NEW ZEALAND'S MARKET READY TO STEP UP AS DEGREE OF DIFFICULTY GROWS

With a substantial infrastructure requirement looming and a weak economic environment, the New Zealand capital market will have to be on top of its game in the years ahead. Participants at *KangaNews*'s annual women in New Zealand capital markets roundtable discussed the issues at hand and how they believe a constructive ecosystem can be developed.

PARTICIPANTS

- **Lauren Boyle** Associate Director, Debt Capital Markets COMMONWEALTH BANK OF AUSTRALIA
- **Erin Brown** Director, Credit Trading BNZ
- **Emma Clarke** Senior Strategist – Funding, Investment and Markets NEW ZEALAND DEBT MANAGEMENT
- **Fiona Doddrell** Director, Debt Capital Markets and Syndicate WESTPAC
- **Kate Le Quesne** Director of Prudential Policy RESERVE BANK OF NEW ZEALAND
- **Sarah Minhinnick** General Manager, Capital Markets Origination NZX
- **Freya Morrison** Director, Debt Capital Markets ANZ
- **Emma Sutcliffe** Partner CHAPMAN TRIPP

MODERATORS

- **Helen Craig** Head of Operations KANGANEWS
- **Samantha Swiss** Chief Executive KANGANEWS

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> **KATE LE QUESNE** RESERVE BANK OF NEW ZEALAND

RISK FACTORS

Craig New Zealand is officially in recession. What are participants' views on the macroeconomic environment, in particular the state of play for consumers?

DODDRELL It is clear that disinflation has not materialised and that the RBNZ [Reserve Bank of New Zealand]'s ability to ease monetary policy will not be forthcoming in the foreseeable future. While consumers are looking for rate cuts, we do not expect this to happen until 2025.

Retail sales have fallen consistently for a year and a half, which gives insight into the state of play for consumers. People who saved through COVID-19 have held onto their money and are still waiting for the rainy day. However, it is important to acknowledge that around half of New Zealanders live from one pay check to the next and around the same proportion have less than NZ$5,000 (US$3,036) in savings.

BROWN It is important to overlay this with the fact that population growth is not flat – migration is booming. Net, around 140,000 people have come into New Zealand over the past 12 months – and yet we are still in a recession.

SUTCLIFFE These impacts are not evenly spread across the country, either. It is going to hit Wellington in particular, as there is fiscal tightening across the public sector as well as private sector agencies that work closely with government.

BOYLE The cash rate today is 2-2.5 per cent higher than what we view as the neutral rate of 3-3.5 per cent. While not as high as it was in the lead up to the financial crisis in 2008 in outright terms, the level of the OCR [official cash rate] is as restrictive on the economy.

LE QUESNE It may be useful to add some comments from the RBNZ February monetary policy statement. The economy has been evolving broadly as we would expect. Inflation expectations are falling, however inflation is still too high and remains outside the target band, meaning we will require restrictive settings for some time.

A range of economic factors feed into this thinking. There are restrictive monetary policy settings and lower global growth expectations in general, so aggregate demand is slowing to match the supply side – which is a positive. Weaker demand growth means capacity constraints are easing somewhat.

This is offset by high population growth, which is supporting aggregate spending generally. This is coming through in areas such as upward pressure on rents. Globally, economic growth remains below trend in most advanced economies and ongoing factors point to restrictive monetary policy settings for some time.

From a financial stability standpoint, the New Zealand banking system remains well placed to handle potential shocks and a downturn in the economy.

Craig Philip Lowe, until recently the governor of the Reserve Bank of Australia, said this year that he believes inflation will not return to pre-COVID-19 levels. What are the risks to inflation?

BOYLE Housing is still a risk. With strong migration, most new residents opt to rent. House price inflation has come through many different avenues and can also lead to additional spending – for example, someone buying a house might need to furnish it – though this is happening less in the current environment.

LE QUESNE Other risks to inflation include geopolitical risks that can come through in the form of things like higher oil prices and shipping costs. Another long-term factor is climate risks in the form of more frequent and severe weather events. These can be a type of supply shock that adds further risk to the inflationary environment.

> "Actions that influence bank balance sheet behaviour have a knock-on effect on the broader investor base. Incorporating climate risk into risk weights could have the same repercussions, market-wide."
>
> **ERIN BROWN** BNZ

LIQUIDITY STILL UNDER THE MICROSCOPE

Trading activity has been a focus of attention in the New Zealand market in recent times, not least because of the reserve bank's liquidity policy review. There are still plenty of challenges but conditions appear to be improving.

CRAIG How has the New Zealand secondary market been performing in recent months? Is liquidity across asset classes notably better, worse or improving in 2024 and are borrowers putting the same level of scrutiny on liquidity and turnover as they are in Australia?

