

Independent Expert Panel for the Reserve Bank Act Review
Meeting Minutes – 16 March 2018, 12.15 pm-6.00pm
Meeting Room 5.8, New Zealand Treasury, 1 The Terrace, Wellington

Attendees **Panel:** Suzanne Snively (Chair), Dr Girol Karacaoglu, Dr Malcolm Edey
RBNZ: Geoff Bascand, Toby Fiennes, Bernard Hodgetts, David Hargreaves, Nick McBride, Chris Hunt, Tom Smith, Victoria Learmonth
Treasury: Bryan Chapple, Chris White, Craig Fookes, Victor Kuipers, James Haughton, Siobhan Coffey (minute taker)

Apologies: Grant Spencer, Cavan O'Connor-Close

1. Chair's introduction

The Chair thanked officials for the content provided to the panel for the fourth meeting and noted that the panel found the material helpful for them to determine the key issues.

The Chair noted that the purpose of the meeting was to discuss and consider different views in order to produce a terms of reference for phase two of the review and an accompanying report.

There was a discussion about the proactive release of documents. The next policy target agreement would be announced on May 26. At this time, the Treasury would proactively release documents relating to phase one of the review, some background papers and summaries of those background papers from the 3rd meeting, and a summary of stakeholder feedback and stakeholder submissions. This was intended to maintain transparency throughout the process and keep the public informed about the narrative of the submissions to date.

The key risks of proactively releasing these documents were that particular views may receive disproportionate media attention which may influence the Minister's decision making. However, the panel thought the benefit of a transparent process out-weighed the risks, and key submitters were already vocal about their views. Further releases would simply balance this view.

2. Terms of Reference

The Chair was impressed with the current state of *Panel Paper 1: Draft terms of reference* and considered that all of the major elements were covered.

The key issue for the panel following the third panel meeting was whether to recommend a narrow or broadly scoped comprehensive review. Following consideration on this matter, the panel supported a broadly scoped review and intended to provide the Minister of Finance with a short and sharp terms of reference reflecting this.

The Chair suggested framing the terms of reference by “topics” rather than “issues” to be clear that we were not trying to provide answers to the issues raised at this stage, as these answers would be considered through the review itself.

There was a discussion about incorporating the material from the annex in the draft terms of reference directly into the terms of reference. A key consideration discussed was to balance flexibility to respond to changes against providing a clear direction. Pulling the annex into the terms of reference may create more rigidity.

It was noted that the draft terms of reference did set some scope and boundaries for the review, however most of this would be ultimately determined by the Minister following consideration of the terms of reference.

Action: Officials would restructure the terms of reference to add the annex and circulate this version amongst themselves and the panel to determine whether this change was beneficial.

The panel asked officials to take out any quotes from the terms of reference as these were too detailed.

Timing

The group discussed a proposed timetable going forward until Cabinet consideration of the terms of reference. Officials and the panel agreed that it allowed officials time to provide the necessary supporting information and narrative to the Minister.

The panel was planning to provide a short panel paper delivered to the Minister earlier than the Cabinet paper.

The Minister would need to discuss the process with officials as well as his colleagues. The incoming Governor of the RBNZ also wanted the opportunity to engage on the proposed process for phase two of the review. The Minister may need advice from officials about sequencing and implementation.

Institutional form

The group discussed *Panel paper 2: Institutional form –separating prudential regulation and other functions*

Key points during the discussion were:

- Context on the international financial system should be provided in advice to the Minister.
- There is stakeholder desire for a single home for anti-money laundering issues. It would be good to consider whether this should be considered through the review, or whether it should be picked up separately.
- Separation of policy and regulation.
- Roles of others eg Treasury, FMA, CoFR.
- Stakeholder feedback related to resourcing, culture and approach. There may be other ways to address the symptoms.
- Sequencing approach - the review could attempt to reform the institution incrementally with regular reviews that may eventually recommend separation, and describe what can be achieved without a restructure.
- Officials should build a review evaluation into the process to allow for continuous improvement.
- The panel's initial view based on the analysis in the paper was that they were not in favour of separation. However, they wanted to consider further evidence to better consider the advantages of separation.

Action Officials to provide a note to the panel that presents rationales for and against separation to support the panel's consideration of whether separation should be in scope of the review.

3. Panel report

There was a discussion about *Panel paper 3: Outline of panel report* and the level of information required in this report to accompany the terms of reference.

Structure

The panel provided specific feedback that the draft provided to the panel needed to be shortened to focus on the process to date rather than content and arguments for particular positions.

The process to date was that the panel:

- Considered a range of papers that described the status quo and evolution of the Act.

- Considered a range of papers that looked at the regime and made a case for change.
- Considered the international context.
- Participated in stakeholder feedback process.
- The panel considered that the body of work reviewed made a case for a broadly scoped comprehensive review.

The panel thought officials may need to think about how to prioritise or sequence the nine topics set out in the proposed scope section. Officials stated that the ordering these could be worked through further.

Rationale and coverage

It was discussed that the terms of reference was not the place to raise “issues”, as this could be done through the review.

It was agreed that the review needed to be undertaken in an integrated way given the window of opportunity. Officials intended to provide key sequencing to the Minister. Overarching objectives and governance/ institutional form would need to be determined early as they were central to the review. Consumer protection was used as an example of something that is relevant to the scope of the review.

Governance

There was a discussion about how the Act might reflect the strategic priorities of the Government and how the Act could align with current government arrangements.

The policy statement directed the RBNZ to have regard to government objectives. The government had not generally used this power. If the government wanted more influence they had the opportunity under the Act to do so.

Other points discussed were:

- Officials would need to fairly balance and characterise stakeholder’s views and ensure that the context was accurate.
- The importance of operational independence of the RBNZ.
- The role of regulation in addressing only the risks that could not be otherwise be mitigated.
- How New Zealand’s regime would fit in internationally.
- The relationship with APRA and the relevance of Trans-Tasman coordination in areas such as supervision or crisis management. The IMF considered New Zealand’s unique relationship with Australia to be very significant and suggested that further collaboration would benefit New Zealand.

Communications

The Treasury had drafted new website pages related to the review, but the update relied on decisions about the process going forward.

All the information about the review was on the Treasury website rather than on the RBNZ's website.

Action: RBNZ to share media monitoring with the Treasury.

Resourcing

The panel suggested that officials could provide advice on resourcing. The panel did not want to rule anything out due to resources. They planned to recommend a broadly scoped comprehensive review. Ministerial decisions would need to take into account the resource required, and scoping this would be up to officials. The changes could be considered an investment if they lead to a better RBNZ Act.

4. Wrap up

The Chair set out the next steps which were:

Officials to provide the panel with the following material to reflect the feedback provided at the meeting by Friday 23 March.

- Revised terms of reference
- Shorter version of the panel
- Note on separation

It was agreed that no meeting was required to complete these actions.