

## **Memorandum of Understanding on Information Exchange and Collaboration**

### **Reserve Bank and Treasury**

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#### **Objective**

1. The purpose of this Memorandum of Understanding (MOU) is to establish the principles under which the Reserve Bank of New Zealand (the Bank) and the Treasury agree to work together to ensure the best possible policy and operational advice on matters related to the macro-economy and on matters related to monetary and financial system.

#### **General Principles**

2. The Bank and the Treasury agree to work together in a manner that is open, cordial and collaborative but which fully respects the formal powers and responsibilities of each agency as set out in legislation.
3. Both parties agree on the desirability of regular interchange on matters of common interest. They also agree on the desirability of timely consultation during the process of policy development and when matters of mutual interest arise.

#### **Relevant Legislation**

4. The policy advisory roles that the Government expects of the Treasury are to advise on the fiscal strategy as well as help the Government to achieve its fiscal strategy consistent with The Public Finance Act (1989). The scope of this advice includes an interest in institutions, macroeconomic performance and structural policy and the provision of financial advice to the Government. Both parties agree that the scope of this policy advice includes the policy areas administered by the Bank.
5. The policy functions and responsibilities of the Bank are set out in the Reserve Bank Act (1989) and amendments, and the Insurance (Prudential Supervision) Act (2010).
6. Section 10B of the Reserve Bank Act states that in formulating and implementing monetary policy the Bank shall consult with, and give advice to, the Government and such persons or organisations as it considers can assist it to achieve and maintain the economic objective of monetary policy. Section 33 (1) of the Reserve Bank Act states that on request of the Minister of Finance (the Minister), the Bank must provide advice on any matter specified in the request that is connected with the functions of the Bank. Section 33(3) states that the Bank may also provide advice to the Minister, at any time, on any matters or subjects within the responsibility of the Bank.
7. Section 162AB of the Reserve Bank Act requires that the Bank assess the expected regulatory impacts of policies it intends to adopt relating to banking supervision, deposit takers, oversight and designation of payment systems and the prudential supervision of the Insurance sector. It also

requires the Bank to assess, at appropriate intervals, the regulatory impacts of policies that are adopted (other than for policies that are minor or of a technical nature); and for the Bank to provide these assessments to the Minister. The Bank must also provide reports on regulatory impacts at the request of the Minister.

8. Both parties to this MOU acknowledge the Bank's monetary policy independence as established by Part 2 of the Reserve Bank Act.

### **Roles and Responsibilities**

9. It is agreed that the Treasury is the Minister's lead advisor on matters related to macroeconomics (other than formulating and implementing monetary policy), wider economic policy, and on all matters related to fiscal policy.
10. It is agreed that the Bank is the Minister's lead advisor on matters related to the formulation and implementation of monetary policy, prudential supervision, macro-prudential policy, and financial markets (including payments systems, liquidity management, and foreign reserves management).
11. It is agreed that both the Bank and the Treasury may provide advice to the Minister on the Policy Targets Agreement and on the framework within which the Bank conducts monetary policy.
12. It is agreed that the Treasury and Bank have common interests on matters relating to financial stability. The Bank's interests arise through fulfilling its obligations and exercising its powers under Reserve Bank Act. The Treasury's interests arise through its objectives of maintaining macro-economic stability, improving economic performance and minimising and managing the risk to the Crown balance sheet from financial failure. More specifically it is agreed that:
  - The Treasury and Bank both have roles in the event of financial distress and need to work together to ensure the Government has appropriate crisis resolution tools that meet each agency's objectives.
  - The Treasury and Bank will co-ordinate advice to the Minister in a period of actual or potential financial distress.
  - In anticipation of and following any Government intervention in the financial system the Treasury will lead on operational matters arising from financial distress where these have fiscal implications.
  - The Treasury and Bank have a joint role in providing advice to the Minister on whether, from each agency's perspective, the overall financial stability framework is fit for purpose. Consistent with this Treasury will provide second opinion advice to the Minister on prudential regulation and supervision where this impacts on the wider economy and risks to the Crown balance sheet.
  - The Treasury and Bank may undertake joint work in areas of joint interest which may include areas such as the financial stability framework and crisis resolution policy issues.

