Review of the Reserve Bank Act

Release Document – Reserve Bank Act Review: detailed decisions on phase 1

July 2018

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THE TREASURY
Kaitohutohu Kaupapa Rawa

Treasury Report: Reserve Bank Act Review: detailed decisions on phase 1

Date:	12 April 2018	**Report No:**	T2018/998
		File Number:	MC-1-7-1

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	**Agree** to the recommendations in this report, to enable drafting instructions to be provided to the Parliamentary Counsel Office **Refer** this report to the Associate Ministers of Finance (Hon Parker, Hon Jones, Hon Shaw) for their joint agreement	**Tuesday 24 April** for final decisions on this report by joint Ministers.
Associate Minister of Finance (Hon David Parker)	**Agree** to the recommendations in this report once referred to you.	**Tuesday 24 April** for final decisions on this report by joint Ministers.
Associate Minister of Finance (Hon Shane Jones)	**Agree** to the recommendations in this report once referred to you	**Tuesday 24 April** for final decisions on this report by joint Ministers.
Associate Minister of Finance (Hon James Shaw)	**Agree** to the recommendations in this report once referred to you	**Tuesday 24 April** for final decisions on this report by joint Ministers.

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Felicity Barker	Principal Advisor, Macroeconomic & Fiscal Policy	[2] (wk)	[1] (mob)	✓
Renee Philip	Manager, Reserve Bank Act Review	[2] (wk)	[1] (mob)	

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

Return the signed report to Treasury.

Subject to the Minister of Finance's decisions, **refer** this report to the Associate Ministers of Finance (Hon Parker, Hon Jones, Hon Shaw) for their agreement.

Note any feedback on the quality of the report	

Enclosure: No

Treasury Report: Reserve Bank Act Review: detailed decisions on phase 1

Executive Summary

On 19 March 2018, Cabinet agreed to reform the monetary policy framework as part of phase 1 of the Review of the Reserve Bank of New Zealand Act 1989 (the Act). These decisions included adding maximum sustainable employment to the monetary policy objective and instituting committee decision-making for monetary policy (through a monetary policy committee (MPC)) [CAB-MIN-18-0086 refers].

Finance Ministers (Hon Robertson, Hon Parker, Hon Jones and Hon Shaw) have been delegated authority to make second-order policy decisions to progress the drafting of the Bill, which is intended to be considered by Cabinet in July 2018. We now seek Ministerial agreement on second-order policy decisions in regards to the following:

- The setting of the Remit for the MPC (the Remit), which will replace the current Policy Targets Agreement. Cabinet has agreed that under the amended Act the Minister of Finance (the Minister) will be required to set operational objectives for monetary policy through this Remit at five-yearly intervals. The Reserve Bank will be required to provide advice to the Minister on the setting of the Remit. This report provides the detail of how this process will work.

- The setting of the MPC Charter, which Cabinet has determined will be agreed by the Minister and the MPC. It will set out the specific details on transparency, decision-making and accountability that the MPC must adhere to beyond those included in the Act. Officials seek your guidance on which of the two options is most appropriate to be followed in the situation where the Minister and the MPC cannot agree to a Charter.

- The requirements for reports on the conduct of monetary policy. It is proposed the Act require quarterly reports on the conduct of monetary policy (as opposed to the current bi-annual requirement). The Act will allow for additional requirements as to the content and frequency of reporting to be added through the MPC's Charter. In addition, a new report will be required by the Reserve Bank at least every five years that reviews and assesses monetary policy performance.

- The details of the specification of the Reserve Bank Board's monitoring role as a consequence of the decisions Cabinet has already made. A number of other additions or changes to the Board's powers are proposed to enhance and strengthen the Board's ability to monitor the Bank.

- The MPC Treasury observer. We propose that the legislation provide that the Treasury observer may attend, and speak at, any meeting of the MPC.

Following your decisions, we will instruct the Parliamentary Counsel Office (PCO) to start drafting the amendment Bill. The final Bill is expected to be ready for you to take through Cabinet for agreement in July 2018.

