

The Treasury

Reviewing the Reserve Bank Act Information Release

Release Document January 2018

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Treasury Report: Summary of Iain Rennie Report on Decision-making and Governance - RBNZ

Date:	10 November 2017	Report No:	T2017/2456
		File Number:	MC-1-1-1-2

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	Note the contents of the report and the attached papers	No deadline

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact	
Daniel Wills	Senior Analyst	9(2)(k)	(wk)	N/A (mob)	✓
Renee Philip	Manager	9(2)(k)	(wk)	9(2)(a) (mob)	

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.
Refer to associate Ministers as appropriate.

Note any feedback on the quality of the report

Enclosure: Yes (attached)

[RBNZ Decisionmaking and Governance - Consultant Report by Iain Rennie - Final Version \(Treasury:3751776v1\)](#)
[Don Kohn Peer Review Comments on Decision-making and Governance at RBNZ \(Treasury:3711992v1\)](#)
[David Archer Comments on RBNZ Decision Making and Governance Report \(Treasury:3711988v1\)](#)
[Decision-making and Governance - Peer Review Comments Charles Goodhart \(Treasury:3720943v1\)](#)
[BoE decision making-Treasury Report-18 May 2017-FINAL \(Treasury:3716141v1\)](#) [Add to worklist](#)

Treasury Report: Summary of Iain Rennie Report on Decision-making and Governance - RBNZBNZ

Purpose

This report summarises key recommendations from the paper “Decision-making and Governance at the Reserve Bank of New Zealand”. This Treasury-commissioned consultant report from former State Services Commissioner Iain Rennie recommends changes to the Reserve Bank’s decision-making and governance settings.

The full report, associated comments from peer reviewers, and a related Treasury-commissioned committee decision-making paper are attached for your reference.

Background

“Decision-making and Governance at the Reserve Bank of New Zealand” (“The Report”) is an external consultant report commissioned to help inform the Treasury’s post-election advice on Reserve Bank Act 1989 reform. The Report represents the views of Iain Rennie, under contract to the Treasury. Although used to inform the Treasury views, the Report does not represent the Treasury’s advice. The Treasury is seeking to take account of a range of views in the process of developing its advice. This includes commissioning an in-depth study of committee decision-making at the Bank of England by Piers Ovenden¹.

The Report draws on a variety of sources including academic literature and relevant practice in international central banks and domestic state sector agencies. Interview comments from the Reserve Bank Governors and Board, several other central banks, and the Bank of International Settlements (BIS) informed the review. Peer-review comments by two international reviewers with significant central banking expertise, Don Kohn and Charles Goodhart, are also incorporated. Expert comments from David Archer, a former Assistant Governor at the Reserve Bank who is now Head of Central Banking Studies at the BIS, are also considered.

The peer reviewers are supportive of the central recommendation to codify a committee-based approach to decision-making. The peer review comments raise various points of detail about the draft recommendations, many of which are reflected in the final report. However, in some areas the comments of different reviewers are conflicting, highlighting the debate that continues amongst experts over the details of committee design. For example, the peer reviewers are all strongly in favour of having external committee members, but have different views on the appropriate number of external members. Similarly, each of the peer reviewers has a different view on the best approach to transparency. There are also different perspectives about the appointment process and the role of the Board. In making his final recommendations, Rennie discusses the trade-offs between the various options that he has considered. This discussion is a useful summary of the key debates and issues.

¹ Piers Ovenden is a New Zealander who has previously worked as a Bank of England official and as a senior solicitor at Russell McVeagh.

The Report is broadly in line with the Treasury's views on reform. We are strongly of the view that a committee decision-making model should be codified in the Reserve Bank Act, and agree that there should be multiple committees which include external experts. We also consider that the Report's recommendation to use charters to provide flexibility for the committees to evolve within the constraints of legislation is a useful innovation.

However, there are also some points of difference between what the Report proposes and what the Treasury would recommend. For example, while we support having multiple committees, we consider that the exact number of committees should be determined after phase two of the Reserve Bank Act review. The Treasury is also of the view that the appointment process recommended in the report risks over-complicating appointments. We understand that the Reserve Bank disagrees with some of the report's recommendations.

We will also likely have different views on some detailed design aspects to those provided in the Report. We will work through our view with you and the expert panel during the Reserve Bank Act Review process.

Report Recommendations

In the Report, Iain Rennie made recommendations in three key areas: the codification of a committee; the role of the Board; and, the role of the Treasury. The key recommendations in each of these areas are summarised below.

