

Consultation 1: Setting the scene

Safeguarding the future of our financial system
Phase 2 of the Reserve Bank Act Review



Phase 2 Review Terms of Reference

- Over-arching objectives and scope, coverage and coherence of the legislation
- Institutional governance and decision-making
- Trans-Tasman Cooperation
- Prudential regulation
 - Regulatory perimeter – what the bank regulates
 - The case for and against separating prudential regulation from the Bank
 - Tolerance for risk
 - Regulatory instruments
- Supervision and enforcement
- Resolution and crisis management
 - The case for and against depositor protection
 - Crisis management and resolution
- Macro-prudential policy
- Resourcing and funding
- Miscellaneous issues

Sequence of topics for Review

- **Over-arching objectives and scope, coverage and coherence of the legislation**
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 - **Regulatory perimeter – what the bank regulates**
 - **The case for and against separating prudential regulation from the Bank**
 - Tolerance for risk
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- **Resolution and crisis management**
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**Items in black covered in
November 2018 consultation**
Remaining items for consultation
In 2019

Proposed format of the consultation document

Section 1

What role should the Reserve Bank have play in supporting NZ's financial system?

- **Setting the scene**
- Over-arching **objectives** and scope, coverage and coherence of the legislation
- Prudential regulation
 - **Regulatory perimeter** – what the bank regulates
 - The case for and against **separating prudential regulation** from the Bank
- Resolution and crisis management
 - The case for and against **depositor protection**

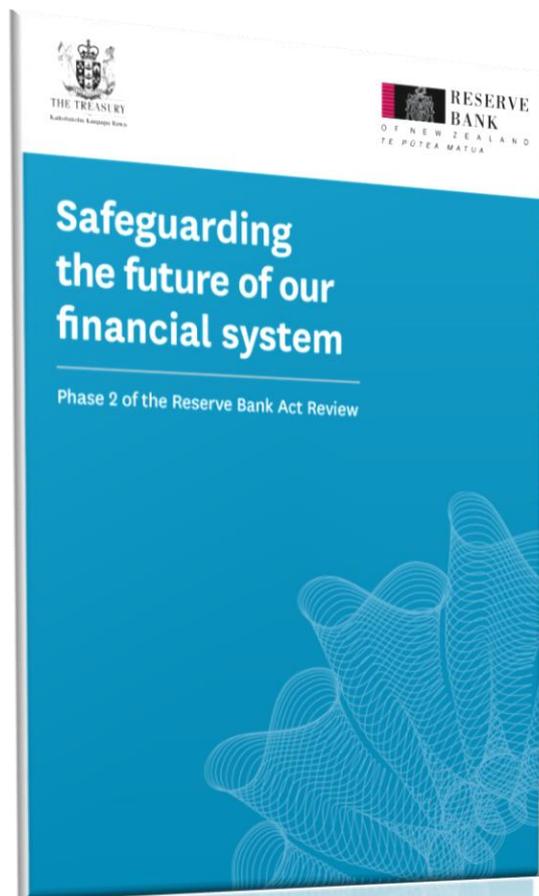
Section 2

How should the Reserve Bank be governed?

- Institutional **governance** and decision-making

Tiered communications

Tier 1: Consultation paper



Tiered communications

Tier 1: Consultation paper



Tier 2: Consultation presentations to stakeholders



Tiered communications

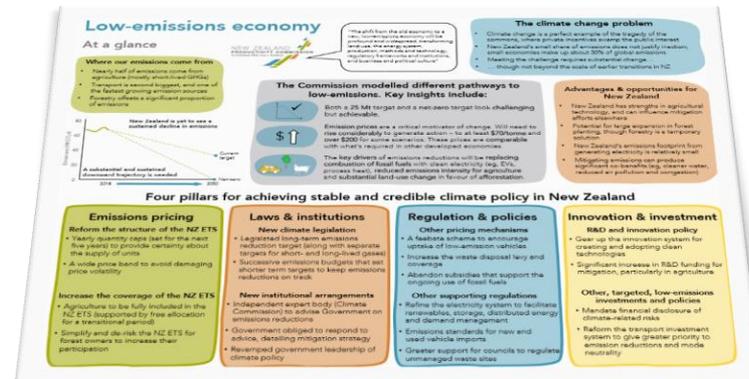
Tier 1: Consultation paper



Tier 2: Consultation presentations to stakeholders



Tier 3: A3 poster on key consultation issues (MBIE example)



