement on the previous regime. Ascribing how the Act contributes to long-term goals is difficult mainly due to macro and non-Act drivers such as the economic environment having more influence on actual investment decisions. They also mentioned that any constraints on accessing capital were not related to the Act. Stakeholders identified some minor fixes to the Act, generally to reduce compliance costs but did not identify major changes.

Finally, the results from this evaluation confirm that to a certain extent the FMCA has 'promoted and facilitated the development of fairer, more efficient and more transparent

[3] Non-investors are New Zealanders who do not have investments in the financial markets (Attitudes towards financial markets – General public and investor views surveys – FMA)

financial markets that help businesses to fund growth, and has also allowed individuals to confidently invest' – this was the overarching question for this evaluation. Stakeholders observed that macroeconomic factors have a far greater influence on the Act's long term objectives, especially those on business's ability to access capital. A particular observation was that the Act took a while to develop and therefore was well placed to respond to future issues which can be considered a key feature of good legislation. This evaluation has also demonstrated that the Act is in its own unique way facilitating MBIE's purpose of 'Grow New Zealand for All'. There is always room to improve confidence and participation in financial markets, and access to capital. Whether any changes to the Act would be desirable to facilitate this is unclear.

The final evaluation and monitoring project is currently planned to start in late 2021 which was agreed upon prior to Covid-19 happening. The Covid-19 lockdown caused significant delays to the completion of this report and therefore the timeline could be revised to a later date. In the interim, The Evidence and Insights Branch's Markets Team will work closely with the Financial Markets Policy Team to explore a dashboard approach to monitor key indicators to measure any changes in trends.

2. Introduction

2.1. Purpose

The Ministry of Business, Innovation and Employment (MBIE) undertakes monitoring and evaluation activities to measure the progress of policies and programmes in achieving outcomes, and to identify potential areas to enhance the effectiveness of these measures. This report focuses on findings from Phase Two of the evaluation of the Financial Markets Conduct Act 2013 (FMCA)[4].

The aim of this report is to provide insights to aid stakeholders in:

- Understanding how the Act has contributed to its purposes since its implementation in 2014, and
- Identifying potential enhancements that could make the Act more effective.

This has been achieved through compiling a suite of indicators and undertaking stakeholder interviews to answer the three key questions[5]:

1. To what extent is the FMCA enabling New Zealand investors to be more confident in the regulation of the financial markets?
2. To what extent can firms access capital more efficiently and easily?
3. To what extent is the FMCA promoting innovative and flexible ways of participating in financial markets?

The overarching evaluation question is:

To what extent has the FMCA promoted and facilitated the development of fairer, more efficient and more transparent financial markets that help businesses to fund growth and also to allow individuals to confidently invest?

2.2. Background

The Financial Markets Conduct Act 2013 (The Act) came into effect in 2014, with the Financial Markets Authority (FMA) being the agency responsible for monitoring compliance with the Act (and other financial markets legislation). The Act replaced most of New Zealand's existing financial markets conduct laws[6]. The main purpose of The Act is to:

a. Promote confident and informed participation of businesses, investors, and consumers in the financial markets
b. Promote and facilitate the development of fair, efficient, and transparent financial markets.

In addition to these key objectives, the Act's purposes also include to:

a. Provide timely, accurate and understandable information to people so that they can make decisions relating to financial products or the provision of the financial services

[4] Referred to as the 'Act' in this report
[5] Please note that the all data and stakeholder feedback were collected pre-Covid 19.
[6] The FMCA replaced a number of outdated legislation including the Securities Act 1978, the Securities Markets Act 1988, the Securities Transfer Act 1991, the Superannuation Schemes Act 1989, the Unit Trusts Act 1960, and parts of the Kiwisaver Act 2006. It also amended other pieces of legislation including the Financial Advisers Act 2008, the Financial Markets Authority Act 2011, and the Fair Trading Act 1986.

b. Ensure that appropriate governance arrangements apply to financial products and certain financial services to allow for effective monitoring and reduced governance risks
c. Avoid unnecessary compliance costs
d. Promote innovation and flexibility in the financial markets.

Some notable features of the Act[7] include:

- Enhancements to facilitate new capital raising opportunities such as crowdfunding platforms
- Amendments to simplify investor information and minimise compliance costs through changes in the disclosure regime, the development of new registers and introduction of disclosure exclusions for same class offers and small offers
- Exemptions that allow intermediate markets to develop such as 'stepping stone' exchanges for trading debt or equity
- Amendments that smooth the path for employee investment and ownership
- A new governance and accountability framework for financial products that among other things, places new requirements and obligations for Licensed Supervisors and Licensed Managers of managed investment schemes and Issuers of debt securities and Trustees of restricted schemes (More details are in Appendix A).

The introduction of the Act has provided FMA with a stronger mandate to act as the primary conduct regulator to license and supervise key stakeholders in the financial sector as well as enforce compliance among those who have been deemed to operate contrary to the provisions of the Act[8].

MBIE is one of the lead agencies[9] on the regulatory settings and policy for financial markets. The Act is one of the regulatory frameworks used to promote fair, efficient and transparent financial markets in New Zealand. The findings in this report will inform MBIE's future policy initiatives in this sector.

2.3. Phase One monitoring and evaluation

The first phase of the Act's monitoring and evaluation in 2015 (referred to hereon as 'Phase One') resulted in two main reports:

1. The 2015 Baseline Indicator Report
2. A 'Year One report' in 2016 that combined insights from key stakeholder interviews with the main findings from the 'Baseline' report.

These reports set a good platform for the types of indicators, metrics and interview questions needed for future evaluation and monitoring to show the impact of the Act. The key results from Phase One included:

- While the participants endorsed the Act as providing strong legislative foundations to grow capital markets, it was too early to measure the full impact of the Act in facilitating the growth of capital markets and innovative investment products.
- For some firms, compliance costs for licensing, disclosure and reporting requirements had increased since the introduction of the Act – smaller companies in particular

[7] From the 2015 MBIE Baseline Indicator Report on the evaluation of FMCA. Also in some instances, baseline findings are referred to as 'Year One' insights.
[8] FMA website: fma.govt.nz
[9] Other key agencies include the Treasury, the Reserve Bank, and the Financial Markets Authority (FMA). The FMA works with those stated earlier as well as the Companies Office, Department of Internal Affairs, Commerce Commission, Serious Fraud Office and the Inland Revenue Department.

experienced noticeable increases. However, participants expect that over time, streamlined monitoring processes, flexibility of issuers, the disclosure exclusions, and more opportunities for investors in lower value capital will reduce the costs of raising capital.

- Participants expect new investment products, novel capital raising approaches and other innovations to emerge as the legislation embeds. Crowdfunding platforms were emerging as flexible ways of raising capital however, high fees and high risk to investors were concerns.
- While some participants noted that efficiency and ease of raising capital had some positive impact from the introduction of the Act, the consensus was that factors external to the Act such as macro-economic influences have a greater effect.
- Investor confidence and willingness to invest are complex constructs to measure as the terms could mean different things in different contexts in relation to diverse products types. Participants also thought that external factors were more likely to influence confidence and investment decisions than the Act.

It was recommended that the intervention logic be expanded and lower-level outcomes be identified so that future changes can be more firmly attributed to the changes in the Act.

2.4. Review of the Intervention Logic

The final recommendation from Phase One raised the need to review the initial intervention logic which led to the creation of the FMCA Updated Monitoring and Evaluation Framework 2017 (See Appendix B). The review updated the intervention logic with clearer short-medium and long-term outcomes, the monitoring indicators, evaluation questions and the timelines for future evaluations and monitoring activities.

There was a substantial increase in the number of indicators aligned to each of the long term outcomes. The evaluation questions were also refined to focus more on the impact of the Act and to better aligned with the new long-term outcomes. In 2018, the proposed timelines were revised so the second phase of the monitoring and evaluation started in 2019 as opposed to 2018. This change did not have any material impact on the proposed evaluation methodology.

2.5. Phase Two monitoring and evaluation

The FMCA Updated Monitoring and Evaluation Framework 2017 saw the inclusion of more indicators of success when compared to Phase One. The intention was to better align the short-term and long-term outcomes so that impacts of the Act could be more concisely articulated and measured.

2.5.1. Mixed methods evaluation

A mixed methods approach was employed to gather, analyse and interpret insights regarding the various aspects of the Act. Content and secondary data analysis were undertaken on different types of publications including annual reports, audit reports, review reports, product disclosure statements, survey reports and two databases. The relevant data was sourced from multiple agencies and organisations including Statistics New Zealand, FMA, Treasury, and the Companies Office[10].

Seventeen stakeholder interviews also provided important insights on the implementation and impact of the Act. The majority of the stakeholders were the same as those who were interviewed in 2016 for the 'Year One insights[11]. These stakeholders represented a variety of professions and organisations including investment/fund managers, capital-raising advisors

[10] More information is in Appendix C: Methodology.
[11] Evaluation of Financial Markets Conduct Act – Year one report December 2016

and experts corporate and commercial lawyers, early investment representatives, corporate trustees, , banks, and advocates for shareholders. Where consent was granted by the interviewees, direct quotes from them reference their profession.

For many of the indicators, the input data spans the pre-FMCA period (2012) to the most recent (2018/19)[12]. This approach has allowed for trend analysis to help investigate the extent to which the changes in the conduct of the financial markets could be attributed to the introduction and implementation of the Act. Attribution of monitoring and evaluation findings is always challenging when there are several key influencers in any given environment such as the financial markets – this was seen in the Year One evaluation where many stakeholders could not necessarily identify the impact of the Act because it was too early to see any significant changes.

In this phase of the evaluation, a clear aim is to attribute recorded and observed changes over the last eight years to the impact of the Act. This meant that the stakeholder interview guide had to be revised and the selection of indicators had to better align with the intended purpose of the Act. Importantly, this phase sought insights from the same stakeholders that were interviewed in Phase One. It was intended that they would be able to reflect on their earlier observations and provide commentary of what changes they have seen since 2015, possibly assisting with attributing the changes to the implementation of the Act.

In updating the suite of indicators, data including 2019 was used if it was available at the time of preparing this report[10]. Where recent data is used, it has been clearly stated. Additionally, most of analysis looked at data from either 2012 or 2013 to show if any significant changes or shifts have occurred since the implementation of the Act.

2.5.2. Scope

The scope for this phase is similar to that of the baseline evaluation despite the inclusion of new indicators.

2.6. Structure of the report

The next three sections of this report present information and insights on the three long-term outcomes

1. Improved investor confidence in the regulation of the financial markets
2. More efficient access to capital for New Zealand firms.
3. More innovation and flexible ways of participating in financial markets

This is followed by discussion on how the Act has performed against these outcomes, before concluding with recommendations on future monitoring and evaluation work.

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[12] Given the multiple sources, the data spanned both financial year and calendar year. It is difficult to control for this and there does not appear to be any material impact on the analysis. It should also be noted that while the title of the report states the year '2020', the majority of the data available for analysis was up to 2019.

3. Outcome One: Confidence in Financial Markets

Confidence as a psychological concept is “the degree to which you think and feel that your actions will achieve positive results…[it] refers to your belief and feel in that you can perform a task successfully”[13]. In the context of public institutions, often trust, confidence, and to a certain extent, satisfaction measures are used interchangeably to gauge the public’s confidence in institutions and governments[14]. These terms are theoretically different in relation to performance of the policies, regulations, systems and governance. However if there is improvement in any of these measures then it is assumed that public confidence has been enhanced[14].

