

Review of the Reserve Bank Act

Release Document

March 2018

Updated June 2018

**[https://treasury.govt.nz/publications/information-release/
phase-1-reviewing-reserve-bank-act](https://treasury.govt.nz/publications/information-release/phase-1-reviewing-reserve-bank-act)**

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In the June 2018 update some previously withheld information was released.

Key to sections of the Official Information Act 1982 under which information has been withheld.

- [1] 9(2)(a) - to protect the privacy of natural persons, including dead people.
- [2] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [1] appearing where information has been withheld in a release document refers to section 9(2)(a).

From: Geof Mortlock
Sent: Tuesday, 30 January 2018 12:40 a.m.
To: RBNZ Act Review [TSY] <RBNZActReview@treasury.govt.nz>
Cc: Craig Fookes [TSY] <Craig.Fookes@treasury.govt.nz>
Subject: Comments for Treasury on Phase 1 of RBNZ review

Treasury,

Further to discussions I held with Treasury staff in 2017 on matters relating to the RBNZ and financial sector policy issues, I offer some specific suggestions for changes to the RBNZ Act in connection with Phase 1 of the review of the RBNZ. Briefly, my suggestions are for the RBNZ Act to be amended to implement the following changes:

1. The Governor should be appointed by the Governor-General on the recommendation of the Minister of Finance. The Board's role in recommending the appointment to the Minister should be abandoned. The Board should have no role in the appointment process, other than the Minister should consult the Board, but not be bound by its views.
2. There should be a requirement for two Deputy Governors, one as deputy CEO. Both should be appointed by the Governor-General on the recommendation of the Minister of Finance, replacing the current Board-appointment process. The Minister should be under an obligation to consult the Board and Governor, but not to be bound by their respective views.
3. The Board should be solely a performance monitoring board and should comprise only non-executive directors. It is not appropriate that the Governor sit on the Board given its role.
4. The Board should be required to report at least six monthly to the Minister on the performance of the RBNZ in respect of all of its functions, and more frequently if required by the Minister. All reports to the Minister should be tabled in Parliament within one month following the receipt of the report by the Minister and thereby publicly disclosed. The reports should be completely separate from the RBNZ's own reports, including annual report.
5. The Board should be given funding to employ at least one full-time senior staffer to service the Board, and given funding to engage consultants and other experts as necessary.
6. The Board should be required to meet with Treasury as and when required by Treasury.
7. The specification of the monetary policy target should be specified by the Minister of Finance from time to time and tabled in Parliament. It should not take the form of an agreement between the Minister and Governor. Central bank independence should relate to the execution of its functions within objectives set by the government of the day.

8. The Act should require the Minister to specify from time to time a policy target for financial system stability, tabled in Parliament, covering both micro and macro prudential policy (but each treated separately). Again, central bank independence should relate to the execution of functions in accordance with meeting the targets specified by the Minister.

9. Monetary policy decisions should be made by a Monetary Policy Committee comprising the Governor and two deputy governors, plus three non-executive persons appointed by Governor-General on the recommendation of the Minister. The Governor would be accorded a casting vote in the event of a tied vote. Monetary policy decisions should be determined by votes, which must be recorded, together with the reasons for their respective votes, and this should be publicly disclosed within two months following the decision.

10. Financial stability policies (including micro and macro-prudential policy decisions) should be made by a Financial Stability Committee comprising the Governor and two Deputy Govs plus three non-executive persons appointed by the GG on the recommendation of the Minister. Unless decisions are made by consensus, they must be voted on. Minutes of the meetings must be publicly released within two months following the meeting. Matters pertaining to individual financial institutions must be confidential and not included in any published material.

11. Prudential decisions in relation to particular financial institutions, including licensing, de-licensing, conditions of licensing, etc should be made by the Financial Stability Committee unless delegated to the Governor and Deputy Governors by the Committee, within policy parameters specified by the Committee.

12. The RBNZ should be subject to comprehensive performance requirements specified by the Minister from time to time, and should be assessed against these at least annually by Treasury, taking into account the assessments made by the Board. The results of the assessments must be tabled in Parliament.

13. Every 5 years the RBNZ should be subject to independent performance audit in respect of its key functions, where Treasury appoints an independent party to undertake the audit. Audits would be published.

14. The RBNZ Act in its entirety should be administered in the Treasury. Any reviews of any part of the Act should be led by Treasury - not by the RBNZ. (It is untenable for a regulatory authority to undertake its own reviews of its own laws. There is no international precedent for this to my knowledge (in any major OECD country.) Likewise, the other Acts currently administered by the RBNZ should be administered by Treasury.

One last point. I think a persuasive case can be made for removing all prudential policy and regulatory matters from the RBNZ and moving them to a separate government agency - the NZ Prudential Regulation Authority. This is how it works in Australia, Canada and many other countries. It avoids conflicts of interest and avoids excessive concentration of power in one agency. My proposals above (as they related to

prudential policy issues) are predicated on a working assumption that the RBNZ will remain prudential regulator. However, this would be a second-best solution. A first-best solution is to establish a new, completely separate NZPRA.