Setting the Scene

- Questions
- The financial regulatory landscape
- Potential gaps in the New Zealand model
- Stakeholder comments on the RBNZ
- Key topics of the first consultation
 - Does the RBNZ have the 'right' objectives?
 - How should the RBNZ's regulatory perimeter be defined?
 - Should we have a separate prudential regulator?
 - Should depositors be protected?

Questions

Throughout the presentation could you please consider the following questions:

1. Does the presentation provide a high-level and balanced overview of New Zealand's financial regulators?
2. Is the gaps analysis fair?
3. Are the high-level motivations for the consultation topics sufficiently drawn-out?

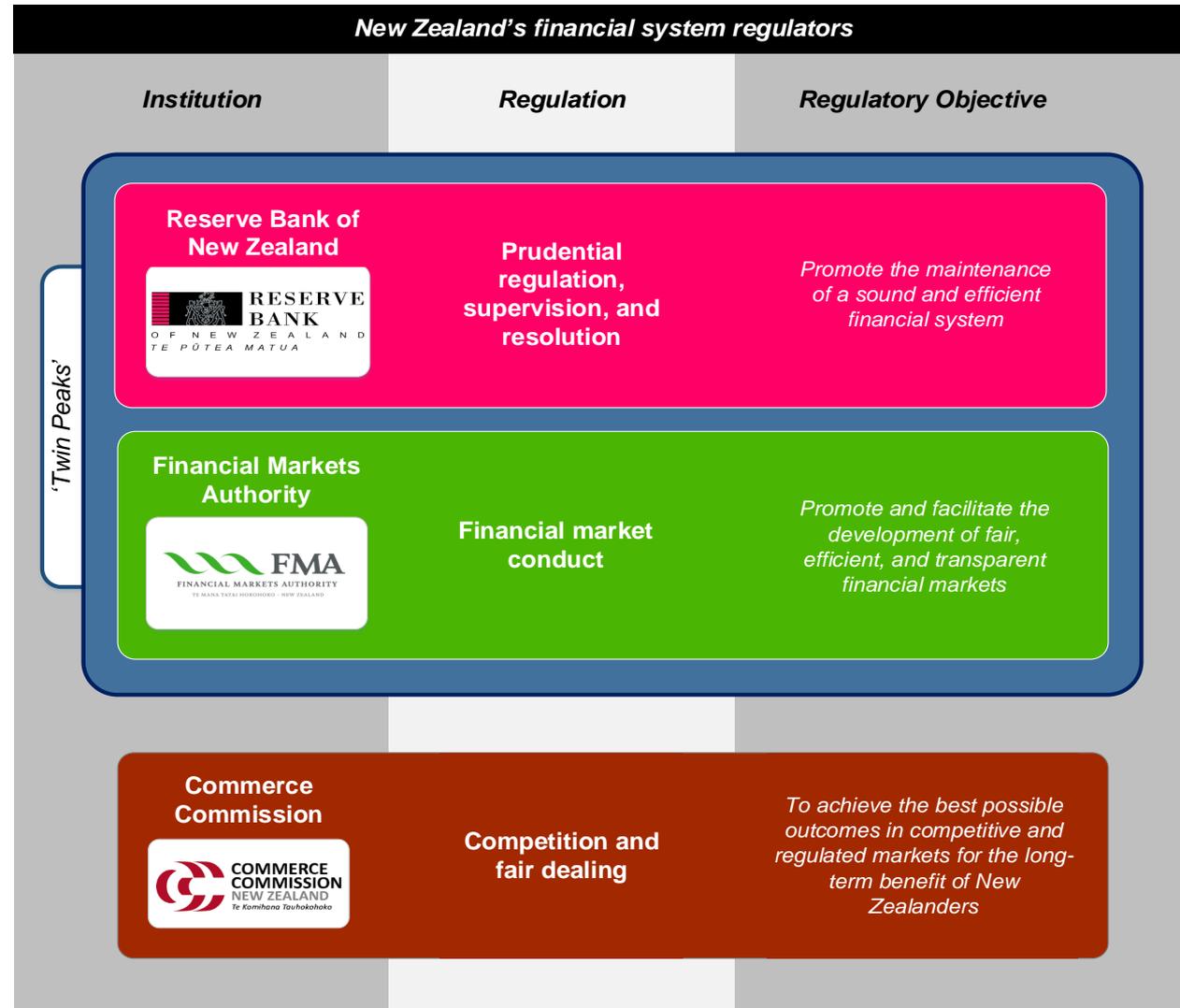
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The financial regulatory landscape

