

A globe is shown in the background, tilted to show the Pacific Ocean. The word 'PACIFIC' is visible across the ocean. New Zealand is highlighted in yellow on the left side of the globe. The text 'NEW ZEALAND' is also visible on the map. The globe is set against a dark red background.

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**Where governance went wrong
– globally and in New Zealand**

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Introduction

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

Global financial crisis

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

The New Zealand experience

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

The crisis and corporate governance

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

Global perspectives

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

Finance company failures

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

Securities Commission actions

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

Securities Commission Principles

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

Regulatory response

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

Balance in solutions

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

Global approaches to the crisis

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

Conclusion

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

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Thank you

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