Governance and Decision Making
Background
Existing Governance and Decision-Making Structures
Minister of Finance

• Political Accountability

• Appointments and Dismissal
  – Appoints Board members (but not Chair or Deputy)
  – Appoints Governor on the recommendation of the Board (double veto)
  – Can dismiss the Governor, Deputy Governors, Board members

• Objectives
  – Agrees PTA with Governor
  – Can override objectives for a year and give strategic directions to Bank in some areas
  – Has agreed Macro-Prudential MOU with the Bank
  – Sends Governor and Board Letters of Expectations, can comment on SOI

• Funding
  – Agrees funding with Governor every 5 years

• Decision-making and Regulation
  – Some specific responsibilities and powers under various acts
Existing Governance and Decision-Making Structures

Governor

• Single Decision-Maker and Chief Executive
• Board Member
• Appointment and Dismissal
  – Recommends Deputy Governors to the Board (double veto)
  – Can recommend the Board dismiss the Deputy Governors
• Objectives
  – Agrees PTA and MOUs with Minister
• Accountability
  – Numerous accountability documents
  – Parliamentary Select Committee Hearings (Finance and Expenditure Committee)
  – Regulatory Impact Analysis
  – Significant Stakeholder Engagement
  – External Reviews
Existing Governance and Decision-Making Structures
Governing Committee

- Current practice but no provision for committee in Act
- Remit: major economic and financial policy decisions
- Members appointed by Governor
  - Includes Governor, Deputy Governor and Assistant Governor
- Consensus decision-making model
- Governor retains veto
- Collegial in public
- Advisory committees
  - Monetary Policy Committee – includes 2 external members
  - Macro-financial Committee
  - Financial System Oversight
Existing Governance and Decision-Making Structures
Board of Directors

• Appointment and Dismissal
  – Recommends the Governor to the Minister (double veto)
  – Can recommend dismissal of Governor
  – Appoints Deputy Governors on Governor’s recommendation
  – Can dismiss Deputy Governor

• Monitoring the Bank’s Performance
  – Must assess each MPS (ex post)

• Reporting
  – Annual Board report (typically included in Bank’s annual report)

• Advice
  – Can give advice to executive on any matter

• Risk and Audit
  – The Board’s Audit Committee monitors performance and advises the Governor on financial reporting, financial control and risk assurance
Why Codify a Committee?

- Research points to better quality decisions on average
- International norm at central banks
- RBNZ’s powers and responsibilities greatly expanded since 1989
- *De facto* practice but Act not designed with a committee in mind
- Future Governor could revert to single decision-maker
- Single decision-maker model unusual in NZ
Designing good practice committee has challenges:
- Risk and transition costs
- Accountability and hierarchies within the committee
- Group think and free-riding
- Policy coordination
- Communications
- Need for all elements of the design to be coherent as a whole

And has implications beyond committee design:
- The Bank’s tools
- The role of the Board
- Crisis governance arrangements
## Summary of International Models

### Scope of central bank’s policy responsibilities: Resources

<table>
<thead>
<tr>
<th>Country</th>
<th>Monetary policy</th>
<th>Macro pru policy</th>
<th>Prudential policy</th>
<th>Staff Numbers</th>
<th>Committee Size</th>
<th>Number of Externals</th>
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Summary of RBNZ Funding

• The Funding Agreement
  – A five yearly Funding Agreement between the Governor and the Minister of Finance specifies how much of the Bank’s revenues can be retained by the Bank to meet its operating costs.
  – The Bank’s total gross operating expenditure for 2017 – 18 is $68 million. The 2017 headcount is 256 FTEs divided across the following departments:

<table>
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<th>Actual headcount by department - 2017</th>
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<td>Prudential supervision</td>
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  – The Bank’s increase in total headcount over the past 10 years has been relatively modest (224 in 2007 to 256 in 2017) and it has taken on a number of new functions over this period including regulation of insurers, non-bank deposit takers and certain AML responsibilities. Resourcing across certain departments has changed significantly over the past 10 years reflecting new functions and internal restructuring. For example the Economics department has reduced from 47 to 28 FTEs whereas the prudential supervision/macro-financial monitoring has increased from 54 to 75 FTEs.
  – In New Zealand’s 2017 FSAP, the IMF recommended the Bank adopt a more intensive supervisory approach and increase supervisory resources across all financial sectors.
Key Issues to Consider
Setting Rules and Procedures

Key Issues:
- Parliamentary oversight of model – how much to legislate for?
- Retaining sufficient flexibility for the organisation to adapt over time
- Time inconsistency – needs to guard against potential for manipulation by the Minister
- Potential for Governor to use rules and procedures to maximise their influence
- Potential for changes to committee settings to affect dynamic and incentives (e.g. transparency settings can be expected to influence member behaviour)

Options:
- Legislate with fixed parameters (e.g. define the appointment process)
- Legislate with scope for change within narrow parameters (e.g. require a committee of between x and y members)
- Periodic agreement of parameters by Minister and Governor/Committee (e.g. where legislation gives scope for change or where legislation is unnecessary)
- Governor/Committee has discretion over procedures
- We would expect to use a mixture of these options when introducing a committee
Scope of the Committee’s Remit

