CROWN OWNERSHIP MONITORING UNIT

Treasury Report: Mixed Ownership Model - Foreign Ownership Restrictions

Date:		Report No:	

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	**Note** this report	None
Minister for State Owned Enterprises (Hon Tony Ryall)	**Note** this report	None
Associate Minister of Finance (Hon Steven Joyce)	**Note** this report	None

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Dieter Katz	Principal Advisor, Commercial Transactions Group	471 5264 (wk)	[Withheld under s9(2)(a)]	✓
Andrew Blazey	Manager, Commercial Transactions Group	917 6985 (wk)		

Minister of Finance's Office Actions (if required)

None.

Minister for State Owned Enterprises Actions (if required)

None.

Enclosure: **No**

SE-1-3

Treasury Report: Mixed Ownership Model - Foreign Ownership Restrictions

Executive Summary

This report advises you on options to restrict foreign ownership in order to guarantee the achievement of the Government's test that it "would have to be confident of widespread and substantial NZ ownership".

The recent Treasury report T2011/1578 suggested that retail investor financial incentives may not be necessary to achieve the Government's objective of widespread and substantial NZ ownership. However, this will need to be tested further in the preparation phase for each Programme IPO, based on prevailing market conditions.

There is a trade-off between any desire to restrict foreign ownership and price: Some allocation to foreign institutional investors is considered desirable to maintain reasonable price tension in the price setting process. Also, depending on the extent of any restrictions there could also be insufficient demand for the whole MOM program if foreigners were restricted from participation, or invited to participate and subsequently not allocated. An overly punitive allocation to foreign investors increases the risk they may not engage on subsequent Programme IPOs on the assumption they will not receive a meaningful allocation.

Foreign ownership can be controlled at the time of the IPO, at which time the Government has complete discretion as to who to allocate shares to, and it can be controlled into the future through provisions in the company's constitution or legislation. The main options for the latter are:

- require the primary listing of shares to be in New Zealand
- require the head office to be in New Zealand
- require a portion of directors to be New Zealand citizens
- limit individual foreign ownership to a specified percentage of the company
- place voting restrictions on shares owned by foreigners
- provide for separate share registers for domestic and foreign owners (A and B shares), and

[Withheld under s9(2)(g)(i)] [redacted]

The choice of restriction depends on the nature of the concern with foreign ownership. The types of concerns identified in this report do not stand up to scrutiny, but there may nevertheless be a public perception that foreign ownership is detrimental.

There are no restrictions in NZ's international obligations on the Government's ability to impose ownership restrictions.

Further work is required to determine the likely extent of domestic interest in the MOM company shares, and therefore the potential need for ownership incentives or restrictions.

We propose to report to you on this issue at the time that we consider the content of any legislation, and again nearer the time of the first IPO when adjustments to the company constitution are considered [check]. In the meantime, we recommend that the Government maintain maximum flexibility, and in so doing, minimise execution risk for the Programme IPOs.

Recommended Action

We recommend that you:

a **note** the options for restricting foreign ownership

b **note** that it is possible that the Government's test of widespread and substantial NZ ownership could be achieved without any foreign ownership restrictions that would reduce the revenue from the transactions

c **note** our view that the Government should not make any commitments regarding restrictions on foreign participation until we are able to tender further advice in early 2012. [check]

Andrew Blazey
Manager, Commercial Transactions Group
for Secretary to the Treasury

Hon Bill English
Minister of Finance

Hon Steven Joyce
Associate Minister of Finance

Hon Tony Ryall
Minister for State Owned Enterprises

Treasury Report: Mixed Ownership Model - Foreign Ownership Restrictions

Purpose of Report

1. An issue of significant public interest is the extent of any restrictions on foreign ownership of shares in mixed ownership companies, noting that the Government decided that it "would have to be confident of widespread and substantial NZ ownership". Treasury report T2011/1578 of 18 July 2011 advised you of retail incentives that might be used to achieve this objective; this report advises you of restrictions on foreign ownership that could be used to guarantee the achievement of this objective.

Widespread and Substantial NZ Ownership

2. Treasury report T2011/1578 suggested that there were indications of significant NZ demand for shares in mixed ownership model companies, and that incentives may not be necessary to achieve the Government's objective of widespread and substantial NZ ownership, given that incentives have a direct fiscal cost for the Government.

3. The extent of NZ demand will be tested further, including possibly through investor surveys at the time of the relevant Programme IPO preparation phase, and in the prevailing market conditions at that time.

4. If NZ demand is expected to be insufficient to achieve appropriate coverage of an IPO, the inclusion of international investors in the relevant Programme IPO process is considered on balance beneficial in achievement of the Crown Objectives, or if it is a concern that New Zealand shareholders subsequently sell their shares to foreigners, then consideration could be given to soft or hard ownership restrictions.

Options for Ownership Restrictions

5. The question of foreign ownership of MOM company shares needs to be considered in the context of the IPO and over the longer term.

6. At the time of the IPO, the extent of foreign ownership can be controlled through the share allocation process. The Crown has freedom to allocate shares to whomever it wishes within the bounds of the offer structure detailed in the offering documents. It is only constrained by considerations of price, the desire to ensure an orderly aftermarket and ensuring the allocation policy on one Programme IPO does not prejudice the execution of subsequent IPOs. The three main classes of investor to which shares should be considered being allocated are the following:

   - Foreign institutional investors
   - Domestic institutional investors
   - Domestic retail investors[1]

7. The first two participate in the "book build" price setting process, while retail investors are allocated shares at the price determined in the book build, or at a discount to that

[1] Consideration should also be given to Australian retail investors as a source of demand

price. A reasonable proportion of shares therefore needs to be reserved for the book build process, otherwise there is a risk that a price is determined that is not reflective of true market conditions, resulting in a disorderly aftermarket.

8. Some allocation to foreign institutional investors is considered desirable to maintain reasonable price tension and given the scope, scale and timeframe of the full Programme. *[Withheld under s9(2)(g)(i)]* [redacted] These are some of the considerations that need to be taken into account in determining the allocations between the classes of investors, but there is usually still considerable freedom to allocate in a way that reflects Crown preferences. In precedent government selldowns bookbuild allocations have been determined by assessing each investor's bid against a number of criteria determined ahead of the bookbuild in consultation with the vendor.

9. The initial allocation of shares does not guarantee that the proportion of shares allocated to New Zealand residents continues into the future. If there is a concern about who owns the shares in the longer-term, then some specific restrictions will need to be put in place, either in the company constitution which is enforced through a "Kiwi share", or in legislation. The following options are available, roughly in order from least restrictive to most restrictive:

- **NZ Listing:** the company constitution could provide that the primary listing must be in New Zealand.
- **NZ Head Office:** the company constitution could provide that the company's head office must be in New Zealand.
- **Directors to be New Zealand citizens:** The constitution could provide for some or all directors to be New Zealand residents or citizens (the Telecom constitution requires half of the Board to be NZ citizens).
- **Ownership cap:** The company constitution or legislation could provide that no foreign shareholder can own more than a certain percentage of shares without Crown approval (foreign ownership in Telecom is restricted to 49% by any one foreign investor).
- **Voting restrictions:** The company constitution could provide that shares owned beneficially by foreigners have no voting rights.
- **Separate domestic shares:** The company constitution could provide for A and B shares, with A shares reserved for NZ domiciled investors. This was the case with Air New Zealand prior to 2001.

[Withheld under s9(2)(g)(i)] [redacted]

Consistency with New Zealand's International Obligations

10. Under our international trade and investment agreements, New Zealand has undertaken a range of obligations for the benefit of investors and service suppliers. These obligations include obligations not to: impose barriers to "market access" to a particular sector (e.g. quantitative restrictions, juridical form requirements or foreign equity limits), discriminate against foreign investors/service suppliers (national treatment and MFN), impose nationality or residency requirements on senior managers and boards of directors on foreign investors, and impose certain kinds of "performance

requirements" on foreign investors and investments (e.g. requiring technology transfer, the export a certain level of production or the purchase a certain level of New Zealand content).

11. The potential measures described above would have the effect of limiting foreign investor participation in state asset sales and, on their face raise issues of consistency with these core obligations. However we consider that our trade agreements provide New Zealand with flexibility to impose such measures as we have taken specific reservations against the core obligations which allow us to take measures which may result in discriminatory treatment of foreign service suppliers and investors in respect of enterprises currently in state ownership.

[Withheld under s9(2)(g)(i)]

[redacted]

Purpose of Ownership Restrictions

14. The choice of ownership restrictions, if any, depends on the exact nature of the concern with foreign ownership. Possible types of concerns include the following:

- **Foreign influence over the running of the company:** This could arise if a single foreign shareholder owns a significant (albeit minority) stake in the company and is able to influence its management. This could happen if Government appointed directors were passive in their control of the company. Ownership caps and voting restrictions on foreigners would deal to this concern.

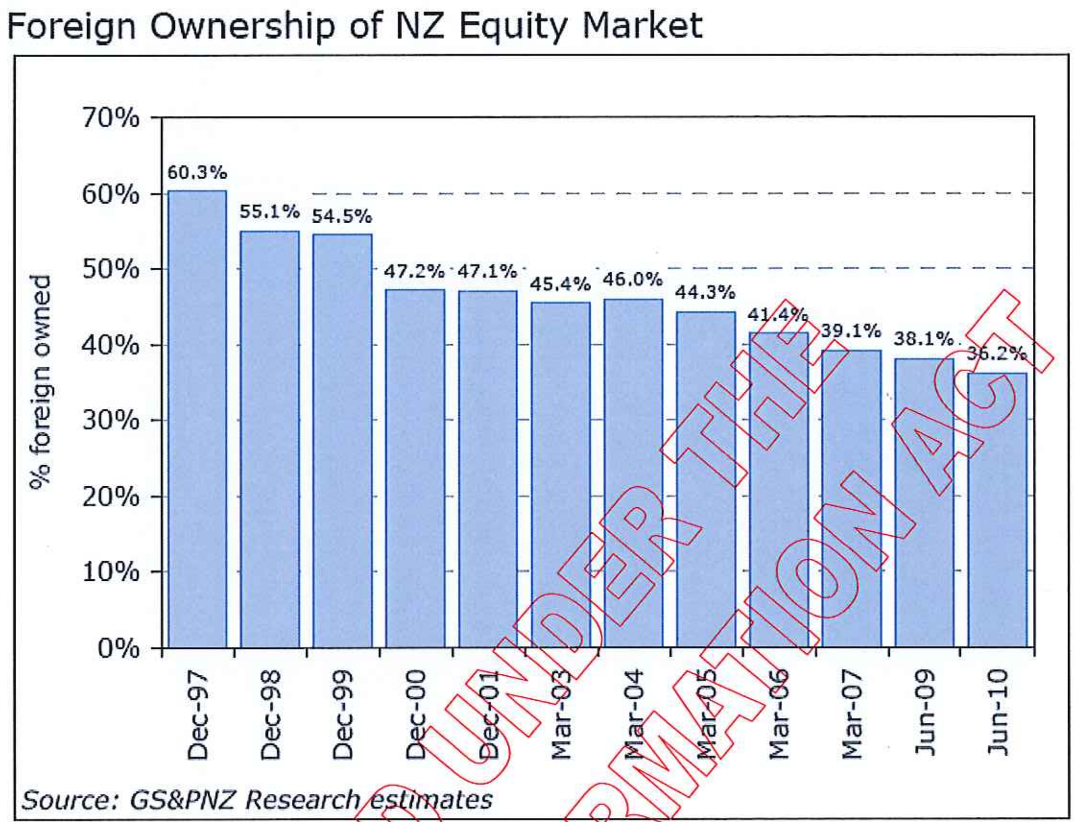
- **Flow of dividends off-shore:** If New Zealanders sell shares to foreigners, the flow of dividends off-shore will increase. However, given the constraints of the balance of payments, the payment for the shares (a capital inflow) will necessarily be matched by a reduction in off-shore debt (a capital outflow), and the increased flow of dividends off-shore will be matched by a reduction in interest payments off-shore. The total flow of dividends and interest off-shore is therefore not affected by who owns the shares. The transfer of share ownership to foreigners could even be beneficial to the extent that the reduction in off-shore debt improves the country's credit rating. Nevertheless, it is possible that public concern is based on a perception that increased dividends flowing off-shore is bad for the economy. The option of separate domestic shares (A and B shares) would ensure that the flow of MOM dividends off-shore would be constrained to the desired level.