■ **DODDRELL** Looking with a debt capital market lens, borrowers in Australia are scrutinising the secondary market for a number of reasons, including to ensure their primary bonds perform positively post-pricing. In addition, and in advance of any new primary issue, Australian borrowers also understand that secondary traders provide a valuable function by facilitating investors selling risk or generating cash to buy the new line. I believe New Zealand will start to see a similar focus from the corporate sector.

There is also nuance to the story. When an issuer comes to market a bank trader may buy the short lines to demonstrate that there is a bid in order to encourage investors into the longer dates. It may not always be visible but this kind of action in secondary strongly supports primary.

Westpac's New Zealand head of trading, Alastair Wait, is moving with the bank to London to trade Australian and New Zealand dollar debt. Sending a very senior employee for this demonstrates how important we think secondary trading is to market function.

■ **BOYLE** If secondary marks are stale or nonexistent, it is very hard to determine the pricing range for a new issue and it is challenging to represent transparency in market pricing to a potential issuer. However, over the past year I have been receiving feedback that New Zealand has significantly improved in this regard.

■ **BROWN** An important aspect is ensuring trading books can access stock. No bonds limits trading activity. We want bonds to land with end investors – but these investors also need liquidity at times.

If trading books are receiving allocations in primary they can facilitate secondary flow in the new bond, which is usually the current bond of choice for investors. This flow of buying and selling generates more activity. The question we receive increasingly frequently from investors is 'how much liquidity are you providing in the bond?'

■ **DODDRELL** This message needs to be heard by issuers in order that they can understand that they also have a vested interest in supporting market functioning. Liquidity in the New Zealand market is fickle at best – even our most liquid issuers, like New Zealand Debt Management, will go days without trading in its paper. If this is important to Australian participants, it should be more important in New Zealand because it is an even smaller market.

■ **BROWN** The domestic corporate market is small and challenging from a liquidity perspective. As a price maker, my view is that it is beneficial to have as many peers as possible pricing bonds. Doing so provides more clarity for investors on price and increases turnover.

The depth of price making is very important and, as Fiona says, making sure issuers are aware and support a well-functioning secondary market is important too.

■ **MORRISON** Secondary market liquidity has increased in recent months on the back of new corporate bond supply. The bid from retail investors remains strong, which is creating some performance in spreads.

■ **MINHINNICK** In listed markets, January and February were soft, which is not unexpected given the holiday season and the economic conditions. However, there was a pick-up in March. As inflation and interest rates begin to normalise, one would expect equity market activity to increase. The question is how long it takes for these underlying fundamentals to change.

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LAUREN BOYLE COMMONWEALTH BANK OF AUSTRALIA

■ **BOYLE** The capacity of the economy reduced through COVID-19 and the subsequent build-up in cash savings in the household sector was a lot for a smaller economy to handle. This phenomenon has resulted in a protracted period of higher inflation.

■ **LE QUESNE** There were certainly different dynamics at play during this period, some of which have been structural. It is therefore right to question whether the economy can function as before.

■ **DODDRELL** COVID-19 was such a unique event that historic comparisons don't exist. There is still a lot to unpack regarding the impact of the health pandemic in New Zealand and globally, all of which adds to the complexity of what we are facing at the moment.

■ **MORRISON** Philip Lowe has also recently spoken about the impact of the low inflation psychology that existed pre-COVID-19. The positive supply-side shocks from China and entrance of global retailers in the Australian market helped keep prices low pre-COVID-19. This mindset has shifted since the pandemic and we are in an environment in which businesses have to put up their prices to keep operating as inflation pressure hasn't dissipated.

DODDRELL The problem lies in the widespread anticipation of inflation. It has become deeply ingrained in people's minds, leading them to simply anticipate price increases.

MORRISON The question people are most interested in is how much prices are going up by, rather than why they are increasing.

Craig What are the key highlights from the latest earnings season for NZX-listed corporates?

MINHINNICK Earnings season results were mixed, reflecting the challenging economic conditions, sensitivity to interest rates and higher inflation. Expectations were low, with some analysts saying they were the lowest since the global financial crisis. New Zealand companies most exposed to the domestic economy appeared to be the ones most affected.

SUSTAINABLE DEBT

Swiss How does the reserve bank's credit risk weights regime incorporate climate-related risks within its general approach? Is it using any other tools to help entities manage their obligations?

LE QUESNE As a starting point, the purpose of our work in promoting financial stability is to ensure the economic prosperity and wellbeing of New Zealanders. Therefore, we want to ensure that entities are managing their risks by holding an appropriate level of capital. This will help ensure we have a resilient system.

By way of background, we incorporate risk weights into our capital framework, and this drives how much capital a bank must hold to account for the credit risks in its assets. We were being asked lots of questions about the climate component of these risks.