New Zealand has a 'twin peaks' regulatory regime.

- The Reserve Bank of New Zealand (RBNZ) is the central bank and prudential regulator, supervisor, and resolution authority.
- The Financial Markets Authority (FMA) is the market conduct regulator.
- The Commerce Commission is the competition and fair dealing regulator (although this role is diluted in the financial sector due to the scope of the FMA's regulation).



Coordination between regulators



MBIE oversees the legislation of FMA and CC



NZ Council of Financial Regulators (CoFR)

New Zealand Council of Financial Regulators

Commerce
Commission



Reserve Bank
of New Zealand



Financial Markets
Authority



Australian Council of
Financial Regulators



The Treasury



Ministry for Business,
Innovation, and Employment



Inland Revenue
Department



Ministry of Justice



Banking Forum

New Zealand Council of Financial Regulators

Commerce
Commission



Reserve Bank
of New Zealand



Financial Markets
Authority



Australian Council of
Financial Regulators



The Treasury



Ministry for Business,
Innovation, and Employment



Inland Revenue
Department



Ministry of Justice

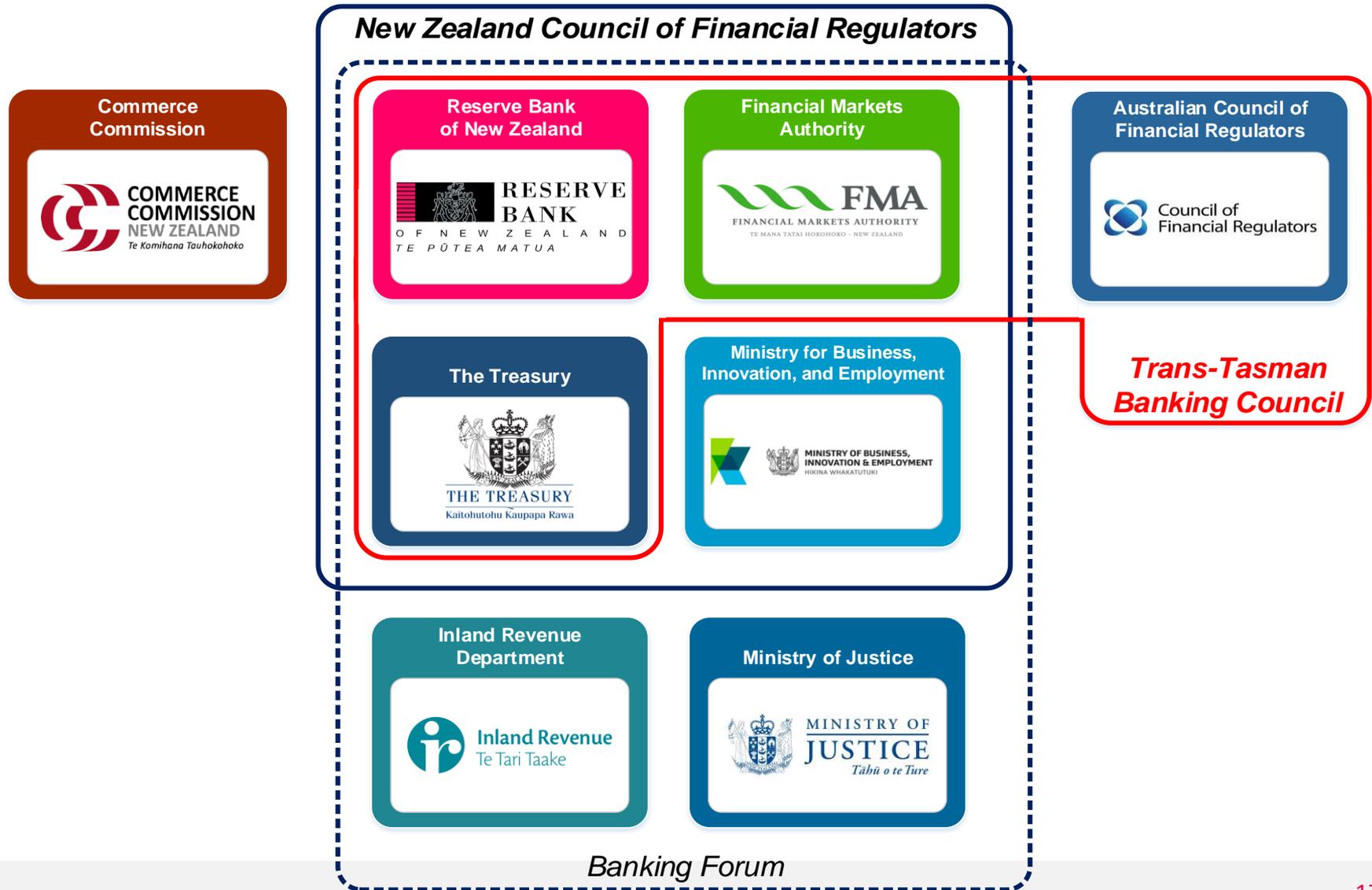


Banking Forum

Trans-Tasman Banking Council (TTBC)



Coordination between regulators



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Potential gaps in the New Zealand model

Blurred responsibilities regarding consumer/borrower protection:

Should the RBNZ have a consumer protection objective?

We need to be aware of other reviews in this space:

- FMA and RBNZ review of the conduct and culture of banks, insurance, financial advice, and investment management
- MBIE/Commerce Commission review of the Credit Contracts and Consumer Finance Act