- **Hollowing out of the economy:** There could be a concern about the head office of companies, and therefore the residence of managers, moving off-shore. This seems unlikely while the Government remains the majority owner and while the companies' main operations are based in New Zealand. However, the option of requiring the head office to remain in New Zealand would deal to this concern.
- **Impact on the share market:** As part of the preparation for listing, due consideration will be given to the pros and cons of a secondary listing in the achievement of the Crown Objectives. In all circumstances the primary listing will be on the NZ stock exchange. The trade-off in relation to a secondary listing is minimising execution risk through maximising demand (and pricing tension) versus maximising the increase in depth of the New Zealand capital markets. The option to require the company to list on the NZ stock exchange only would deal with this concern, but will exclude certain international investors from participating and limit demand from certain other international investors.

Foreign Ownership Beyond the IPO

15. A common concern appears to be that shares allocated in the IPO to New Zealanders will subsequently be sold to foreigners. Without ownership restrictions, this is clearly a possibility and a function of a developed, free market. The risk is potentially increased if a discount is offered to retail investors, as that may result in NZ retail investors selling their shares to crystalise the retail discount they received.

16. However, foreign ownership of New Zealand listed companies is currently around 36%, on a declining trend:



Source: Goldman Sachs & Partners New Zealand Equity Strategy Update of 2 September 2010.

17. This suggests that over time and on average, foreign ownership of the shares of the mixed ownership companies may stabilise at a similar level. It may even stabilise at a lower level given that foreign investors do not have the ability to obtain a controlling stake, and may therefore be relatively less attracted to own these shares.

18. As a comparison, foreign ownership of the Australian Stock Exchange is not dissimilar at 41% (ABS Financial Accounts – September Quarter 2010 and ASX)

Cost of Ownership Restrictions

19. Restrictions on foreign ownership would inevitably come with a fiscal cost. This would depend on the type of ownership restriction and the severity of that restriction. For example, if separate shares were sold to foreigners and New Zealanders, it would be expected that the latter would sell and continue to trade at a discount to the shares owned by foreigners. The extent of the discount would in part depend on the proportions of A and B shares.

20. Depending on the extent of any restrictions, there could also be a problem in finding enough demand for the whole MOM program if foreigners were restricted from participation. Maintaining flexibility minimises IPO execution risk, as demand, allocation policy and foreign ownership can be assessed at the time the relevant Programme IPO is being prepared, with reference to the prevailing market conditions. Given the extended period over which the MOM is to be carried out, flexibility is important.

Previous NZ and Overseas Experience

New Zealand

21. No restrictions were placed on the ownership of shares in most of the sales of State Owned Enterprises, including the three most recent ones Contact Energy Ltd, Capital Properties Ltd and Auckland International Airport Ltd.

22. As mentioned above, significant restrictions were put in place for Air New Zealand by restricting A shares to residents of New Zealand. The reason for this restriction was to preserve the bilateral landing rights.

23. Foreign ownership in Telecom is limited to 49% by any one foreign investor, and half of the directors must be New Zealand citizens. The restrictions appear to have been motivated by a concern about the security and competitiveness of Telecom's international services, which it was feared could be compromised if a foreign telephone company had a controlling interest.

Australia

24. Restrictions on the ownership of shares by foreign investors were put in place in the case of some sales of state owned enterprises but not others. For example, at the time of the sale of the first tranche of the Commonwealth Bank of Australia in 1991, no foreign ownership was allowed, but this was relaxed to allow some foreign participation in the second and third tranches. No restrictions were placed in the case of the sale of UNITAB in 1999 and AlintaGas in 2000, but aggregate foreign ownership was restricted to 35% when the second and third tranches of Telstra were sold in 1999 and 2006 (each individual foreign investor was limited to 5%), and 40% when QR National was sold in 2010 (each individual foreign investor was limited to 15%).

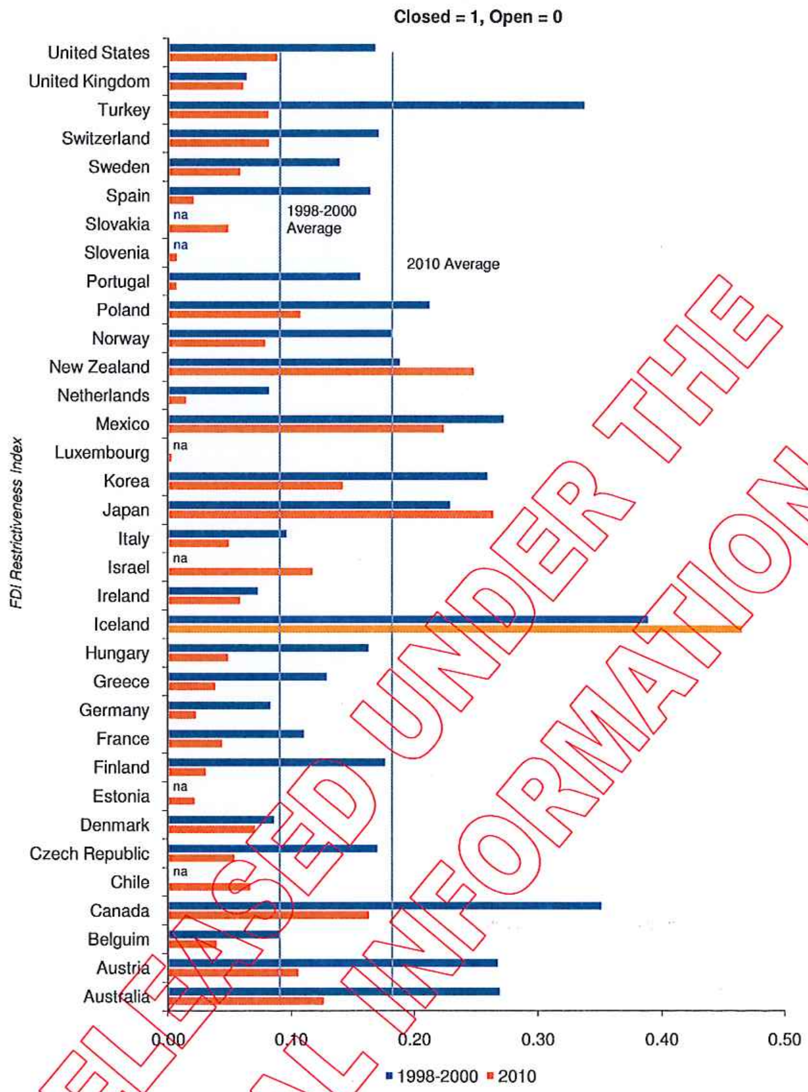
Other

25. While barriers to foreign investment operate in certain sectors the global trend has been towards a lowering of restrictions on foreign investment.

26. The following table plots the foreign direct investment (FDI) Index for OECD countries. The FDI Index measures restrictiveness based on foreign equity limitations, screening or approval mechanisms, restrictions on the employment of foreigners as key personnel and operational restrictions. When comparing the data over the last decade there has been a significant decline in the FDI restrictiveness index from 1998/2000 through 2010, suggesting that the benefits of inbound foreign capital have recently outweighed arguments for restricting foreign ownership. Of the 34 OECD countries, only three have seen an increase in the index (Iceland, Japan and New Zealand).

FDI Restrictiveness Index in select OECD nations

COMMERCIAL-IN-CONFIDENCE



Source: OECD database, IMF, UNCTAD

Next Steps

27. Further work is required to determine the likely extent of domestic interest in the MOM company shares, and therefore the potential need for ownership incentives or restrictions. We propose to report to you on this issue at the time that we consider the content of any legislation, and again nearer the time of the first IPO when adjustments to the company constitution are considered [check]. In the meantime, we recommend that the Government maintain maximum flexibility, noting that it is possible that the Government's test of widespread and substantial NZ ownership could be achieved without any measures that reduce the revenue from the transactions, however, this should be assessed in the prevailing market conditions during the preparation for the relevant Programme IPO.

CROWN OWNERSHIP MONITORING UNIT

Treasury Report: Mixed Ownership Model - Foreign Ownership Restrictions

Date:	5 August 2011	Report No:	T2011/1710

Action Sought

	Action Sought	Deadline
Prime Minister (Rt Hon John Key)	**Note** contents of this report	5.00 pm, Monday 8 August 2011
Minister of Finance (Hon Bill English)	**Note** contents of this report	5.00 pm, Monday 8 August 2011
Minister for State Owned Enterprises (Hon Tony Ryall)	**Note** contents of this report	5.00 pm, Monday 8 August 2011
Associate Minister of Finance (Hon Steven Joyce)	**Note** contents of this report	5.00 pm, Monday 8 August 2011

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Dieter Katz	Principal Advisor, Commercial Transactions	471 5264 (wk)	*[Withheld under s9(2)(a)]*	✓
Andrew Blazey	Manager, Commercial Transactions	917 6985 (wk)		

Prime Minister's Office Actions (if required)

None.

Minister of Finance's Office Actions (if required)

None.