Financial markets have grown to become very complex and often hard to navigate if one is not familiar with its nuances. To address this complexity, confidence measures become more appropriate than trust or satisfaction. Confidence “tends towards the side of objective information, external regulations over conduct, contractual agreements, rational and informed decisions; while relations of trust tend towards subjective perceptions, moral sanctions, gentlemen’s agreements, non-rational choices. In the absence of mechanisms of confidence (information, law, contracts), one must fall back on trust (perception, moral obligation, social bonds)”[15]. It is easier to secure confidence through credible sources of information, fair forms of contracts and appropriate regulations then it is to restore trust when it is lost[15]. Empirical evidence shows that when public confidence is high in financial institutions such as banks and stock markets then:

- financial inclusion is enhanced,
- financial stability is improved, and
- exposure to systemic risks are reduced[16].

This evaluation has focused on several measures of confidence.

Investor confidence has improved since 2016 and remains higher than general public and non-investor confidence

The FMA Attitude surveys[19] gauge the perceptions of New Zealanders on issues related to financial markets. For analysis purposes, the respondents are split into investors[17] and non-investors[18]; together they are referred to as the ‘general public’.

Higher confidence amongst investors (compared to non-investors and the general public) could indicate that those who have had more interaction with the Act have greater confidence in financial markets. However, it is difficult to definitively attribute higher “investor” confidence to the Act as other factors such as the financial savviness of investors may be a more relevant reason (though information provided under the Act may have helped investors develop savviness).

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[13] Weissinger, H. (2015). The essence of confidence. https://www.psychologytoday.com/intl/blog/thicken-your-skin/201509/the-essence-confidence

[14] Cowell, R., Downe, J., Martin, S., & Chen, A. (2012). Public confidence and public services: It matters what you measure. Policy & Politics, 40(1), 120-140.

[15] Tonkiss, F. (2009). Trust, confidence and economic crisis. *Intereconomics*, *44*(4), 196-202. (pg.199)

[16] Cited in Chernykh, L., Davydov, D., & Sihvonen, J. (2019). Financial stability and public confidence in banks. BOFIT – The Bank of Finland Institute for Economic Transition.

[17] Investors were defined as those with some form of financial investment including Kiwisaver

[18]Non-investors are New Zealanders who do not have investments in the financial markets (Attitudes towards financial markets survey – FMA).

In comparison to the general public, investors are more confident in the financial markets (Graph 1)[19]. Levels of confidence have increased among both groups since 2013.

However, further analysis shows that when investors are compared to non-investors then the differences in confidence become more pronounced over the seven year period (12 per cent versus -7 per cent). Non-investor confidence in the financial markets has been declining since it peaked in 2014. Insights from the FMA's Attitude surveys explain why there are differences:

- New Zealanders who are aware of FMA are more confident (76 per cent) than those with no awareness (52 per cent)[20].
- Confident respondents (8 per cent) were more likely to invest in managed funds and shares compared to those with lower levels of confidence who were more likely to only invest in Kiwisaver (64 per cent). However, Kiwisaver investors' confidence has been increasing since 2016.
- The main reasons given for higher levels of confidence included the current financial climate (returns & growth 26 per cent); the small, stable market (13 per cent); previous experience (9 per cent); and investments performing well, getting good advisor and being informed (8 per cent).
- On the contrary, reasons given for lower levels of confidence included:
    - the uncertainty with general cycle of market/economy (25 per cent)
    - didn't know enough to comment (23 per cent)
    - the uncertainty with political cycle/climate (13 per cent)
    - high profile companies demonstrated instability/shareholders lost out (11 per cent) and
    - lack of faith in banks, regulators, advisors (10 per cent).

Graph 1: Confidence in Financial Markets

[19] FMA's Attitudes towards New Zealand's financial markets survey, 2013-2019. Colmar Brunton; Buzz Channels https://www.fma.govt.nz/news-and-resources/reports-and-papers/attitudes-towards-new-zealands-financial-markets-survey/

[20] These figures are mostly from the 2019 survey and have been crossed against other years to see if there have been any significant changes since 2013.

Stakeholders agreed that the FMCA has lifted confidence and improved the environment

Fund managers in particular noted that the FMCA has made a difference to confidence and expanded opportunities for investment.

> *The FMCA is very positive from an investor perspective. It has lifted confidence that past calamities will not be repeated. Moving from a rules-based to a principles-based environment has been good. (Fund Manager)*

However, stakeholders drew a distinction between having confidence in the market and whether that confidence translated into a willingness to invest. The perception was that the two were separate and the Act had little influence on people's willingness to invest. More macro level factors such as good economic conditions, a bull market, technology and lower interest rates had a greater influence on investor decisions:

> *Confidence and willingness to invest has been helped greatly by a 10-year bull run. The FMCA hasn't harmed confidence but it's hard to see how it has improved it. Bigger issues beyond FMCA (e.g. climate and technology change, quantitative easing) are likely to be more impactful in the future. If the Act could make things smoother then very helpful but this also relies on the FMA. (Fund Manager)*
>
> *The biggest changes to confidence and willingness to invest have all been macro-economic related, rather than regulatory. (Commercial Lawyer)*
>
> *The FMCA has had little effect on confidence and willingness to invest. The small offer regime has been helpful, but I've only used [it] twice. Hard for me to say what would have happened without the Act. (Fund Manager)*
>
> *It is difficult to pin down any material effect (from the Act), as there have been so few IPOs. Previously, there were Government sell-downs but activity of this nature has been low. (Fund Manager)*

The majority of investors are confident that New Zealand's financial markets are effectively regulated

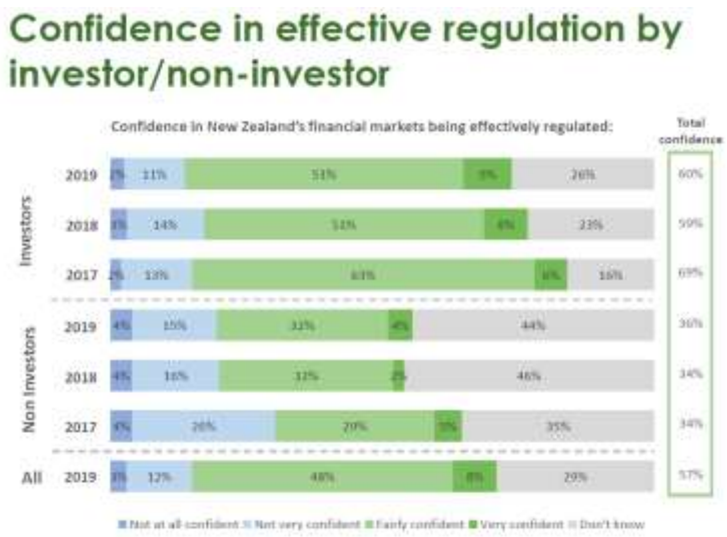
Similar to the other measures of confidence discussed above, higher confidence in the regulation of the financial markets is observed among investors who invest in a diverse range of financial products and individuals who are aware of the FMA. However, overall confidence among both investors and non-investors has been decreasing since 2017. This is mainly due to an increase in 'don't know' responses which has steadily increased, accounting for a third of all respondents in 2019 (Figure 1). Among non-investors, 'don't know' responses were as high as 44 per cent.

The main reasons stated for confidence in effective regulation of financial markets included:

- the belief that markets are well regulated (15 per cent)
- investors being well informed, keeping up with the latest news and through word of mouth (12 per cent)
- observation of big improvement over the years and a belief that FMA is doing a good job (12 per cent) and by
- seeing the financial markets as being good and stable (9 per cent).

One of the main reasons cited for lower confidence was the lack of sufficient regulations and the need to more closely monitor certain entities (36 per cent). Respondents felt that the ‘government’ may have knowledge of bad schemes and risk investments but maybe in a position where it is either unable to deal with them or reluctant to deal with them.

Figure 1 Confidence in effective regulations[21]



Furthermore, FMA’s key stakeholders (such as financial advisors, fund managers, and auditors) have reported very high confidence in relation to the effective regulation of New Zealand’s financial markets (92 per cent) and FMA’s support for market integrity (87 per cent)[22]. However, like the general public, the stakeholders expressed a desire for closer monitoring of certain entities or operators, and where appropriate, legal action to be taken against those deemed to compromise confidence and integrity of financial markets.

Stakeholders agreed that the Act has made the financial markets regime more effective

Stakeholders noted that the introduction of the Act has reduced the opportunity for companies to operate unlawfully or in a rogue manner. Some insights include:

> *The FMCA has really improved the environment. Pre-FMCA it was a bit like ‘the Wild West’ where it was easy to set up MIS’s [Managed Investment Schemes] and there was poor oversight. (Fund Manager)*
>
> *The FMCA space is starting to bed down, is working and I think, broadly o.k. I would be surprised to see finance company shenanigans arise again. (Anonymous)*
>
> *The regime is effective. At the smaller end the previous regime had lots of sub-legal below the radar stuff. Now things are more open and transparent. (Commercial Lawyer)*
>
> *The Act has made things much tidier and much easier. With clarity comes certainty and in my view, the Act is working well. (Commercial Lawyer)*

Confidence can be built through sharing of good, objective, and secure information. This was also raised by FMA’s key stakeholders as an area for improvement[22]. The following looks at the

[21] FMA. (2019). Attitudes towards New Zealand’s financial markets. Buzz Channel.
[22] FMA. (2018). Ease of doing business – Stakeholder research. Buzz Channel.

quality of information available to New Zealanders to make informed decisions about the financial products they may be interested in.

Just over half of investors found the information they receive useful for making investment decisions

Between 2013 and 2015, approximately six in ten investors surveyed reported that they found investment information useful for their decision-making[19 21]. There was a decline in this measure to just 50 per cent 2016. Since then, there has been a slow, steady increase, reaching 58 per cent in 2019. Further analysis shows that:

- Investors in managed funds found information the most useful (71 per cent)
- Kiwisaver investors and those with term deposits reported the greatest increase in the utility of the information received (2016 – 50 per cent & 56 per cent to 2019 - 57 per cent & 63 per cent, respectively)
- Investors in shares showed a decrease in utility of the information received (2017/18 – 67 per cent; 2019 – 59 per cent)

The vast majority of New Zealanders understand that investments with higher rates of return are more likely to have a higher level of risk

A good understanding of principles such as the risk/return trade-offs is an outcome that might be expected if the Act is achieving its purpose. However, the level of awareness of risk/return cannot necessarily be attributed to the Act as there are many other factors involved.

While respondents in the 2019 survey understood that investments with higher returns often carried higher risks:

- only a third (35 per cent) clearly understood the principles of risk/return trade-offs
- a third had heard of it but did not really understand it, and
- a third have not heard of it – these responses were lower than previous years[19 21].

Likewise, fewer than 50 per cent of respondents said that they understood the principles of diversification and only 15 per cent were able to correctly identify what it actually meant when given options to choose from. It should be noted that investors were more likely to answer these questions correctly then non-investors.

The results are rather volatile around these measures with significant differences observed from year to year. However, two themes emerge, on the lack of or limitations of knowledge about:

1. some types of investment options, often new types of investments such as hybrid bonds, derivatives, listed property trusts, property syndicates, crowdfunding, and private equity funds (39-62 per cent of all respondents)
2. Uncertainty around what the return on investments is likely to be around the types of investments noted above (57-69 per cent of all respondents).