Regards

Geof Mortlock
Mortlock Consultants Limited
www.mortlock.co.nz

From: Geof Mortlock
Sent: Friday, 16 February 2018 5:28 p.m.
To: RBNZ Act Review [TSY] <RBNZActReview@treasury.govt.nz>
Subject: Submission on review of the RBNZ Act - Phase 1

Treasury,

This email sets out thoughts on some aspects of Phase 1 of the review of the RBNZ Act. It should be read in conjunction with the email I submitted to Treasury a couple of weeks ago.

I make the following submission:

1. Section 1A of the RBNZ Act states, among other matters that "... the purpose of the Act is to provide for the Reserve Bank of New Zealand, as the central bank, to be responsible for—
(a) formulating and implementing monetary policy designed to promote stability in the general level of prices, while recognising the Crown's right to determine economic policy ...".

I suggest that consideration be given to deleting reference to the RBNZ being responsible for formulating monetary policy. Instead, the responsibility for the formulation of monetary policy (as in setting monetary policy objectives) should rest with the Government, via the Minister of Finance, in consultation with the RBNZ and other interested parties. The RBNZ should be assigned responsibility for implementing monetary policy in accordance with monetary policy objectives determined by the Minister.

2. Section 8 of the Act states that: "The primary function of the Bank is to formulate and implement monetary policy directed to the economic objective of achieving and maintaining stability in the general level of prices."

This should be changed to confer on the RBNZ two primary functions (of equal importance):

- To implement monetary policy, in accordance with policy objectives set from time to time by the Minister, for the objective of achieving and maintaining a low and broadly stable rate of inflation in (consumer) prices and, in doing so, seeking to avoid adverse impacts on employment.

- To implement regulatory and other policies, in accordance with policy objectives set from time to time by the Minister, for the objective of achieving and maintaining a stable and efficient financial system.

It is not appropriate that monetary policy should be the sole primary objective. That was always an absurd formulation in the Act and needs to be dropped in favour of something along the lines I have proposed.

3. Section 9 of the Act (regarding the PTA) should be repealed and replaced with a new section that confers the sole responsibility for the Minister of Finance (after consultation with the Monetary Policy Committee and Financial System Committee) and other interested parties, to set, from time to time, policy targets for the RBNZ, both in respect of monetary policy and financial system stability and efficiency. The PTA would be two Statements of Policy Objectives (SPO), issued by the Minister, published in the Gazette, and reviewed by the Minister from time to time. The RBNZ should have no power to 'negotiate' these with the Minister. It should be able to submit its views to the Minister, but the decisions should rest solely with the Minister (or Minister and Cabinet).

4. The single decision-make model for monetary policy should be replaced with a Monetary Policy Committee whose members would be the Governor, two Deputy Governor and 3 or 4 external persons who are appointed by the Minister as individuals and not as representatives of organisations, and should be qualified in economics or finance or be experienced in economic issues. The Governor should have a casting vote. Votes should be published on a 1 to 2 month lag.

5. There should be a Financial System Committee responsible for all financial stability policy and related matters, including prudential policies and decisions, comprising the Governor, two Deputies, and 3 or 4 external persons appointed by the Minister. The external persons should be qualified or experienced in financial, legal or accounting areas and be appointed in their personal capacity and not representative of any organisation. Decisions should be by vote or consensus, with decisions published on a 1 or 2 month lag.

6. The Governor should be appointed by the Minister (or GG on advice of Cabinet on recommendation of Minister), and the same with two Deputy Governors. The Board of the RBNZ should have no role to play in this, other than as a party consulted by the Minister.

7. The Board should be retained solely as a performance monitoring board and required to report publicly to the Minister and Parliament at least six monthly, and more frequently if the Minister requires, and to meet with Treasury as frequently as either

party wishes. The Board should be given a budget to obtain independent advice and technical assistance.

8.. The Governor should cease to be on the Board. It makes no sense at all for the person monitored by the Board to be on the Board. That has always been anomalous.

9. The Treasury should not be represented on the Monetary Policy Committee or Financial System Committee, or on the Board. Treasury should keep its distance and be an independent source of advice to the Minister. Treasury should considerably beef up its staffing to monitor all of the RBNZ's functions.

10. The RBNZ should be placed on an annual funding agreement and be subject to rigorous performance monitoring and assessment.

11. The RBNZ should be subject to independent performance audits every 5 years, commissioned by Treasury, by appointed experts, covering all of its functions. The reports should be publicly disclosed.

12. The RBNZ should NOT administer ANY of the Acts that confer powers on it. The current arrangement is completely wrong. The RBNZ administers and reviews its own laws (3 or 4 of them) with very little substantive input from Treasury. Contrast that with Australia, UK, Canada, etc. It is wrong at every level. Treasury should administer and review ALL of the laws that confer powers on the RBNZ. Treasury's resources should be increased to equip it to perform this role. External experts can be engaged as necessary.

I will submit separately on Phase 2. Included in that submission will be a recommendation that the supervision functions be removed from the RBNZ completely.

Regards

Geof Mortlock
Mortlock Consultants Limited
Wellington
www.mortlock.co.nz