Minister for State Owned Enterprises Actions (if required)

None.

Enclosure: **No**

5 August 2011 SE-1-3

Treasury Report: Mixed Ownership Model - Foreign Ownership Restrictions

Executive Summary

This report advises you on options regarding foreign ownership in order to achieve the Government's test that it "would have to be confident of widespread and substantial New Zealand ownership".

There are strong economic arguments supporting foreign participation in initial public offers (IPOs), however for the purposes of this report, we have focused on restrictions to participation.

There is a trade-off between any desire to restrict foreign ownership and the price of shares: Some allocation to foreign institutional investors is desirable in order to maintain reasonable price tension in the price setting process. Depending on the extent of any restrictions there could be insufficient demand over the mixed ownership programme if foreigners were restricted from participation, as a punitive allocation to foreign investors increases the risk that they will not engage on mixed ownership IPOs.

The extent of foreign ownership can be controlled at the time of the IPO, as the Government has discretion as to whom it allocates shares. The share allocation process, and the conduct of the IPO more generally, will be the subject of further advice.

Separate consideration should to be given to control of the company through provisions in the company's constitution or legislation. The main options for the latter are:

a require the primary listing of shares to be in New Zealand

b require the head office to be in New Zealand

c require a portion of directors to be New Zealand citizens

d limit individual foreign ownership to a specified percentage of the company

e limit aggregate foreign ownership to a specified percentage of the company

f place voting restrictions on shares owned by foreigners

g provide for separate share registers for domestic and foreign owners (A and B shares), and

[Withheld under s9(2)(g)(i)]

The choice of restriction depends on the nature of the concern with foreign ownership. The types of concerns identified in this report do not stand up to scrutiny, even though there may be a public perception that foreign participation in ownership is detrimental.

There are no restrictions in New Zealand's international obligations on the Government's ability to impose ownership restrictions, although the design of any restriction is important.

Further work will be required to determine the likely extent of domestic interest in the MOM company shares, and therefore the potential need for ownership incentives or restrictions.

We have prepared an initial report on this topic [T2011/1578 refers] and will provide more advice in the sales programme report.

Recommended Action

We recommend that you:

a **note** the options for restricting foreign ownership

b **note** that it is possible that the Government's test of widespread and substantial New Zealand ownership could be achieved without any foreign ownership restrictions

c **note** that options a) – c) in the Executive Summary could be implemented with little harm to the fiscal objectives from selling shares by way of a change to company constitutions, and

d **note** our view that the Government should not make any commitments regarding restrictions on foreign participation until it is able to consider the implications for the second, third and forth IPOs in the mixed ownership model.

Andrew Blazey
Manager, Commercial Transactions Group
for Secretary to the Treasury

Rt Hon John Key
Prime Minister

Hon Bill English
Minister of Finance

Hon Steven Joyce
Associate Minister of Finance

Hon Tony Ryall
Minister for State Owned Enterprises

Treasury Report: Mixed Ownership Model - Foreign Ownership Restrictions

Purpose of Report

1. This report provides you with information on foreign ownership in relation to extending the mixed ownership model. This information is in preparation for your meeting with Treasury and its financial advisor at 5.00 pm on Monday 8 August 2011.

Widespread and Substantial New Zealand Ownership

2. Treasury has suggested that there are indications of significant New Zealand demand for shares in mixed ownership model companies, and that incentives may not be necessary to achieve the Government's objective of widespread and substantial New Zealand ownership [T2011/1578 refers].

3. The extent of New Zealand demand will be tested further, including through investor surveys and the preparation of a sales programme.

Options for Ownership Restrictions

4. The question of foreign ownership of MOM company shares needs to be considered both in the context of a series of IPOs and over the longer term.

5. At the time of an IPO, the extent of foreign ownership can be controlled through the share allocation process. The Crown has the freedom to allocate shares to whomever it wishes within the bounds of the structure detailed in the offer documents. It is only constrained by considerations of price and the desire to ensure an orderly aftermarket. Both a large fall and a large rise in the share price in the aftermarket could damage the credibility of the MOM program as a whole.

6. The three main classes to which shares need to be allocated are the following:

   - domestic retail investors (this may include ex-patriate New Zealand investors)
   - domestic institutional investors (in practice this will include some trans-Tasman institutions), and
   - foreign institutional investors.

7. The latter two participate in the "book build" price setting process[1], while retail investors are allocated shares at the price determined in the book build – or at a discount to that price. A reasonable proportion of shares therefore need to be reserved for the book build process, otherwise there is a risk that the price is not reflective of true market conditions which would result in a disorderly aftermarket.

[1] This is akin to an auction, whereby institutional investors are invited to submit bids. It is a price discovery process. Acceptance of the bids is not binding on the Crown. Because bidders usually bid for more shares than they really want, in the expectation of being scaled back, the Crown has some flexibility in deciding how to allocate the shares between the bidders. The manner of conducting the book build will be the subject of further advice.

8. While the Crown has considerable flexibility in deciding how to allocate the shares amongst institutions participating in the book build, a minimum level of allocation to foreign institutional investors is likely to be desirable to maintain reasonable price tension given the scope, scale and timeframe of a full mixed ownership programme. There is a high risk of collusion amongst domestic institutional investors if there is no foreign participation. These are some of the considerations that need to be taken into account in determining the allocations between the three classes of investors, but there is usually still considerable freedom to allocate in a way that reflects Crown preferences.

9. The initial allocation of shares does not guarantee that the proportion of shares allocated to New Zealand residents continues into the future. The risk of a large scale change in the composition of the shareholding immediately after an IPO is greater if the price and allocation is misjudged relative to the demand for the shares.

10. If there is a concern about who owns the shares in the longer-term, then some specific restrictions will need to be put in place, either in the company constitution which is enforced through a "Kiwi share", or in legislation. The following options are available, roughly in order of impact from least restrictive to most restrictive:

    a **New Zealand Listing:** the company constitution could provide that the primary listing must be in New Zealand.

    b **New Zealand Head Office:** the company constitution could provide that the company's head office must be in New Zealand.

    c **Directors to be New Zealand citizens:** The constitution could provide for some or all directors to be New Zealand residents or citizens (for example, the Telecom constitution requires half of the Board to be New Zealand citizens).

    d **Ownership cap:** The company constitution or legislation could provide that no foreign shareholder own more than a certain percentage of shares without Crown approval (foreign ownership in Telecom is restricted to 49% by any one foreign investor).

    e **Aggregate ownership cap:** There could be a cap on the aggregate foreign ownership. The company would need to monitor this and require foreign investors who exceed the cap, to divest themselves of some of their shares.

    f **Voting restrictions:** The company constitution could provide that shares owned beneficially by foreigners have no voting rights.

    g **Separate domestic shares:** The company constitution could provide for A and B shares, with A shares reserved for New Zealand domiciled investors. This was the case with Air New Zealand prior to 2001.

[Withheld under s9(2)(g)(i)]

Consistency with New Zealand's International Obligations

11. Under New Zealand's international trade and investment agreements, there are a range of obligations, including to not: impose barriers to "market access" to a particular sector, discriminate against foreign investors/service suppliers, impose nationality or residency requirements on senior managers and boards of directors on foreign investors, and impose certain kinds of "performance requirements" on investors and investments.

12. The potential measures described above would have the effect of limiting foreign investor participation in state asset sales, however New Zealand has taken specific reservations against these obligations in its current trade agreements. This provides the Government with flexibility to take measures which may result in discriminatory treatment of foreign investors in respect of SOEs. With that said, it is not a guarantee that future trade negotiations will be successful in securing the same policy flexibilities as we have done to date.

13. It is an important consideration that such measures which restrict foreign ownership may have the effect of impacting negatively on New Zealand's reputation as an investment destination. We note that foreign ownership requirements would also likely become significant pressure points in future trade and investment negotiations.

[Withheld under s9(2)(g)(i)]

Purpose of Ownership Restrictions

15. The choice of ownership restrictions, if any, depends on the exact nature of the concern with foreign ownership. Possible types of concerns include the following:

Concern	Treasury Comment
Foreign influence over the running of the company: This could arise if a single foreign shareholder owns a significant (albeit minority) stake in the company and is able to influence its management.	This could happen if Government appointed directors were passive in their control of the company. Ownership caps and voting restrictions on foreigners would deal to this concern, but would be second best to ensuring that directors exercise active control.
Flow of dividends off-shore: If New Zealanders sell shares to foreigners, the flow of dividends off-shore will increase.	Given the constraints of the balance of payments, the payment for the shares (a capital inflow) will necessarily be matched by a reduction in off-shore debt (a capital outflow), and the increased flow of dividends off-shore will be matched by a reduction in interest payments off-shore. The total flow of dividends and interest off-shore is therefore not affected by who owns the shares. Nevertheless, it is possible that public concern is based on a perception that increased dividends flowing off-shore is bad for the economy. The full economic impact should be considered.
Hollowing out of the economy: There could be a concern about the head office of companies, and therefore the residence of managers, moving off-shore.	This seems unlikely as the Government is to be the majority owner and the companies' main operations are based in New Zealand. However, the option of requiring the head office to remain in New Zealand would deal to this concern. Advice on the sales programme will consider the implications of listing on a second exchange.
Impact on the share market: Increased foreign ownership could result in the company seeking to list the shares in other stock exchanges, rather than on the NZX.	This seems unlikely while the Government remains the majority owner. The option to require the company to list on the NZ stock exchange would deal to this concern.

16. Even though we conclude that the above concerns do not stand up to scrutiny in the context of the MOM program, we note that foreign participation in the New Zealand sharemarket actually has positive effects for the New Zealand economy. It:

- increases its liquidity, making it easier for New Zealand shareholders to buy and sell
- increases access to capital for existing and newly listed companies, and
- may achieve greater stability in the market after the IPO

17. Greater openness generally increases international confidence in, and the reputation of, our capital markets.

Foreign Ownership Beyond the IPO

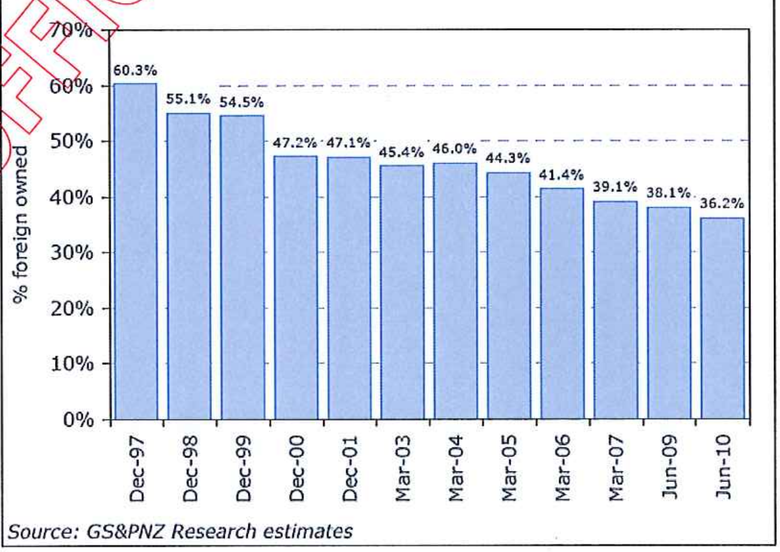
18. A common concern appears to be that shares allocated in the IPO to New Zealanders will subsequently be sold to foreigners. Without ownership restrictions, this is clearly a possibility. The risk is possibly increased if a discount is offered to retail investors, as that will encourage them to cash out their discount by selling their shares.

