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Policy and Regulatory Affairs
NZX
Wellington

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Submission on NZX dual class share structure proposals

Tēnā koutou,

Thank you for the opportunity to comment on NZX's proposed amendments to enable Dual Class Share (DCS) structures on the NZX Main Board.

The Institute of Directors (IoD) supports strong, effective and trusted capital markets in New Zealand. We recognise the importance of market settings that support innovation, growth and access to public capital.

This submission is limited to the board and governance implications of the proposal. IoD does not take a position on technical matters such as valuation, liquidity, spread requirements or capital raising mechanics, except where those matters affect the ability of boards to govern well. Our central interest is whether directors can continue to exercise independent judgement, fulfil their duties and govern effectively in the interests of the company as a whole where voting control and economic ownership are not fully aligned.

Summary of IoD's position

IoD sees a case for NZX to explore whether DCS structures could have a limited place in New Zealand's listed markets. Dual class structures may assist some issuers, particularly founder-led companies where continued founder influence is an important part of the listing decision.

About the Institute of Directors

The Institute of Directors (IoD) is New Zealand's pre-eminent organisation for directors and sits at the heart of the governance community. We have over 10,500 members connected through our regional branch network and national office. We believe in the power of governance to create a strong, fair and sustainable future for New Zealand. Our role is to promote excellence and high standards in governance. We support and equip our members who lead a range of organisations from listed companies to large private organisations, state and public sector entities, small and medium enterprises, not-for-profit organisations and charities. Our Chartered Membership pathway aims to raise the bar for director professionalism in New Zealand, including through continuing professional development that supports strong governance practice.

IoD's submission focuses on the governance conditions that need to be in place if NZX proceeds. The central governance issue is that DCS structures separate voting control from economic ownership.

Directors' legal duties remain the same, but the framework needs to ensure that boards can still exercise independent judgement, manage conflicts and govern in the interests of the company as a whole.

IoD highlights the following key points:

- DCS should be a measured and reviewable pathway for appropriate new listings, rather than a general solution to New Zealand's capital markets challenges.
- The central test is whether boards can still govern well where voting control and economic ownership are not aligned. The framework should protect independent judgement, full and timely board information, effective conflict management and directors' ability to act in the interests of the company as a whole.
- Founder-led and member-controlled issuers should be considered separately: founder control is about concentrated influence; member control is about the relationship between member value and investor return.
- Ordinary shareholders should retain 1:1 voting on core governance matters, including director and auditor appointment and removal, specified share issues, delisting, liquidation and changes to the issuer's governing document.
- Superior voting rights should be tested over time through a sunset or ordinary-shareholder renewal mechanism, with superior votes unable to determine continuation.
- The regime will depend on the quality of independent directors and the DCS Governance Committee operating well in practice.
- The final settings should clarify how the DCS Governance Committee works alongside the existing related party transaction rules.

This approach would allow NZX to test whether DCS structures can assist appropriate issuers while maintaining confidence in listed-company governance.

Policy context

NZX's proposal sits within a wider concern about the depth of New Zealand's public markets. The OECD Economic Survey of New Zealand 2026 identified that New Zealand's public equity market is small, listings have declined, and there have been no major domestic IPOs since 2021. The OECD also noted thin analyst coverage and liquidity, and recommended further work to support public equity markets, including consideration of dual class shares as part of a wider reform package.

Overseas experience points to a measured approach. In the United States, dual class structures are used at scale, especially by founder-led growth companies. The Council of Institutional Investors has noted that 24% of US companies going public in the first half of 2021 had a dual class structure, while academic research has identified a marked increase in founder-controlled dual class IPOs in the United States over recent decades.

Other markets have taken a more controlled approach. Hong Kong and Singapore both amended their listing rules in 2018 to permit weighted voting or dual class share structures, subject to safeguards. Hong Kong's reforms formed part of a broader new listing regime for new economy companies, pre-revenue biotech companies and secondary listings. Singapore's framework applies to new Mainboard listings and includes safeguards such as limits on multiple voting shares, 1:1 voting on specified matters and conversion triggers. Experience in those markets also suggests that permitting DCS does not, by itself, determine listing outcomes. Take-up depends on the wider market context and the types of issuers the framework is designed to attract.

A DCS regime may remove one barrier for some issuers, particularly founders concerned about loss of control, and may make NZX listing more viable for companies that might otherwise remain private or list offshore. It is unlikely, however, to shift listing decisions on its own. Market depth, valuation, liquidity, research coverage and investor appetite will still matter.

For that reason, IoD considers DCS should be treated as one targeted capital markets tool, supported by governance safeguards, rather than as a complete answer to New Zealand's listing challenges.