The risk weights must be driven by data covering the credit risks of the assets to the lending institution and they must be used explicitly for this purpose only – in other words, they can't be used to drive varying policy agendas such as promoting different types of lending.

We recently circulated a bulletin article that sets out how the RBNZ is thinking about climate-related risks within the capital framework. We set out that within the two approaches for risk weights – internal ratings-based and standardised – we see room for incorporation of climate-related risks, because we want both to reflect credit risk over the life of the asset.

To do this, we need an evidence-based approach and good data. At the moment, one could say the data is patchy at best. But because climate is an emerging risk and more entities are disclosing climate-related risks, we are confident the data will improve quickly. This will support the evidence base so banks can more fully incorporate climate-related risks into their risk-weighting approaches.

We know that, when left unmanaged, climate-related risks can have an impact on financial stability, and risk weights and the capital framework are a component of a bigger picture. As such, we have a number of other initiatives to help businesses identify climate risks.

For example, we incorporate these within our supervisory conversations, we talk to regulated entities about how they are identifying, managing and monitoring these risks, and we have been consulting on climate guidance for regulated entities. We also run climate stress testing and we bring together thought leaders in the field.

Swiss Is this the first time the reserve bank has made the concept of climate-related risk so prominent in its financial risk analysis?

LE QUESNE We have been working on it for a while. Guidance on managing climate-related risks has been the subject of consultations over the past year. Our *Climate Changed* report, which focuses on our multistrand approach to climate change risks, was published in 2021.

The reason for the recent bulletin is that risk weights and the capital framework are of interest to market participants and are an important driver of behaviour. To this end, we wanted to set out how we think about risk weights with respect to climate change.

Swiss Is it possible that climate-based risk weighting could encourage or incentivise funding approaches like sustainability-linked loans (SLLs) by virtue of them being more efficient on banks' balance sheets?

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> **SARAH MINHINNICK** NZX

■ **BROWN** From a prudential asset perspective, bank balance sheets are large investors in the New Zealand fixed income market and any changes to risk weightings potentially have a material impact on how these investors structure their portfolios. Incorporating climate risk into risk weights would not only affect the behaviour and investment decisions of these investors but also has flow-on effects for the wider market via improved liquidity and volumes outstanding.

■ **DODDRELL** A couple of years ago we were talking about how to incorporate climate risk into assessing credit ratings. The integration of climate risk into banks' risk weighting will likely have a number of effects on the market, including increased market awareness and, as Erin highlighted, possible changes in investment behaviour.

■ **LE QUESNE** Hand on heart, it is tricky to estimate credit risk as a result of climate-related risk in 20 years' time. But our frameworks provide some clues about the future – and data availability is increasing over time.

■ **BROWN** If we take the recent liquidity policy review (LPR) as an example, there were changes in behaviour across market participants as soon as the RBNZ released the second consultation paper. This demonstrates that actions that influence bank balance sheet behaviour have a knock-on effect on the broader investor base. Incorporating climate risk into risk weights could have the same repercussions, market-wide.

■ **SUTCLIFFE** The point about risk weights being only one component is important. One of the aspects identified by the RBNZ in the bulletin was creeping, long-term climate risk that is not necessarily factored into risk weights for shorter-term assets.

Organisations are currently grappling with a range of measures focused on climate risk: stress testing, risk weights and mandatory climate-related disclosures. These measures do not fit together in a cohesive way. Instead, they are all operating independently, and we need to put more thought into how to integrate them.

■ **MORRISON** There will be a raft of data emerging from companies through climate-related disclosures. Whether the data are completely accurate from the outset is less certain, but at least we will get more data points and these will evolve over time.

Swiss Australia's mandatory climate reporting legislation contains a moratorium for issuers. Is this at least a good place from which to start – particularly if it provides issuers with some comfort about the risks of greenwashing and climate litigation?

■ **SUTCLIFFE** New Zealand was the first to enshrine mandatory climate reporting, but we do not have a moratorium.

■ **MORRISON** Yes, but businesses in New Zealand were provided with quite in-depth information about how regulation would work.

■ **DODDRELL** We are observing concerns about potential greenwashing litigation in Australia, and these concerns are influencing discussion with our clients. There is increased scrutiny on environmental claims and on ensuring that sustainable practices are transparent and verifiable.

■ **SUTCLIFFE** Our climate disclosure regime is built into the *Financial Markets Conduct Act*, and the full liability regime applies in the same way it would to financial statements and securities offer documents. This is particularly interesting given the differences in language, content and purpose between climate-related disclosures and financial statements.

There has been some climate litigation in New Zealand, however to date it has been driven by private plaintiffs rather than a regulator like the Australian Securities and Investments Commission. Even so, both the Financial Markets Authority (FMA) and the Commerce Commission are looking at greenwashing issues very closely, not just at banks but across the entire New Zealand market.