19. However, while some shares may be sold to foreigners, it is unlikely that a very large proportion of the shares will fall into foreign hands. There are a number of factors that discourage foreign ownership and create a home bias. These include:

- foreigners' inability to use imputation credits means they effectively bear double taxation on company profits
- foreigners' costs of acquiring information on New Zealand companies and on the New Zealand legal systems is greater than the costs of acquiring such information on companies within their own countries, and
- cultural barriers.

20. These factors probably explain why foreign ownership of New Zealand listed companies is currently around 36%, on a declining trend:

Foreign Ownership of NZ Equity Market



Source: GS&PNZ Research estimates

Source: Goldman Sachs & Partners New Zealand Equity Strategy Update of 2 September 2010.

21. This suggests that over time and on average, foreign ownership of the shares of the mixed ownership companies may stabilise at a similar level. It may even stabilise at a lower level given that foreign investors do not have the ability to obtain a controlling stake, and may therefore be relatively less attracted to own these shares.

22. As a comparison, foreign ownership of the Australian Stock Exchange is not dissimilar at 41%.

Cost of Ownership Restrictions

23. Restrictions on foreign ownership would inevitably come with a fiscal cost. This would depend on the type of ownership restriction and the severity of that restriction. For example, options a) – c) in paragraph 10 are likely to have very little cost and could readily be implemented by a change to the companies' constitutions.

24. However, if separate shares were sold to foreigners and New Zealanders, it would be expected that the latter would sell and continue to trade at a discount to the shares owned by foreigners. The extent of the discount would in part depend on the proportions of A and B shares. In the case of Air New Zealand prior to 2001, the shares only available to resident shareholders traded at a discount of around 30% to those also available to foreigners. In the case of Nestle, which until 1988 similarly had bearer shares and registered shares with the registered shares reserved for Swiss nationals, the registered shares traded at a discount of around 50% to the bearer shares. Finally, a study of Singaporean banks shows that the partial relaxation of foreign ownership restrictions resulted in an increase in the share price and hence market value of the banks.

25. The converse to the cost of ownership restrictions on the Crown is that the companies will face a higher cost of capital. A higher cost of capital will likely:

- reduce investment in new production capacity
- reduce the company's competitiveness, and
- reduce service levels.

26. Depending on the extent of any restrictions, there could also be a problem in finding enough demand for the whole MOM program if foreigners were restricted from participation. Maintaining flexibility minimises IPO execution risk as demand – including foreign ownership – can be assessed at the time of the IPO and have regard to market conditions.

Previous New Zealand and Overseas Experience

New Zealand

27. No restrictions were placed on the ownership of shares in most of the sales of State Owned Enterprises, including the three most recent ones Contact Energy Ltd, Capital Properties Ltd and Auckland International Airport Ltd.

28. As mentioned above, significant restrictions were put in place for Air New Zealand by restricting A shares to residents of New Zealand. The reason for this restriction was to preserve our rights under the international air services agreements.

29. In the case of the sale of Contact Energy Ltd, and probably also in the case of the sale of Auckland Airport and Capital Properties New Zealand Ltd, shares were explicitly allocated preferentially to domestic institutions, while allocations to foreign institutions were limited to the minimum that was necessary to ensure that they were encouraged to do the research and bid strongly for Contact shares.

30. Foreign ownership in Telecom is limited to 49% by any one foreign investor, and half of the directors must be New Zealand citizens. The restrictions appear to have been motivated by a concern about the security and competitiveness of Telecom's international services, which it was feared could be compromised if a foreign telephone company had a controlling interest.

Australia

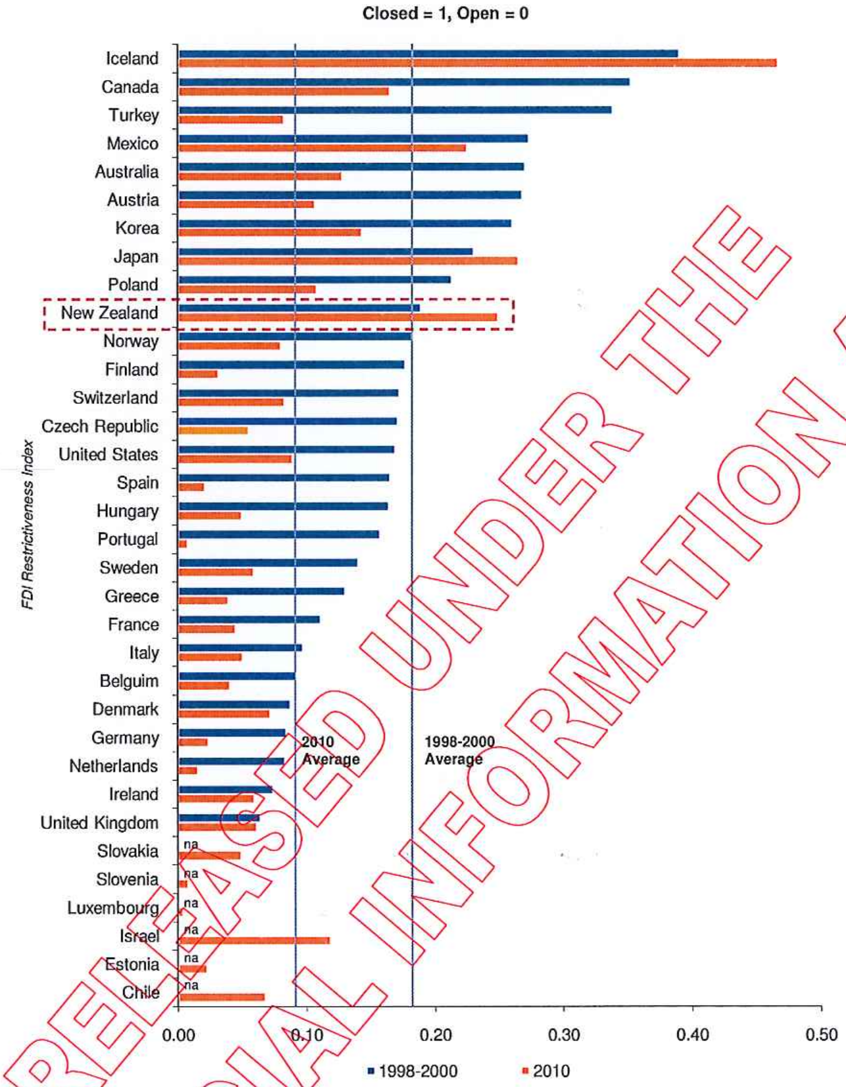
31. Restrictions on the ownership of shares by foreign investors were put in place in the case of some sales of state owned enterprises but not others. For example, at the time of the sale of the first tranche of the Commonwealth Bank of Australia in 1991, no foreign ownership was allowed, but this was relaxed to allow some foreign participation in the second and third tranches. No restrictions were placed in the case of the sale of a number of precedent public asset sell-downs including UNITAB in 1999 and AlintaGas in 2000, but aggregate foreign ownership was restricted to 35% when the second and third tranches of Telstra were sold in 1999 and 2006 (each individual foreign investor was limited to 5%), and each individual investor was limited to 15% when QR National was sold in 2010 (each individual foreign investor was limited to 15%).

Other

32. While barriers to foreign investment operate in certain sectors the global trend has been towards a lowering of restrictions on foreign investment.

33. The following table plots the foreign direct investment (FDI) Index for OECD countries. The FDI Index measures restrictiveness based on foreign equity limitations, screening or approval mechanisms, restrictions on the employment of foreigners as key personnel and operational restrictions. When comparing the data over the last decade there has been a significant decline in the FDI restrictiveness index from 1998/2000 through 2010, suggesting that the benefits of inbound foreign capital have recently outweighed arguments for restricting foreign ownership. Of the 34 OECD countries, only three have seen an increase in the index (Iceland, Japan and New Zealand).

FDI Restrictiveness Index in select OECD nations



Source: OECD database, IMF, UNCTAD

34. The above table illustrates the fact that New Zealand is perceived to already have above average barriers to foreign direct investment. While foreign direct investment differs from investment in the New Zealand share market, the table above may nevertheless be illustrative of the perception that exists about investment into New Zealand.

From: Andrew Blazey
Sent: Wednesday, 24 August 2011 8:17
To: Angela Graham
Cc: Dieter Katz
Subject: FW: Paper on allocation policy [I]
Attachments: Deutsche Bank and Craig Investment Partners – thoughts on pre-election public discussion relating to allocation policy - 2011.08.22.docx

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From: Peter Molesworth [mailto:peter.molesworth@db.com]
Sent: Monday, 22 August 2011 10:05 p.m.
To: Dieter Katz
Cc: Andrew Blazey; ^EXT: Brett Shepherd; David Gibson; Michael Richardson; Justin Dwyer; Jacqueline Parsons; John Moore; Frank Aldridge
Subject: Paper on allocation policy [I]

Classification: For internal use only

Evening Dieter,

Please find attached a note the DB / Craigs team has drafted in relation to allocation policy. Andrew indicated you were drafting a paper that would help Ministers form a view as to what they say prior to the election on the topic, and we thought the attached draft would help.

The attached note specifically deals with:
- the relevant trade-offs of including / excluding (to a material extent) international investors
- considerations in relation to pre-election public discussion of allocation policy
- our recommendation as to public statements on allocation policy

Brett, David and I were hoping to catch up tomorrow at some point to run you through the attached note, so please let me know of your availability and I will organise a meeting / conference call at a time that suits.

Regards,

Peter

(See attached file: Deutsche Bank and Craig Investment Partners – thoughts on pre-election public discussion relating to allocation policy - 2011.08.22.docx)

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Deutsche Bank

Confidential

Deutsche Bank / Craigs Investment Partners – thoughts on pre-election public discussion relating to Programme IPO allocation policy

August 2011

Passion to Perform

CRAIGS INVESTMENT PARTNERS

DRAFT

Allocation policy discussion paper

The purpose of this paper is to detail the considerations and trade-offs in relation to particular statements made prior to the election (and first IPO), regarding allocation policy. The discussion paper concludes with a recommended list of statements that could be utilised as part of political discussion, debate and questioning prior to the election.

