

Independent Expert Panel for the Reserve Bank Act Review
Meeting Minutes – 02 March 2018, 12.15 pm-6.00pm
Meeting Room 5.8, New Zealand Treasury, 1 The Terrace

Attendees **Panel:** Suzanne Snively, Dr Girol Karacaoglu, Dr Malcolm Edey
RBNZ: Grant Spencer, Geoff Bascand, Bernard Hodgetts, David Hargreaves
Nick McBride, Chris Hunt, Cavan O'Connor-Close, Tom Smith, Victoria Learmonth
Treasury: Bryan Chapple, Chris White, Craig Fookes, Victor Kuipers, James
Haughton, Siobhan Coffey (minute taker)

1. Chair's introduction

The Chair congratulated the Panel and officials for the work completed so far and gave an update on the process to date.

The Panel noted that it had provided a draft paper on phase one to the Minister of Finance who was happy with direction of travel, but was still considering his view on some final points. The whole Panel had met with Ministers James Shaw and Shane Jones who were also comfortable with the direction of travel.

The Chair emphasised that the rest of Phase one needed to be efficient and effective in order to be ready for the commencement of the new Governor's term. She indicated there were no blocks to timelines for achieving this.

The purpose of the meeting was to explore potential issues for inclusion in phase two. The Panel would meet after the meeting and talk to officials on Monday about the outcome of their discussion.

2. Process and timing

Process

The Panel endorsed the process set out in Panel Paper 1: Process and Timing for Scoping Phase two.

Officials gave an overview of the proposed process and timing, through to a terms of reference (ToR) being agreed by Cabinet on 30 April.

The Panel will play the same role as they did in phase one, presenting their view to Ministers, with officials to provide their advice alongside if necessary.

It was agreed that there would be a fourth panel meeting to consider feedback from the third panel meeting and help the Panel land on key issues. The meeting would support the panel to develop advice for the Minister. Officials would prepare material for this

meeting, which was scheduled over two days (15th and 16th March). This meeting date(s) and time needed to be confirmed.

Roles

It was noted that Ministers would ultimately decide on options for phase two. The Panel and officials expected to have a face-to-face dialogue with the Minister about his priorities to inform preparation for Cabinet. Prioritisation may also occur throughout the review based on the Minister's appetite for change and willingness to put resources into different areas.

Two panel members had met with Minister Parker whose interest was primarily in phase 2. Minister Parker was seen to have a lot of knowledge on the subject and officials should read his papers, which were available in the secured workspace, to inform their thinking and meet with him if possible. Associate Ministers had played a role in phase 1 and should be included going forward to phase 2.

Scoping

The panel asked for clarification of the time constraints on the implementation of the review referred to in slide 11 in Panel Paper 3: Reserve Bank Act Review – Scoping Phase 2.

Officials noted that the timeframe for the review was the Minister's decision but he should be advised on the trade-offs (e.g. resources and time involved). Officials could provide information about the resource required to do certain work to assist the Minister in making decisions on scope.

Action Lock in a time and date for the fourth Panel meeting

3. Stakeholder views

Malcom Edey provided a summary of the feedback from stakeholders to date.

Generally there was support from stakeholders for a review as the Act was 30 years old, and a stable economic outlook allowed us to consider the issues carefully.

Key themes from the engagements were:

1. Coherence of legislative framework

Regulation had become more intensive since the legislation was made and it was worth reviewing how we could accommodate these changes.

2. Objectives

Industry thought there was too much weight on soundness over efficiency and clarity on how they relate to each other would be beneficial. Phase two should also consider adding depositor protection as an objective.

3. Resourcing

Not all stakeholders wanted a more intrusive supervisory approach, but many were supportive of consideration of increased resources with the review. Banks felt more could be done to understand their business, although industry felt the Reserve Bank required more resource to do so. There was some stakeholder support for an industry-funding model.

4. Supervisory approach

There was support for the review to consider the supervisory approach and legal basis for regulation.

5. Crisis management

Stakeholders supported a review of the current crisis management regime discussed questions relating to OBR and depositor protection.

6. Trans-Tasman relationship

Stakeholders raised the risk of a standalone solution in a crisis. What should our policy response be in a crisis given underlying risks? Was there scope to revisit the relationship with APRA?

7. Separation

There was a range of views on whether New Zealand required a separate prudential regulator.

8. Governance and accountability

Stakeholders supported governance being reviewed, including the role of the Board and the possibility of a Financial Policy Committee.

9. Independence of decision making

Stakeholders supported a review of accountability mechanisms.

10. Macro prudential policy

Stakeholders had positive comments about the effective and timely work by the Reserve Bank. But, they pointed out there was no strong legislative basis for the macro pru framework and supported a review of the interaction with monetary policy and the appropriate political interaction.