Codification of a Committee

- The key recommendation is to legislate for a committee-based decision-making model for monetary and financial policy to replace the current single decision-maker model (Governor). This move is motivated by a variety of academic research pointing to better decision-making in committees, and an expanded remit for the Reserve Bank since 1989. Committees for monetary, macro-prudential and micro-prudential policy are suggested.
- Each committee should have goal clarity, guidance on trade-offs with competing policy objectives, and direction on how to manage particular economic shocks. To achieve this, the report recommends retaining the Policy Targets Agreement (PTA) and reframing it as an agreement between the Minister of Finance and the committee members. An analogous statement on financial policy should be developed.
- It is recommended that strategic policy documents such as the PTA be moved from a person to time-dependent document reviewed every six years. By de-linking the agreement and the Governor's appointment process, a Governor could utilise advice from internal and external sources in negotiating the agreement. The arrangement would also permit a more open and transparent discussion of potential changes.

- Legislation should stipulate a charter for each committee's operation agreed between the Minister of Finance and relevant committee members. This agreement should be reviewed every five years. A periodically-reviewed charter would allow flexibility for committees' operations to adapt over time without the need to amend primary legislation. Charter agreements can also provide public transparency as to committee operations.
- Legislation should stipulate that policy committees have a membership of between five and seven members, split between internal and external members. The recommended committee size balances the benefits of increasing diversity of opinions via larger committees with more effective deliberation in smaller committees (and a limited domestic talent pool). The report sees a need to balance internal and external members to reduce the risk of "group-think" from the hierarchical relationship between the Governor and other executives.
- Minutes of monetary policy committee meetings should be released with a short lag, including some individual attribution of contributions to the debate. It is argued this set-up is likely to improve the incentives for individual members to take care in terms of their role and exercise due diligence. These benefits need to be balanced against the risk of transparency suppressing deliberation and debate.
- A collegial public stance would be adopted by committee members for financial policy. Micro-prudential policy requires clear guidance or direction to protect soundness. Macro-prudential policy settings may remain in place for an extended period, requiring a degree of certainty for business planning.
- The Minister of Finance should have the right to appoint and remove the external monetary and financial policy-making committee members and senior executive members, in line with the suggested move to committee-based decision-making. This appointment right would reflect the delegation of Ministerial authority.
- The Minister of Finance should receive advice on the appointment of the Governor and Deputy Governors from a panel convened by the State Services Commissioner. This would bring the appointment process in line with that used for other senior state sector executives. Advice on appointing external members could be taken from a suitably qualified nomination committee, with a requirement that the Minister consult other political parties, consistent with the process used for the Guardians of the New Zealand Superannuation Fund.

The Reserve Bank Board

- The Reserve Bank Board should retain its independent performance assurance function. This recommendation acknowledges that an internal board with access to a rich set of observations and information is likely better placed than an external agency to assess the performance of the Reserve Bank.
- However, the Board's governance responsibilities should be removed. The ability of the Board to provide independent performance assessment is seen to conflict with its current role in executive responsibilities (e.g. providing advice to the Governor). Narrowing the scope of the Board's role would provide clarity and coherence to its role.
- The membership of the Board should be limited to non-executive directors. It would be inappropriate for the Governor to sit on a Board focussed on independent performance assessment. Similarly, the Minister of Finance should appoint the Chair and Deputy chair of the Board, given its purpose would be to provide advice to the Minister.
- The Board should be appropriately resourced and staffed to carry out its independent performance assessment function. Board members should be able to effectively contribute to high quality judgements surrounding the Reserve Bank's regulatory, monetary policy decision and implementation, and organisational stewardship performance.

The Treasury

- The Treasury and the Reserve Bank would jointly lead the proposed public, periodic review of the PTA. The Treasury would lead, in consultation with the Reserve Bank, the proposed policy statement on financial regulation.
- Finally, the Treasury would be the administering department for the Reserve Bank Act, with the exception of Parts 4 and 5 (which relate to banking supervision, oversight of payments systems and regulation of settlements systems), which would continue to be administered by the Reserve Bank.

Recommended Action

We recommend that you:

- a **note** the contents of this report, the attached paper “Decision-making and Governance at the Reserve Bank of New Zealand” by Iain Rennie, the attached peer review comments on an earlier draft of Iain Rennie’s report, and a related report on committee decision-making by Piers Ovenden.
- b **note** that officials will draw on this material as they progress the Reserve Bank Act Review.

Renee Philip
Manager

Hon Grant Robertson
Minister of Finance