1. Objectives of the extension of the Mixed Ownership Model

The key objectives of the extension of the Mixed Ownership Model ("Programme") as they relate to allocation policy are:

- **Widespread** and substantial New Zealand participation – New Zealand residents at the **front of the queue** in terms of priority of allocation
- The Crown maintaining a **controlling stake**
- **Low execution risk** – successful implementation of the IPOs measured by good demand for shares in the IPO and investors have a positive experience in the aftermarket
- **Capital market development** – broaden the pool of investments available to New Zealand savers and increase the depth of the New Zealand equity market
- **Fiscal (static)** – optimise value for the Crown
- **Fiscal (dynamic)** – allow the SOE companies to obtain growth capital without being totally reliant on the Crown
- **Commercial disciplines** – Ensure these large and important companies reap the benefits of sharper commercial disciplines, more transparency and external investor oversight, allowing them to make the strongest possible contribution to New Zealand's economic growth

A number of the objectives in this circa NZ$7 billion initiative have competing characteristics, particularly widespread and substantial New Zealand ownership (when taken to its broadest interpretation), as compared with low execution risk and optimising value.

2. Allocation policy – what has been said publicly to date?

To frame the discussion of public position of the Crown on allocation policy going forward, it is important to analyse what has been said to date in the public arena.

As far as we are aware, in relation to allocation policy, nothing other than the consistent message that **"New Zealanders are at the front of the queue"** has been stated.

We also note that the potential for the incorporation of a **loyalty** bonus share scheme as part of the IPO offer structure has been mentioned in recent months as an **incentive** to reward investors with a long term wealth accumulation bias.

The remainder of this discussion paper highlights the considerations and implications of expanding upon the above statements in the public arena prior to the election and first IPO.

3. What will define a successful Programme IPO?

From a New Zealand populous and capital markets perspective, we believe a successful Programme IPO will be assessed as having:

1. Widespread and substantial New Zealand ownership – New Zealand residents at the front of the queue in terms of priority of allocation
2. A positive aftermarket where investors have a good experience and feel positive about having made the decision to invest
3. Achieved a pricing outcome for the Crown that is seen as a fair value

These factors do not cover all the Crown Objectives in relation to the Programme, but will likely be the three most referenced and measurable characteristics when Programme IPOs are assessed by the New Zealand public and the market, which is important to understand when considering the trade-offs in relation to New Zealand investor priority.

4. What are the key trade-offs of providing priority to New Zealanders?

There are different degrees of New Zealand priority for consideration as part of the Programme, which are discussed in detail in Section 6 of this paper. In this section we highlight the key trade-offs from a policy and capital markets perspective of having a New Zealand priority, which we believe are broader than IPO pricing alone.

Summary of trade-offs in relation to New Zealand investor priority allocation with reference to the relevant Crown Objectives

VERY RELEVANT TRADE-OFFS (Pros)	VERY RELEVANT TRADE-OFFS (Cons)
✓ Widespread and substantial New Zealand ownership ✓ Broaden the pool of investments available to New Zealand savers, and the quantum of that saving in the equity market	× Minimise execution risk × Maximise demand by seeking interest from the broadest pool of investors × Aftermarket performance × Achieve fair value for the Crown **LESS RELEVANT TRADE-OFFS (Second order cons)** × Depth of New Zealand capital markets (ie lower foreign direct investment) × Greater level of external enquiry and oversight as to Company performance (given lower international investor involvement) × Allow the companies to obtain growth capital without depending on the Crown – potential for higher cost of capital given more geographically limited shareholder base

Note that we believe a New Zealand investor allocation priority is expected by the market and consistent with public statements to date, however, there are a number of reasons why it is important that this allocation priority is not framed such that it limits international participation:

- Where the allocation priority is too heavily slanted toward New Zealanders, it is almost certain that that this will **deter international investor engagement** across the Programme IPOs, thereby substantially increasing execution risk.
- International investors have an important role to play in terms of generating **price tension** during the bookbuild process and in the aftermarket for each of the Programme IPOs. Severely restricting their allocation from the outset will discourage their bids in the Programme IPOs and threaten the Crown's objective of optimising value.
- The **sequencing and timing** of the Programme IPOs is yet to be determined and whilst some Programme IPOs could generate significant domestic demand, others may require foreign investor participation to be successful. Market conditions at the time of each IPO could vary substantially from planning to launch to completion, impacting investor sentiment and therefore demand. It is essential to not constrain demand pools from the outset, they may all be essential to complete the transaction if unexpected circumstances arise.
- The post-IPO **register composition** of each of the SOEs should be structured for the long term – balanced, stable and liquid. If this is not the case, there is potential for large churn volumes and price instability which threatens the Crown's objectives of ensuring a positive aftermarket for each of the IPOs.
- Some of the Programme IPOs may **not be well suited to retail participants** and so maintaining foreign investor engagement is critical to ensuring the success of these IPOs.

Precedent NZ, Australian and international Public Asset Selldowns have included foreign investors for the above reasons. The table below highlights allocations adopted in precedent transactions of significant size (>NZ$1bn) in the region. This demonstrates the inclusion of foreign investors is common in significant Public Asset Selldowns.

Precedent New Zealand and Australian Public Asset Selldowns – allocation analysis

	Issue date	Offer size	Allocation	Description of priority allocation structure
CommonwealthBank CBA 1	Sep 1991	$1.3 billion	25% / 32% / 43%	– Priority allocation to employees, customers and retirees
GIO	Jul 1992	$1.2 billion	65% / 35%	– Priority allocation to employees (up to 5,000 shares) – Priority allocation to customers (allocated a maximum of 16,200 shares vs. 14,600 for public offer)
CommonwealthBank CBA 2	Nov 1993	$1.7 billion	19% / 46% / 12% / 23%	– Guaranteed allocation for existing CBA shareholders ($3,000)
QANTAS	Jul 1995	$1.9 billion[a]	1% / 27% / 27% / 45%[a]	– Priority allocation to employees (up to 5% of issued capital reserved for employees)
CommonwealthBank CBA 3	Jul 1996	$4.2 billion[b]	23% / 42% / 35%[b]	– Priority allocation to employees (up to 300 shares) – Priority allocation to existing CBA investors (1 for 4 share allocation)
Telstra Telstra 1	Nov 1997	$14.6 billion	15% / 45% / 22% / 18%	– Guaranteed allocation for pre-registrants (up to 600 shares) – Guaranteed allocation for employees (up to 2,000 shares)
Suncorp 2	Nov 1998	$1.0 billion	75% / 25%	– Priority allocation for Queensland residents and existing shareholders
contact	May 1999	NZ$1.1 billion	5% / 41% / 24% / 30%	– Priority allocation to pre-registrants (up to NZ$2,500 vs. NZ$2,000 for non pre-registrants)

Telstra 2	Oct 1999	$16.6 billion	21% / 46% / 20% / 13%	– Priority allocation to existing Telstra shareholder mis (1 for 5 share allocation) – Guaranteed allocation for pre-registrants (up to 400 shares) – Guaranteed allocation for employees (up to 5,000 shares)
Telstra 3	Nov 2006	$15.5 billion	26% / 31% / 28% / 12%	– Guaranteed allocation for existing Telstra shareholders (at least 3,000 shares or if more, 1 for 2 share allocation) – Guaranteed allocation for other retail (up to 2,000 shares)
QR NATIONAL	Nov 2010	$4.5 billion	27% / 7% / 9% / 57%	– Priority allocation to Queensland residents (allocated 100% of shares for which they applied, also entitled to a higher number of loyalty bonus shares (1 loyalty share for every 15 (vs. 1 for 20) up to a maximum of 675 loyalty bonus shares) – Priority allocation to non-Queensland resident pre-registrants (allocated 100% up to $25,000 of shares plus 85% of any dollar value of shares applied for above $25,000)

▪ Broker firm ▪ Retail public offer ▪ Institutional ▪ Foreign

(a) Includes 25% British Airways stake
(b) Institutional allocation includes foreign allocations

A more detailed discussion of the above trade-offs, sighting a spectrum of allocation policy examples is contained in Section 6 of this paper. The key point to note however is that it is highly recommended that the Crown maintains maximum flexibility in relation to allocation policy for as long as possible through minimalist comment and broad policy statement as has been done to date. Public statements that elaborate further on allocation policy will be a beacon for public commentary and drive renewed calls for further detail and justification.

5. Implementation of the Programme IPOs - what form will the offers take?

It is highly likely given the circa NZ$7 billion scale and profile of the Programme IPOs that there will be a requirement for some or all of the IPOs to be undertaken via a fully marketed global equity offering, as has been done for the vast majority of NZ, Australian and international Public Asset Selldowns. The offer structure(s) employed to access investors both domestically and internationally is intentionally kept relatively simple, and priority of allocation to New Zealand applicants can be employed in both the retail and institutional offers. Whilst this is not a discussion on offer structure, we are highlighting how each pool of potential investors can be accessed for each IPO and the means by which New Zealand investors can receive a priority.

Retail offers	Institutional offer

– General Public Offer
  – New Zealand residents / citizens
– Broker Firm Offer
  – Clients of New Zealand brokers
	– Kiwisaver managers
	– Mixed Ownership Model PIE (concept only at current time)
	– Iwi
	– Crown Financial Institutions (eg ACC / NZ Super)
	– Domestic institutional investors including Community Trusts
	– Australian institutional investors
	– Rest of world institutional investors

Potential for New Zealand priority	Potential for New Zealand priority
– Priority allocation provided to New Zealand resident retail applicants in the General Public Offer – New Zealand resident retail participants in the General Public Offer and Broker Firm Offer may receive more generous incentives such as loyalty shares (eg 1 loyalty share for every 15 held up to a maximum of 600 shares)	– The JLMs for each Programme IPO will, in consultation with the Crown and its advisers develop a set of allocation criteria for the institutional offer, in advance of the bookbuild to determine the final IPO price and allocations. These criteria can provide priority to New Zealand participants in the institutional offer, however, it is important to ensure international investors are engaged – this will be driven by their expectation of being given a meaningful allocation

6. Pre-election public discussion of allocation policy

As we have highlighted, the key trade-offs in relation to defining and implementing an allocation policy ahead of marketing an IPO are on one hand giving New Zealanders comfort that they will be "at the front of the queue", versus minimising execution risk during the IPO offer period, which from the time of launch will extend for approximately two months.