Officials agreed with the themes identified and acknowledged the diversity of stakeholder views. They also acknowledged that the New Zealand context was important when looking at international best practice.

The Reserve Bank noted it was already addressing some of the issues raised e.g. more detailed guidance to banks and other FSAP recs.

Action - Treasury would write up a stakeholder view report for the Panel and Ministers. This would be released publicly after the Terms of Reference for phase two was released.

Action - Update the Treasury website with details on the review process and the opportunity for stakeholders to feed into the process.

4. Options for scope of phase 2

Treasury and the Reserve Bank officials agreed on the seven broad headings set out in slide 3, Panel Paper 3: Scoping of Phase 2 of RBNZ Act Review.

Over-arching objectives and coherence of the legislation

The discussion noted that over-arching objectives could impact the consideration of more specific functions of the Bank. In that sense, over-arching objectives should be considered early on within the review.

Some officials noted that the Reserve Bank's current focus was stability, with efficiency objectives as secondary. But discussion noted that it may be hard to be too prescriptive about how to calculate trade-offs between the two objectives. Governments around the world did this via a range of channels (e.g. APRA's objective in implementing a framework for unquestionably strong capital ratios) or extra statutory statements.

There was also a discussion about permissiveness vs prescriptiveness. There were views expressed within the group that the Act needed to be permissive, but discussion noted the role objectives and governance play. Some officials felt policy principles (like IPSA) could be considered.

It was agreed that the review process should consider what had worked well in other jurisdictions.

The group discussed whether the Act should focus on institutional soundness, consumers or depositor protection. It was agreed that this is a fundamental question that should be addressed early in the review given the consequential implications for other more detailed areas of policy.

Decision-making and governance

It was agreed that institutional arrangements needed to be worked through. Some governance issues had been considered during phase one, but there was a clear desire from all parties to also consider other aspects through phase two.

The Panel agreed by the group that decision-making and governance was similar to over-arching objectives in that decisions here would have flow-on implications for other parts of the review.

There was also a conversation about the extent of operational independence and what this meant. The question of how the Government could express its risk appetite e.g. a Government policy statement or a memorandum of understanding was discussed.

Macro prudential

It was discussed that phase two needed to consider the effectiveness of macro prudential policy, however this is also an ongoing process that would continue following the review.

There was a discussion on the role of macro-prudential policy, objective setting and the possibility of setting principles in the Act, and the tool kit.

There was a conversation about whether the Act should acknowledge that macro prudential policy impacts monetary policy and not just financial stability.

Prudential regulation

There was a discussion about the statutory basis for prudential regulation and how this varied between Acts (e.g. NBDTs/IPSA). Officials discussed whether this needed to be tidied and the recommendations of James Every Palmer who supported retaining conditions of registration with Ministerial control over the regulatory perimeter (i.e. what is regulated).

The group agreed that the review should focus on the architecture within which the prudential rules were made, not on the rules themselves.

Enforcement was discussed including the consequence of breaching rules, appeals process; and resources the Reserve Bank may need.

Phase two also needed to determine early on who was subject to the regulation. An extension of the review to cover NBDTs would increase the scope of the review.

Supervision and enforcement

There was agreement on the need to review supervision given stakeholder feedback and the IMF FSAP report. The group discussed whether or how the Minister could influence the level of risk in the system.

Changes to supervision would require resource changes. The funding model, industry levies and the implications for the Reserve Bank's relationship to banks was discussed.

Officials offered to consider which IMF recommendations could be achieved through the review and the timing of these.

Crisis management resolution

There was agreement that crisis management needed to be in scope of phase 2.

5. History and context

Officials talked through the following material:

- Panel Paper 2: Summary of Background Papers
- A. RBNZ Slide pack – An Overview of Prudential Regulation Under the RBNZ Act
 - B. Cabinet Paper (2007) – Institutional Arrangements for Prudential Regulation
 - C. Chris Hunt (RBNZ Bulletin) – A Short History of Prudential Regulation
 - D. Chris Hunt (RBNZ Bulletin) – Independence with Accountability
 - E. IMF – key extracts from FSAP (x3)
 - F. Simon Jensen and Helen Dervan – Time to Review the RB Act
 - G. James Every-Palmer – Reserve Bank Prudential Regulation of Banks

The material provided a wide range of views to support the Panel when forming their advice on a review scope and a terms of reference.

6 Wrap up

The wrap up session discussed the next steps.

The key actions were:

- The panel agreed to consider the material provided to inform preparation for panel meeting four.
- Following the fourth panel meeting, the Panel would provide the Minister of Finance, a recommended ToR with a report that supported this, as well as advice on the time and resource involved in this review.

- The Treasury website needed to be updated to explain process and indicate when the material would be available.