Competition regulation in the financial sector is light-touch:

Should the RBNZ have a specific competition objective?

The RBNZ's regulatory perimeter is limited:

Should the RBNZ's regulatory perimeter be defined in a more dynamic way?

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Stakeholder comments on the RBNZ

The consultation on the scope of the Phase 2 Review revealed some comments and criticisms of the RBNZ:

- **Objectives** : a lot has changed over the past **30 years**. The **objectives and purpose** of the Reserve Bank should be revisited, particularly given the lack of clarity.
- **Depositor protection**: the current objective centred on systemic stability is too narrow. The **interests of depositors** and the soundness of individual institutions should be considered.
- **Structural separation**: a **separate prudential regulator** would result in a culture of better decision-making and create a platform for change.
- **Governance**: concerns around the **governance** model of the Reserve Bank, including the role of the Board and boundary of operational independence.

Case studies of other central banks and financial regulatory regimes revealed that there's **no 'one size fits all'** model for financial sector regulation. Models vary to suit each country's unique financial market structure and needs. However, elements of best practice exist and can be applied in NZ.

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Key topics of the first consultation



Legislative Objectives



Governance

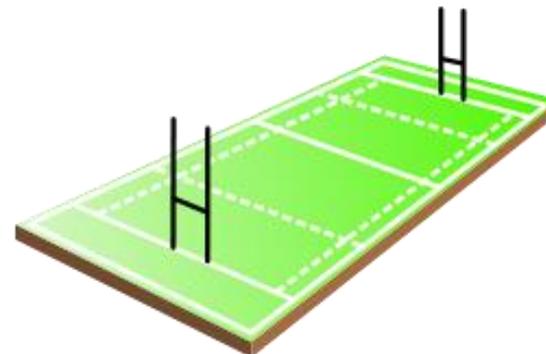


Depositor Protection



NZPRA?

Separate Prudential Regulator



Regulatory Perimeter

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