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FIONA DODDRELL WESTPAC

Swiss The Australian Office of Financial Management (AOFM) has revealed plans to execute its debut green bond before the end of June 2024. New Zealand Debt Management (NZDM) was an earlier mover, issuing its inaugural green bond in November 2022. What insights from the preparation and execution process can NZDM share?

■ **CLARKE** We received very positive feedback on our framework and we had several conversations with the AOFM as it was creating its own document. It was important to both the AOFM and NZDM to create high-quality, credible and enduring frameworks. So it is no surprise to us that, side by side, the two frameworks bear some similarities.

NZDM is very supportive of sustainable finance in New Zealand and the benefits it brings. Establishing and maintaining a green-bond framework is a substantial undertaking. It is helpful that the structures supporting the development and issuance of sustainable finance products have evolved significantly over time, providing issuers with confidence and helping them to determine what is an eligible green or sustainable asset.

Swiss Have you found this tricky in the absence of a formal taxonomy?

■ **CLARKE** The short answer is no. We looked to international best practice to develop our framework. Given New Zealand is a relatively small issuer and 60 per cent of New Zealand government bonds are held offshore, we are conscious of ensuring our framework incorporates criteria that are easily understood by our global investor base, which invests in a range of different markets.

A proliferation of taxonomies is being developed across the world. Although we are monitoring development of New Zealand's taxonomy and will assess how it relates to our green-bond programme, we expect international investors will continue to be interested in how our programme relates to other taxonomies, such as the EU taxonomy.

■ **DODDRELL** The climate disclosure regime in New Zealand is principle-based and outcome-focused. The External Reporting Board aims to help businesses manage change, rather than simply reporting the numbers.

It is positive that we are adhering to New Zealand's standards for reporting, but we need to understand how organisations will handle reporting to and aligning with global standards, and whether they will report to these and local ones.

Swiss New Zealand is approaching the seven-year anniversary of its first green bond, which was issued in July 2017 by International Finance Corporation. How would participants summarise the development of the market?

■ **BOYLE** It is pleasing to see innovation, for example through the New Zealand Local Government Funding Agency (LGFA)'s Sustainable Financing Bond. Proceeds from these bonds innovatively fund a comingled asset pool for use-of-proceeds and sustainability-linked type loans, although the transaction does not claim direct alignment with the Asia Pacific Loan Market Association and International Capital Markets Association sustainable finance market principles.

■ **DODDRELL** Volumes for sustainable debt are moving in the right direction, which demonstrates the progress the market has made to date.

Obviously NZDM's green bond was incredibly helpful for the market and for New Zealand Inc, as it provides an excellent and broad framework. One only needs to look at the enormous amount of work NZDM undertook on biodiversity, for example.

While all of this is positive, we need to keep evolving and innovating, with the LGFA Sustainable Financing Bond a good example. Some organisations globally have taken a voluntary approach to sustainability goals, decisions and strategies, but a real fear of litigation is making some issuers sit on their hands.

One positive sign of market development is the extent to which the conversations have evolved – we are no longer discussing why to issue a green bond or the potential basis points gained. Maybe of greater significance is that these conversations have moved from the sustainability team to the boardroom.

■ **MINHINNICK** We've seen consistent growth in listed green bonds on the NZDX. Right now, bonds with some kind of ESG [environmental, social and governance] designation – be it a green, sustainable or wellbeing label – comprise around 29 per cent of all listed bonds. This has risen from 23 per cent of listed bonds in 2019 and we know other issuers are considering adding to the mix.

■ **MORRISON** At the moment, New Zealand has seen more development in the SLL market than the sustainability-linked

THE LOOMING THREAT OF CYBER RISK

A plague of cyber attacks on major corporate and financial sector entities has brought the issue into focus in Australia in recent years. New Zealand market participants know their geographic remoteness does not provide immunity from this growing threat.

CRAIG The Reserve Bank of New Zealand recently concluded a consultation into cyber resilience, noting that as a prudential regulator it is important for the reserve bank to understand the nature of the threats to regulated entities and their abilities to respond. What were the main findings and conclusions?

■ **LE QUESNE** This is something we have recognised over the last few years as an increasing and quickly evolving risk to New Zealand's regulated entities, and we put in place a three-pronged plan to help ensure the resilience of these entities.

The first part was our cyber guidance for regulated entities, which was finalised and published in 2021. Second, we have undertaken a range of work with our peer regulators in Australia and New Zealand, as well as with other agencies, on readiness of protocols.

Finally, we recently concluded a consultation on cyber data collection within regulated entities, to survey and understand how these entities are managing cyber risk. The findings of the consultation have been well received. Entities are very engaged with this issue and it is clear that managing risks is important.