If dual class structures are introduced, the regime should be staged and reviewable. NZX should monitor uptake, issuer type, investor response and governance outcomes before considering any expansion.

Founder-led companies and co-operatives

NZX's proposal appears most directly suited to founder-led new listings. In those companies, dual class shares may appeal because the founder wants to raise public capital without giving up influence over the company's direction. This may support long-term strategy and preserve entrepreneurial judgement, but it may also entrench personal control.

A founder with superior voting rights may have significant practical influence over strategy, management culture, investor communications and board composition. Independent directors may have clear statutory duties and formal authority, but reduced practical leverage if management, investors or other directors treat the founder's view as decisive.

The governance challenge depends partly on where the founder sits. A founder who is chief executive, chair or director is within the formal governance or management structure. An external controller with superior voting rights creates a different risk: the board remains responsible for governing the company, while the controller may still influence director appointments, shareholder outcomes and the practical environment in which decisions are made.

These dynamics matter most when the board needs to make hard calls, such as founder succession, underperformance or a conflict involving a superior shareholder. The framework should give independent directors the tools to act before the board's position becomes constrained, including reliable information flows, access to advice, chair leadership and voting protections on board composition and accountability.

Co-operatives and other member-controlled issuers are different. Their purpose is usually to preserve member control. Member value may come through pricing, rebates or services, while public investors are more likely to focus on dividends, capital growth and liquidity. If NZX intends the DCS framework to support these issuers, it should say so expressly and consider whether tailored settings are needed.

Core governance issues

Sunset or ordinary-shareholder renewal

IoD supports NZX's proposed conversion triggers, but considers the regime should include a clear sunset or renewal mechanism.

A DCS structure may be justified at listing because of a founder's active role, a member-control rationale or a longer-term stewardship purpose. In some issuers, continued control by a founder, family, whānau, member group or other long-term holder may support patient capital, continuity of purpose and investment decisions that are not driven only by short-term market pressure.

At the same time, the justification for superior voting rights can change. A founder may step back, become a passive controller, sell down, transfer control to another vehicle or no longer be central to the company's performance.

A sunset or renewal mechanism gives the board and ordinary shareholders a disciplined way to test whether superior voting rights remain justified after the structure has operated in the market. IoD does not suggest that a short sunset will suit every issuer. If the purpose is to support a transition to public ownership, a sunset is coherent. If the purpose is to support longer-term stewardship or control, renewal becomes more important than automatic expiry.

IoD recommends automatic conversion after a fixed period unless continuation is approved by ordinary shareholders, with superior voting rights unable to determine the outcome. IoD also supports NZX's proposal that DCS issuers disclose annually why the structure remains appropriate. That disclosure will be more meaningful if it is linked to a clear renewal or review point.

Independent directors and chairs

Independent directors will be central to the credibility of DCS issuers.

For independent directors, formal independence will not be enough; they need the authority, information and boardroom conditions to challenge effectively. Boards of companies with concentrated voting control may be influenced before any formal vote is taken. Information may flow first to the founder or superior shareholder, and management may anticipate the controller's preference. Independent directors need settings that allow them to test, challenge and escalate matters without depending on the controller's goodwill.

Before listing, the board should be clear about how it would deal with founder-chief executive underperformance, pressure to change board composition, or pressure on class-appointed directors.

The final DCS guidance should focus on how the DCS-specific safeguards are expected to operate alongside ordinary board processes, including the DCS Governance Committee, representative directors, information flows and access to independent advice. A director appointed through a shareholder class remains a director of the company, not a delegate of that class. The director may bring visibility of that class's perspective, but must exercise independent judgement in the interests of the company as a whole.

The chair's role should be addressed expressly. In a DCS issuer, the chair may need to manage founder influence, shareholder class expectations and independent director challenge while preserving collective board responsibility. This will be particularly important where the superior shareholder sits outside the board but retains significant voting control.

Ordinary shareholder protections

Ordinary shareholders may provide capital while having reduced voting influence. Their voice should be preserved on matters most connected to board accountability and market trust. If ordinary shareholders have limited influence over director composition, class rights, delisting or controller-related matters, the market may perceive the board as accountable primarily to the superior shareholder.

IoD supports NZX's proposed 1:1 voting on director appointment and removal, auditor appointment and removal, delisting, liquidation, specified equity issuances and changes to the issuer's governing document. This is appropriate because the governing document will contain core elements of the DCS bargain, including voting rights, conversion triggers, permitted holders and governance arrangements. Those settings should not be able to be changed by relying on the superior voting rights the regime is designed to regulate.

Related party transactions

Material related party transactions are already dealt with under the Listing Rules. Where shareholder approval is required, the related party and its associated persons are subject to voting restrictions, and the notice of meeting must be accompanied by an independent appraisal report. Those rules remain the formal approval pathway.