- The Bank is responsible for ensuring that the Treasury and the Minister are informed in a timely manner of any risk to financial institutions, where there is a material likelihood of the Bank needing to recommend (within a month) that the Minister exercise any of his powers.
13. The Bank agrees to keep the Minister (and the Treasury) fully informed on matters related to policy development and will do so prior to undertaking formal public consultation on such matters.
  14. The Bank will lead a regular Financial System Issues (FSI) meeting with the Minister at intervals agreed with the Minister. Representatives from both the Bank and the Treasury shall attend this meeting and jointly set the agenda in advance.
  15. The Treasury will lead a regular meeting with the Minister on matters relating to macroeconomics at intervals agreed with the Minister. Representatives from both the Bank and the Treasury shall attend this meeting and jointly set the agenda in advance.
  16. The Treasury chairs the Trans-Tasman Banking Council and will ensure that the Council's work programme takes into account the Bank's interests and priorities and that the Minister is appropriately informed of the Council's work programme and its outputs.
  17. In coordinating advice to the Minister, the Treasury and Bank will seek to resolve differences in perspective. But the two agencies should not feel constrained from providing different advice to the Minister provided they are clear about the reasons for the differences, the judgements involved, and factors the Minister would need to consider in making a final decision. Each agency will be transparent with each other about these differences including forewarning each other of any separate advice to the Minister.

#### **Information sharing and exchange**

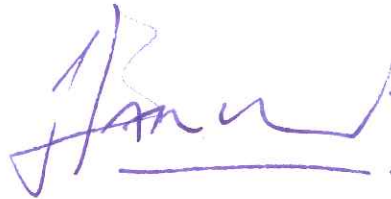
18. The Bank and the Treasury both agree to regularly exchange views and to share information about policy development and matters of common interest.
19. As a matter of course, the Bank and the Treasury agree to provide the other party with a copy of any memoranda, briefing notes or other materials provided to the Minister on areas of common interest, including policy development and all other areas relating to the Bank's policy responsibilities.
20. It is expected and agreed that regular interchange will occur between each agency to ensure that each agency is able to provide the best possible advice on matters related to:
  - Monetary and fiscal policy and the broader macro-economy;
  - Comparing and contrasting forecasts, sharing data, information and research, and contributing to each other's quality assurance processes;
  - Governance and monitoring of the organisational and financial performance of the Bank to complement the role played by the Bank board;
  - Crown financial reporting;

- Prudential policy, Macro-prudential policy and crisis management; and
  - Operational matters on government debt and reserves management, foreign exchange and domestic securities markets.
21. The Bank and the Treasury agree to maintain and exchange contact details for staff in their agency expected to participate in regular interchange.
22. The Governor and the Secretary (or their delegates) will meet regularly, and will from time to time review how both agencies are engaging with the Minister on joint areas of interest and how this MOU is operating.

DATED this day 1<sup>st</sup> June 2012



Alan Bollard  
Governor  
Reserve Bank of New Zealand



Gabriel Makhoul  
Secretary to the Treasury  
The Treasury



# ANNEX 1: MORE DETAILED DESCRIPTION OF ROLES AND RESPONSIBILITIES

WORK AREA	RESPONSIBILITY	WHAT THIS MEANS IN PRACTICE
MONETARY POLICY	RBNZ (on formulation and implementation)  Joint lead: monetary policy framework/PTA	The Bank has an independent role in formulating and implementing monetary policy consistent with the PTA.  The Treasury and the Bank each provide advice to the Minister on matters relating to the PTA and the framework within which the Bank implements monetary policy.
CRISIS RESOLUTION Including pre-positioning	Joint Lead	Coordinate work programmes and work together in a collaborative and iterative manner through the relevant stages of policy development. Each has right to initiate engagements with Minister of Finance
FINANCIAL STABILITY FRAMEWORK For example structural changes to the Reserve Bank Act, institutional coverage, deposit insurance, interaction between resolution and regulation, and costs to the system	Joint Lead	Coordinate work programmes and work together in a collaborative and iterative manner through the relevant stages of policy development. Each has right to initiate engagements with the Minister of Finance
PRUDENTIAL SUPERVISION Developing and implementing prudential standards (Basel III, liquidity, disclosure etc) and supervision/monitoring of banks	RBNZ Lead, Treasury Challenge Role	RBNZ determine work programme and initiate engagements with Minister Early consultation with Treasury around emerging thinking and around key decision points.
MACRO PRUDENTIAL	RBNZ Lead, Treasury Challenge Role	Under development, but currently a joint work programme to determine appropriate governance arrangements. This means sitting together at the table to determine how this will work.