This is a risk we are very attuned to. We are working closely with our colleagues at the Council of Financial Regulators, recognising that it is an issue that cuts across borders and is tricky to manage given the pace at which it is evolving.

CRAIG Did you conclude that organisations are ready and is the risk systemic or idiosyncratic?

■ **LE QUESNE** We help entities to manage risk because we are thinking about the risks to the financial system as a whole. Operational interruption or risks to individual entities can very easily become systemic.

We are observing a desire from many parties to work collaboratively on this challenge to combine the – sometimes – limited expertise and resources. Particularly in a small country like New Zealand, even if it affects them in different ways many organisations are facing similar risks.

■ **DODDRELL** Cyber risk does not discriminate between the type of business or user function. A company's approach to cyber security, including the measures it has put in place, has been raised repeatedly by investors on issuer roadshows in the last year.

■ **SUTCLIFFE** Many firms in Australia have been the victims of quite serious cyber incidents. It is a risk we think about when we are drafting documentation and setting up payments. Our clients are seeking advice on cyber issues, but this is often after a cyber attack when they are in crisis management mode.

CRAIG Is the potential scale of the risk coming from cyber attacks sufficiently understood in New Zealand, including by participants in the local capital market?

■ **BOYLE** It is starting to be.

■ **DODDRELL** A number of cases have been very visible through the media. Within the debt capital market area at Westpac – and we are only a relatively small part of the business – general operations have changed to protect our information and data.

■ **BOYLE** It is becoming more of a focus for investors as well, as they analyse and monitor the potential cyber risks to businesses as part of their ongoing due diligence.

■ **SUTCLIFFE** The technology is incredibly sophisticated. What this means is that we understand the risk in a conceptual sense, but it is difficult for those who are not IT experts to be across all the nuts and bolts, or to fully appreciate the potential risks and consequences.

■ **LE QUESNE** This heightened awareness is good to see. It takes a village to manage what is a very complex and evolving risk.

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EMMA SUTCLIFFE CHAPMAN TRIPP

bond (SLB) market. It's disappointing that the local SLB market hasn't evolved beyond one transaction – but hopefully this will change over time.

■ **SUTCLIFFE** The New Zealand market would benefit greatly from a more accommodating approach to disclosure requirements, enabling existing listed issuers to issue green or sustainable bonds on a same-class basis. It is great to see the FMA taking steps toward providing a class exemption that would tackle this issue.

■ **BOYLE** Sustainability continues to be a key theme for issuers. Most sustainable finance issuance has been concentrated toward green use of proceeds, where the proceeds are being directly used to fund green assets or projects. This allocation has been primarily for climate mitigation activities, such as renewable energy or green buildings, which all help climate mitigation and assist in meeting the sustainable goals of the Paris Agreement. Sustainability-linked issuance also helps to drive the achievement of the Paris goals for climate mitigation, as most sustainability-linked issuance is underpinned by an emissions reduction target.

Part of the Paris Agreement, though, is to also adapt to the impacts of climate change. The sustainable finance market hasn't traditionally focused on climate adaptation, but in the last 12 months the discourse has greatly increased.

In 2023, Commonwealth Bank of Australia acted as a joint lead manager on Asian Infrastructure Investment Bank's Climate Adaptation Bond, which was the first bond in Australia solely dedicated to climate adaptation. We have also seen allocation toward climate adaptation with other government issuers such as NZDM and LGFA.

SUTCLIFFE Around 80 per cent of New Zealand exports by value are to countries with mandatory climate-related disclosures either already in place or due in the future. The next phase will focus on trade measures for higher-intensity industries. Our exporters could potentially be exposed to carbon adjustment charges and other trade measures relating to climate, particularly in respect of the UK, EU and Australia.

Swiss Does this mean New Zealand moving toward a 'post label' world where capital providers assess entities rather than instruments?

LE QUESNE Finance can play a crucial role in the transition to a net zero economy. It is important for this group of leaders to remember that the market can evolve quickly from a focus on labelled bonds to more of a focus on getting under the hood at issuer level, based on climate-related disclosures.

Instruments like SLLs are a positive development as they support traditionally high-emitting companies to finance their transition. Nowadays, investors seem to be looking for more than a label. Transitionary finance mechanisms are very positive for market evolution.

DODDRELL There has been a very interesting reaction to Japan's climate transition bond. Many industries in New Zealand require transition and when sovereigns issue such bonds it offers guidance for issuers as well as the broader market.

SUTCLIFFE New Zealand's green-bond market has been dominated by public-sector issuers. However, there is a huge opportunity for the private sector to issue green bonds or other instruments with ESG features to contribute to the funding required to meet New Zealand's infrastructure deficit.