Below we outline, both in summary diagrammatic form and detailed consideration analysis, a spectrum of IPO allocation policy alternatives that have been discussed with us recently and their respective consequences. The colours represent our advice to the Crown with respect to each alternative:

- **Green:** recommended
- **Amber:** not advisable
- **Red:** strongly recommend against

1	2	3	4	5	6	7
NZ residents will receive a priority allocation – be at the "front of the queue"	It is our objective that at least [85]% of each Company will be owned by NZ following allocation of the IPO	Each NZ resident that applies will be guaranteed a minimum allocation of $[2,500]	Investor pools (both NZ and international) will be categorised and priority ranking assigned and publicly disclosed	Investor pools (both NZ and international) will be categorised and each category will be allocated a fixed percentage or dollar value of the offer	NZ residents will be allocated all of what they apply for	Each offer will only be available to NZ residents
RECOMMENDED	**NOT ADVISABLE**	**NOT RECOMMENDED**				
✓ Maintains maximum flexibility at this early stage of preparation. By maintaining flexibility, the Crown can determine relative allocation policy with the full picture of demand available and in light of market conditions and investor sentiment at the time of execution, thereby minimising execution risk × Crown will face ongoing questioning about lack of detail in relation to the MoM Programme	✓ Provides a greater degree of detail to the public therefore countering criticism around the lack of detail × Adds to the risk that questioning continues and is exacerbated beyond level of targeted ownership. Critics likely to focus on the fact that this statement confirms that international investors will be allowed to participate	× Very inflexible across a 4 IPO Programme and potentially mathematically impossible to achieve if NZ applications exceed expectations and available capital	× Potential to alienate lower ranking categories of NZ investors and foreign investors, decreasing demand and pricing tension and raising many additional questions	× Potential to alienate NZ resident categories and foreign investors allocated a smaller percentage or dollar value of the offer decreasing demand and pricing tension	× Implicit in this statement is that Crown believes that NZ resident demand can cover the transaction – failure to achieve this may result in a failed transaction	× Explicit in this statement is that Crown believes that NZ resident demand can cover the transaction – failure to achieve this may result in a failed transaction

Provision of further detail on allocation policy will be a beacon for public commentary, elevate debate on the pros and cons of the MoM Programme and likely exacerbate negative commentary.

Allocation alternatives

Public statement	Description of allocation policy	Considerations relative to Crown Objectives

1
NZ residents will receive a priority allocation – be at the "front of the queue"
	– Priority is highlighted but not defined
	– Priority to NZ residents is achieved through:
	  – Priority allocation - the final allocation policy is determined after completion of the respective SOE IPO bookbuild, therefore, in the interim, the relativity of the priority allocation to NZ residents versus non-NZ residents remains flexible and at the discretion of the Crown
	  – the inclusion of retail incentive preference for NZ residents (eg retail discount and loyalty shares)
	– International investors will receive allocations
		✓ NZ residents are at the front of the queue and priority allocation is provided to NZ residents relative to non-NZ residents – *consistent with public statements* and *facilitates widespread and substantial NZ share ownership*
		✓ Maintains maximum flexibility as the Crown can determine relative allocation priority with the full picture of demand available and in light of market conditions and investor sentiment at the time of execution – *minimises execution risk*
		✓ International investor engagement remains strong based on an expectation of a meaningful allocation, driving demand and pricing tension – *optimises value for the Crown, increases the depth of NZ capital markets, enhances the companies ability to obtain growth capital going forward and sharpens the companies commercial disciplines through accountability to international investor base*[1]
		✗ If a severely limited foreign allocation policy is disclosed to international investors this may see a lower level engagement on the expectation of a poor allocation and this will decrease demand and pricing tension – *inconsistent with objectives of minimising execution risk, optimising value for the Crown, increasing the depth of NZ capital markets, enhancing the companies ability to obtain growth capital going forward and sharpening the companies commercial disciplines through accountability to international investor base*
		✗ If international investors are invited to bid and a severely limited foreign allocation policy is then employed, this will put at risk international demand for the Programme – *inconsistent with objectives of minimising execution risk across the Programme*

2 **It is our objective that at least [85]% of each Company will be owned by NZ following allocation of the IPO**	– Priority is broadly defined on a NZ ownership basis – Priority to NZ residents is achieved through targeting that [85]% NZ ownership of each company (including the Crown's retained stake) post allocating the IPO – International investors engage on the basis there will be a meaningful portion of the offer available for investment	✓ NZ residents are at the front of the queue and [85]% of each Company is guaranteed to be owned by NZ following allocation of the IPO – *consistent with public statements (goes further)* and *facilitates widespread and substantial NZ share ownership* ✓ Maintains some flexibility as the Crown can determine allocations within the bounds of the targeted register composition of [85]%/[15]% domestic/international – *reduces execution risk* ✗ Very explicit objective for NZ ownership stated – failure to achieve this level of demand will negatively impact perception of the offer, both locally and internationally – *increases execution risk as aftermarket may be weaker given NZ support was not at the desired level* ✗ Potential for international investor engagement to be lower on the expectation of receiving a poor allocation and consequently decreases demand and pricing tension – *inconsistent with objectives of minimising execution risk, optimising value for the Crown, increasing the depth of NZ capital markets, enhancing the companies ability to obtain growth capital going forward and sharpening the companies commercial disciplines through accountability to international investor base* ✗ Potential to impact international demand for subsequent Programme IPOs given allocation experience – *increases Programme execution risk*
3 **Each NZ resident that applies will be guaranteed a minimum allocation of $[2,500]**	– Priority is specifically defined – Priority to NZ residents is achieved through guaranteeing that each NZ resident that applies will receive a minimum allocation of $[2,500] – International investors will receive the residual portion of the offer, if any	✓ NZ residents are guaranteed a specific dollar value of shares – *consistent with public statements (goes further)* and *facilitates widespread and substantial NZ share ownership* ✓ Potential for a similar message but without defining the dollar value - *consistent with public statements* and *facilitates widespread and substantial NZ share ownership* ✗ Very inflexible across a 4 IPO Programme and potentially mathematically impossible to achieve if NZ applications exceed expectations and available capital – *may necessitate the government not delivering on its guarantee* ✗ Potential for international investor engagement to be significantly lower on the expectation of receiving a poor allocation and consequently decreases demand and pricing tension – *inconsistent with objectives of minimising execution risk, optimising value for the Crown, increasing the depth of NZ capital markets, enhancing the companies ability to obtain growth capital going forward and sharpening the companies commercial disciplines through accountability to international investor base* ✗ Once the IPO is launched, if significantly reduced international investor demand is coupled with insufficient NZ demand to cover available offer size the transaction may not complete – *significantly increases execution risk* ✗ Narrower share register post offering – *increases the likelihood of unsatisfactory aftermarket trading*

[1] Research by William Megginson in his book, *The Financial Economics of Privatisations: 2005* indicates that where foreign ownership is allowed, the speed at which SOEs become more efficient increases more quickly than where ownership is purely domestic

4 **Investor pools (both NZ and international) will be categorised and priority ranking assigned and publicly disclosed**	– Priority ranking is explicitly defined – Priority to NZ residents is achieved through disclosure of categories of investors and relative ranking for allocation priority – various NZ groups will be ranked amongst themselves and rank ahead of international investors – International investors will be last in this queue	✓ NZ residents are at the front of the priority queue but ranked as amongst themselves – *consistent with public statements (goes much further)* and *facilitates widespread and substantial NZ share ownership* ✗ Potential to alienate lower ranking categories of NZ investors decreasing demand and pricing tension and raising many questions – *inconsistent with objectives of widespread ownership, optimising value for the Crown, increasing the depth of NZ capital markets, enhancing the companies ability to obtain growth capital going forward* ✗ Potential for international investor engagement to be lower on the expectation of receiving a poor allocation and consequently decreases demand and pricing tension – *inconsistent with objectives of minimising execution risk, optimising value for the Crown, increasing the depth of NZ capital markets, enhancing the companies ability to obtain growth capital going forward and sharpening the companies commercial disciplines through accountability to international investor base* ✗ Potential to impact international demand for subsequent Programme IPOs given allocation experience – *increases Programme execution risk* ✗ Narrower share register post offering – *increases the likelihood of unsatisfactory aftermarket trading*
5 **Investor pools (both NZ and international) will be categorised and each category will be allocated a fixed percentage or dollar value of the offer**	– Priority is explicitly defined by category – Priority to NZ residents is achieved through disclosure of categories of investors and attributing to each category a fixed percentage or dollar value of the offer – International investors will be last in the queue	✓ NZ residents are at the front of the priority queue but allocated different percentages or dollar values of the offer – *consistent with public statements (goes much further)* and *facilitates widespread and substantial NZ share ownership* ✗ Potential to alienate NZ resident categories allocated a smaller percentage or dollar value of the offer decreasing demand and pricing tension – *inconsistent with objectives of widespread and substantial NZ share ownership, optimising value for the Crown, increasing the depth of NZ capital markets, enhancing the companies ability to obtain growth capital going forward* ✗ Potential for international investor engagement to be lower on the expectation of receiving a poor allocation and consequently decreases demand and pricing tension – *inconsistent with objectives of minimising execution risk, optimising value for the Crown, increasing the depth of NZ capital markets, enhancing the companies ability to obtain growth capital going forward and sharpening the companies commercial disciplines through accountability to international investor base* ✗ Potential to impact international demand for subsequent Programme IPOs given allocation experience – *increases Programme execution risk* ✗ Narrower share register post offering – *increases the likelihood of unsatisfactory aftermarket trading*
6 **NZ residents will be allocated all they apply for**	– Priority is specifically defined – Priority to NZ residents is achieved through guaranteeing that NZ residents will be allocated the entire offer if that level of demand is generated or 100% of such lower demand number – their demand will be 'filled' in total – International investors will receive the residual portion of the offer, if any	✓ Priority allocation of the entire offer provided to NZ residents should they have demand – *consistent with public statements (goes much further)* and *facilitates widespread and substantial NZ share ownership* ✗ It is certain that international investor engagement will be very low or non-existent on the expectation of receiving a poor allocation and consequently decreases demand and pricing tension – *inconsistent with objectives of minimising execution risk, optimising value for the Crown, increasing the depth of NZ capital markets, enhancing the companies ability to obtain growth capital going forward and sharpening the companies commercial disciplines through accountability to international investor base* ✗ Implicit in this statement is that Crown believes that NZ resident demand can cover the transaction – failure to achieve this will negatively impact perception of the offer, both locally and internationally – *increases execution risk and risk of IPO failure* ✗ Potential for very low international demand. If this is coupled with insufficient NZ demand to cover available offer size the transaction may not complete – *significantly increases execution risk and risk of deal failure* ✗ Narrow investor base post offering and NZ residents are allocated all they applied for in the instance this level of demand does not cover the offer size – *significantly increases the likelihood of unsatisfactory aftermarket trading*
7 **Each offer will only be available to NZ residents**	– Priority to NZ residents is achieved through guaranteeing that each offer will only be available to NZ residents – International investors will not be invited to apply for the offer	✓ NZ residents only can apply – *facilitates widespread NZ share ownership* ✗ Prevents international investment in the offerings and significantly decreases demand and pricing tension – *inconsistent with objectives of minimising execution risk, optimising value for the Crown, increasing the depth of NZ capital markets, enhancing the companies ability to obtain growth capital going forward and sharpening the companies commercial disciplines through accountability to international investor base* ✗ Explicit in this statement is that Crown believes that NZ resident demand can cover the transaction – failure to achieve this will negatively impact perception of the offer, both locally and internationally – *significantly increases execution risk* ✗ No international demand. If this is coupled with insufficient NZ demand to cover available offer size the transaction may not complete – *substantially increases execution risk and risk of IPO failure* ✗ Narrower share register post offering – *increases the likelihood of unsatisfactory aftermarket trading*