Recommended Action

We recommend that you:

a. **note** that Cabinet has agreed to amend the Reserve Bank of New Zealand Act 1989 (the Act) such that a monetary policy committee (MPC) is established for the formulation of monetary policy and that maximum sustainable employment is included in the Reserve Bank's monetary policy objective [CAB-18-MIN-0086 refers];

b. **note** that a number of second-order decisions are required to be taken by Finance Ministers, as delegated by Cabinet, to enable a draft Bill to be prepared;

c. **note** that Cabinet has agreed to amend the Act to provide that the operational objectives of monetary policy will be set by the Minister of Finance following the receipt of advice from the Reserve Bank;

d. **agree** to the detailed process for the setting of the operational objectives of monetary policy (known as the Remit for the Monetary Policy Committee) as outlined in Box 1 of the *Summary of Detailed Recommendations* (see pages 14 and 15);

Agree/disagree *Agree/disagree*

e. **agree** that consequential amendments be made to the provisions of the Act on the management of foreign exchange to the extent necessitated by the replacement of the PTA with the Remit and to recognise the responsibilities of the MPC;

Agree/disagree *Agree/disagree*

f. **agree** to the amendments to the requirements for reports on the conduct of monetary policy as outlined in Box 2 of the *Summary of Detailed Recommendations* (page 15);

Agree/disagree *Agree/disagree*

g. **note** that Cabinet has agreed that the MPC shall be required to agree with the Minister of Finance a Charter that sets out the detailed approach to issues defined by the Act, including the MPC's approach to communications;

h. **agree** to the process for the setting of the MPC Charter and code of conduct as outlined in Box 3 of the *Summary of Detailed Recommendations* (pages 15 and 16), (except for the process that applies when the Minister of Finance and the MPC cannot agree the Charter for which recommendation (i) below applies);

Agree/disagree *Agree/disagree*

i. **agree**, where the Minister and the MPC cannot agree the Charter, that:

EITHER

- the Minister of Finance will have the power to set the Charter, subject to Cabinet's approval; [Treasury Recommended]

Agree/disagree *Agree/disagree*

OR

- the existing Charter will continue until mutual agreement can be reached between the Minister of Finance and the MPC; [Reserve Bank Recommended]

Agree/disagree *Agree/disagree*

j. **note** that Cabinet has agreed to amend the duties of the Board such that the Board will be responsible for monitoring the MPC, members of the MPC and the Governor in the performance of their duties;

k. **agree** to the changes to the role of the Reserve Bank Board as outlined in Box 4 of the *Summary of Detailed Recommendations* (pages 16 and 17) and that follow from the decisions noted in (j)*;*

Agree/disagree *Agree/disagree*

l. **agree** to the changes to the role of the Reserve Bank Board as outlined in Box 5 of the *Summary of Detailed Recommendations* (page 17)*,* which aim to further enhance and strengthen the powers and duties of the Board;

Agree/disagree *Agree/disagree*

m. **agree** that an explicit power for the Board to undertake or commission substantive reviews (including by external experts) that are connected with the Board discharging its monitoring duties (along with an independent budget for the Board) should be considered as part of phase 2 of the Review;

Agree/disagree *Agree/disagree*

n. **agree** that the Act will provide that the Treasury observer may attend, and speak at, any meeting of the MPC;

Agree/disagree *Agree/disagree*

o. **agree** that the provisions in the Act relating to the process for appointment of MPC members be non-prescriptive;

Agree/disagree *Agree/disagree*

p. **agree** that officials will develop the policy detail of the above proposals further and will instruct PCO accordingly;

Agree/disagree *Agree/disagree*

q. **agree** to give officials authority to incorporate into the Bill other minor and non-substantive changes to wording in respect of relevant sections of the Act, including changes to improve the workability of the Act and to remove redundant parts of the Act;

Agree/disagree *Agree/disagree*

j. **agree** that there be a 3 month transition period between the passage of the Bill and the commencement of the Act; and

Agree/disagree *Agree/disagree*

r. **refer** this report to the Associate Ministers of Finance (Hon Parker, Hon Jones and Hon Shaw) for their joint agreement.

