FMOA

FINANCIAL MARKETS OPERATIONS ASSOCIATION

IN THIS ISSUE

AGENDA

FMOA CONFERENCE and AUSTRACLEAR USER GROUP MEETING

Friday, 15 November 2002

Lambton Room One
Hotel Inter-Continental,
Grey Street, Wellington

11.00am	Registration
11.15am	Welcome and Introduction
11.30am – 12.00noon	AFOA – TO BE ADVISED
12.00pm – 12.30pm	Day in the Life of a Spin Doctor Paul Jackman, Corporate Affairs Manager, RBNZ
12.30pm – 1.30pm	Lunch
1.30pm – 2.45pm	Austraclear Users Group Meeting
2.45pm – 3.00pm	FMOA AGM – Financials, election of committee
3.00pm – 3.15pm	Afternoon Tea
3.15pm – 3.45pm	"Topic to be Advised" Mark Weldon, CEO – New Zealand Stock Exchange
3.45pm – 4.45pm	"Fighting Electronic Crime in the Workplace" Chris Budge – eCrime NZ Limited
5.00pm	Finish
5.15pm – 7.00pm	Drinks and Nibbles for Austraclear/FMOA members, operations and settlement staff at same venue.

NZ FMOA Chairperson's Report

OCTOBER 2002

The Pace of Change is accelerating…

Welcome readers to another edition of the New Zealand Financial Markets Operations Association newsletter, where we look to bring you updated information about our Association as well as a bit of a look as to what is going on around our marketplace.

Like many people managers out there in the Financial Markets Operations world, I often get asked questions from my team "What is happening to our department next year? Are we centralizing to Sydney? Are we moving our head office to Auckland? Are we bringing in new systems? Are we reducing headcount? The list goes on. My answer is usually simple… "There is one thing I can guarantee to you all, things will change tomorrow". I think this quote typifies the market we work in, and over the past few years we have all seen massive change.

Whether this is in the area of new systems, the move to the internet world, the globalization and centralization of operational functions etc, we have generally seen all participants in the market improve efficiency, increase straight through processing, and in most cases this has resulted in a reduction of staff within all our operations.

> *There is one thing I can guarantee to you all, things will change tomorrow.*

For those of you who don't enjoy this rapidly changing environment (and I'm sure most of you do!), I've got some bad news, I think it's going to get worse!

Over the next 2-3 years we will see some major changes in the New Zealand banking and financial sector. Firstly, most banks are developing internet channels for customers to deal, confirm and settle all financial markets products. Couple this with the fast growing trend of internet banking for general services such as payments, account balances and statements, it won't be long before the vast majority of financial services are delivered through this channel. The key for service providers in this field will be to encourage clients onto this channel, then achieve high levels of STP to reduce costs and create the global marketplace.

Secondly, the New Zealand Payments industry is also going to look significantly different in the next few years. Last week the NZD was conditionally accepted into the CLS Basket of currencies, with a tentative go live date of early to mid 2004. Whilst this won't have a direct impact on non banks, what it will drive is a change to the RTGS hours of operation, potentially meaning end of day times for systems such as Austraclear & SCP being pushed out until 11.30pm. In addition it is likely to reduce the volume of transactions through RTGS by up to 80%. How will your operation deal with this?

We are also in uncertain times in regard to the future of Austraclear in New Zealand. I'm sure you are all aware of the status of this situation, so I'm not going to expand on this now, except to say that the size of our market cannot operate efficiently with more than one depository, and we need to work together as an industry to ensure that the co-operation we have shown to date in developing the Austraclear concept, which has worked so successfully over the past 10 years in New Zealand, is not compromised.

Further to the above points, the New Zealand Bankers Association are currently running a program looking at minimizing the impacts of a major trading bank being unable to meet its daily settlement requirements for non-RTGS transactions, such as cheques, direct credits, automatic payments and other forms of electronic transactions. Other countries have imposed rules on non-RTGS transactions, capping the value of payments through these channels. What would your company do if all inward and outward payments over say NZD1 million had to be made through an RTGS switch (i.e. Austraclear or SCP)? How would your customers cope with this?

Finally, all the analysts are saying that New Zealand and Australia are over banked. At some stage, the four pillars must come down in Australia, or another outcome may be large global banks coming into this region and acquiring one or more of the major banks. This will undoubtedly have a major impact in New Zealand, and affect all our operations accordingly.

