

Reserve Bank Act Review

Independent Expert Advisory Panel – Terms of Engagement

Introduction

These Terms of Engagement set out the purpose, role and conditions for the Independent Expert Advisory Panel (the Panel) to provide input into the Reserve Bank Act Review (the Review).

Purpose and scope of the Review

The goal of the review is to modernise New Zealand’s monetary and financial stability policy frameworks and the Reserve Bank’s governance and accountability settings. This will ensure that the Reserve Bank’s approach supports good economic management and reflects the changing environment in which New Zealanders live and work, which will support the development of a New Zealand economy that delivers sustainable and shared prosperity. The operational independence of the Reserve Bank remains paramount and will be protected.

Cabinet have agreed that the review of the Reserve Bank Act will be conducted in two phases, according to the Terms of Reference:

Phase 1

The review will:

- recommend changes to the Act to provide for requiring monetary policy decision-makers to give due consideration to maximising employment alongside the price stability framework;
- recommend changes to the Act to provide for a decision-making model for monetary policy decisions, in particular the introduction of a committee approach, including the participation of external experts; and
- consider whether changes are required to the role of the Reserve Bank Board as a consequence of the changes to the decision making model.

A Bill to progress the policy elements of the Review, including on the details necessary to introduce a potential committee for monetary policy decisions, will be introduced as soon as possible in 2018. This will give greater certainty on the direction of reform in advance of the appointment of the next Reserve Bank Governor, currently scheduled in March 2018.

Phase 2

In line with the Government’s coalition agreement to review and reform the Reserve Bank Act, the Reserve Bank and the Treasury will jointly produce a list of areas where further investigations of the Reserve Bank’s activities are desirable. This list will be produced in consultation with the Independent Expert Advisory Panel.

This list, and the next steps for the review, will be communicated early in 2018. This phase of the review will incorporate the review of the macro-prudential framework that was already scheduled for 2018.

Role of the Panel

The Review is being conducted in two phases, with the content of each phase of the Review set out as above. The role of the Panel is as follows:

- **Phase 1:** Officials are developing policy options for the Minister of Finance on the issues covered in phase 1 of the Review. The role of the expert Panel will be to provide input and challenge during the development of those options. A separate report recording the Panel's views on the Treasury's conclusions and recommendations will also be provided to the Minister of Finance.
- **Development of the list of issues for phase 2:** Phase 2 of the review will consider broader Reserve Bank reform. The Treasury and the Reserve Bank will jointly produce a list of areas for phase 2 of the Review in consultation with the Panel. The Panel's views on the list will be given directly to the Minister of Finance before the scope of phase 2 of the Review is finalised.

Panel members recruited now will assist with phase 1 of the Review and the development of the list for phase 2. The constitution of the Panel for taking forward the policy work for phase 2, as well the terms of engagement for those Panel members, will be determined once the list of phase 2 issues has been scoped.

Membership, resourcing and timeframes

The Panel will initially comprise three members, one of whom will Chair the Panel, and will be appointed by the Minister of Finance. The Minister of Finance may appoint additional members as the Review progresses if there is a need for a wider set of skills on the Panel.

While exact time commitment and processes have yet to be confirmed, the current expectation is as follows:

- **Phase 1:** 3 meetings, between December and February, as follows:
 - Meeting 1 (December/January): To discuss process, background for the Review
 - Meeting 2 (January/February): To discuss analysis and reform options
 - Meeting 3 (February/March): To discuss final recommendations

It is expected that on average each meeting will require a time commitment of 8-10 hours, including travel, preparation and follow-up time.

In addition, ideally at least one Panel member will observe the Reserve Bank's operating processes. This would be during the decision-making stages of the next OCR review, which would give insight into how the Bank makes decisions and the information taken into account during the decision-making process. This would be in the last week of January and would require up to 3 additional days.

The Panel will also be responsible for a report to the Minister that sets out their views on the Treasury's policy conclusions and recommendations for phase 1. This will be delivered to the Minister at the same time as the Treasury's recommendations for phase 1, which is planned for the second half of February. Officials will be able to support the Panel in the preparation of this report, with the exact process to be agreed with the Panel at the first meeting.

- **Development of the list of issues for phase 2:** One meeting, to take place in February, may be required to allow for the list and next steps to be finalised by the end of March.

It is expected that this will add another 8-10 hours to the overall commitment for panel members.

Outputs

The Panel will be required to report to the Minister of Finance with its views on the Treasury's recommendations and conclusions for phase 1 of the Review. The Panel's views on the list of issues for phase 2 of the Review will be recorded and presented to the Minister.

Views expressed will be subject to the Official Information Act. It is intended to proactively release the final views of the Panel, along with any background papers provided to the Panel and meeting minutes.

Additionally, the Panel may be called to meet with the Minister of Finance to discuss the Review.

Remuneration and expenses

The Panel has been assessed under the Cabinet Fees Framework (Cabinet Office Circular CO(12)6)) as a Group 4, Level 2, governance body. Fees are payable for all meetings (i.e. regular and ad hoc meetings), preparation for meetings, follow up from meetings, and for observing the Reserve Bank's operating processes (if applicable).

Fees will be paid following each meeting of the Panel, on presentation of a detailed invoice to the Treasury. Fees paid are GST exclusive, but note that the Treasury may be required to deduct withholding tax from the fee depending on individual tax circumstances.

In addition to fees, reimbursement of actual and reasonable expenses, for example parking or taxi fares, will be paid on presentation of an invoice and supported by detailed and itemised GST receipts. These should be agreed in advance with the Treasury, and all travel and accommodation arrangements will be made in advance by the Treasury.

Outside interests

It is accepted and acknowledged that Panel members have business interests other than those of a member of the Panel. The appointment as a member of the Panel does not preclude members from accepting other employment or appointments, provided that they do not materially interfere with their performance as a member of the Panel and that any actual, potential or perceived conflicts of interest can be managed effectively. At the start of each meeting members will be asked to inform the Chair of any changes to their interests, and indicate whether they may be conflicted on any agenda item.

Confidentiality

Members will be required to agree a confidentiality agreement before joining the Panel, and any information provided to Panel members as part of the Review would be subject to the confidentiality agreement.

Once phase 1 decisions and the list of issues to be progressed in phase 2 are made public, members will be free to publicly express their personal views on phase 1 decisions and the scope of phase 2 of the Review, subject to their confidentiality agreements.