To facilitate good decision-making, having information available in a timely manner is critical. While the FMA Attitude survey does not directly ask about timely information, there are other FMA surveys[23] available that provide insights via proxy measures that indicate that New Zealanders generally have access to quality and timely information for decision-making.

[23] FMA. (2018) Consumer views of financial providers conduct. Buzz Channel

Additional insights into the value and utility of information from these surveys[23] included:

- Readership of annual Kiwisaver statements -78 per cent
- Usefulness of Kiwisaver statement (quite & very useful)
    - Knowing my current balance - 93 per cent
      Knowing my contributions – 89 per cent

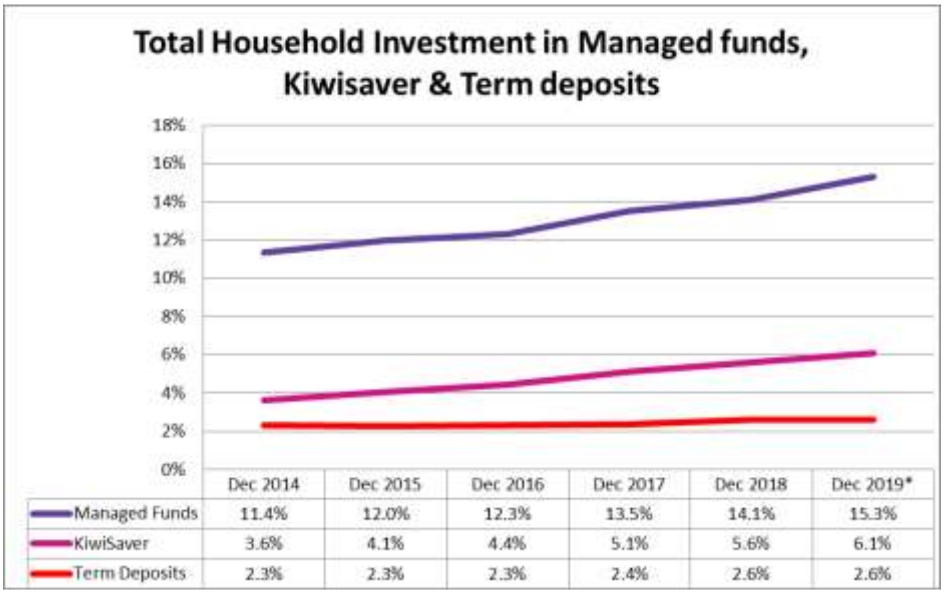
Another indicator of confidence in financial markets is the level of household investment in managed funds and KiwiSaver. The Act mandated changes to the governance and licensing of key stakeholders in the financial sector. Therefore, if confidence among New Zealanders improves, then household investment in financial products is expected to increase as well.

Approximately 15 per cent of all household investments are in managed funds, worth $150 billion

Investment in managed funds as a share of total household financial assets has steadily increased since 2014 from $84.5 billion (11.4 per cent) to $148 billion (15.3 per cent) in June 2019[24]. KiwiSaver schemes comprise approximately 40 per cent of the managed fund portfolio and are estimated to be worth $62 billion. The growth in the managed funds over time is mirrored by the growth in KiwiSaver investments (Graph 2). Investment in term deposits has remained flat over the period, increasing only 0.3 per cent to account for 2.6 per cent of total household assets.

The majority of New Zealanders (86 per cent) have some form of investment with KiwiSaver being the most popular (66 per cent). Other popular investment types (in order of preference)[25] includes term deposits (34 per cent), shares (17 per cent); managed funds/unit trusts (14 per cent), residential property investments (14 per cent) and other superannuation schemes (12 per cent)[19].

Graph 2: Total household investments in managed funds, KiwiSaver & Term deposits



*This figure is an approximation based on June 2019 data.

[24] Reserve Bank of New Zealand data on household financial statistics (C21), Managed funds (T41), and KiwiSaver (T43)

[25] Respondents could choose more than one investment type hence the total exceeds 100 per cent.

Stakeholders had high confidence that the FMA supports the integrity of the financial markets through its role

In order to increase and/or maintain high levels of confidence to facilitate increased investments, regulatory systems ought to be able to not only investigate and sanction misconduct, but also assist licensed providers to improve their conduct for the benefit of investors.

Given its wide ranging functions and powers, the FMA looks to the most appropriate type of regulatory response based on level of harm, to achieve the desired outcome which can be punishment and/or educational. It can revoke and suspend licenses, undertake criminal and civil proceedings, publish warnings, impose conditions, give direction and stop the promotion or distribution of financial products and services. There is some evidence in data from FMA that less than four per cent of complaints become criminal or civil cases.

Overall, key stakeholders had very high confidence (87 per cent) that the FMA supports the integrity of the financial markets through its conduct, investigation and enforcement role[22].

4. Outcome two: Efficient access to capital for New Zealand firms

To enable economic growth, firms should be able to easily and efficiently access capital to grow their own businesses.[26] Access to capital is especially important for small-medium businesses, new ventures, start-ups and businesses operated by minority groups. While the latter group is not in-focus for this evaluation, there are insights from available information for the other groups.

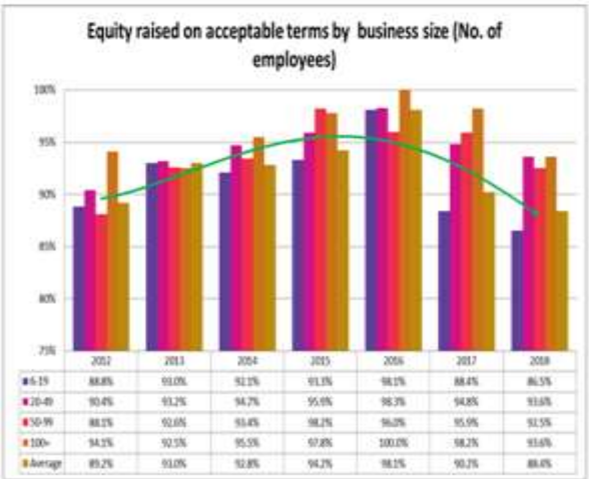
This long-term outcome of more efficient access to capital is a combination of several short-to-medium term outcomes as stated in the Act. This is observed through seeing if capital is becoming easier to access, more capital is available, and the market for capital is becoming more efficient[7].

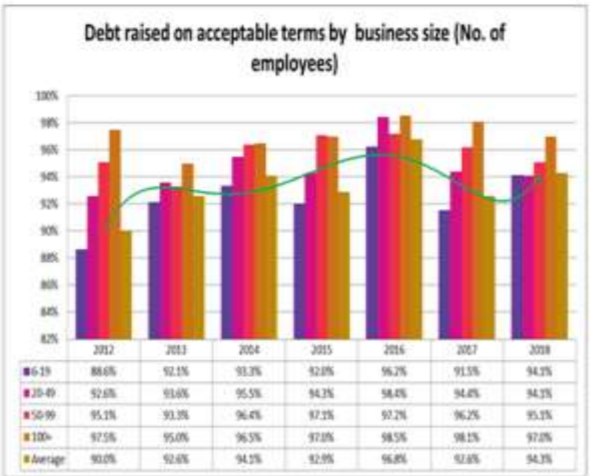
The majority of firms seeking to raise capital did so on acceptable terms

Capital can be raised through either equity or debt. The Business Operations Survey (BOS), conducted by Stats NZ, showed that between 2015 and 2018, 11 to 24 per cent of businesses requested additional debt or equity and received it[27 28]. It is difficult to ascertain the percentage of businesses that would have requested both equity and debt. Further insights from the BOS showed that[29]:

- More businesses requested debt compared to equity (25 per cent versus 11 per cent)
- Debt requests were slightly more likely to be successful than equity requests (97.1 per cent versus 94.5 per cent)
- Debt requests were also slightly more likely to be available on acceptable terms when compared to equity (94.2 per cent versus 92.7 per cent)

Graph 3 & 4: Capital (Equity & Debt) available on acceptable terms





[26] Bates, T., & Robb, A. (2013). Greater access to capital is needed to unleash the local economic development potential of minority-owned businesses. *Economic Development Quarterly*, *27*(3), 250-259.
[27] Statistics New Zealand. (2012-2018). Business Operations Survey (BOS). StatsNZ. https://www.stats.govt.nz/information-releases/business-operations-survey-2018
[28] The total sample size for BOS varied between 39,003 (2015) and 44,253 (2018).
[29] The total response sample for each year of the BOS was used as the base for these calculations.

The majority of businesses in New Zealand have fewer than 20 employees (97 per cent)[30]. This is reflected in BOS where approximately 73 per cent of respondents were firms with 6-19 employees. These small firms have generally reported good access to equity and debt on acceptable terms averaging 91.5 per cent (Graph 3 & 4). In comparison, businesses with over 100 employees did much better at accessing both equity and debt on acceptable terms, often surpassing the average 'acceptability rate' (96 per cent versus 92 per cent). Conversely, firms with 6-19 employees were at or below the average acceptability rate. It should be noted that there were, on average, 13 times more small firms seeking debt and 22 times more small firms seeking equity than the largest firms. On occasion, firms with 20-49 employees reported receiving capital on acceptable terms far more often than firms with 50-99 employees.

Stakeholders noted that companies had good access to capital however their size was a key determinant of success

In support of the BOS findings, stakeholders noted that access to capital is good, however smaller firms may sometimes struggle to access the capital they need. Some insights include:

> *I agree that there is good access to capital in New Zealand, from $1k through to $1 million. There is a good appetite to invest at present. There is plenty of capital in New Zealand. (Capital-raising advisor)*

> *For the bigger end of town, things are really good. For the smaller end of town (sub $20m-$50m) things are more challenging. (Fund Manager)*

> *Yes, agree that access to capital is good, but really that depends on the market segment. Larger corporates are o.k. but smaller entities have more limited options. SMEs will continue to be bank-funded unless financial technology solutions alter that. (Anonymous)*

> *There is no problem getting capital. We got around $2 million from investors in the last two years. (Capital-raising advisor)*

Firms seeking investment for expansion purposes has gradually increased

Firms of all sizes have reported seeking capital for business expansion purposes (Graph 5)[27]. On average, the largest firms are more likely to seek capital for business expansion then smaller firms (48 per cent versus 26 per cent). However by volume of investment sought, more of the smallest firms (66 per cent) wanted capital for expansion than the largest firms (11 per cent). Proportionally, the largest firms (50+ employees) comprise only one per cent of all businesses but seek more investment for expansion than small businesses[30].