7. Recommended public statements on allocation policy

We advise the Crown to maintain maximum flexibility in relation to allocation policy for as long as possible. We believe that the Crown should continue to reiterate the public statements made to date, being that:

- ***The Crown intends to maintain a controlling shareholding***
- ***There will be widespread and substantial New Zealand participation – New Zealand residents will be at the front of the queue in terms of priority of allocation***

We believe that these statements, early in the Programme development, best balance the desire to reassure the public that they will be able to directly invest in the companies with priority, while allowing the Crown to maintain flexibility to achieve Programme IPO outcomes consistent with its objectives. We acknowledge that this may open the Crown to criticism from opponents of the Programme in relation to the level of detail on allocation policy, however, we believe being more definitive opens the Crown to further questioning and debate that is not advisable at this stage of the process.

Whilst it is not our advice, if the Crown chooses to provide further detail around allocation policy, fall back statements could include:

- ***The Crown intends to maintain a controlling shareholding***
- ***There will be widespread and substantial New Zealand participation – New Zealand residents will be at the front of the queue in terms of priority of allocation***
- ***New Zealand resident applicants will receive an allocation priority relative to all other investors and will receive any applicable retail incentives (eg loyalty shares) if offered as part of the relevant IPO – they are at the front of the queue.***
- ***International investors will not be excluded from participating as we welcome direct foreign investment in New Zealand, and this demand will not impact New Zealand control of these important companies, but will help achieve a fair price for the assets for the people of New Zealand. Furthermore, it is our objective that each of the companies is at least [85]% owned by New Zealanders (including the Government's retained majority shareholding), following the IPO allocation process.***

We encourage the Crown to avoid making these statements unless it is **absolutely necessary** as we believe that it will only encourage unhelpful debate and inflame negative commentary.

THE TREASURY
Kaitohutohu Kaupapa Rawa

Treasury Report: Mixed Ownership Model - Foreign Ownership Restrictions - Initial Share Allocations

Date:	25 August 2011	Report No:	T2011/1884

Action Sought

	Action Sought	Deadline
Prime Minister (Rt Hon John Key)	**Note** the recommendations in this report	None
Minister of Finance (Hon Bill English)	**Note** the recommendations in this report	None
Minister for State Owned Enterprises (Hon Tony Ryall)	**Note** the recommendations in this report	None
Associate Minister of Finance (Hon Steven Joyce)	**Note** the recommendations in this report	None

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Dieter Katz	Principal Advisor, Commercial Transactions	04 471 5264 (wk)	[Withheld under s9(2)(a)] [redacted]	✓
Andrew Blazey	Manager, Commercial Transactions	04 917 6985 (wk)		

Prime Minister's Office Actions (if required)

None.

Minister of Finance's Office Actions (if required)

None.

Minister for State Owned Enterprises Actions (if required)

None.

Associate Minister of Finance's Office Actions (if required)

None.

Enclosure: **No**

25 August 2011

SE-1-3

Treasury Report: Mixed Ownership Model - Foreign Ownership Restrictions - Initial Share Allocations

Executive Summary

We have previously outlined options for foreign ownership restrictions subsequent to the initial public offer (IPO). We also indicated that at the time of the IPO, the Government has discretion as to whom it allocates shares.

During the book build phase of an IPO, a decision has to be made on how shares are allocated between the institutional investors who submitted bids. A decision also needs to be made as to how many shares are allocated to domestic retail investors and institutions to ensure a balanced share register after the transaction.

The promoter (i.e. the Government) has considerable freedom on the day to decide how many shares are allocated to each bidder, and will be guided by the allocation criteria agreed prior to the book build.

In order to maintain price tension and ensure an orderly aftermarket, as well as to ensure good demand in subsequent IPOs, it is desirable to invite bids from foreign investors and to allocate shares to them. This is because pricing tension from domestic institutions is unlikely to be sufficient to establish the best price for the asset.

At the time of the Contact Energy IPO, the Government of the day concluded that a minimum of 30% of the shares on offer needed to be allocated to foreign investors in order to ensure that investors did not dump their shares in the aftermarket and that they would participate in subsequent IPOs. In the context of mixed ownership, managing these risks is still relevant – particularly – as there is more than one sale within a single industry. The percentage chosen need not be the same, but the decision should ideally be left until the time of the sale so there is better information on the implications of that decision.

The desired allocation of foreign investors is difficult to predict as it depends on market conditions at the time of the IPO and will vary from one state owned enterprise to the next.

This report analyses the statements made by the Government to date and concludes:

- a priority allocation to New Zealand residents places New Zealanders at the front of the queue
- incentives (eg. loyalty shares), although a cost to the Crown, mean New Zealanders are being treated better than other categories of investors
- allocating some shares to foreign investors is not inconsistent with Government statements
- maintaining flexibility until the time of the IPO is not inconsistent with Government statements and is desirable given uncertainties around the volatility of market conditions, and
- being more definitive is likely to open the Government to further questions about a sale and risks unintended consequences on how the objectives can then be achieved.

Communications

We suggest that Government communications in relation to share allocations be limited to stating that:

- *The Crown intends to maintain a majority, controlling shareholding.*
- *There will be widespread and substantial New Zealand participation – New Zealand residents will be at the front of the queue in terms of priority of allocation.*
- *International investors will not be excluded from participating as we welcome direct foreign investment in New Zealand. This demand will not impact New Zealand control of these important companies, but will help achieve a fair price for the assets for the people of New Zealand.*

Recommended Action

We recommend that you:

a **note** our view that the Government should maintain maximum flexibility in relation to allocation policy, and

b **note** the suggestions for public communications above.

Andrew Blazey
Manager, Commercial Transactions Group

Rt Hon John Key
Prime Minister

Hon Bill English
Minister of Finance

Hon Tony Ryall
Minister for State Owned Enterprises

Hon Steven Joyce
Associate Minister of Finance

Treasury Report: Mixed Ownership Model - Foreign Ownership Restrictions - Initial Share Allocations

Purpose of Report

1. On 5 August 2011, we outlined options on foreign ownership restrictions subsequent to an initial public offer (IPO) [T2011/1710 refers]. We also indicated that at the time of the IPO, the Government has discretion as to whom it allocates shares. In this report we discuss in more detail the choices around initial allocations and how they relate to the Government's objectives, in particular the two of the Prime Minister's five tests that are impacted by allocation decisions.

Background

Description of the IPO pricing and share allocation process

2. The following section identifies the way in which the share allocation process contributes to pricing tension and achieving a fair price for the sale of the asset.

3. The usual way of conducting an IPO of shares is to conduct a 'book build'. Large (primarily institutional) investors are invited to submit bids for parcels of shares. The process is like an auction, except that during the 'book build' phase there is an intensive interaction between the sales agents and the bidders, during which time bidders are able to revise their bids. Bidders often submit multiple bids at different maximum prices. The usual practice is for all successful institutional applicants to pay the same price.

4. In the book build there is a complex interaction between the size of bids, price setting and share allocations. Bidders may bid more than they wish to be allocated, in the expectation that their bids will be scaled down. At the same time, partly in recognition of the 'over-bidding', the price is typically set below the apparent market clearing level, which means there is the appearance of 'oversubscription'.

5. The apparent oversubscription gives the promoter (in this case the Government) the ability to decide how the shares should be allocated to individual bidders. The objective is usually to assess the quality of bids which results in rewarding investors who:

- put more effort into researching the IPO and provide feedback
- bid for a larger volume of shares at higher prices early in the process thereby creating momentum, and
- are more likely to hold the shares as a portfolio position for the medium to long term.

6. The promoter could include other objectives. In the case of the sale of Contact Energy, ministers had a preference that retail investors receive larger allocations than they received in the Auckland Airport and Capital Properties New Zealand public offers, in which the retail investors were scaled heavily.

7. The limiting factor in the Contact Energy sale was that a minimum amount needed to be allocated to foreign investors in order to maintain reasonable price tension and to minimise the risk that the institutional investors lost interest and sold their allocations in the aftermarket, thereby depressing the market. The Government decided on a minimum allocation to foreign investors of 30%, and of note that Australian institutions were not classified as foreign investors for that purpose.

8. The above detail demonstrates that the Government was able to establish a view on allocation prior to the sale, retain flexibility until bids are received and then make a final determination once information on the price and demand for the shares was known during the book build.

9. There are alternative methods to a book build which include a traditional auction and a fixed price offer, however a book build is generally considered to provide better price discovery, greater assurance that the issue is filled and that the share price does not climb too steeply, or fall, in the aftermarket.

Objectives

10. From a New Zealand public and capital markets perspective, we believe a successful IPO program will be assessed as having:

- Widespread and substantial New Zealand ownership – New Zealand residents at the front of the queue in terms of priority of allocation.
- A positive aftermarket where investors have a good experience and feel positive about having made the decision to invest.
- Achieved a pricing outcome for the Crown that is seen as a fair value.

11. These factors do not cover all the Crown objectives in relation to the program, but will likely be the three most referenced and measurable characteristics.

12. A fuller set of objectives (some of which are in opposition to each other) includes the following:

- **Achieve the Prime Minister's five tests.**
- **Fiscal (static)** – optimise value for the Crown.
- **Low execution risk** – successful implementation of the IPOs measured by good demand for shares in the IPO and investors have a positive experience in the aftermarket.
- **Commercial disciplines** – Ensure these large and important companies reap the benefits of sharper commercial disciplines, more transparency and external investor oversight, allowing them to make the strongest possible contribution to New Zealand's economic growth.
- **Fiscal (dynamic)** – allow the SOE companies to obtain growth capital without being totally reliant on the Crown.
- **Capital market development** – **broaden** the pool of investments available to New Zealand savers and increase the depth of the New Zealand equity market.