Swiss Can transition finance play more of a role in the private sector? It is one thing to issue a green bond but another to finance more heavily emitting companies.

MORRISON This is right. Green bonds have a purpose, but they are limited by their use of proceeds and there is only so much that can be financed via this format. For potential issuers, there is a fine balance between signing up to sustainability targets and being seen as an emitter or being associated with greenwashing.

Prior to COVID-19, there was definitely a view that emitters couldn't take this path. Since then, however, some emitters have looked to raise funds via sustainability-linked formats. This is forging a path for others in the loans space.

DE&I UPDATE

Craig This roundtable always includes an update on diversity, equity and inclusion (DE&I) in New Zealand. How would participants assess developments in this area over the past 12 months, and in general?

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>
> **FREYA MORRISON** ANZ

DODDRELL It is pleasing to see the number of new people joining our industry. People that are passionate about climate change and making a difference are thinking about a career in financial markets because together we are trying to formulate a strategy so New Zealand and the world can be a better place for future generations.

Sustainability has traditionally been dominated by women. As we are all aware, having sustainability and the financial aspects of an organisation at the same table has benefits, including making trading floors more diverse.

MORRISON We are also starting to derive benefits from going into schools and talking to students about financial markets. The sooner we educate young people, particularly girls, in our sector and the options available to them, the more likely we will be to have a more diverse workforce.

Craig There is a major talent shortage for employers globally, with average job tenure on the decline even prior to the pandemic-induced 'great resignation' becoming a hurdle for employers more recently. To what extent are organisations investing in employee attraction and retention? Which is most important?

MORRISON Our industry has traditionally been used to employees that stay for much of their career. The younger generations have a different approach, moving more frequently between roles and industries.

As new generations come through, the need to focus on retention won't be as much of a priority – because it is already happening. This said, in New Zealand it remains challenging to retain young staff as they typically want to travel.

BROWN We tend to find that being a small country at the bottom of the world means we hire graduates who then go off to experience living and working offshore or within other industries in New Zealand – and then they might come back. The retention piece is relevant here, as we want and need these employees to return.

Culture plays a big role, so we need to offer an inclusive environment where opinions can be heard and respected, and everyone has a seat at the table.

Craig As a traditionally very male-dominated environment, how has trading evolved over the last decade?

BROWN It is relatively easy to think that very little has changed but if I stand back to reflect, there has been a positive evolution. While it can feel like small steps, it is steps in the right direction. The evolution lies in having the flexibility to provide diverse opportunities in different environments where women can thrive and end up in senior positions.

Having said this, the sector is still very male-dominated and our focus needs to be not only on the retention challenge but also on attracting female talent. The number of female university students of finance or economics, or even that have an interest in finance or economics, remains limited – which means the pool from which to attract talent into the junior ranks is small.

DODDRELL I have long believed that there hasn't been sufficient representation of women considering a career in finance. My goal is to reach a stage where half the CVs we receive are from women. In order to achieve this, I started visiting universities and schools. It was interesting to see that on careers days there might be 10 times the number of girls interested in a legal career than one in banking or finance.

BROWN The positive side is that the legal profession has itself undergone a significant change: it has around 50 per cent women in the workforce.

SUTCLIFFE That's right. We are different from the finance sector because women have dominated law student numbers for many years – and gender diversity in law reflects this.

Promotions to partner level at Chapman Tripp during the last 10 years have been split equally between men and women, which means our total partnership is currently 60 per cent male. We do not use quotas.

DODDRELL It is pleasing to see strong women studying law at university leading to a robust talent pool in that sector, and I am compelled to uncover a solution for financial markets. I have loved my career and I firmly believe women can make significant contribution to this industry.

We are nowhere near 50 per cent women on the trading floor. We need to continue to work collectively on a number of elements: more CVs from women, ensuring we have strong female role models in visible positions and, as Erin mentioned, creating a culture on the floor that women can see themselves being a part of.

LE QUESNE On the point about culture, COVID-19 certainly changed the workforce, and thinking about the employee value proposition in a holistic sense has been important. This largely comes down to organisations understanding that employee needs vary according to the individual.

Organisations need to have the wellbeing of individuals at their heart. Compared with 10 years ago, there is greater focus on respect, inclusion and integrity as well as on what people want. This might be flexibility, career progression or variety through role or geography. Companies need to pay careful attention to how they manage their talent if they want to retain it.

■ **MORRISON** The point is there isn't a one-size-fits-all approach.

■ **DODDRELL** To Kate's point, organisations need to adapt because young people will opt for organisations that align with their desired culture and select industries that are more adept at offering what they seek.

Craig How does gender pay gap reporting play into these decisions?

■ **MORRISON** This type of data is very valuable information to prospective employees when considering the opportunities available to them.