Refer/not referred

Renee Philip
Manager, Reserve Bank Act Review

Hon Grant Robertson
Minister of Finance

Hon David Parker
Associate Minister of Finance

Hon Shane Jones
Associate Minister of Finance

Hon James Shaw
Associate Minister of Finance

Treasury Report: Reserve Bank Act Review: detailed decisions on phase 1

Purpose of Report

1. This report seeks your agreement to a number of issues that are consequential to the announced decisions [CAB-18-MIN-0086 refers] on phase 1 of the Review of the Reserve Bank Act (the Review).

2. Decisions on the issues in this report are required before the Treasury can issue drafting instructions to the Parliamentary Counsel Office (PCO) to amend the Reserve Bank of New Zealand Act 1989 (the Act). Officials request that decisions are taken by Finance Ministers by 24 April. This will enable the Treasury to issue drafting instructions to PCO before the end of April, which will allow Cabinet consideration of the Bill on 9 July. This timetable, which is set out in detail at paragraph 38, will enable legislation to be passed this year.

Approach to this report

3. Cabinet has delegated authority to the Minister of Finance (the Minister) and the Associate Ministers of Finance (Hon Parker, Hon Jones and Hon Shaw) to take decisions on a range of second order issues that are to be included in the draft Reserve Bank of New Zealand Amendment Bill (the Bill). This report deals with these second order issues to implement Cabinet's decisions on phase 1 of the Review, namely:

    A. the process for setting the operational objectives of monetary policy, which will replace the Policy Targets Agreement (PTA);

    B. the requirements for reports on the conduct of monetary policy;

    C. the content of, and process for setting, the monetary policy committee's (MPC) Charter and code of conduct;

    D. changes to the monitoring duties and powers of the Reserve Bank Board;

    E. the role of the Treasury observer on the MPC; and

    F. the process for appointing members of the MPC.

4. The following sections provide background on the implications of Cabinet's phase 1 decisions, and a high-level overview of officials' proposals in respect of matters A-F in paragraph 3. The analysis that forms the basis of the recommendations for the matters covered in A-E in paragraph 3 are included in detailed annexes. A pictorial summary of the key design elements of the amended monetary policy regime, as recommended in this report, is included in Annex F.

Background

5. Currently, the Governor of the Reserve Bank (the Governor) is solely responsible for both the formulation and implementation of monetary policy. Cabinet has agreed that an MPC will be established by the Act and will be responsible for the formulation of monetary policy, and that the Reserve Bank's monetary policy objective will include maximum sustainable employment alongside price stability. The Governor will remain responsible for implementing monetary policy consistent with the decisions of the MPC.

6. While detailed decisions on the design of elements set out in paragraph 3 are needed to amend the Act, these mechanisms also form an important part of the new approach to accountability under the committee decision-making model. The current sole

decision-maker model in the Act is based on holding the Governor to account for monetary policy performance. In future, the MPC will be collectively responsible for the formulation of monetary policy. This means that there will need to be more focus on transparency and the conduct of decision-making, along with review processes, to hold decision-makers to account. Officials have kept this in mind in making recommendations for the detailed design of these mechanisms. Officials have also sought to ensure that the Act remains permissive, to enable the monetary policy regime to evolve over time, and that roles and responsibilities are clearly defined, now that the MPC and Governor both have responsibilities in respect of monetary policy.

7. In amending the Act to institute an MPC and implement the dual objectives, a number of other consequential changes will be needed. These include determining which specific responsibilities of the Bank are now responsibilities of the MPC versus the Governor; determining the precise specification of the duties of the MPC, members of the MPC, the Governor and Board; and ensuring that the Minister's power to temporarily direct monetary policy to any economic objective, for example in a crisis, remains effective. There are also a number of obsolete or unworkable provisions in the Act that officials consider should be amended. Officials will incorporate these matters into the Bill for which Cabinet's approval will be sought for introduction. Officials will, however, report back to you if significant issues are identified for which decisions are needed before the Bill is presented to Cabinet.

A. Setting the operational objectives for monetary policy – replacing the PTA

8. A key element of the current regime is the PTA, which is agreed between the Governor and the Minister and sets the 'policy target' for monetary policy. This approach to setting the operational target for monetary policy is a feature of the model under which the Governor is personally responsible for the formulation and implementation of monetary policy and therefore needs to be adapted in light of the move to committee decision-making.