Since 2014, there has not been a significant change in the percentage of firms reporting that a lack of finance was the single most restricting factor for increased turnover. This percentage remains low around 6 per cent of those surveyed[31]. Furthermore, those firms that did not seek equity or debt provided the following reasons:[27]

- **Debt**
  - The business or its owners do not like being in debt (38 per cent)
  - The costs of debt financing are too high (8 per cent)
  - The owners felt the request would be turned down (7 per cent)
  - The business is already approaching / breaching debt limits (6 per cent)

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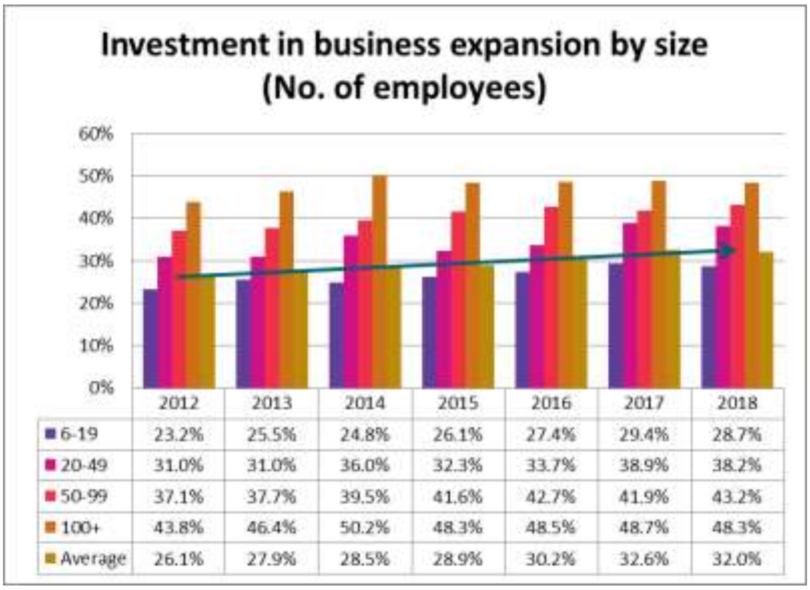
[30] https://www.mbie.govt.nz/assets/30e852cf56/small-business-factsheet-2017.pdf
[31] NZIER – Quarterly Survey of Business Opinion. https://nzier.org.nz/publication/

- Applying for debt financing takes too much time (5 per cent)
- Applying for debt financing costs too much (4 per cent)
- Other [unexplored] (32 per cent)

- **Equity**
  - The owner(s) did not want to lose or dilute control over the business (24 per cent)
  - Debt financing is more attractive (20 per cent)
  - It is too hard to find investors for businesses in [particular] sectors/industries (7 per cent)
  - The business does not have the skills needed to raise equity finance (6 per cent)
  - Investors have a different view about the value of the business (5 per cent)
  - The owner(s) felt the request would be turned down (3 per cent)
  - Applying for equity finance costs too much (3 per cent)
  - Applying for equity finance takes too much time (3 per cent)
  - Other [unexplored] (29 per cent)

Graph 5: Investment for business expansion



	2012	2013	2014	2015	2016	2017	2018
6-19	23.2%	25.5%	24.8%	26.1%	27.4%	29.4%	28.7%
20-49	31.0%	31.0%	36.0%	32.3%	33.7%	38.9%	38.2%
50-99	37.1%	37.7%	39.5%	41.6%	42.7%	41.9%	43.2%
100+	43.8%	46.4%	50.2%	48.3%	48.5%	48.7%	48.3%
Average	26.1%	27.9%	28.5%	28.9%	30.2%	32.6%	32.0%

It is also important to understand how easy it is to raise equity to gauge businesses experiences of accessing capital[27]. Businesses with 50-99 employees were more likely to report that it was ‘very easy’ and ‘easy’ to raise capital (40 per cent), which was much higher than the average (26.2 per cent) and those reported by the smallest firms (23.9 per cent). Conversely, nearly a fifth of firms with 49 or fewer employees reported that raising equity was ‘hard’ or ‘very hard’ for them. In comparison, approximately 12% of businesses with 50 or more employees reported it was hard to raise capital. A quarter to a third of firms found it ‘neither easy nor hard’; a similar percentage also reported as ‘not knowing whether it was easy or hard’.

Businesses can access equity from a number of sources (Table 1). By far, the main sources of equity for the majority of firms included the individuals/owners of the business, followed by ‘others’ which could include banks, and parent companies.

Table 1: Sources of equity for firms by size[27]

Sources of Equity	6–19	20–49	50–99	100+	Average
Individual(s) principally in control of this business	41.5 per cent	46.6 per cent	34.0 per cent	28.4 per cent	41.3 per cent
Friends or family of the individual(s) above	5.0 per cent	8.0 per cent	4.1 per cent	2.7 per cent	5.9 per cent
Employees of the business	1.2 per cent	1.0 per cent	5.2 per cent	4.1 per cent	1.4 per cent
Other individual(s)	1.3 per cent	1.0 per cent	4.1 per cent	4.1 per cent	1.7 per cent
A parent company	7.5 per cent	9.9 per cent	13.4 per cent	29.7 per cent	9.3 per cent
Angel investors / venture capital funds / private equity funds	3.6 per cent	6.1 per cent	5.2 per cent	6.8 per cent	4.3 per cent
Other businesses	8.4 per cent	7.3 per cent	9.3 per cent	8.1 per cent	8.1 per cent
Others	31.4 per cent	20.1 per cent	24.7 per cent	16.2 per cent	28.0 per cent

*Green = 1st choice; Pink = 2nd choice; Blue = 3rd choice & Yellow = above average

When comparing the average responses for the sources of capital, firms with 20-49 employees are more likely to raise equity from friends and family, and angel investors than firms of other sizes. Firms with 50 or more employees are more likely to raise equity from employees of the business, other individuals (unspecified) and angel investors, venture capital and private equity funds. The majority of firms raised or sourced some equity from other businesses.

Capital from angel investors, venture capital and divestment funds, mid-market private equity, buy-out private equity, domestic bonds and share-market listings are considered to be an important source of expansion investment for many business types. It is important to examine these sources for two reasons - who is investing, and how much they are investing. The following section looks into these and provides trend analysis to show the potential impact of the introduction of the Act.

Angel investment and venture capital have seen substantial growth, leading to a steady increase in the value of individual deals

According to the New Zealand Private Equity and Venture Capital Association (NZVCA), early stage investment is often through fund managers, angel networks, and individuals. Through the investment of these individuals and groups, New Zealand has seen substantial growth in angel and venture capital investment since 2016 (Graph 6).[32 33] These capital raising options have become an important option for those businesses and individuals seeking private equity. The wholesale investor and small offer exclusions may have helped this growth, as more investments are able to be made without the costs of a public offer.

[32] NZVCA. (2019). New Zealand private equity and venture capital monitor – Full year review. https://nzprivatecapital.co.nz/resources/

[33] AANZ. https://www.angelassociation.co.nz/resources/forms-templates/

Graph 6: Capital investment through Angel and Venture Capital funds

Since 2012, venture capital has seen a 1000 per cent increase in investments while angel funds saw a 370 per cent increase, totalling over $1.2b in new capital for early stage and start-ups. The growth observed include:

- The average venture capital investment per deal increasing from $0.9 million in 2014 to $6.7 million in 2018
- The average angel investment per deal increase from $0.5 million in 2014 to $1 million in 2018
- The number of venture capital deals reaching 69 in 2015 before falling to 40 deals in 2018. This reduction has seen fewer, but higher value deals.
- The number of angel investments reaching 132 deals in 2015 before plateauing around 115 deals in 2018. Much like the venture capital deals, on average, the value of each angel investment deal has increased.

Larger businesses are also able to raise equity or debt through listing on the New Zealand Stock Exchange

The New Zealand Stock Exchange (NZX) also provides a platform for businesses to raise equity or debt for expansion or other financial needs. This is a form of a public listed capital raising market as opposed to private capital markets that were discussed earlier in this section. The majority of new issues of capital on the exchange were related to equity. Since 2015 there has been a steady decline in the number of firms making public new additional equities (falling from 173 to 138). However at the same time, firms making debt or other types of new issues have increased (Graph 7).

The amount of capital raised from equity issues averaged $5 billion per year between 2014 and 2018. In 2015, there was a significant increase with just under $13 billion raised. The NZX Annual Report 2015 noted that this substantial increase was due to “additional capital raised by dual-listed Australian banks as a result of changes to risk capital requirements in Australia” (p.14). The average amount per issue for 2015 was $72 million whereas for the other years it was between $13 million and $23 million.

Graph 7: Firms making new equity and debt issues through the NZX

Debt and other securities issues have seen strong growth since 2014. The value of debt issues was just over $1.4 billion in 2018, growing over 900 per cent since 2014. New listing of 'Other securities' (included options, rights and warrants) grew between 2014 and 2018. However due to the nature of these securities, increases in issue volumes do not necessarily equate to an increase in monetary value. For example, 2015 had 27 issues that raised $145 million, while in 2018, 42 issues only raised $37 million. The annual average across the 2014 to 2018 period was $2.7 million.

Stakeholders confirmed that there has been more demand for private equity than public capital

Stakeholders noted that there have been very few new listing on the NZX and more preference for private equity. They also noted that this was not due to the Act but was a function of a global trend whereby the amount of private equity sought was on the rise.

> *On the listed market there have been fewer listings. Lots of high value companies are getting sold privately. This is not necessarily due to the Act. (Anonymous)*

> *[We] raised private equity in late 2018 and I was able to use my contacts to access the advisors I needed to make that happen. (Capital-raising firm)*

> *Any constraint [in raising capital] is not Act-related. It is more whether the company is ready to raise capital and the ability to ask why they want capital, how and in what way can they grow and what terms make sense (i.e. is your valuation sensible?) (Anonymous)*

> *For most of my clients there have not been any additional legal barriers from the FMCA. Raising capital is very much based on luck, good communications, networking and public relations. The FMCA is not influential. (Lawyer)*

As seen from the NZX data, companies that used the NZX to raise capital did this quite well. A stakeholder stated that:

> *For existing listed companies, the ability to raise capital is strong. For example, listed property market companies have raised around $2 billion. (Investment and Finance Manager)*

However, some companies may look overseas for additional capital as the pool of investors was larger than New Zealand. The small size of the New Zealand market was a constraint for some businesses however this was not due to the Act itself.

> *It is always better to look to raise capital where there is a bigger pool of investors with a range of perspectives. Scale matters and always will. (Capital-raising advisor)*
>
> *We are now on the path to an ASX listing and again have advisors out of Australia who are preparing us for that. (Capital-raising firm)*

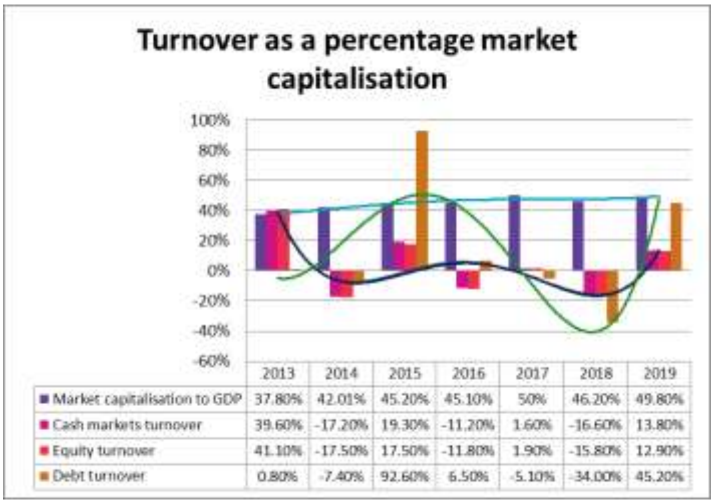
Market capitalisation as a share of Gross Domestic Product has seen steady growth

Market capitalisation as a share of Gross Domestic Product (GDP) in recent years fluctuated around 50 per cent[34] (Graph 8). The share of total capitalisation increases to 65 per cent if debt issues are also included. Equity and other securities remain the largest driver in increasing market capitalisation as a share of GDP.

Graph 8: Market capitalisation as a share of GDP

However there is no clear trend in the turnover of the various components of capitalisation for efficiency. Graph 9 shows turnover as a percentage of previous year's performance.

Graph 9: Turnover as a percentage of market capitalisations



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[34] Please note that NZX data from August 2019 is also included to demonstrate the more recent trend.