The DCS-specific point is how the DCS Governance Committee fits alongside that pathway. NZX's draft guidance already gives the committee a role in monitoring conflicts involving superior shareholders and reviewing transactions between the issuer and its shareholders. IoD supports that approach.

The final guidance should make clear how the committee's role applies where a transaction involves a superior shareholder, founder or associated entity, including where a conflict is material from a governance perspective but does not necessarily trigger shareholder approval under the related party transaction rules.

This should not create a second approval process. It should help directors and shareholders understand how the DCS safeguards, board processes and existing Listing Rules work together.

Transferability of superior shares

The transfer rules should protect the bargain ordinary shareholders accepted at listing. Superior voting rights may be justified because of a particular founder, family, whānau, member group or long-term holder. That rationale should only transfer where the new holder falls within the Permitted Superior Shareholder Group criteria approved by NZX and disclosed at listing. Transfers outside those approved criteria should trigger conversion or require ordinary shareholder approval, with superior votes unable to determine the outcome.

DCS Governance Committee

IoD supports NZX's proposal to require a DCS Governance Committee. This committee is likely to be one of the main safeguards in practice. Its value will depend not only on its composition, but on whether it has the information, authority and independence to identify DCS-related issues early and bring them to the full board.

Its role should be focused and clearly distinguished from the role of the full board. The committee should monitor whether the DCS structure is operating as disclosed, including superior shareholder eligibility, conversion triggers, class conflicts, superior shareholder-related conflicts and matters that may affect whether the rationale for superior voting rights remains current.

The committee should support the full board, not become a substitute for board judgement. IoD supports NZX's proposed requirements that the committee be chaired by an independent director, comprise a majority of independent directors and exclude holders of superior shares. The composition rules are helpful, but the committee's effectiveness will turn on how it operates in practice. The final framework should make clear what information the committee should receive, when DCS-related matters should be escalated to the board, when independent advice may be needed, and how its annual reporting should give shareholders meaningful visibility without disclosing confidential board deliberations.

The committee should identify the points at which the DCS structure may affect board judgement or investor confidence, including founder succession, changes in the superior shareholder's role, superior shareholder-related conflicts, information flows and ordinary shareholder concerns.

Comments on NZX questions

NZX issue	IoD position
DCS structures available only for new listings	IoD supports limiting DCS structures to new listings, at least initially, so investors know the governance structure before investing. Applying DCS to existing issuers would alter shareholder rights after investment and should require a separate process, including ordinary shareholder approval and an independent board assessment.
Minimum 10% economic interest for holders of superior shares	IoD supports a minimum economic interest requirement. Superior voting rights are easier to justify where superior shareholders retain meaningful capital at risk. IoD does not take a position on whether 10% is the right threshold, but NZX should test whether it remains sufficient where superior shares may carry up to 10 votes per share. The 10:1 voting cap and the restriction on increasing the proportion of superior shares to ordinary shares after quotation are important safeguards. They limit voting disparity and prevent the disclosed control position from expanding after listing. They do not, by themselves, address all governance issues that may arise over time, including founder succession, transferability, board dynamics and the continuing rationale for superior voting rights.
Anticipated market capitalisation	IoD does not propose to comment on this matter.
Spread requirements for non-quoted superior shares	IoD does not take a position on spread requirements. From a governance perspective, the important matters are who holds superior shares, the voting power attached to them, who may hold or transfer them, and when they convert.
Matters requiring 1:1 voting	IoD supports NZX's proposal for 1:1 voting on key matters, including director appointment and removal, auditor appointment and removal, specified share issues, liquidation, delisting and amendments to the issuer's governing document. Related party transaction issues should be addressed through the existing Listing Rule framework, with the DCS Governance Committee's conflict-monitoring role operating alongside those rules.
Director appointments and removals	IoD supports NZX's proposal that director appointments and removals be subject to 1:1 voting. This protection is important because board composition is central to accountability in a DCS issuer.
Anti-dilution protections	IoD does not propose to comment on the detailed mechanics. Ordinary shareholders should have confidence that the control position disclosed at listing will not expand later without appropriate approval and disclosure. IoD supports NZX's proposed restrictions on the voting ratio and on increasing the proportion of superior shares to ordinary shares after quotation.
Acquisition, redemption, transfer and capital raising involving superior shares	IoD does not propose to comment on the detailed mechanics. These transactions should not increase superior shareholder control beyond the position disclosed at listing without appropriate approval. Transfers outside the disclosed permitted holder group should trigger conversion or ordinary shareholder approval.
Conversion triggers and sunset	IoD supports NZX's proposed conversion triggers but considers the regime should include a sunset or ordinary-shareholder renewal mechanism. Continuation beyond the sunset should require approval by ordinary shareholders with superior voting rights unable to determine the result.
Director independence and class-appointed directors	IoD supports stronger guidance on director independence for DCS issuers. Directors appointed by a shareholder class are not delegates of that class. Their duties are to the company. Guidance should address confidentiality, conflicts, expectations from appointing shareholders and collective board responsibility. It should also address how the DCS-specific safeguards support independent directors in practice, including access to relevant information, use of independent advice and escalation of DCS-related concerns.