9. Cabinet has agreed to replace the PTA with a new mechanism under which operational objectives for monetary policy will be set by the Minister following the receipt of non-binding public advice from the Reserve Bank. The MPC will then be required to formulate monetary policy consistent with those objectives. Annex A sets out in detail how we suggest this new mechanism will work. Key elements are:

- The Minister will be required to set operational objectives for monetary policy at 5-yearly intervals in a document called the Remit for the MPC (the Remit).
- The Reserve Bank will be required to provide advice (following public consultation) to the Minister on the setting of the Remit, at least three months prior to the reset of the Remit. This advice will be published after the Remit is set.
- The Bank must consult with the MPC prior to giving its advice to the Minister.
- If the Reserve Bank does not provide advice the Minister may still change the Remit.
- The Reserve Bank will be required to consult the Minister on the scope of the advice it intends to give at a suitable interval prior to giving that advice.
- Once determined, the Remit will be tabled in the House of Representatives and published.
- The Remit will also be able to be set before the required 5-yearly reset, but this will need to be done by the Governor-General, on the advice of the Minister, through Order in Council and following consultation with the Reserve Bank.

10. It is proposed that the initial Remit will be for 5 years and will be set by agreement between the Governor and the Minister in the same manner as the current PTA process. This Remit will take effect on the commencement of the amended Act (which is expected in the first half of 2019, depending on the timing of the legislative process). This interim process is proposed because the Reserve Bank will not have had sufficient time to undertake a full research programme to provide formal advice prior to the commencement of the amended Act.

11. The replacement of the PTA with the Remit also gives rise to a consequential change to the Act, which allows the Minister to direct the Reserve Bank to deal with foreign exchange in a certain manner. Currently, if a direction from the Minister is inconsistent with the PTA the Minister is required to agree a new PTA with the Governor (or remove the direction). As the Remit will not be set by agreement, officials propose to amend these sections such that the policy intent stays the same. That is, in the case that the Minister issues the Reserve Bank a foreign exchange direction that is inconsistent with the Remit the Minister must amend either the direction or the Remit in a manner that the Reserve Bank is satisfied will make the requirements consistent.

B. Reports on the conduct of monetary policy

12. The Reserve Bank will continue to be required to produce periodic reports on the conduct of monetary policy (currently done through the monetary policy statement (MPS)). These reports will be the key mechanism for the MPC to communicate its approach and decisions on monetary policy. The MPC will also have a new requirement to produce and publish records of meetings.

13. Officials, however, consider that a number of changes are needed to the requirements for reports (currently called policy statements) in the Act, either as a consequence of other changes to the Act, to enhance the Reserve Bank's reporting requirements or to reflect modern practice. The main changes proposed are:

    - Reports covering the current statutorily required content (subject to the amendments discussed next) will be required four times a year (provided they are at least 2 months apart) to match the current practice of quarterly MPSs, as opposed to the current bi-annual requirement.
    - The required content for quarterly reports will be updated to ensure consistency with other changes to the Act and to recognise that monetary policy is set over the medium term. In this respect, the most significant recommendation is to repeal the requirement that the Bank undertake a short-term review of the performance of monetary policy (15(2)(d)) and replace it with a medium-term review requirement (discussed next).
    - A new report will be required to be produced by the Reserve Bank at least every five years that provides for a review and assessment of the performance of monetary policy.
    - The requirements in respect of the content and frequency of reports will be able to be added to through the MPC's Charter (see next section). This allows for the regime to evolve over time.
    - While quarterly reports will be produced by the Reserve Bank, they will be required to be approved by the MPC as they will set out the MPC's decisions and strategy. The reports provided at least five-yearly will be reports of the Reserve Bank. The Reserve Bank will be required to consult the MPC on the five-yearly report.

14. Annex B provides more detail on changes to the legislation that will be needed in order to implement these changes.

C. The MPC Charter and the code of conduct

15. Cabinet has agreed to use a Charter, agreed periodically by the Minister and the MPC, to set transparency, decision-making and accountability requirements the MPC must adhere to in addition to what is provided in the Act. The Act will empower the Charter and define what matters may be included in the Charter.

16. This mechanism has been developed to ensure there is more flexibility in the MPC's detailed processes than would be possible if these matters were included in the Act and allows for these processes to evolve over time.