■ **LE QUESNE** Some of the data, particularly data that has come out of Australia, is very sobering. It is probably uncomfortable for some, but this is not a bad thing.

CAPITAL MARKET UPDATE

Craig Total bond supply in New Zealand was the second-highest on record in 2023 with NZ$17.6 billion issued, surpassed only by 2022 at NZ$20 billion. But it is probably fair to say the New Zealand market has been solid while Australia has enjoyed an issuance boom. How would market participants assess performance at the start of 2024?

■ **BROWN** Australia has clearly had a strong start to the issuance year. Sovereign issuance has been relatively low by global standards, and this has left capacity for other issuers – for example supranational, sovereign and agency (SSA) issuers and others – to be active. For these names, pricing is also attractive relative to government bonds. This means investors are observing a pick-up on a relative basis to government bonds as well as the opportunity to get name diversification into their portfolios.

In New Zealand, government bond issuance has been the focus of investor attention and this has limited the capacity for some other issuers to come to market. The new NZDM 2054 syndication was a very solid transaction with robust volume and a broad investor base. But we would usually expect decent volume of SSA issuance in the first two months of the calendar year, and in 2024 there has been one transaction. Relative value also plays into this decision-making, but the demand piece has been missing.

Global issuers have access to a range of markets. They make it clear that New Zealand remains relevant and important, but they are also aware that periods of higher and lower issuance volume are part of the cycle. At the present time, it feels like we are in the part of the cycle where issuance, outside of the sovereign, is limited.

■ **BOYLE** We are observing very robust demand at longer tenors, though. For example, Spark issued at 7.5 years. The inversion in the yield curve is less than it has been for some time, which helped, and the 2031 maturity provided some differentiation for investors. This is a very good development for our capital market as investors have been more focused on mid-curve issuance for a long time.

To Erin's point about the lack of SSA issuance, part of the reason is the level of the cross-currency basis swap: on an all-in basis, this is currently expensive relative to US dollars.

"Although we are monitoring development of New Zealand's taxonomy and will assess how it relates to our green-bond programme, we expect international investors will continue to be interested in how our programme relates to other taxonomies."

EMMA CLARKE NEW ZEALAND DEBT MANAGEMENT

Swiss Is the basis swap wider because of a lack of New Zealand bank offshore issuance?

■ **BOYLE** The majors have issued around NZ$4 billion equivalent in offshore markets in 2024. However, the foreign currency offsetting the reserve bank is reportedly doing in US dollars contrasts with this, so the basis swap hasn't been as favourable as it often is at the start of this year.

Craig NZDM's curve-extending 2054 bond issued in February garnered not only the sovereign's largest orderbook but also its greatest cover ratio for a syndicated transaction. What are NZDM's conclusions from this deal?

■ **CLARKE** We were very pleased with the outcome. We wanted to print early in the calendar year as we have more syndicated issues to do before the end of our fiscal year in June. We were also able to print our maximum target volume of NZ$4 billion. This is, notably, NZ$1 billion more than we printed in our last curve-extending syndication – the 2051 sovereign bond introduced in 2021.

We capped the recent syndication, enabling us to balance our objectives of making good headway with our funding task at a reasonable funding cost while at the same time ensuring our investors had a positive experience.

The market was supportive of establishing a new 30-year point on the curve with good, liquid volume. However, to Erin's point about competing supply, we were conscious of the market's capacity to digest this volume of risk.

The spread to the 2051 line has widened marginally since pricing, but at the same time yields have fallen so investors are compensated for the transaction.

At more than NZ$19 billion, the book was indeed our largest to date and we were pleasantly surprised by this outcome. The previous records were set during the pandemic and for shorter-dated – 2027 and 2028 – maturities. We were also pleased to see that around 75 per cent of the bonds were placed with offshore investors.

Craig Were offshore accounts motivated largely by yield?

■ **BROWN** Outright yields are a driving force for investors and with an issue yield of more than 5 per cent – it was 5.0925 per cent – the deal met the threshold for a lot of offshore investors. We are observing more investors looking at outright yields, in the government bond space and in credit.

■ **CLARKE** To put this into context, when we issued the 2051 by syndication, investors were talking about wanting the yield to be more than 3 per cent.

Craig Has clarity around the LPR also contributed to a positive tone for demand dynamics?

■ **LE QUESNE** Regulatory processes take time and although we heard through feedback that there was a lot of uncertainty, which made it challenging for the market during the LPR process, we wanted to ensure we landed on the right outcome.

We have heard subsequently that there is broad comfort with the decisions made and at the very least that there is clarity with the operating environment going forward. It has only been a very short period of time so it is probably too soon to say with any confidence that these decisions have contributed to market volume in 2024, but we have observed a reasonably positive start to the year for issuance.