NZX issue	IoD position
Majority independent board	IoD supports retaining the majority independent board recommendation for DCS issuers. NZX guidance should address the capability, information and authority independent directors need where voting control is concentrated.
Role of the chair	IoD recommends that NZX guidance address the role of the chair in a DCS issuer. The chair may need to manage founder influence, shareholder class expectations, independent director challenge and information flows. This will be particularly important where the superior shareholder sits outside the board.
DCS Governance Committee	IoD supports NZX's proposed DCS Governance Committee. Its role should include monitoring whether the DCS structure continues to operate as disclosed, including superior shareholder eligibility, conversion triggers, shareholder class conflicts, superior shareholder-related conflicts and matters that may affect whether the rationale for superior voting rights remains current. The committee should also consider matters that may affect the continuing justification for the DCS structure, including founder succession, founder-related conflicts and whether management information flows support the full board. The committee should support the full board and its annual report summary should give shareholders useful visibility of how the committee has carried out its DCS responsibilities.
Board committee composition and workload	IoD supports the proposed committee composition requirements in principle. NZX should recognise the pressure this may place on independent directors, particularly in smaller or growth issuers. Guidance should address access to independent advice, induction and remuneration.
Warning statement	IoD supports a prescribed warning statement, but it should be clearer. It should tell ordinary shareholders that they may have less influence over director appointments, control matters and strategic direction than they would in a standard listed company.
Offer document or profile	IoD supports additional disclosure. The offer document or profile should explain the rationale for the structure, who holds superior shares, their voting power, expected duration, conversion triggers, board arrangements, conflict processes and the skills needed for the issuer's governance structure. It should also explain how the board will manage controller influence, how ordinary shareholder interests will be heard, and how the structure will be reviewed over time.
Continuous disclosure guidance	IoD supports DCS-specific continuous disclosure guidance. Guidance should cover changes in control, changes in a founder or key person role, transfer of superior shares, loss of eligibility and potential conversion events. It should also cover matters that may materially affect the market's assessment of the governance bargain, including founder succession and other developments that may materially affect the rationale for the DCS structure.
Substantial product holding information for non-quoted superior shares	IoD does not propose to comment on the operational mechanics. From a governance perspective, the issuer should have reliable systems to identify who holds superior shares, whether eligibility criteria continue to be met, and whether any change may affect disclosure or conversion triggers.
Issue of further superior shares	IoD does not propose to comment on detailed capital raising settings. As a governance principle, further issues of superior shares should not materially alter the control position disclosed at listing without appropriate approval and disclosure.
Additional capital raising requirements	IoD does not propose to comment on detailed capital raising requirements. From a governance perspective, the board should consider the effect of any capital raising on voting power, control, economic ownership and the relationship between superior and ordinary shares. Conflicts should be carefully managed where superior shareholders or related parties participate.

Conclusion

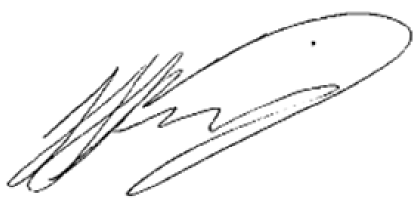
The IoD supports strong capital markets and recognises why NZX is considering a DCS pathway for appropriate new listings. Such a pathway may help some companies access public capital where continued founder or long-term holder influence is part of the listing proposition.

The key governance question is whether boards can still govern well where voting control and economic ownership are not aligned. Directors' duties remain the same, but the boardroom environment may be more complex. The final framework should protect independent judgement, full board information, effective conflict management and accountability to ordinary shareholders.

The IoD supports the core direction of NZX's proposed safeguards. A measured and reviewable pathway, with a sunset or ordinary-shareholder renewal mechanism, clear transfer rules, 1:1 voting on core governance matters and an effective DCS Governance Committee, would allow New Zealand to test whether DCS structures add value without undermining confidence in listed-company governance.

We appreciate the opportunity to comment and would welcome the opportunity to discuss any aspect of this submission further.

Ngā mihi nui,



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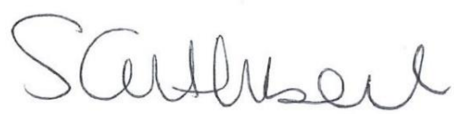

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