

The Treasury

Project Korimako - Release of advice

December 2022

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- [23] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [25] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
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- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;
- [36] 9(2)(h) - to maintain legal professional privilege
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

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Treasury Report: Project Korimako - April Update

Date:	5 May 2022	Report No:	T2022/972
		File Number:	SE-1-3-22

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson) Associate Minister of Finance (Hon Dr Megan Woods) Associate Minister of Finance (Hon David Parker)	Note the contents of this report.	12 May 2022

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
David Stanley	Principal Advisor, Commercial and Institutional Performance	[39]	[35]
Shelley Hollingsworth	Manager, Commercial and Institutional Performance		✓

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any
feedback on
the quality of
the report

Enclosure: No

Treasury Report: Project Korimako - April Update

Executive Summary

This report is your April update on Project Korimako. Workstream summaries are provided relating to discussions with Kiwi Group Holdings Limited (KGH) shareholders, due diligence preparations, [33], [37], [38] and establishing a Crown holding vehicle.

[38]

The Office of the Auditor General has agreed that Ernst & Young (EY) can be appointed to manage a due diligence process for the Crown. Once approval of a due diligence process is provided by KGH shareholders, a six-week process is envisaged.

[33], [37], [38]

You will receive two reports seeking the decisions required to establish the Crown holding vehicle

The first report (accompanying this report) seeks your approval regarding a proposed process to establish a Board for the company and the skills to be required from potential directors (T2022/924).

Next week you will receive the second report that will seek your approval to the proposed constitution of the company (primarily focused on the purpose and nature sections), the restrictions to be made on the company's proposed financial powers in accordance with the Crown Entities Act 2004, and the Ministerial positions to be appointed as shareholders of the company (T2022/934). Further decisions, including an initial level of funding to be provided to the company, will be incorporated in later reporting.

Recommended Action

We recommend that you **note** the contents of this report.

Shelley Hollingsworth
Manager, Commercial and Institutional Performance

Hon Grant Robertson
Minister of Finance

Hon Dr Megan Woods
Associate Minister of Finance

Hon David Parker
Associate Minister of Finance

Treasury Report: Project Korimako - April Update

Purpose of Report

1. This report is your April update on Project Korimako. Workstream summaries are provided relating to discussions with Kiwi Group Holdings Limited (KGH) shareholders, due diligence preparations, [33], [37], [38] and establishing a Crown holding vehicle.

Discussions with KGH Shareholders

2. A two-phase approach to discussions was agreed with KGH shareholders whereby more intensive work would commence once exploratory discussions confirmed that there is a reasonable basis to move forward with a transaction, as outlined below.

21 March – 26 April	<u>Phase 1</u> Exploratory discussions between the Crown and KGH shareholders relating to the future ownership structure of KGH. Discussions include indicative price and key terms of a potential transaction.
27 April – 29 June	<u>Phase 2</u> [38] This phase includes the Crown conducting confirmatory due diligence including access to KGH information (which requires approval from KGH shareholders) and transaction documentation drafting. [38]

3. [38]

- 4.

- 5.

6. [38]

7.

8.

9.

10. We are considering our response to NZSF and will provide you an interim update once we have had further discussions with NZSF management. There remains a risk that the Crown's progress towards final arrangements for KGH's ownership are slowed but we remain focussed on the 30 June 2022 target date.

Due Diligence

11. We are preparing for a due diligence process to commence once we have the necessary approvals from KGH shareholders. A six-week due diligence period is envisaged. Our strategy and approach to due diligence is to balance the cost and risk of the due diligence exercise. Even though the Crown is buying a business from within the wider Crown, the acquisition still carries risk. The Crown will become the direct owner of New Zealand's fifth largest registered bank with assets of \$30 billion, and liabilities of \$25 billion, mid-way through a [25] bank-wide transformation programme (including moving to a new core banking system).

12. [33], [37], [38]

While the form of the contractual protections will be a key subject of negotiation, the Crown needs to be well-informed by its due diligence exercise.

13. Our broad approach is to 'trust but verify', rather than a full 'belt and braces' approach typically undertaken in the private sector. [25]

14. We have conducted a procurement process to identify an accounting firm to lead the due diligence. A combination of limited availability and conflicts of interest restricted the

number of potential providers. We have been engaging with the Office of the Auditor General (OAG) to ensure that conflicts of interest were appropriately dealt with.

[25]

15. The OAG has agreed that Ernst & Young (EY) can be appointed to manage a due diligence process for the Crown. EY is the auditor of ACC and NZSF so OAG had indicated some concerns on their independence, but we have now agreed with the OAG measures to mitigate EY's potential conflict of interest.
16. The Crown's existing legal advisor (Minter Ellison) is expected to undertake legal due diligence.

[33], [37], [38]

17. [33], [37], [38]

18.

19.

20.

21.

[33], [37], [38]

22. [33], [37], [38]

[33], [37], [38]

23.

[33], [37], [38]

24. [33], [37], [38]

25.

[33], [37], [38]

26. [33], [37], [38]

Establishment of a Crown Investment Vehicle

27. You have agreed that a Public Finance Act 1989 Schedule 4A company should be established to hold any Crown shareholding in KGH (T2022/707 refers). You will receive two Treasury reports seeking the decisions required to establish the Crown holding vehicle.
28. The first report (accompanying this report) commences the process for selecting directors for the company, initially focused on an establishment director. The report seeks your approval regarding a proposed process and the skills to be required from potential directors (T2022/924).
29. Early next week we will provide the second report that seeks your approval to the proposed constitution of the company (primarily focused on the purpose and nature sections), the restrictions to be made on the company's proposed financial powers in accordance with the Crown Entities Act 2004, and the Ministerial positions to be appointed as shareholders of the company (T2022/934). Further decisions, including an initial level of funding to be provided to the company, will be incorporated in later reporting.

Next Steps

30. Activity in May will be largely driven by the shape of the commercial negotiations. Planned activity includes commencement of due diligence, [33], [37], [38] and identification of board members for the Crown vehicle.