17. The key elements of the Charter's recommended design are:

    - The Act will require the MPC to agree a Charter with the Minister that sets out the MPC's detailed approach to transparency, decision-making and accountability that are in addition to the requirements of the Act.
    - The Act will require the MPC to publish the Charter and a record of its meetings.
    - The Act will require the Charter to include further details on:
        - additional information that must be published by the MPC
        - requirements regarding the frequency or timeliness of information published
        - additional guidelines on MPC members' communications, and
        - additional guidelines on the decision-making process (beyond quorum and tie-breaking procedures which will be set in the Act).
    - Largely the process for agreement between the MPC and the Minister will be left to convention, with the exception of the process that applies where the Minister and the MPC are unable to agree a Charter (see paragraph 18).
    - The Charter and the Remit will need to be consistent, given that the Charter will be able to set requirements regarding the content and frequency of reports on the conduct of monetary policy (as discussed in B above). Accordingly, the Charter will be required to be agreed every time there is a standard renewal of the Remit (five yearly), with an ability to conduct interim reviews as required.
    - The initial Charter will be agreed by the Minister and the Governor so as to take effect on commencement of the amended Act.

18. As noted above, the Act will need to set out the process in the situation where the MPC and the Minister are unable to agree the Charter. Two options exist. The Reserve Bank has a strong preference for an option where the existing Charter continues to prevail until the Minister and the MPC can mutually agree on any changes. The Reserve Bank considers that this option provides an important safeguard to the Reserve Bank's operational independence and is in line with Cabinet's previous decision that the Charter should be a genuine "agreement" between the two parties (without mutual agreement, the Minister would effectively have the power to impose a Charter on the MPC). The Treasury prefers an option where the Minister has the ability to set the Charter subject to Cabinet approval, which is consistent with having the Minister set the MPC's accountability arrangements and will support a shift to a more transparent communications model over time. This will also better ensure that inconsistencies do not arise between the Remit and the Charter.

19. The Act will also require that members of the MPC comply with a code of conduct that sets out matters such as procedures for managing conflicts of interest and confidentiality. The code of conduct will be determined by the Reserve Bank and approved by the Reserve Bank Board.

20. The analysis underpinning the detailed design of the Charter and code of conduct is set out in detail in Annex C of this report.

D. Implications for the Reserve Bank Board's monitoring role

21. The Reserve Bank Board (the Board) will be a key element in the accountability regime under the committee decision-making model and, following the phase 1 changes, will continue its role of monitoring the conduct of monetary policy. As agreed by Cabinet, under the amended Act, the Board will be responsible for monitoring the MPC and individual members of the MPC in the performance of their statutory duties in addition to monitoring the performance of the Governor. The Board will have a duty to advise the Minister/power to recommend dismissal of members if the performance of the MPC, or a member of the MPC, in their statutory duties, is inadequate. Annex D provides more detail on changes to the legislation that arise from the implementation of these decisions, as well as those discussed in the next paragraph.

22. In addition to the changes in the Board's role arising from the decisions Cabinet has already made, the Treasury recommends a number of further changes to enhance and strengthen the powers and duties of the Board to ensure it can effectively fulfil its monitoring role. Partly, these changes are necessitated due to the increased emphasis on review and evaluation as an accountability mechanism under the committee decision-making model. These changes also seek to support the Board to have a greater medium-term perspective and give more emphasis to the quality and effectiveness of decision-making processes in undertaking its monitoring role. The main additional changes proposed to be included in the Bill are:

- The Board's current duty to monitor whether each MPS is consistent with the PTA (and corresponding duty to advise the Minister/power to recommend the Governor's dismissal if it is not) will be replaced with a requirement that the Board include in its Annual Report a statement of whether in its opinion the MPC, the members of the MPC and the Governor have adequately performed their statutory duties over the past year. This will allow the Board to take a more medium-term perspective in their monitoring duties, consistent with the monetary policy horizon.
- Require the Board to supply to the Minister any relevant information on the Reserve Bank that the Minister requests, including any regular reporting (the Letter of Expectations from the Minister to the Board currently requires quarterly reporting). This will strengthen the accountability of the Board to the Minister, strengthen the link between the Board and the Minister, and codify existing practice.
- Require the Reserve Bank to supply to the Board any information that the Board considers necessary for it to adequately carry out its monitoring duties. This will assist in ensuring that the Board can undertake its monitoring function (thereby strengthening the accountability of the Reserve Bank to the Board), is a clear signal that the Board is entitled to relevant information from the Reserve Bank, and codifies existing practice.

