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To: Minister of Finance (Hon Grant Robertson)

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## **Aide Memoire: A Monetary Policy Committee Charter**

You have asked how a Charter for the Monetary Policy Committee (MPC) could work in practice. This aide memoire provides you further information on how a Charter could work along with an alternative to the model recommended by the Treasury and the Independent Expert Advisory Panel (the Panel).

### **Rationale for a Committee Charter**

Our recommendation to use a Charter to set the MPC's detailed communications approach recognises that what is considered "best practice" may evolve over time. It also recognises that the MPC's communications serve two purposes that will sometimes conflict. One purpose is to provide clear information to markets and the public to influence expectations. The other purpose is to provide transparency and accountability.

The Treasury and the Reserve Bank support a Charter to ensure a degree of flexibility as we do not consider it possible or desirable for legislation to be highly prescriptive about the MPC's communication requirements. However, given the importance of communications as part of the overall accountability model for the MPC, the Treasury recommends that the Minister is involved in setting the Charter if the legislation is not prescriptive.

Currently, while the Act has some transparency requirements, further details on the approach to transparency are set out in part in the Policy Targets Agreement (PTA) between the Minister and the Governor where guidance in the Act is limited. For example, while the Act requires the Bank to publish a Monetary Policy Statement (MPS), with the PTA setting out what must be contained in each MPS in more detail. Having a Charter agreed between the Minister and the Committee would provide a clearer method for the Minister to set additional requirements about how the MPC communicates, should Ministerial expectations about transparency change over time.

This aide memoire is focused on the communications approach. However, if agreed by the Minister and the MPC, the Charter could also include other issues where the

Minister is likely to have an interest and where practice may need to evolve over time. For example, the Panel recommended that the Charter could set the broad terms of engagement for the external members (e.g. their level of support and the expected time commitment).

### **How a Committee Charter Could Work**

The detailed design of how a Charter would work in practice has not yet been completed. We would expect the Charter to be developed by the MPC, with the MPC then advising the Minister and seeking the Minister's agreement to the proposed Charter.

There are two key points of debate over the legislative framework for a committee Charter. The first is who should agree the content of the Charter. The second is which details of the communication approach should be defined in the Act and which should be defined in the Charter. These two issues are directly related.

Annex 1 illustrates the possible boundaries between what would be set in legislation, what would be agreed in the Charter, and what would be left to the MPC. These boundaries are what the Treasury would be likely to recommend on the basis that the Minister would agree the Charter with the MPC.

### **An Alternative Model**

If the Charter was not agreed between the Minister and the MPC, the legislation would need to be more prescriptive. To ensure sufficient accountability, the Treasury would recommend the Act specify the approach for all of the issues that we currently recommend be included in the Charter as set out in Annex 1. This would mean that the issues that the MPC has full control over would remain the same under either approach. However, the benefit for the Bank would be that they have operational independence within narrow settings determined by Parliament, rather than having the Minister of Finance directly involved in setting the approach to communications.

This would be a workable compromise and would be consistent with practice in other countries, such as the UK, where legislation is specific about transparency requirements. The Reserve Bank would prefer this alternative model, but recommends that any protocol for individual members expressing their views in public would be set by the MPC, rather than in the legislation (which is consistent with the approach used in the UK, where the MPC itself has determined that individual members would have the right to express individual views). In the alternative model, the Treasury supports having legislation give MPC members the right to express their views to avoid a situation where the internal majority of the MPC could prevent the external minority from expressing their views in public.

A model without Ministerial input would also mean that any move to a more transparent communications model in the future would be entirely dependent on the MPC. Therefore, the Treasury considers it necessary to reconsider the approach to communications if the alternative model were adopted. For example, the

communications model recommended previously by the Treasury and the Panel (where differences of view are published but not attributed) was deemed an appropriate starting point. This is because the Minister could influence a shift to a more transparent model over time (i.e., one where individual votes are attributed), while the model also mitigates the risks of adopting a more individualistic approach immediately. However, an evolution towards a more transparent approach may be less likely to occur if it was at the sole discretion of the MPC. Accordingly, it may be preferable to adopt a more individualistic approach in legislation, for example by requiring the MPC to publish the voting preferences of individuals rather than just the balance of votes.

**Ben Gaukrodger**, Senior Analyst, Macroeconomic & Fiscal Policy  
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## Annex 1: Example of boundaries where the Minister and MPC agree the Charter

<b>Legislation</b>	<p>The Act would require the MPC to publish a record of its meetings and a Monetary Policy Statement (MPS).</p> <p>The Act would require the MPC to agree a Charter with the Minister that sets out the MPC's detailed communications approach.</p> <p>The Act would require the Charter to include specific details on:</p> <ul style="list-style-type: none"> <li>• <b>What documents must be published by the MPC</b> (in addition to the MPS and a record of meetings).</li> <li>• Any <b>requirements for content or timeliness</b> of any publications.</li> <li>• Any <b>constraints on individual members'</b> communications.</li> </ul>
<b>Charter</b>	<p>The Charter would be agreed periodically between the Minister and the MPC, and would be binding on the MPC.</p> <p><b>What documents must be published by the MPC</b></p> <p>The first Charter could require the MPC to:</p> <ul style="list-style-type: none"> <li>• Publish the balance of votes for each decision taken by vote.</li> <li>• Publish the MPC's code of conduct (if there is one).</li> </ul> <p><b>Requirements for content or timeliness</b></p> <p>The first Charter could require the MPC to:</p> <ul style="list-style-type: none"> <li>• Reflect differences of view in the meeting record.</li> <li>• Explain decisions and outcomes in the MPS (this requirement is currently in the PTA)</li> <li>• Release the meeting record within X days of a meeting, and the balance of votes within Y days of a vote.</li> </ul> <p><b>Constraints on Individual Members</b></p> <p>The first Charter could require the MPC to:</p> <ul style="list-style-type: none"> <li>• Allow individual members to express their views publicly (for example through speeches or articles) after consultation with the MPC.</li> <li>• Have the Governor as the sole spokesperson for decisions of the MPC.</li> </ul>
<b>MPC to Determine</b>	<p>The MPC would be free to agree details outside the scope of the Charter and Legislation.</p> <p>Where necessary the MPC could set out its approach in a separate code of conduct, which would allow the MPC to determine how they govern their own behaviour and work together.</p> <p><b>What documents may be published by the MPC</b></p> <ul style="list-style-type: none"> <li>• The MPC would be able to publish additional documents as they see fit.</li> </ul> <p><b>Requirements for content or timeliness</b></p> <ul style="list-style-type: none"> <li>• The MPC would set the process for agreeing that different views have been adequately captured in the meeting record.</li> <li>• The MPC would agree the exact date and method of publication.</li> </ul> <p><b>Constraints on Individual Members</b></p> <ul style="list-style-type: none"> <li>• The MPC would be able to set limits on when individuals can express their views publicly (e.g. black-out periods could apply immediately before and after decisions).</li> </ul>