For example, in 2015 total equity traded was $3.2 billion while in 2016 this decreased to $2.8 billion and resulted in a negative turnover. In contrast, more recent data indicates that equity, debt and cash market turnover in 2019 is likely to surpass that of 2018, providing for a positive turnover. As mentioned earlier, 2015 had an unexpected increase in debt issues due to dual-listed Australian banks needing to raise more risk capital, these types of trading are not considered to be the norm.

Bid-ask spread is another measure of efficiency related to raising capital. The bid-ask spread is defined as the difference between the highest price a buyer is willing to pay for a security (the "bid" price), and the lowest price a seller is willing to accept for the same type of security (the "ask" price)[35]. The smaller the bid-ask spread, the greater the liquidity of a given security. NZX makes this data available and it can be used to measure efficiency of markets[36] (Table 2).

Table 2: Bid-ask spread for NZ public shares[37]

Bid-Ask Spread	2018		2017		2016		2015		2014		2013		2012	
Companies	N=158		N=156		N=164		N=163		N=151		N=142		N=139	
	$	%	$	%	$	%	$	%	$	%	$	%	$	%
Highest	0.51	70*	1.01	87*	0.50	90*	0.90	50	1.79	50	1.00	31.43	1.02	96.3
Lowest	0.001	0.1	0.001	0.06	0.001	0.07	0.001	0.15	0.001	0.063	0.001	0.17	0.001	0.16
Median	0.02	1.8	0.02	1.06	0.03	1.5	0.02	1.32	0.03	1.91	0.02	2.04	0.02	1.62
Average	0.067	4.33	0.057	3.81	0.06	4.53	0.07	4.06	0.09	4.33	0.09	4.15	0.06	5.57
Basis Points(BPS)**	231		179		186		189		233		245		231	
Changes in BPS	52		-6		-3		-44		-12		14		-	

*The 'highest bid-ask spreads' as a percentage are often related to very low value shares where very small changes (e.g. 1 cent) in either the bid or ask values creates large percentage changes. Therefore the median and averages are probably better indicators of bid-ask spread.
** This calculations excluded some extreme outliers.

New Zealand has numerous shares of very low value which can affect the analysis of the spread. Therefore the median and average may be better indicators of spread. The *median* bid-ask spread has ranged been between 1.12 per cent (2017) and 2.04 per cent (2013). The *average* bid-ask spread has ranged been between 3.81 per cent (2017) and 5.57 per cent (2012). If the median and average are compared to highest and lowest bid-spreads for each year (in orange and green, respectively) then this may indicate favourable liquidity in the stock market. However, one should be careful in drawing conclusions about the liquidity of the market as the data is inconclusive.

Costs of compliance when raising capital can be difficult to estimate or accurately calculate

A key aspect of the Act is to reduce the cost of compliance associated with raising capital. Costs of compliance can be difficult to estimate or accurately calculate. However there is some data available to indicate the types of costs that can be incurred when raising equity or debt.

[35] https://www.investopedia.com/terms/b/bid-and-ask.asp
[36] The data in its current form has to be cleaned to facilitate analysis.
[37] https://companyresearch.nzx.com/deep_ar/index.php?pageid=live_market [Needs login credentials to access]

Product Disclosure Statements (PDS) are a requirement for businesses wanting to raise equity or debt through public offerings and often state what it will cost to raise the capital they are seeking. The Act requires that PDS are clear, concise, and effective in relaying the information that will help investors make informed decisions. Within most PDS and other material information disclosed, especially for those related to equity, information on the costs is often stated in aggregated form. However where itemised, the costs can include:

- Establishment fee
- Underwrite and underwriter fees
- Brokerage and marketing fees
- Legal fees
- Investigating accountant's fees
- Valuation fees
- Bank legal fees
- Bank fees
- Building due diligence report fees
- Registry fees and PDS registration fee
- FMA levy.

Arguably, all costs associated with raising capital could be seen as compliance costs if they are deemed necessary from the issuers' point of view. Analysis of the data from registered PDS and other material documents (Table 3) shows that the median and average for debt offers was substantially larger than the median and average for equity offers. While the average cost of the issue was not significantly different for either, the median cost of issue was substantially higher for debt offers, over six times greater than equity offers.[38] The issue size range was substantially broader for equity offers. The other key observation is that both the median cost of issue and the range for the cost of issue (as a percentage) were higher for equity offers than for debt offers. For the purposes of this evaluation, the cost differences between the two offers were not explored.

Table 3: Cost of Issue

Issue type	Issue Size, Median (Average)	Issue Size, Range	Cost of Issue, Median (Average)	Cost of Issue, Range	Cost of Issue, per cent, Median	Cost of Issue, per cent, Range	Total number in sample*
	($ Million)				per cent of Issue Size		
Debt	$125 ($144)	$14 - $400	$1.3 ($1.8)	$0.16 - $6.5	1.3 per cent	0.16 – 2.75 per cent	34
Equity (Share IPOs)	$16.5 ($45.4)	$0.25 - $945	$0.2** ($1.6)	$0.004 - $24.7	2.57 per cent	0.007 – 11.92 per cent	80

*Companies Office Disclosure Register data 2 June 2014 – 30 September 2020

** Median calculation account for 80 offers that had associated issue costs stated in documents within the Companies Disclosure Register.

A simple annual analysis does not show any discernible pattern for cost of issue for debt offers, averaging about 1.3 per cent over the analysis period, 2015 - 2020. However, for equity offers there was a marked decrease in cost of issue from 2015 (8.24%) to subsequent years (averaging 3.25%, 2016-2020).[39] Between 2018 and 2020, the cost of issue for equities has been relatively stable at an average of 3.1 per cent per annum.

[38] The substantial difference in the median is likely due to the small sample size for both types of offers which is skewing the results.

[39] In 2015, there were only 4 equity offers compared to 17 in 2016; 16 in 2017; 13 in 2018; 23 in 2019 and 7 up to 30 September 2020.

Stakeholders noted that the introduction of 'Product Disclosure Statements' may have reduced compliance costs

The views expressed by stakeholders around the introduction of PDS were mixed. Some were confident that compliance costs had reduced:

> *The time and costs to prepare documentation has dropped so much- has had a really positive impact. Reduced costs of legal input has sped things up. Reduced costs by at least a third maybe a half, versus a prospectus and investment statement. (Anonymous)*
>
> *Anecdotally we think PDS's are good. But, if people have done [it] once, the process should be easier the next time, not repeat to the same level. (Commercial Lawyer)*
>
> *A PDS is far easier than a prospectus. Standardisation is good- it (the Act) has taken out layers that were unnecessary. (Fund Manager)*

Some stakeholders observed that compliance cost may have increased due to a transitionary period but overtime there will be reductions:

> *There have been some costs associated with the Act, but they are likely to be transitory and end up "sunk" rather than enduring. The necessary 'infrastructure' is in place now. There is nothing out of whack with other such legislative changes and I don't think costs are particularly onerous. (Fund Manager)*
>
> *It really depends on what you define as compliance costs. If you need to hire more people for compliance, then that probably counts, but no distinct and separable element of that necessarily related to the Act, as such costs are proportional to growth anyway (i.e. attribution to FMCA not direct/discernible) (Fund Manager)*

However, others mentioned that additional staff was needed to assist businesses comply with the new provisions of the Act and as such costs of compliance had increased, especially for small companies and usually around reporting and certification requirements:

> *It is difficult to know for sure what is required and what is not and therefore what we should be doing and what we needn't do. Reporting requirements are most troubling. Who reads it anyway? I accept that it is necessary, but there seems to be a lot of box-ticking that could be streamlined. I would support a move away from monthly reporting to the Trustee towards quarterly frequency. (Fund Manager)*
>
> *A single issuer gets their compliance programme audited; but there is a need to accept that a full two-line model of defence probably is not required. Yet, lack of flexibility means the compliance burden is a bit harsh. More nuances in the approach taken, rather than one-size-fits-all would be helpful. (Fund Manager)*

The costs associated with the development of 'Prospective Financial Information (Statements)' (PFI) and for non-standard offerings were also seen as increasing the burden of compliance:

> *Providing prospective financial information could cost as much as $450k. This is a significant barrier and comes with considerable risk. (Commercial Lawyer)*
>
> *The risk indicator for a PDS is challenging, if it is not a vanilla offering. The data is simply not there and this is a problem for illiquid property funds for instance. (Commercial Lawyer)*

A stakeholder also noted in the context of what is happening in Australia that the increased risk of litigation against directors could impact on insurance premiums and thereby increase costs associated with compliance of the Act. The comment seems to refer to directors having sufficient insurance to cover litigation costs should they be deemed to have been non-compliant against the Act.

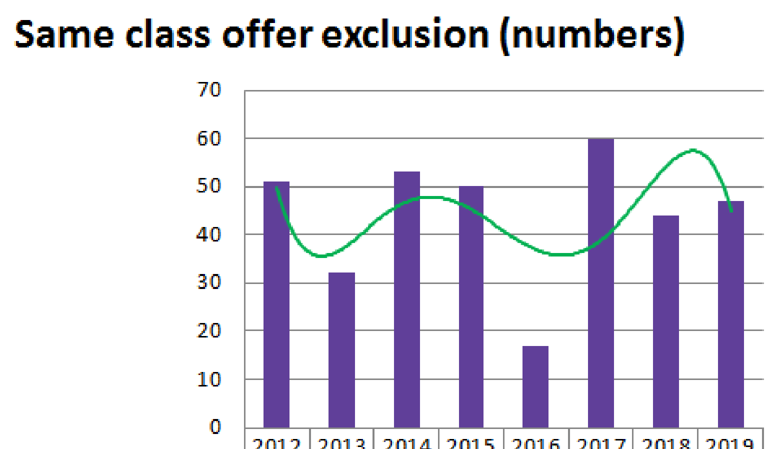
Approximately 270 offers relying on the same class exclusion were made between 2014 and 2019

Same class offers exclusion is another mechanism for reducing compliance costs. The Act has established criteria that exclude certain types of offers and/or people from disclosure and governance regimes with the intention of reducing the financial burden of raising capital. Other exclusions mostly apply to:

- Wholesale investors
- Close business associates of the offeror
- Relatives of the offeror
- Offers through licensed intermediaries
- Employee share schemes
- Persons under control
- Dividend reinvestment plan
- No consideration
- Small offers
- Controlling interests
- Small schemes
- Derivatives
- Simple registered bank products
- Offers by the Crown
- Retirement villages
- Renewals or variations.

Given the nature of these exclusions, the available data can be incomplete, and in some cases highly commercially sensitive. However, from FMA Annual Reports 2014-2019, there were approximately 271 offers in reliance on the same class exclusion, averaging 45 per year (Graph 10). Between 2014 and 2017 (most recent data available), offers using the same class exclusion raised approximately $19.8 billion.

Graph 10: Same class offer exclusion



	2012	2013	2014	2015	2016	2017	2018	2019
Same class offer exclusion	51	32	53	50	17	60	44	47

In relation to the small offers exclusion, there were 78 offers notified to the FMA as having been made based on that exclusion in 2019[40]. It should be noted that the FMA relies on those making small offers to supply this information. One of the inherent complexities is that the intent to use exclusions does not necessarily lead to offers being made or completed. Another issue is that small offerors who may use these exclusions may not always notify FMA due to a lack of awareness that they are required to. Therefore, at present the data noted above is only indicative on how many businesses or offers have benefited from reduced compliance costs.

