

The Treasury

Reserve Bank Act Review Phase 2 Review Update Proactive Release

March 2020

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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
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Reference: T2019/2423

Date: 15 August 2019

To: Minister for Māori Development (Hon Nanaia Mahuta)

Aide Memoire: Phase 2 of the Reserve Bank Act Review and the Maori economy

You recently requested a briefing on the review of the Reserve Bank's legislation, which has been underway since November 2017. The following is a brief overview of the Review to date. The Review Team would be pleased answer any follow-up question you might have.

In November 2017 the Government announced a substantial review of the Reserve Bank of New Zealand Act 1989 (the 'Reserve Bank Act'), with the aim of modernising the Reserve Bank's monetary and financial policy frameworks and its governance arrangements.

The Review is one of the Government's initiatives to "grow and share New Zealand's prosperity more fairly" by supporting the development of a productive, sustainable, and inclusive economy.

Phase 1 was completed in 2018. As a result, supporting maximum sustainable employment has been added to the economic objectives for the Reserve Bank and a Monetary Policy Committee (MPC) was created with responsibility for formulating monetary policy. Previously, the Governor of the Reserve Bank was responsible for monetary policy.

Phase 2 of the Review is focusing on the Reserve Bank's role in regulating the financial system and how the Reserve Bank should be governed. The terms of reference for Phase 2 are broad and it is being conducted in stages.

Following an initial public consultation process, which closed in February, the Minister of Finance announced the following in-principle decisions on the Reserve Bank's objectives and governance arrangements and financial policy matters:

- **Legislative objectives** – The Reserve Bank's primary objective with relation to financial policy will change from 'promote the maintenance of a sound and efficient system' to 'protect and enhance financial stability'. This high level objective will be supported by a definition of financial stability and a series of lower tier objectives or regulatory principles. Financial stability is considered

to be a more modern term that better reflects the Reserve Bank's role in safeguarding the financial system.

- **Governance arrangements** – The Reserve Bank's governance model will change to a model where a Board is responsible for the governance of the Reserve Bank. This is a significant change from the current model where the Governor is the single statutory decision-maker on financial policy issues. The Board's performance will be monitored by the Treasury.
- **Institutional form** – The Reserve Bank will continue to perform both the function of the central bank and the prudential regulator. New Zealand will not be adopting the Australian model where the central bank and the prudential regulator are in two separate institutions.
- **Deposit protection** – New Zealand will develop a deposit protection regime, under which all deposits will be insured up to a proposed limit of between \$30,000 and \$50,000. The protection is proposed to be per depositor per institution.
- **Regulatory perimeter** – Currently, banks and non-bank financial institutions that take deposits are regulated under two different regimes. The Minister has made a decision to bring these two regimes together. This will lead to a more consistent approach to prudential regulation and supervision across different types of institutions that take retail deposits. All institutions included within this new deposit-taking perimeter will be covered by the deposit protection regime.

A second public consultation is now underway to seek feedback on these in-principle decisions (including follow-up questions) and on the remaining topics in the Review's terms of reference.

The additional topics covered in the second consultation ask the following questions:

- What prudential regulatory tools and powers should the Reserve Bank have?
- What role should the Reserve Bank have in macro-prudential policy?
- How should the Reserve Bank supervise institutions and enforce prudential regulation?
- How should the Reserve Bank's balance sheet function be formulated?
- What features should New Zealand's crisis management regime have?
- How should the Reserve Bank coordinate with other government agencies?
- How should the Reserve Bank be funded and resourced?

The second consultation closes on 16 August and in-principle decisions on many of these topics are expected later in the year.

It is intended that drafting of legislation covering the Reserve Bank's institutional arrangements will be undertaken in the first half of 2020 with legislation on matters related to the regulation and supervision of deposit-takers to follow.

Relevance to Māori development

A number of topics covered by the Review have touchpoints with Māori development objectives. In particular:

- **Regulatory perimeter and deposit protection**– Bringing non-bank deposit takers into the same regulatory perimeter as banks will mean that any financial institution taking deposits will now be supervised by the Reserve Bank, and be subject to the same resolution framework. This will mean that customers of credit unions and other similar institutions will be treated consistently with customers of banks. The new depositor protection regime will provide protection for depositors in the event that a financial institution fails.
- **Tools and powers** - The Review is seeking to ensure that the Reserve Bank has all of the powers it needs to ensure that it is responding to emerging risks in the financial system. These risks may relate to emerging technologies, models of ownership and investment, or the environment.
- **Coordination** – The Review is investigating the most appropriate ways for the Reserve Bank to coordinate with other government agencies, in particular in areas where the Reserve Bank's responsibilities overlap with those of other agencies, but the appropriate response may be in another policy area.
- **Funding** – Many stakeholders have raised the issue of the Reserve Bank being under-funded. The Review of the funding mechanism is seeking to ensure that the Reserve Bank has adequate resourcing to take a broad perspective on all aspects of its functions.

Furthermore, as a result of Phase One of the Review, the Minister has included in the Remit on monetary policy that he expects the Reserve Bank to formulate monetary policy with the operational objectives of both promoting stability in the general level of prices and promoting maximum sustainable employment. Prior to Phase One of the Review, the Reserve Bank had a single operational objective in relation to monetary policy – to promote stability in the general level of prices. The new dual objectives encourage the Reserve Bank to deepen its understanding of the New Zealand labour market (particularly at a more granular level) and the effect monetary policy has upon it.

Like other government agencies, the Reserve Bank has recently affirmed its strong commitment to Te Ao Māori. This commitment is being increasingly reflected in the Bank's policy programmes, external stakeholder engagement and internal cultural capability. The focus of the work programme has been to deepen the Reserve Bank's understanding of Māori economic impacts and intersections with monetary policy and

financial stability work, as well as increase staff awareness of Tikanga and Te Reo, to assist engagement with a broader Māori stakeholder base. The Te Ao Māori strategy is multi-year and has a long-term horizon.

The Review of the Reserve Bank Act should support this work through its emphasis on creating an enduring and flexible framework that allows the Reserve Bank to achieve its objectives through robust processes backed up by appropriate resourcing.

The Reserve Bank has also made a firm commitment in its Statement of Intent this year (<https://www.rbnz.govt.nz/about-us/statements-of-intent/statement-of-intent-1-july-2019-30-june-2022>) to incorporate central themes of diversity, financial inclusion and sustainability through its core strategies such as Te Ao Māori. There may be further opportunities that will arise to support Māori development that will become clearer as the changes arising from the Review bed in, and the Reserve Bank develops more understanding of Māori economic development.

The Review of the Reserve Bank Act Team, which is a joint team of Treasury and Reserve Bank staff looks forward to answering any questions you may have regarding the Review of the Reserve Bank Act. Additionally, the Reserve Bank is happy to provide you with a copy of the Reserve Bank's Te Ao Māori strategy at your request.

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