I guess the bottom line is that we can all continue to look forward to that continuing pace of change tomorrow, and it is up to us all to maximize the benefits that this will bring, both individually and within our companies.

I hope you all enjoy this edition of the FMOA Newsletter, and I look forward to seeing you all at our semi annual conference and AGM in November.

Kind regards,

Peter Thomas

Chairperson

FINANCIAL MARKETS OPERATIONS ASSOCIATION

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Getting More Growth from your Election. By Ivor Biggins

Another political cycle is over and who would have noticed other than Michelle Boag and Bill English's slapping coach? Certainly not the financial markets and those sad people looking for higher economic growth. At least now Colin James can retire from the TV screen and update his haircut.

A crisis of mediocrity led the Government to call an early election (snap would be too sharp a word). Rain, grass growth, diseases offshore, and the level of the kiwi-peso had all prompted a kiwi business cycle upswing over 2001 and into 2002. But good things must come to an end. And, the Government, not silly enough to miss this point, rushed to the polls to cash in on the current 'cow-mad' euphoria to secure another three years.

So what's next? This is where it gets hard. The global winds are blowing. We think they are headwinds but things are getting smelly. The 'eat yourself fit' diet in the US, spurred by ever-lower interest rates, appears to have run its course. The sucking noise can still be heard, but blow-back is not far away.

"The global winds are blowing. We think they are headwinds but things are getting smelly."

Consumer confidence is again faltering and unemployment is on the rise. US firms are also struggling to understand their accounts and quite what they invested in last year. The US Government, meanwhile, has gone shopping adding to the sucking sound at home and blowing noise elsewhere. The bottom line? A 'twin deficit' to the tune of 5% of GDP exists in the US, which means more than US$2bn per day must be attracted from offshore to maintain the current sucking levels.

Growth in the rest of the world is also looking feeble. Japan – forget it for another decade. Europe – on holiday, too hard, doesn't want to try. Australia – only big relative to New Zealand. Latin America – don't look, bad debts and currency crises. It's going to be a long slow grind back to the growth rates of the late-1990s, so don't hold your breath (but block your nose). The US dollar and equity markets will continue to struggle. And the New Zealand export sector will experience tougher times.

Ali G himself, the head of the US Federal Reserve, has called for 'da respect' and kept interest rates on hold. But that alone may not be enough. Remember, this is the man that when asked: how, despite being in your 70s, you managed to marry a young woman? He answered: I told her I was in my 80s.

And for Godzone? We have agreed that we want to create an exceptional economy. And we are - an exceptionally mediocre one. The policy-prozac is as follows: average tax mixed with average education and welfare, should bring us exceptionally average economic outcomes. On average, hopefully no global investors will notice and we can continue our average lives. The average voter will be vindicated.

Alas, what some average people may have missed, or, on average, we all missed, is the below-average starting point New Zealand holds. The place is small, sparsely populated, isolated, and endowed in average resources. The result: a nation of 'jack of alls, kings of none', 'she'll be right Jacks' and 'I'm out of here Jack'.

The Government must wake up to the fact that Godzone's below average starting point needs exceptional economic policies to lift its growth performance, not average ones. Otherwise, the end of the 'golden weather' on the export scene we are experiencing will ensure that this election goes soft.

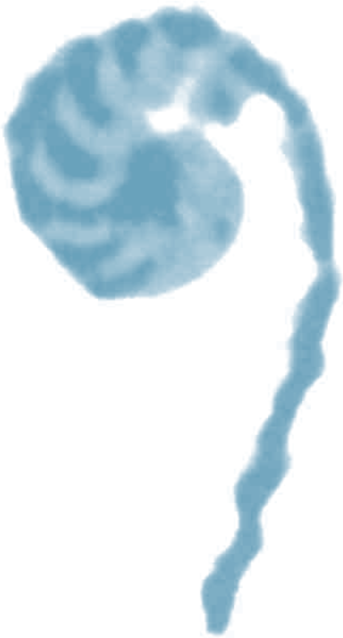
Quiz:

1) **Name an economic issue that was debated during the election?**

2) **Who did Bill English slap in the lead up to the election?**

3) **Name two United Party members?**

4) **Why does Jonah keeping slipping over?**



Thanks to Ivor Biggins for contributing this article.

THOSE WERE THE DAYS… Grant Davis, AXA New Zealand

Markings, scrip, bearer bonds are just some of the common jargon used in our industry nearly a decade ago.