■ **BOYLE** The certainty provided with the 20-25 per cent cap has been useful for issuers. There is also certainty for balance sheets from the perspective of knowing how much, for example, tier-one SSA issuance they might be able to buy over the longer term – so when new issues come to market balance sheets can be comfortable submitting bids for seven-year transactions without the risk of potentially needing to sell them to meet policy requirements in future.

Also suggesting clarity based on the announcement, two SSA issuers came to the Kauri market after the reserve bank's update.

■ **BROWN** The secondary market echoed the response from the primary market. Until market participants received clarity, they had been looking primarily for shorter-dated paper. They were willing to look out to three years, but there was uncertainty about how assets would be treated after this point.

What we are now experiencing is demand from balance sheets returning to previous norms – out to around five years – and more comfort from investors generally out to seven years.

It is hard to know how much of this phenomenon is directly attributable to the LPR and how much to the rates environment, broader economic factors and market conditions. But it all goes hand in hand in supporting the market to resume its regular function. •

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KangaNews is keen to promote industry diversity via representation on its event agendas. If you have any suggestions for appropriate speakers for this or any other KangaNews event, please contact Helen Craig via **hcraig@kanganews.com**

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INFINZ YOUNG WOMEN IN FINANCE

The Young Women in Finance (YWF) group comes under the umbrella of the Institute of Finance Professionals New Zealand (INFINZ), an individual member-based industry body for professionals in finance roles and those working in New Zealand's financial-sector ecosystem. INFINZ has more than 2,200 members nationally.

INFINZ provides unrivalled practitioner-focused education, actionable insights, and networking and mentoring opportunities for financial services professionals. This enables them to accelerate their careers and business development, and to stay informed of the latest industry trends.

INFINZ individual memberships are divided into age groups: general for members over 40 years, the Emerging Leaders Group (ELG), Young Finance Professionals (YFPs) and YWF. The INFINZ YWF group strives to strengthen the pipeline of women leaders in the finance sector. YWF believes the best way to break the glass ceiling – and ensure it stays broken – is through collaboration and support, rather than competition, between women.

YWF aims to play its part in the changing environment by promoting a collegiate mentality and platform for young women to learn from experienced women in the finance sector. In the long term, by encouraging more women to take their seat at the table, the finance sector will benefit from increased diversity in perspectives.

YWF was established in Auckland in 2015 as a networking mechanism for young women working in finance-related roles. In March 2018, YWF entered into a partnership with INFINZ, providing those joining INFINZ with access to all the benefits available to INFINZ's YFP members – such as networking and events, including those tailored to their professional development needs. In 2019, a YWF group was established in Wellington and both groups have since seen steady growth in membership.

Further to the under-40 age groups, a growing number of more senior women have become involved as members and board members. Their feedback has been that they have been encouraged by what INFINZ is trying to achieve.

The two YWF groups are organised by separate committee groups and include women under 40, but primarily under 30, years of age.

Benefits include:

- Four events in both cities throughout the year.
- Discounted or free access to the annual INFINZ conference and all other INFINZ events.
- CPD hours for attendees' chosen profession.
- Free online access to resources via the member portal.
- Coffee groups.
- Networking with senior professionals and peers.
- Mentoring opportunities with mentors from ELG (INFINZ members in their 30s) who were mentored by senior members the previous year.
- The benefits of the INFINZ young professionals group offering.

Industry partners

The New Zealand Financial Markets Association (NZFMA) has been the foundation sponsor of the YWF national group since the group joined with INFINZ in 2018. NZFMA is the professional body for wholesale and institutional banking in New Zealand.

Events

Across the membership age groups, INFINZ holds the largest range of events in the financial services sector: more than 50 events nationally. The YWF group traditionally holds four events in Auckland and Wellington annually, focused on topics tailored for young women in finance-related roles who wish to engage and connect. The YWF group also has access to the other INFINZ group events in both regions.

Included in the events so far this year, the YWFs held two sold-out International Women's Day breakfasts featuring Alison Gerry in Auckland and Cecilia Tarrant in Wellington.

Board members

Event topics and content are developed with the assistance of a committee assigned to each group, made up of its own members. The YWF committees in Auckland and Wellington each have six members. In addition, the Auckland YWF chair has a place as an observer on the INFINZ senior board.

FOR FURTHER INFORMATION PLEASE CONTACT:

Jim McElwain, Executive Director, INFINZ
exec@infinz.com • +64 21 632 047
Zenas Kim Auckland Chair, YWF • zenas.kim@fma.govt.nz
Madhura Banerjee Wellington Co-Chair, YWF
• madhura.banerjee@rbnz.govt.nz
Laura Matthews, Wellington Co-Chair, YWF
• laura.matthews@clarecapital.co.nz
https://www.linkedin.com/company/ywf
ywif.nz@gmail.com