AM No: T2012/2074

Date: 22 August 2012

To: Minister of Finance (Hon Bill English)



## **Aide Memoire: Meeting with Governor of the Reserve Bank**

At your lunch on Thursday the Governor intends to ask how you see RBNZ working with the Treasury on financial stability matters. not relevant to the request

Treasury's role in financial stability

The Governor may also ask whether the increased role Treasury is playing in financial stability is consisted with your expectations.

Treasury has increased its focus on financial stability in recent years, including as one of its key initiatives for this year. This recognises the potentially enormous cost to Government and to the economy from too big to fail banks (TBTF) and our experience of managing the Crown's direct and indirect exposure through AMI and the DGS.

## IN-CONFIDENCE

The medium term goal for this work is to develop robust crisis management plans with the Reserve Bank and to ensure that the overall financial stability framework is fit for purpose in terms of managing risks to financial stability and the Government's wider economic objectives. We see the financial stability framework that manages these risks as jointly owned by the RBNZ and Treasury, with each playing different but complementary roles.

The work on crisis management includes the Open Bank Resolution, joint work with Australia through the Trans-Tasman Banking Council and achieving greater clarity over the respective governance arrangements between the RBNZ, Treasury and Minister of Finance in a crisis. Treasury and RBNZ have different but overlapping roles through a crisis so, to be effective, the development work needs to be done jointly.

In our view, an overall financial stability framework that is fit for purpose is one that, to the extent possible, manages the implicit guarantee for TBTF institutions. Here we see an important interaction between policy options to manage the cost to government and the economy from resolving a failed bank (such as OBR), and to prescribe the level of capital banks should have to absorb financial shocks (Basel III). withheld under s9(2)(d)

not relevant to request