

7 June 2018

Hon Grant Robertson, Minister of Finance

Questions and answers: Phase 2 of the Review of the Reserve Bank Act

Purpose and background

What is the rationale for the Review?

Last year the Coalition Government announced a two-phased review of the Reserve Bank of New Zealand Act 1989 (the 'Act'). The goal of the Review is to ensure New Zealand's monetary and financial stability policy frameworks and the Reserve Bank's governance and accountability settings are fit for purpose.

With respect to the framework for financial stability – which encompasses the second phase of the Review – much has changed in the international financial environment and with financial system regulatory frameworks around the world since the Act was first enacted. The proposed scope for phase 2 will enable the Review to ensure the Act is fit for purpose and aligned with what the government considers will provide a strong, flexible, and enduring regulatory framework that enjoys broad public and industry support.

Everyone benefits from a sound and resilient financial system; or, put another way, the costs of a financial system crisis are deep and long-lasting. The Review will ensure that the framework within which the Reserve Bank regulates and supervises the banking sector is fit-for-purpose and enables the Reserve Bank to perform its role effectively.

What's the difference between Phase 1 and Phase 2?

Phase 1 is implementing changes to the objectives of monetary policy to give due consideration to maximising employment alongside price stability and making provision for a committee decision-making model for monetary policy. Phase 1 decisions were [announced](#) on 26 March 2018.

Phase 2 will focus on the Reserve Bank's financial stability role and broader governance reform, including residual issues from Phase 1 tied to the role of the Reserve Bank Board, for example.

Organisation of the Review

Who will carry out the Review?

A Review team will be jointly resourced by the Treasury and the Reserve Bank and will be governed by a steering committee jointly chaired by the Treasury and the Reserve Bank. The Chair of the Independent Expert Advisory Panel will also sit on the steering committee

How long will the Review take?

Phase 2 of the Review will be wide-ranging, and the work will have to take into account the interconnectedness of the issues to be considered. An initial task of the Review team will be to develop a work programme and identify key deliverables. This will include advice on the prioritisation and sequencing of work streams and timelines for the development and introduction of legislation. The Review itself will involve a thorough policy development process which will include robust problem definitions, subsequent policy analysis and the identification of various options, and stakeholder engagement and consultation. It is envisaged that most of the major legislative amendments could be advanced within the current Parliamentary term.

What is the role of the Independent Expert Advisory Panel?

The Government formed the Independent Expert Advisory Panel in December 2017 to provide input to the Review. The Panel has brought independence and robustness to the process thus far, and will form a valuable part of the Phase 2 governance framework. The Panel will be engaged on all major issues covered by the Review, with its advice and conclusions informing key Review outputs. The Panel will also report directly to the Minister of Finance, as appropriate.

Who will be on the Panel?

The current Panel comprising of Suzanne Snively (chair), Dr Malcolm Edey and Dr Girol Karacaoglu will continue in its current form. The Minister of Finance is considering further additions to the Panel to ensure it contains the necessary expertise for the matters covered by Phase 2. These will be announced in the near future.

What will the Review cost?

The Review team will be comprised of existing Treasury and Reserve Bank staff, the costs of whom will be met from within existing agency budgets. Additional costs of Phase 2, including those related to the Independent Panel, will also be shared between the two agencies.

Scope of the Review

What was the process to determine the scope of the Review?

The Treasury, the Reserve Bank, and the Independent Expert Advisory Panel developed a well-founded set of questions and considerations. Public submissions were invited and received and key stakeholders and industry commentators were consulted.

Will the Review be considering the International Monetary Fund's (IMF) 2016-17 Financial Sector Assessment Programme (FSAP) recommendations?

The IMF's FSAP report on New Zealand provides a starting point for several aspects of the Review. The IMF commended the record of the Reserve Bank and its staff in many areas and challenged the Reserve Bank, and the government, in others. A number of the IMF's key recommendations raise questions that touch on fundamental pillars of the financial stability regulatory framework. These questions include the role of statutory objectives, resourcing of the Reserve Bank, the government's interest in prudential supervision while protecting operational independence, and crisis management. Phase 2 of the Review will be considering these matters and the recommendations that the IMF made in relation to them.

What will be out of scope for phase 2?

There are various aspects of the Reserve Bank's financial system-related functions and responsibilities that will be out of scope for phase 2. These include the separate legislation underpinning the current prudential frameworks for the insurance and non-bank deposit-taking sectors respectively, and the proposed legislation for financial market infrastructure – except where consequential changes are necessary or could encourage alignment. The Reserve Bank's role as an AML/CFT supervisor is also out of scope.

Phase 2 will also not consider any fundamental change to the current home-host arrangements with Australia.

Will the Review affect the Reserve Bank's operational independence?

The Minister of Finance has previously stated that Reserve Bank's operational independence is paramount and will be protected. It was also a theme that came through in the IMF's 2016-17 financial system assessment of New Zealand. The Review will be considering whether legislation can better reflect the Reserve Bank's operational independence while also clarifying the role of the Minister of Finance in relation to the Reserve Bank's functions.

Is the Review going to consider conduct issues raised by the Australian Royal Commission into Misconduct in the Banking, Superannuation, and Financial Services Industry?

Not directly. The terms of reference for Phase 2 of the Review focuses on the financial stability and governance aspects of the RBNZ Act, including the Reserve Bank's approach to prudential supervision. The Reserve Bank, the Financial Markets Authority and the Commerce Commission are currently engaging with New Zealand's banking sector on conduct issues arising from the Australian Royal Commission. Questions of organisational culture are integral to both financial market conduct and prudential outcomes.

Does the banking industry support the scope of the Review?

The Treasury ran a stakeholder engagement process for input on the scoping of Phase 2 of the Review. The scope for Phase 2 does justice to the range of issues that surfaced in that stakeholder engagement process. When the views of stakeholders are aggregated, a picture emerges of a desire for a comprehensive review.

Is the Review going to consider introducing deposit insurance?

Yes. The Review will consider the case for deposit protection mechanisms and possible options, including deposit insurance.

Will the Review be considering splitting the Reserve Bank?

The Government is not planning to go down the separation path at this stage. However, the stakeholder consultation exercise did reveal interest in this issue. The Review team will therefore be explaining the rationale for retaining prudential regulation and supervision inside the Reserve Bank as part of the first round of public consultation on Phase 2 issues. This process will enable further submissions to be made on the issue.

Why is the Reserve Bank co-leading the Review?

The Reserve Bank currently administers the Reserve Bank Act and brings to the Review extensive knowledge and experience in the operation of the Act. It is therefore fitting that the Reserve Bank has a strong role in reviewing the legislation. The Treasury, the Independent Expert Advisory Panel, and public consultation will provide independent perspectives and, together with the Reserve Bank, the Review is expected to enable a highly robust analytical process.