Stakeholders agreed that the Act has reduced compliance costs for same class offers

Those stakeholders who have experience in dealing with same class offers reported a reduction to compliance costs that can be attributed to the Act:

> *The same class offers regime has made things much quicker. What used to take 6-8 weeks now only takes 3-4 weeks. There has been a clear reduction in compliance (legal input) and accounting/financial costs. (Fund Manager)*
>
> *Disclosure exclusions for same class offers was good legislation, as the product was understood. (Anonymous)*
>
> *For the bigger end of town, the same-class exclusion has been very positive. Previously, equity [was] very hard to do. [We] would have done $200m due to the same class exclusion. (Anonymous)*
>
> *While it is hard to put dollar values on it, the same-class exclusion has been very positive. (Anonymous)*

Increased innovation and flexible ways of participating in financial markets is the third long - term outcome that the introduction of the Act is meant to facilitate. The next section provides insights into what these innovations are and how they are further facilitating the raising of capital.

[40] 2019 is the only year that the data has been clearly reported in FMA's Annual Report.

5. Outcome three: Innovative and flexible ways of participating in financial markets

Two innovations in financial markets since the Act was introduced relate to enabling equity crowdfunding and peer-to-peer lending platforms[41]. There are currently six crowdfunding and eight peer-to-peer lending platforms in New Zealand which are licensed by the FMA.

Equity crowdfunding is when many people offer small amounts of money to raise funds for a company. Peer-to-peer (P2P) lending, in contrast, matches people who are seeking loans with people who might be willing to fund those loans[8]. Each carries its own advantages and risks (which are not in scope for this report), however these platforms have provided businesses, individuals and investors with new opportunities to raise equity and debt.

Nearly $100 million of capital has been raised using crowdfunding platforms

In the two year of available data (2017 and 2018), crowdfunding platforms managed to facilitate the raising of substantial new capital for companies at just under $100 million[42]. To understand who the investors are, the FMA differentiates between 'licensed service investors' (investors in a licensed crowdfunding offer) and 'other investors' (an investor in an 'other offer' such as an offer made to wholesale investors only). Of these two types of investors, licensed investors are far more active on these platforms. The number of licensed investors increased substantially from 2017 to 2018, increasing 250 per cent from 2,093 to 7,172. However, the number of offers made[43] decreased from 50 in 2017 to 32 in 2018. Of these offers, 34 were successful[44] in 2017 (equivalent to a 68 per cent success rate) compared to 28 in 2018 (an 88 per cent success rate). Approximately 360 offers were declined in this period, presumably from using the platforms to raise capital. For example, the declines may have been due to issuers of offers not meeting the platform's reporting requirement standards.

Peer-to-peer lending platforms also saw high levels of activity

In 2018, there were approximately 280,000 borrowers registered with (P2P) services, up from 207,000 in 2017[42]. The overwhelming majority (98.9 percent) of borrowers were individuals. The remaining 1.1 per cent were businesses. However, the average value of loans to businesses was significantly larger than those to individuals ($460,000 versus $20,000, respectively).

There were over 26,000 investors registered with P2P services in 2018, up from 20,744 in 2017. The single largest investor group was in the less than $999 category, with an average loan of $421 (Figure 2). The majority of investors that loaned $4,999 or less, made an average loan of $2,200 per investor. At the higher end, there were 82 investors that loaned more than $500,000, at an average of $1.3 million per loan.

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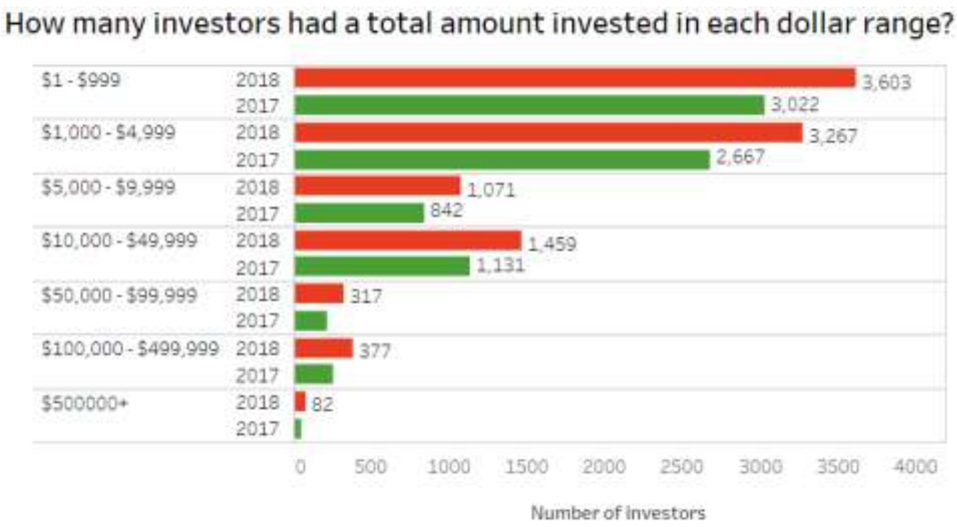
[41] It is important to note that these two innovations were already happening internationally since around 2009 however, in New Zealand it only came into being around 2012.

[42] https://www.fma.govt.nz/news-and-resources/media-releases/peer-to-peer-lendingcrowdfunding-2018-data-published/

[43] The number of offers is the closest proxy measure for the 'number of firms who used the platform'.

[44] A successful offer was one that met the minimum funding target.

Figure 2: Investors by loan sum categories[42]



Stakeholders noted that the Act has encouraged a diverse range of investors to participate in financial markets

While some stakeholders expressed concern that access to offers were still limited a small pool of investors, the introduction of the Act had however, allowed more people to participate in investment opportunities:

> *So, in our situation when we raised [capital], having the old rules would have meant limiting our offer to professional investors only, or creating a prospectus (expensive) so we could offer the same shares to smaller existing shareholders…Under the new rules we did an offer to professional investors, and then did crowd funding, which we limited to smaller existing shareholders…net result, costs were cheaper for us, and all shareholders were happy. (Capital-raising firm)*

A fund manager commented that having P2P lending has been great and considers that together with Crowdfunding, it will remain a niche market for investors and those looking for new capital. A perception from another stakeholder was that the cap on crowdfunding could be raised or lifted.

> *I'm a fan of peer-to-peer and disintermediation of banks is good. The regime seems pretty good. Not as much a fan to crowd funding- people tend to be brand supporters rather than investors. There have been some successes but on average, they are a pretty motley lot. It's a legitimate part of the market, but will remain niche. (Fund Manager)*

> *The FMCA has been very positive, though the cap on crowdfunding is a concern due to perception issues. (Anonymous)*

The other key indicators for measuring innovation and flexible ways of participating in financial markets focus on:

- Same class offers
- Small offer exclusion[45]
- Companies using employee-share schemes (ESS)

[45] Information on same class offer exclusions is included in the last chapter (p.26-27), in the discussion of data on compliance costs for raising capital.

- The number and types of alternative markets created
- The market capitalisation of stepping stone exchanges
- Whether market participants are utilising these new markets.

Creating new alternative markets and stepping stone exchanges is a continuing challenge for New Zealand. In September 2019, a FMA and NZX sponsored report, *Growing New Zealand's Capital Markets – 2029* was released which provides insights into New Zealand's need for alternative markets, and potential solutions to these challenges[46]. Key insights from the 2029 report include:

- MyCap Markets is another innovation that could assist SMEs to raise capital through an auction of equity/debt issues.
- Online exchanges (such as Syndex) allow for investment in alternative asset types like commercial properties, farmland, horticulture, etc.
- Online investment platforms (such as Sharesies, Hatch, InvestNow, and Smartshares) provide a range of funds that people can invest in for very low sums of money, for example $5. These platforms have lower fees and allow for partial shares or units in funds offering investment opportunities.

[46] https://www.fma.govt.nz/news-and-resources/reports-and-papers/growing-new-zealands-capital-markets-2029/

6. Discussion

The FMCA 2013 was introduced to promote confident and informed participation of businesses, investors and consumers in the financial markets, and promote and facilitate the development of fair, efficient, and transparent financial markets[8]. In addition to these key objectives, the Act's purposes also include to:

a. Provide timely, accurate and understandable information to people so that they can make decisions relating to financial products or the provision of the financial services
b. Ensure that appropriate governance arrangements apply to financial products and certain financial services to allow for effective monitoring and reduced governance risks
c. Avoid unnecessary compliance costs
d. Promote innovation and flexibility in the financial markets.

This discussion chapter highlights the key findings on the three main evaluation questions and provides commentary on their relevance in determining the success of the Act. Where possible, opportunities for improvement are discussed. It is also important to note that the 2015 Baseline report often stated data as either individual measures for the years 2013-14 or as averages calculated using 2011-14 data. In this 2020 evaluation report, the majority of the annual analysis went back to 2012/13, covering nearly all the data in the Baseline report to allow for more up-to-date trend analysis. Some comparisons have been made between Phase One and Two of the evaluation, but in several instances this was not required.

To what extent is the FMCA enabling New Zealand investors to be more confident in the regulation of the financial markets?

The intervention logic has identified four short-medium term outcomes that support improving investor confidence in financial markets:

1. Timely, accurate information for decision-making
2. Effective governance that allows for effective monitoring of financial products
3. Promotion of fair, orderly and transparent financial product markets (shared with another long-term outcome discussed below)
4. FMA has tools to take appropriate enforcement action.

Confidence in financial markets has increased since 2014 when the Act was implemented. In general, investors' expressed higher levels of confidence than the general public and non-investors. Investors also noted a higher level of confidence with regards to financial markets being effectively regulated. It is important to note that there are a substantial number of people who could not rate their confidence due to not being aware or not knowing whether financial markets were effectively regulated. Often, legislation and regulations such as the Act are working in the background and therefore its impact on how the market works and develops remains invisible to most participants. This possibly provides an opportunity to educate or raise awareness on the regulation of the financial markets.

Among FMA's key stakeholders (such as financial advisors and fund managers) confidence is very high in relation to the regulation of the financial markets. This is a good sign, demonstrating that key participants understand the importance of developing and maintaining the integrity of the financial markets. This finding can also be seen as a proxy measure for promoting fair and transparent financial products as advisors often work in the frontline and therefore have the opportunity to represent these intentions to both existing customers and new investors. Stakeholders interviewed for this evaluation noted that confidence and willingness to invest have mainly been driven by macroeconomic factors rather than the Act.

However, they do acknowledge that the integrity of the financial markets has been enhanced due to our high compliance environment which in turn creates greater confidence.

> *I struggle to recall test cases in the FMCA- it's hard to think where it hasn't worked out. However, the case law is yet to develop. It was always going to be like that in New Zealand. In general, we are a high compliance environment and that engenders greater confidence. (Anonymous)*

The quality of information that investors receive can be seen as an important determinant of confidence. Relevant, timely, and quality information helps investors make good financial decisions. While information about financial matters generally are not directly relevant to this evaluation, there seems to be an opportunity to do further targeted initiatives, especially if more New Zealanders are to be encouraged to actively participate in capital markets through a better understanding the risk-reward relationship of investments.