Blue skies and not a breath of wind, and the Kirkcaldie and Stains sale is on. Another typical Wellington day. It would be nice to go for a walk to get away from the desk, however thanks to technology and our friends at Austraclear and Faster what other excuse can we use today.

Ten years ago if it were a great day for a walk the supervisor would deliver the Bearer Bonds and scrip/markings to the different institutions. However once the wind got above 10 knots and the burn time failed to exist then the office junior was given the task.

A usual morning routine on the road would be as follows:

Go to the bank, order the bank cheques that were required to be drawn up. While that happened it was off to the Stock Exchange to process the markings required for the sales. Then back to the bank to pick up the cheques. Finally, deliver the scrip and/or markings and receive the bank cheques for those sales.

It was common practice that the sellers would deliver the scrip, while if you were buying there was no way that you would deliver a bank cheque to their office and pick up the stock. Quite often the messengers from both companies would walk together from one office to another.

Now and again if you were really lucky your counterparty would be happy to swap documentation at the Stock Exchange. (Contra stock – hell no!!!!)

Walking down the street with 10 million dollars in your satchel. I was surprised that more bearer bonds didn't go astray.

Then came the budget cuts and Australia reared its ugly head. The in-word became "Regionalisation"

Wellington - settlement capital of New Zealand went through an enormous change. First there was the northern drift to Auckland. Once that was complete, large companies devoured small companies and it was then the crossing to Australia. The Christmas parties disappeared overnight!!

"*Now and again if you were really lucky your counterparty would be happy to swap documentation at the Stock Exchange. (Contra stock – hell no!!!!)*"

What happened to those days????

Buttle Wilson, Garlick & Co, DFC, O'Connor Grieve, Francis Allison Symes, Fay Richwhite

BNZ Nominees, CS First Boston, Cavill White, Renouf Partners, Doyle Paterson Brown, BZW,

Rural Bank, Perkins Hargreaves, Jarden & Co, Finch Webster, Harcourt Longely, Morrow Benjamin, Frater Williams

Listed above are some of the companies that were devoured in the abovementioned moves.

Cast your minds back, as the FMOA is running a competition for the best anecdotes from years gone by. The winner will receive a gift and the pick of the stories will be published in the next newsletter. So put your fingers to your keyboards and send your entries to info@fmoa.org.nz.

Thanks to Grant Davis for contributing this article.

Making Changes: by Neil Brydges, Macquarie Equities

In recent months the New Zealand Stock Exchange announced a number of proposals which, if implemented, will greatly increase the level of corporate governance associated with the New Zealand market and increase the attractiveness of the market to investors. Corporate governance is topical at the moment in the wake of the Enron and other scandals in the United States. You may ask, “what is Corporate Governance?” In simple terms it is about the management practices, board structures and the personnel policies that companies follow. Below is a brief summary of the proposals.

Listing Rules

The Listing Rules are those that govern the activities of companies listed on the NZSE. The NZSE has proposed changes to its Listing Rules that brings it in line with key aspects of the Securities Markets and Institutions Bill. Of note, it includes the continuous disclosure provisions of the Bill, and an obligation on directors to disclose all trading in relevant securities.

Business Rules

These are the rules and regulations that govern the activities of NZSE Members. The NZSE is making a number of changes to the Business Rules to help promote growth in the market and transparency in the Exchange’s operations. The changes reflect what is required should members of the NZSE resolve to approve a restructuring proposal under the New Zealand Stock Exchange Restructuring Act.

Alternative Market

The exchange has released a discussion document for the new market, dubbed the AX, which it hopes to launch early next year to replace the New Capital Market and unlisted market. There will be two types of listing: high-growth Type A companies, and stable but non-traditional Type B companies (for example, co-operatives and state-owned enterprises). The AX will have shorter trading hours, reduced costs and barriers to entry than on the Main Board.

Changes to NZSE-40 Calculation

The Stock Exchange is proposing change the way its best-known index, the NZSE-40, is calculated. The NZSE weights are based upon Market Capitalisation and do not take into account the liquidity of the shares. The NZSE is considering a ‘free-floating’ index and a shift to a gross, rather than capital, index. The purpose is to better reflect both the most liquid stocks and the high dividend yields in New Zealand by world standards.

In summary, a large number of proposed changes to the way the NZSE, and the companies listed on it, operate have been proposed in recent months. These changes, if implemented, should help to improve corporate governance and make the NZSE a more attractive place to invest, both for locals and offshore investors. Given the small size of the New Zealand market, the NZSE needs to be at the forefront of international best practice to continue to attract offshore investment.