• Key Issues:
  – Need to determine what decisions the committee is responsible for taking
  – Bank has instrument independence for monetary policy
  – The committee needs sufficient control to influence the outcomes they are being held accountable for
  – The committee’s scope needs to be defined in relation to the powers held by the Board and the Governor

• Options:
  – The role of an “interest rate committee” would be limited to setting the OCR
  – A “monetary policy committee” would have a wider responsibility for monetary policy outcomes. Beyond setting the OCR the committee’s remit could extend to:
    • A role in setting policy targets
    • Decisions about the tools used for conducting monetary policy (e.g. the use of the unconventional tools at the effective lower bound)
    • Open market operations in support of monetary policy
Key Issues:
- Larger committees allow for more skills, knowledge and information, as well as less volatile decisions
- Smaller committees support more deliberative discussions, achieve consensus more easily and are easier to staff and resource
- How many external members are necessary to provide adequate challenge during decision-making?
- Should committee composition be fixed or flexible?
- Also practical issues (e.g. external members’ terms of engagement and their relationship with the Bank; budget)

Options:
- A small committee would be between 4-7 members, a large committee would have 8 or more members
- External members could be included in the minority, in equal number to internals or as a majority
- External members could be full- or part-time
Appointment and Dismissal of Committee Members

• Key Issues:
  – Balancing democratic legitimacy with risks of politicisation and time inconsistency
  – How to ensure committee members are held accountable?
  – Do internal members’ management responsibilities require a different appointment process to external members?
  – Hierarchies within the committee/Bank and their influence on incentives and decisions
  – Also need to consider practical requirements (e.g. (dis)qualifications and conflicts of interest, length of term, renewal, timing of appointments and remuneration processes)

• Options:
  – Standard process for all members or different processes for Governor, other internals and externals?
  – Appointment and dismissal by Minister, Board or Governor?
  – Nominations by Board, Governor or separate entity? Is appointer’s choice constrained?
  – Involvement of Parliament and Select Committees? State Services Commission?
  – Retain or remove possibility of dismissal explicitly linked to meeting policy targets?
Decision-Making Processes

• Key Issues:
  – Is legislation necessary or should process be left to the committee?
  – How best to support a culture of deliberation through the decision-making process?
  – Consensus decision-making supports in-depth discussions and the exchange of perspectives, but is harder with large committees and risks convergence over time
  – Voting makes each committee member reveal their preferences, which can force deliberation and reduce the risk of free-riding, and there is less risk of convergence
  – In a consensus model, how are decisions taken where there is no consensus?
  – Approach needs to be coordinated with communications model
  – Practical issues (e.g. what information do committee members have access to; how are meetings structured to facilitate deliberation)

• Options:
  – Consensus decision-making, with the Governor taking a decision where there is no consensus
  – Consensus decision-making, with a majority vote where there is no consensus.
  – Voting, with the Governor having the deciding vote in the event of a tie
Communications

• Key Issues:
  – How to ensure transparency commensurate with powers delegated to the committee and overall approach of Government
  – Transparency settings can influence individual incentives and accountability, reducing the scope for group think or free-riding, but can also have a chilling effect on debate
  – Relates to monitoring; transparency can enhance the ability of market participants and commentators to evaluate the Bank’s performance, enabling changes to Board’s role
  – Approach to transparency needs to be consistent with overall approach to communication, and could have effect on communications when views conflict
  – Various practical issues (e.g. timing of releases; forecast tracks; externals may expect or demand to be able to comment publicly)

• Options:
  – Do committee members represent the consensus or their own views in public?
  – Type of transparency – Generic or attributed minutes? Full transcripts? Are any votes or minority views identified? Are deliberations and decisions recorded differently?
  – Does release coincide with decisions, or do releases follow after a considerable lag?
Role of the Treasury

• Key Issues:
  – Time inconsistency, and the importance of maintaining the Bank’s independence (and the perception of independence)
  – Need for coordination of monetary and fiscal policy
  – How does this fit with the Treasury’s role monitoring the RBNZ as an institution?

• Options:
  – No role for Treasury on the committee
  – Treasury included as an observer, without vote or voice
  – Treasury in attendance, but without the ability to vote
Governance and the Role of the Board

• Key Issues:
  – What are the relationships between the Board, the MPC and the Governor?
  – Where do Governance powers reside?
  – Governor will remain a single decision-maker for prudential policy, at least short-term
  – What functions does the Board perform? Do external committee members make some functions unnecessary?

• Options:
  – Governance powers could remain entirely with the Governor, or be split.
  – The Board could perform none, some or all of the following functions:
    • Appointments and dismissal
    • Monitoring
    • Advisory to the Governor/Committee
    • Budget and resource control
1. What does the Panel see as the key design issues?
2. What factors should we prioritise when evaluating different options?
3. Are there other design parameters that should be explicitly considered?
4. Are there other issues we should take into account when evaluating options?
5. Are there options that should be considered that aren’t listed?