Since 2014, there has been a steady increase in household investments in managed funds, KiwiSaver and term deposits, from 17.3 per cent to 24 per cent (2019). However, it is not clear whether this is due to changes in governance and licensing rules for managed funds facilitated by the Act, or whether it is an expected increase due to the incentives and popularity of KiwiSaver and other reasons. Terms deposits have remained flat over the period and this may be due to very low interest rates.[47]

The other key component of confidence is related to how misconduct is dealt with and whether the public has confidence that those who have breached the law have been sanctioned appropriately. The Act gives FMA numerous tools to sanction inappropriate and illegal behaviour. Key stakeholders surveyed by FMA have also stated that they have confidence that the agency supports market integrity through its conduct and investigation role. The FMA also publishes the details and outcomes of cases that they took to court.

Overall, stakeholders interviewed for this evaluation also noted that the Act had improved confidence by moving to a principles-based environment. Confidence in the regulation of the financial markets is tracking well at 60 per cent currently.

To what extent can firms access capital more efficiently and easily?

There are four short-medium terms outcomes for making capital accessible more efficiently and easily:

1. Firms are able to access capital at different stages of growth
2. Compliance costs are minimised and are proportionate to the type of investment
3. Firms have access to lower cost methods for raising capital and with complying with disclosure requirements
4. Promotion of fair, orderly, and transparent financial product markets (this outcome is also shared with the long-term outcome regarding investor confidence).

During the review and update of the intervention logic in 2017, several indicators were identified to measure the efficiency and ease of access to capital. These indicators were rated on strength, with some indicators being either 'strong' or 'weak' pointers of success. In particular the number of same class offers and the growth of the crowdfunding and peer-to-peer capital raising pathways were considered as strong indicators given their assumed propensity to reduce the costs of raising capital[48]. Some stakeholders interviewed for this evaluation noted that they had observed a reduction in compliance costs, especially among

[47] https://www.fma.govt.nz/news-and-resources/media-releases/fma-launches-managed-funds-guide-for-world-investor-week/

[48] The latter will be discussed in the next section on innovative and flexible markets.

larger companies who raised capital through the same class offers exclusion. Others reported increased compliance costs mainly related to disclosure, reporting and monitoring activities required under the Act.

There has been a substantial increase in angel and venture capital investments indicating that there are options for new capital for early stage firms and start-ups. The value of individual deals has also increased which is a good signs that this sector of the market is heading in the right direction. The government is also injecting money to help early stage firms. However it remains to be seen whether the current levels of investments are adequate and whether investments are making sufficient returns for the investors.

Regardless of their size, over 85 per cent of all businesses who wanted new capital were able to get it on acceptable terms. Businesses with 50 or more employees were more likely to seek capital for expansion purposes and also more likely to get it on acceptable terms. This could be due to their ability to leverage more assets as collateral when compared to smaller businesses. The current trend shows that more firms are interested in raising debt as opposed to equity. This is possibly due to the barriers around making new listings on the NZX, coupled with an increase in firms or individuals seeking more private capital on new platforms and owners not willing to dilute their ownership. Also given that nearly 97 per cent of all businesses in New Zealand have fewer than 19 employees, it is possible to assume that they find it difficult to raise equity on most occasions. There are many barriers to accessing capital through NZX and other platforms, particularly for smaller companies who find either the cost of raising capital too high, do not know how to raise new capital, or do not have enough time to consider the options that they have. A stakeholder familiar with raising capital through debt issues noted that subsequent offers after the initial offer does reduce costs and could encourage businesses to use this facility more should funding from banks be unavailable or limited.

There is also strong evidence that most companies first seek to raise new capital internally either through retained profits or possibly through sources closer to the companies such as 'other businesses' associates, and friends/family. This is supported by the findings from the *Growing New Zealand's Capital Markets 2029* report and it recommends that small businesses need to be encouraged to use public and private listed platforms.

Companies that did not seek new capital mostly stated that they did not want to lose control of their entity, which could happen if they listed on the NZX or other similar platforms. There was also a preference for raising new debt as opposed to new capital. As noted earlier, the costs, time, and knowledge needed to raise new capital can be a barrier for some companies. This presents an opportunity for the key stakeholders to better promote the various pathways available for new capital. There also seems a need to help firms' upskill to better understand and engage with the capital raising opportunities. Stakeholders identified some minor fixes to the Act (generally to reduce compliance costs) but did not identify major changes.

Over 185 PDS and other material documents were reviewed to collect information on the costs of raising capital, including the costs of compliance. When compared to the 2015 Baseline report there is good indication that the cost of issue for both debt and equity offers has decreased. In 2015, the reported range for cost of issue for debt was 0.2 - 8 percent whereas this report notes it as being 0.16 - 2.7 per cent. For equity offers, the range for cost of issue was 2.2 – 17.3 percent in 2015 compared to 0.007 – 11.92 percent. Stakeholders interviewed for this evaluation had favourable views around the value of PDS and noted that the time and costs for preparing documentation had reduced. Standardisation of the documentation was a key feature favoured by them.

The *Growing New Zealand's Capital Markets 2029* report found that the effort and resulting cost of issues often remaining the same regardless of the size of the issue. This has meant that brokers and fund managers have often favoured larger value issues for various reasons. For a more comprehensive understanding of whether compliance costs are decreasing overtime, a better reporting mechanism is needed to differentiate all the costs associated with public listed issues. It can be argued that inherently all stated costs of issues ought to be decreasing if access to capital is to improve. A reduction in compliance costs alone may not be enough to make a big difference if other costs continue to increase as per market forces.

Mid-market private equity, buy-out private equity, and venture capital divestments turnovers have experienced some volatility but still managed to inject new capital over the period of analysis. Domestic bonds remain one of the key investments in New Zealand at $42 billion. The lower risks associated with these bonds possibly increases their attraction for investment purposes. Newly listed securities on the NZX have seen modest increases since 2014. Debt and 'other' securities were the main reasons for the increases in new listing as equities, which are the majority of all listings have seen a steady decline since 2015. The trend relating to lower new equity listings is similar to what is being experienced globally, as noted in the *Growing New Zealand's Capital Markets 2029* report.

To what extent is the FMCA promoting innovative and flexible ways of participating in financial markets?

There are four short-medium term outcomes for promoting innovative and flexible ways of participating in New Zealand's financial markets:

1. Use of peer-to-peer lending (P2P) and crowdfunding platforms
2. Use of diverse financial product markets
3. Diversity of financial markets is encouraged and alternative markets created
4. Uptake of schedule 1 exclusions.

Among the several indicators for this long-term outcome, four have been identified as being 'strong'. This includes the growth of P2P and crowdfunding platforms, development and accessibility of new exclusions to facilitate uptake of small offers and same class offers, and the uptake of employee share schemes.

Crowdfunding and P2P lending platforms have shown good improvements since 2017[42], generating over $100 million in new capital and approximately $0.5 billion in new debt for firms and individuals. The *Growing New Zealand's Capital Markets 2029* report cites these two platforms as benefiting innovation and disrupting the market with new entrant, which is working well for New Zealand. These platforms have great potential to better engage smaller businesses in raising capital and thereby improve overall participation of smaller entities in financial markets. The Act is instrumental in allowing the development and promotion of these disruptive yet innovative pathways for accessing new capital. The growth in these new platforms is a major success for the Act.

Same class offers are also considered to be working well in New Zealand. The Act has been very deliberate in permitting exclusions for these types of offers in order to allow businesses to raise capital quickly and efficiently. Alternative data sources were explored for employee share schemes but were not found to be useful. It was understood that Inland Revenue had data that would be available for this evaluation but it was discovered that this information was not readily available. Therefore, it remains unclear whether this information is available. As mentioned earlier, accurate data for this exclusion is important to measure the success of the Act.

There are signs that additional alternative financial markets could emerge to reduce the costs of raising capital. The 2029 report noted these new markets could include new standalone listings, passive funds, options markets, collaborative ventures, green bonds, and some online investment platforms. These innovations are hoping to attract new investors, who may or may not have large sums of money to invest. For example, some new investment platforms can have a minimum of as low as $5. It is also hoped that SMEs will find some of the new markets better suited to their needs.

Finally, the results from this evaluation provides evidence that to a certain extent the Act has 'promoted and facilitated the development of fairer, more efficient and more transparent financial markets that help businesses to fund growth, and has also allowed individuals to confidently invest'. Stakeholders observed that macroeconomic factors have a far greater influence on the Act's long term objectives, especially those on business's ability to access capital. A particular observation was that the Act took a while to develop and therefore was well placed to respond to future issues which can be considered a key feature of good legislation.

7. Conclusion and Recommendations

Attributing all the changes in the financial markets since 2014 to the Act is always going to be challenging. This is because the financial markets are dynamic with many stakeholders and influencers including FMA, NZX, businesses, investors, investment fund managers, financial advisors, and government agencies such as MBIE. However, the Act as a part of the regulatory system and framework both directly and indirectly influences certain elements that are important to maintaining and/or enhancing market integrity. Market integrity is essential for investor confidence which in turn can improve levels of participation and investment in financial markets. Market integrity is enhanced through robust investigation and enforcement of rules to limit misconduct. The quality of information is also integral to promoting investment opportunities among businesses and individual investors. Reducing compliance costs and creating new opportunities for raising capital are also critical. Often, legislation and regulations such as the Act are working in the background and therefore its impact on how the market works and develops remains invisible to most participants. This view has been reiterated by the feedback received from key stakeholders interviewed for this evaluation. Overall, the system has evolved well and the Act has achieved its aims well, with this evaluation providing some lessons and opportunities for improvements. There is always room to improve confidence and participation in financial markets, and access to capital.

7.1. Recommendations

The following recommendations are related to future evaluations and monitoring of the Act rather than the policy implications of the current findings. The latter will be developed with subject matter experts in due course.

Rationalise the indicators of success

In this phase of the evaluation, several new indicators were added while most of the existing ones from the baseline were retained. Some indicators had two or more measures rolled into one. When these were decoupled for data collection purposes, approximately 45 'indicators' emerged that needed unique data. For the final phase of the evaluation, this large list of indicators ought to be revised and narrowed down to those that strongly align to the FMCA. The indicators can be categorised or prioritised as: 'essential', 'important to know', or 'interesting to know'. The latter category indicators should only be used if there is a need to support the 'essential' and 'important' categories. There may be other methods for rationalising that should be considered.

Develop dashboard reports for regular monitoring

Regular monitoring would be valuable to assess the impact of the Act going forward. In line with the first recommendation, we will look to identify the key indicators and gather data on a regular basis to inform the policy and initiative development to support the key stakeholders realise the full potential of the Act.[49]

Simplify the gathering of data

At present the data gathering exercise is very time consuming, onerous, and often some indicators do not result in meaningful insights given the effort needed to collect them. Based the number of data sources needed for an evaluation of this type (refer Appendix C), it is hoped that better collaboration with key agencies could make this process more efficient and effective. It will also support the earlier recommendations.

[49] A few indicators were identified as baseline for dashboards however this did not eventuate into anything meaningful.

Socialise the findings of this evaluation

It will be important to share and discuss the findings from this evaluation with key stakeholders, especially those that have a critical role in achieving the objectives and intentions of the Act.