Analysis

13. Of the Prime Minister's tests, two are impacted by the way that shares are allocated. These are open to varying interpretations which will affect the choice of allocation policy. They are analysed in detail in the table below:

Table 1: Prime Minister's tests

Objectives	***How to achieve the tests: Options***	***Issues***
1. New Zealand investors would have to be at the front of the queue for shareholdings...	Either: All NZ investors who apply will receive a priority allocation, i.e. at least some shares, however foreigners also receive an allocation.	**Recommended by Treasury and the Crown Advisor.**
	Or: All NZ investors will get all the shares they apply for before any foreigners are considered	**High risk** If the NZ demand is so large that foreign institutions are crowded out of the book build, then price setting will be subject to greater risk of error: Either the price is set too low, reducing the Crown's fiscal outcome and resulting in a steep increase in the post-IPO share price, leading to excessive demand in the next IPO, or the price is set too high, resulting in a fall in the post-IPO share price and a perception of failure, making the next IPO more difficult.
2. ... and we would have to be confident of widespread...	Widespread ownership could, in part, be achieved by lowering the minimum parcel of shares to say $1,000, so it is affordable to the widest possible socio-economic base.[1] (Note this is not a guaranteed allocation).	Setting a minimum guaranteed allocation. **Not recommended.** But, if one is set then it should be not more than $2,000,[2] as it could preclude an allocation to domestic and foreign institutional investors.
	Either: Scaling could be organised so that retail applications are filled "bottom up".	
	Or: Scaling could be proportional subject to minimum parcel size of $1,000.	
	And: retail bids could be capped to not exceed a specific value eg. $100,000.	

[1] The minimum value of shares in an application form can be lower than $1,000, but at $500 the transaction costs of purchase and sale can undermine returns, eg. BrokingDirect charges $29.90 for a purchase and sale which is 12% of a $500 parcel and 6% of a $1,000 parcel.
[2] Based on the assumption of 230,000 retail applications. 229,000 applied for shares in Contact Energy.

3. ...and substantial New Zealand share ownership.	Either: For the retail allocation and in the book build, 60-70% of total shares on offer (or 80-85% of the company) could be reserved for NZ investors (retail and institutional).	At the time of the Contact Energy sale, it was considered that at least 30% of the offer needed to be allocated to foreign investors in order to ensure that they did not dump their shares in the aftermarket. There are some risks from identifying a specific percentage before Ministers have decided on the specifics of the transactions. Any percentage should be limited to an objective for the whole sales programme, not an individual SOE.
	Or: For the retail allocation and in the book build, 60-70% of total shares on offer are reserved for NZ and Australian investors.	At the time of the Contact Energy sale, Australian institutions were not counted as foreign institutions. We will be reviewing the definition of a domestic institution when preparing advice on the sales programme.
4. The companies involved would have to present good opportunities for investors.	A book build with foreign participation would minimise the risk that the offer is mispriced.	A good investment opportunity is one which institutions (domestic and foreign) want to participate in as well as mums and dads. Greater oversight of performance is more likely by institutions than individual investors.

14. Regarding the first and second tests in the above table, there is considerable focus on 'mum and dad' investors being at the front of the queue. We consider that this is only one category of a New Zealand investor, others include:

- broker clients (high net worth New Zealanders)
- Kiwisaver accounts held by individual New Zealanders
- crown financial institutions (NZ Super Fund, ACC, GSF etc)
- iwi, and
- community trusts.

15. Regarding the third test in the above table, specifying a given percentage of ownership, even as a target, introduces some risk to the proposed transactions, for example, in highly volatile markets the Government may have more reliance on foreign institutions. Further, it can reduce the incentive to bid at a higher price if there is little prospect of being allocated any shares.

16. A New Zealand investor allocation priority is expected by the market and consistent with public statements to date. However, there are a number of reasons why it is important that this allocation priority is not framed such that it limits international participation:

- Where the allocation priority is too heavily slanted toward New Zealanders, it is almost certain that this will **deter international investor engagement** across the program IPOs, thereby substantially increasing execution risk.

- International investors have an important role to play in terms of generating **price tension** during the book build process and in the aftermarket for each of the IPOs. Severely restricting their allocation from the outset will discourage their bids in the IPOs and threaten the Crown's objective of optimising value.

- The **sequencing and timing** of the IPOs is yet to be determined and whilst some could generate significant domestic demand, others may require foreign investor participation to be successful. Market conditions at the time of each IPO could vary substantially from planning to launch to completion, impacting investor sentiment and therefore demand. It is essential to not constrain demand pools from the outset, they may all be essential to complete the transaction if unexpected circumstances arise.

- The post-IPO **register composition** of each of the SOEs should be structured for the long term – balanced, stable and liquid. If this is not the case, there is potential for large churn volumes and price instability which threatens the Crown's objectives of ensuring a positive aftermarket for each of the IPOs.

- Some of the IPOs may **not be well suited to retail participants** and so maintaining foreign investor engagement is critical to ensuring their success.

17. It is highly likely given the circa NZ$7 billion scale and profile of the MOM program that there will be a requirement for some or all of the IPOs to be undertaken via a fully marketed global equity offering, as has been done for the vast majority of NZ, Australian and international public asset sell-downs. The offer structure(s) employed to access investors both domestically and internationally is intentionally kept relatively simple, and priority of allocation to New Zealand applicants can be employed in both the retail and institutional offers.

Communication

18. For the reasons outlined above, we consider it desirable that the Government maintains maximum flexibility in relation to allocation policy. This will allow the Government to determine relative allocation policy with the full picture of demand available and in light of market conditions and investor sentiment at the time of execution, thereby minimising execution risk. Public statements that elaborate on allocation policy will be a beacon for public commentary and drive renewed calls for further detail and justification.

19. We believe that the Government should continue to reiterate the public statements made to date, being that:

- **The Crown intends to maintain a controlling shareholding.**

- **There will be widespread and substantial New Zealand participation – New Zealand residents will be at the front of the queue in terms of priority of allocation.**

20. In addition, we consider it desirable for the Government to state that:

- **International investors will not be excluded from participating as we welcome direct foreign investment in New Zealand. This demand will not impact New Zealand control of these important companies, but will help achieve a fair price for the assets for the people of New Zealand.**

21. These statements may help balance the desire to reassure the public that they will be able to directly invest in the companies with priority, while at the same time allowing the Government to retain flexibility to achieve the IPO outcomes consistent with its objectives. We acknowledge that this may open the Government to criticism in relation to the level of detail on allocation policy; however, being more definitive is likely to open the Government to further questions before it receives advice on the design of a sales programme.

THE TREASURY
Kaitohutohu Kaupapa Rawa

29 August 2011 SE-1-3

To: Minister of Finance
Minister for State Owned Enterprises
Associate Minister of Finance (Hon Steven Joyce)

Additional advice on potential share allocations

Following our report on initial share allocations [T2011/1884 refers]; we have expanded our assessment of stating a specific level of New Zealand ownership from extending the mixed ownership model.

Notwithstanding our advice to manage the uncertainties of a sale by retaining flexibility, we consider Ministers could identify a **target of at least 80% New Zealand ownership across the whole Mixed Ownership Model Programme**, including the Crown's retained majority shareholding.

This assessment is fraught with uncertainties about both the willingness of New Zealand investors to participate in an IPO and the market conditions at the time of an offer. To help manage these uncertainties we will be recommending that the Government test the achievability of that percentage by surveying potential investors after the election which would enable the next government to refine its approach as part of announcing a sales programme.

A minimum 80% target comprises at least 51% direct Crown ownership and 29% (59% of the share offer) New Zealand retail and institutional ownership. This means that across the four IPOs and sell-down of Air New Zealand shares the composition would be:

	Company ownership	*IPO allocation*
New Zealand Government	at least 51%	-
New Zealand retail and institutions	29%	59%
New Zealand ownership	80%	59%
Foreign investment	20%	41%

As a percentage, the allocation of 20% (41% of the share offer) is in line with the results achieved in overseas IPOs. Further, 85% New Zealand participation was achieved at the time of the Contact Energy sale in 1999 recognising that Australian institutions were deemed to be domestic institutions. In the current economic environment, the dominant uncertainty to achieving that percentage is the unknown strength of New Zealand retail demand. The table below identifies the general risks from stating a specific allocation.

Risk	Probability	Potential mitigation
The demand profile does not achieve 80% New Zealand participation. A requirement for 80% would need to be stated in the offer document. Failure to achieve 80% domestic (or 20% offshore) would lead to publicly	Low	The 80% must be a target, not a requirement. Stating a level of NZ participation across the whole program provides a measure of

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Risk	Probability	Potential mitigation
withdrawing the offer.		flexibility when it comes to each IPO.
80% New Zealand investment is not achievable for each and every five mixed ownership company.	Medium	Identify a percentage across the sales programme. Any shortfall in demand for one company would mean that an even higher percentage would need to be achieved for the other companies.
The 80% may deter offshore participation as the opportunity to buy shares may be reduced.	Medium	Identify the merit of foreign investment in an open economy for capital market development. Only commit to New Zealanders being able to participate and receiving a priority allocation, not everything they want as this may be unachievable.
Predetermining the allocation of shares can damage the demand for shares.	Medium	Retain flexibility until the date of the IPO and retain the right to determine allocations in line with the offer documentation.
Investor intentions (domestic and offshore) are not known and may not support a predetermined level of investment.	Low	Undertake investor surveys to establish the level of likely demand for shares by each category of investors.

Foreign investment allocation

Allocations to foreign investors play an important role in an IPO in order to maximise demand and achieve the best possible price for the shares on offer. The Government may want to emphasize the extent to which it welcomes foreign participation:

- As an open economy participating in international capital markets, New Zealand companies attract around 36% foreign investor participation.
- Foreign investors play an important role during the book-build process and after the SOE in achieving the best possible price for an asset and reducing risk to investors.
- Once an IPO is launched publicly, market conditions are not static – in a volatile economic environment foreign demand may avoid a failed transaction in the event New Zealand demand disappoints (e.g. QR National example in Australia).
- Some of the SOEs may not be well suited to retail participants and so maintaining foreign investor engagement is critical to ensuring the success of these IPOs.
- The post-IPO share register of each SOE should be structured for the long term; it should not restrict New Zealanders from being able to sell their shares.
- Foreign ownership should help sharpen the SOEs commercial disciplines and help bring global best practice to NZ[1].

Dieter Katz, Principal Advisor, Commercial Transactions, [Withheld under s9(2)(a)]
Andrew Blazey, Manager, Commercial Transactions,

[1] Research by William Megginson in his book, *The Financial Economics of Privatisations: 2005* indicates that where international ownership is allowed, the speed at which SOEs become more efficient increases more quickly than where ownership is purely domestic.