7.2. Next Steps

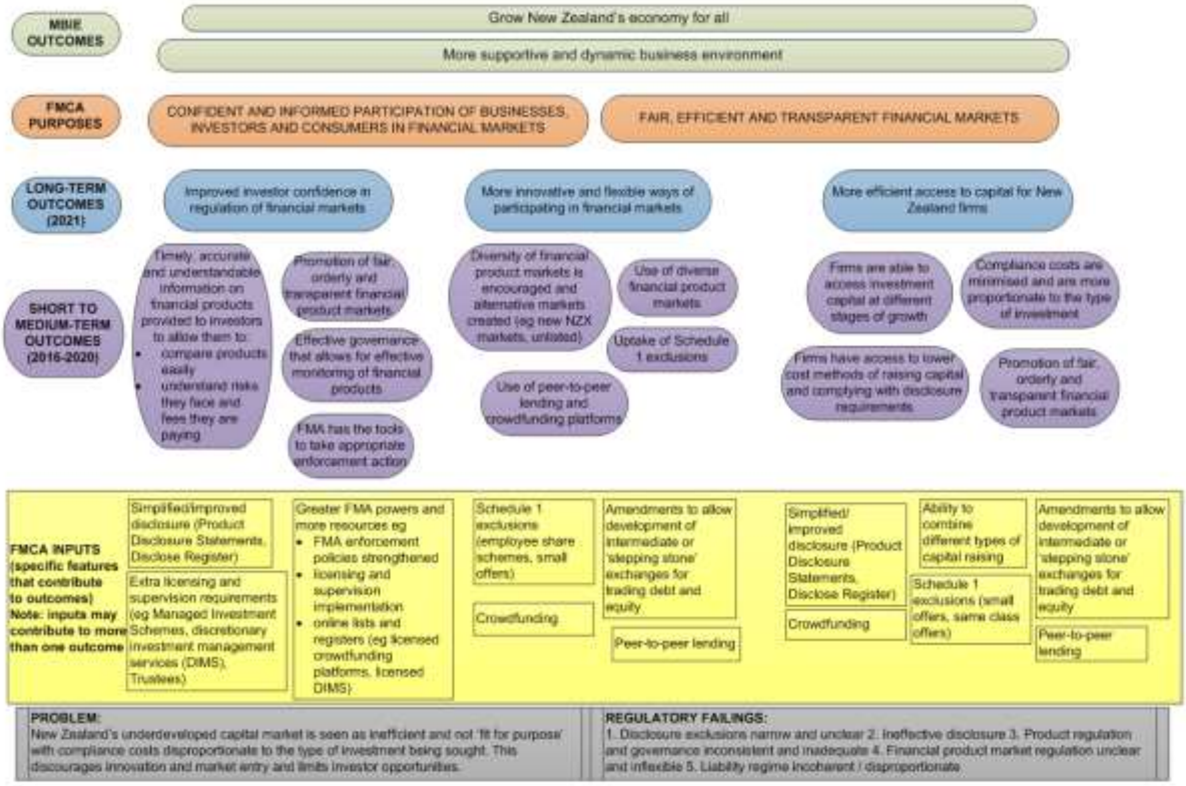
The Evidence and Insights Branch's Markets Team will work closely with Financial Markets Policy Team to explore the best approach to implementing the recommendations.

The final evaluation and monitoring project is currently planned to start in late 2021 which was agreed upon prior to Covid-19 happening. The Covid-19 lockdown caused significant delays to the completion of this report and therefore the timeline could be revised to a later date.

Appendix A: Notable features of the FMCA

Name	Summary of changes
Enhancements to facilitate new capital raising opportunities	Key changes include: • A "crowd funding" exemption that allows people to pool their investment via a registered facility (such as a website) to fund a business or project. Each investor then owns an equity share of the business. • A new type of licensed financial markets facility for "Peer to Peer (P2P) lending" that has simpler compliance obligations than a standard issue of debt securities. • Disclosure exemptions for small offers.
Amendments to simplify investor information and minimise compliance costs	Key changes include: • Changes to the disclosure regime, including disclosure exemptions for small offers, same class exemptions. • New public registers.
Exemptions that allow intermediate markets to develop	Key changes include: • amendments to allow the development of intermediate or 'stepping stone' exchanges for trading debt (bonds) or equity (shares). • new statutory exclusions designed for dividend reinvestment plans.
Amendments that smooth the path for employee investment and ownership	A key change is a new statutory exclusion designed to simplify employee share purchase schemes.
New governance and accountability framework for financial products	Key changes include: • New requirements and obligations for Licensed Supervisors and Managers of managed investment schemes, as well as Issuers of debt securities and Trustees of restricted schemes. • New requirements for schemes to be registered and new custody obligations for registered schemes. • New licence requirements for Managers. • New requirements for restricted schemes to have a Licensed Independent Trustee. • New powers of intervention for Supervisors and FMA.

Appendix B: Revised Intervention Logic 2017



The key changes in focus for future evaluations included[50]:

- The 'purpose' of the Act saw the following statement added: 'Confident and informed participation of businesses, investors and consumers in financial markets'.
- Development of three long-term outcomes as opposed to the single outcome stated previously:
    - Improved investor confidence in regulation of financial markets (wording was revised to focus on regulation as opposed to investment decision-making)
    - More innovative and flexible ways of participating in financial markets
    - More efficient access to capital for New Zealand firms
- The long-term outcome 'compliance costs are minimised, and are more proportionate to the type of investment' became a short to medium-term outcome under 'more efficient access to capital for New Zealand firms'.
- Short to medium-term outcomes were aligned to each of the long-term outcomes.
- The FMCA inputs (specific features of the Act or activities) were linked up with each of the long-term outcomes.

[50] See Appendix B for the updated intervention logic

Appendix C: Methodology

A mixed method approach was used to gather and analyse the data for this evaluation.

The following table lists the indicators that were used to measure the long-term outcomes of this evaluation:

Short to medium-term outcomes	Indicator
Firms are able to access investment capital at different stages of growth	1.1 The proportion of businesses able to raise debt and equity on acceptable terms
	1.2 Percentage of firms that have invested in expansion, by firm size
	1.3 Percentage of firms reporting that lack of finance was the single most restricting factor in increasing turnover
	1.4 The reasons firms do not request equity or debt finance
	1.5 How easy it is for firms to raise private and public equity finance
	1.6 Who provided the equity finance for firms' most recent request
	1.7 Number of deals and capital invested by: Angel Investors, Venture Capital (including divestment), mid-market private equity, buy-out private equity
	1.8 Amount raised by domestic corporate bonds issued
	1.9 Number of firms making public new and additional debt and equity issues through the NZX and the dollar value
ALIGNS WITH LONG-TERM OUTCOME	1.10 Market capitalisation of NZX Main Board (NZSX), as share of Gross Domestic Product (GDP)
	1.11 Bid-ask spread for NZ public share markets
	1.12 Turnover as a per cent of market capitalisation
	1.13 Changes in ease and efficiency of raising capital for firms since the FMCA came into effect
Compliance costs are minimised and are more proportionate to the type of investment	1.14 Changes in compliance costs over time from firms, intermediaries and advisors involved in raising capital via crowdfunding, peer-to-peer lending, small offers exclusion, same class offers exclusion, employee share schemes exclusion
	1.15 Disclosed issue costs for debt and equity (for both new and additional issues)
	1.16 The number of same class offers
Firms have access to lower cost methods of raising capital and complying with disclosure requirements	1.15 Disclosed issue costs for debt and equity (for both new and additional issues)
	1.16 The number of same class offers
	3.1 The number of firms using crowdfunding platforms and amount of funding raised
	3.2 The number of firms using peer-to-peer lending platforms and amount of funding raised
	1.17 Interest from firms using alternative markets as a way to lower costs
Promotion of fair, orderly and transparent financial product markets	NO INDICATORS FOR THIS OUTCOME

Short to medium-term outcomes	Indicator
ALIGNS WITH LONG-TERM OUTCOME	2.1 Investor confidence in financial markets
	2.2 General confidence in financial markets
	2.3 Confidence in regulation of financial markets
	2.11 Stakeholder confidence in financial markets
Timely, accurate and understandable information on financial products provided to investors to allow them to: compare products easily, to understand risks they face and fees they are paying	2.4 Percentage of investors surveyed who believe that investment disclosure documents that were given to them helped them to make an informed investment decision
	2.6 How easily investors are able to compare products?
	2.12 Whether investors understand the risks they face and fees they are paying when investing?
	2.13 Whether investors receive timely information?
Effective governance that allows for effective monitoring of financial products	2.7 Effective governance in financial markets?
	2.5 Household investment in Managed Funds as a percentage of total household investment in financial assets

Promotion of fair, orderly and transparent financial product markets	NO INDICATORS FOR THIS OUTCOME
FMA has the tools to take appropriate enforcement action	2.8 How well FMA responds to misconduct?
	2.9 Percentage of completed FMA investigations resulting in sanctions?
	2.10 Percentage of stakeholders that believe that FMA enforcement actions help raise standards of market conduct?

Short to medium-term outcomes	Indicator
Use of peer to peer lending and crowdfunding platforms	3.1 The number of firms using crowdfunding platforms and amount of funding raised
	3.2 The number of firms using peer-to-peer lending platforms and amount of funding raised
Uptake of Schedule 1 exclusions	3.3 The number of small offers
	3.4 Number of companies using employee-share schemes (ESS), new ESS schemes started in previous year, total value of raised amount in previous year
Diversity of financial product markets is encouraged and alternative markets created (eg new NZX markets, unlisted)	3.5 Number and type of alternative markets created
	3.9 Diversity of financial product markets is encouraged (e.g., new NZX markets, unlisted)
Use of diverse financial product markets	3.6 Number of firms using new financial product markets
	3.7 Market capitalisation of stepping stone exchanges like NXT and number of firms listed
ALIGNS WITH LONG-TERM OUTCOME	3.8 More innovative and flexible approaches to raising capital

To gather data on these indicators, content analysis was undertaken on the following reports and publications:

FMA

- Annual reports (2012-2019)
- Attitudes towards New Zealand's financial markets survey (2014-2019)
- Ease of doing business survey (2018)
- Consumer views on financial markets survey (2018)
- Product Disclosure Statements: understanding investors' information needs (2018)
- Growing New Zealand's Capital Markets 2029 (2019)
- Conduct outcome report 2018
- KiwiSaver report 2018
- Crowdfunding and Peer-to-peer lending report (2017-2018)

NZX

- Shareholder matrix (2013-2019)
- Bid-ask matrix (2012-2018)

Others

- Stats NZ - Business Operations Survey (2012-2018)
- RBNZ – Household financial statistics (2014-2018)
- RBNZ – Domestic Bond data – Kanga News (2012-2018)
- New Zealand Private Equity and Venture Capital Association – Capital monitor report (2011-2019)
- NZIER – Quarterly survey (2012-2018)
- NZ Companies Register: Disclosure Register – Product Disclosure Statements and other material documents for cost of issue data (2014-2019)

In relation to the Disclosure Register, nearly 190 Product Disclosure Statements and other material documents were reviewed to determine the costs of issue and compliance. By far this was the most time consuming exercise taking nearly three weeks of fulltime analysis.
All the data gathered from the above reports were recorded and analysed using Excel. Tables or graphs were used to present the data.

The stakeholder insights were gathered through an external research provider who worked in collaboration with MBIE to update the interview guide and contact the interviewees. The most recent data were also used to refresh the interview guide. Seventeen stakeholders were interviewed focussing on access to capital, confidence, compliance costs and innovation; almost all were done in-person. The interviews were organised around four key areas of interest, set out below.

- New Zealand firms’ access to capital
- Confidence in financial markets and willingness to invest
- Compliance costs
- New ways of participating in financial markets

The interviews involved a mix of core questions common to all participants and other question areas tailored specifically to the interviewees’ expertise, experience and interests. For the capital-raising firms, an abridged set of questions, focussing on capital-raising, was used. Two of three firms gave their views via email, with the third participating in a telephone interview.

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(A complete list of all data sources in listed on page 41)