23. While the Treasury supports the last requirement (supply of information by the Reserve Bank to the Board), the Reserve Bank considers this requirement unnecessary.

24. The Treasury considers that further enhancements to the Board's monitoring role would be desirable and that these should be considered as part of phase 2 of the Review.

E. The role of the Treasury observer on the MPC

25. Cabinet has agreed that there will be a Treasury observer on the MPC. Officials propose that the observer role be defined broadly in the Act. Officials will look at non-legislative mechanisms to provide greater clarity on how this role will operate (e.g. a Memorandum of Understanding that could specify in more detail the operational requirements for the observer, such as appointment procedures and confidentiality restrictions). We will advise you if any additional legislative change is required.

26. It is proposed that the Act provide that the Treasury observer may attend, and speak at, any meeting of the MPC. This is consistent with how the Treasury observer is established in the Bank of England Act. Further detailed analysis on the Treasury observer is included in Annex E.

F. The MPC appointment process

27. Cabinet has agreed that each of the MPC members will be appointed by the Minister on the nomination of the Board. This process applies to the appointment of the Governor at present, and is known as the “double veto”. The double veto process has been in place since 1989, and was motivated by concerns at the time with political interference in monetary policy. In practice, this arrangement has seen the Board nominate a single candidate to the Minister when making appointments, which leaves the Minister to simply accept or reject a nomination. This practice is unusual in the wider New Zealand state sector, and also across central banks internationally.

28. As part of the detailed implementation process, we have considered whether the legislation should be more prescriptive to elaborate on how this process should operate in practice (in respect of all MPC members).

29. While more prescriptive legislation is an option, we have concluded that the Act does not need to be more prescriptive about the operation of the appointment process. While the Board has only tended to nominate a single candidate in the past, the Act does not preclude the Board from operating a collaborative and open process. For example, under the provisions in the current Act, the Board could involve the Minister throughout the appointment process and advise the Minister of all candidates it considers qualified at the same time it recommends a preferred candidate. Such an approach would be consistent with the approach to appointments to crown entity boards, which is also not set out in detail in legislation. Prescriptive legislation would therefore risk a rigid appointment process that cannot evolve in line with practice in the wider state sector.

30. Moreover, we expect the Minister to have a more direct relationship with the Board in future, given the intention to amend the Act so that the Minister appoints the Board Chair and Deputy. The Minister can also set out his or her expectations for how the recruitment and nomination process should operate through a Letter of Expectations to the Board.

31. While we do not consider that more detail is required in legislation, the exact process will still need to be determined before the first appointments to the MPC are made. This will include details on the process for recruitment, including how the Board is supported in its search for candidates. We will report to you on the detailed process for appointments before the draft legislation is agreed by Cabinet.

Transition provisions

32. A number of mechanisms will need to be put in place to make the new arrangements operational. This includes: appointing the members of the MPC, putting in place the Charter and setting the Remit for the MPC. Given the expected lead-in times we recommend a 3 month transition period between the passage of the Bill and commencement of the Act. In order to meet this transition timeframe the processes for appointment of members, setting the Remit and Charter will need to commence prior to the passage of the legislation.

Consultation

33. This report has been developed with the Reserve Bank. The Reserve Bank agrees with the Treasury's recommendations, except for the recommendation to allow the Minister to set the Charter with Cabinet approval when the MPC and the Minister are unable to reach an agreement, as noted above and in the recommendations.

34. In addition, the Reserve Bank does not consider it necessary to add an explicit requirement to the Act for the Reserve Bank to supply to the Board any information that the Board requests (see box 5, recommendation xxxix in the *Summary of detailed recommendations*).

35. The Board of the Reserve Bank has been consulted on the proposals relating to the Board's monitoring role included in this report (Annex D). The Board supports those recommendations.

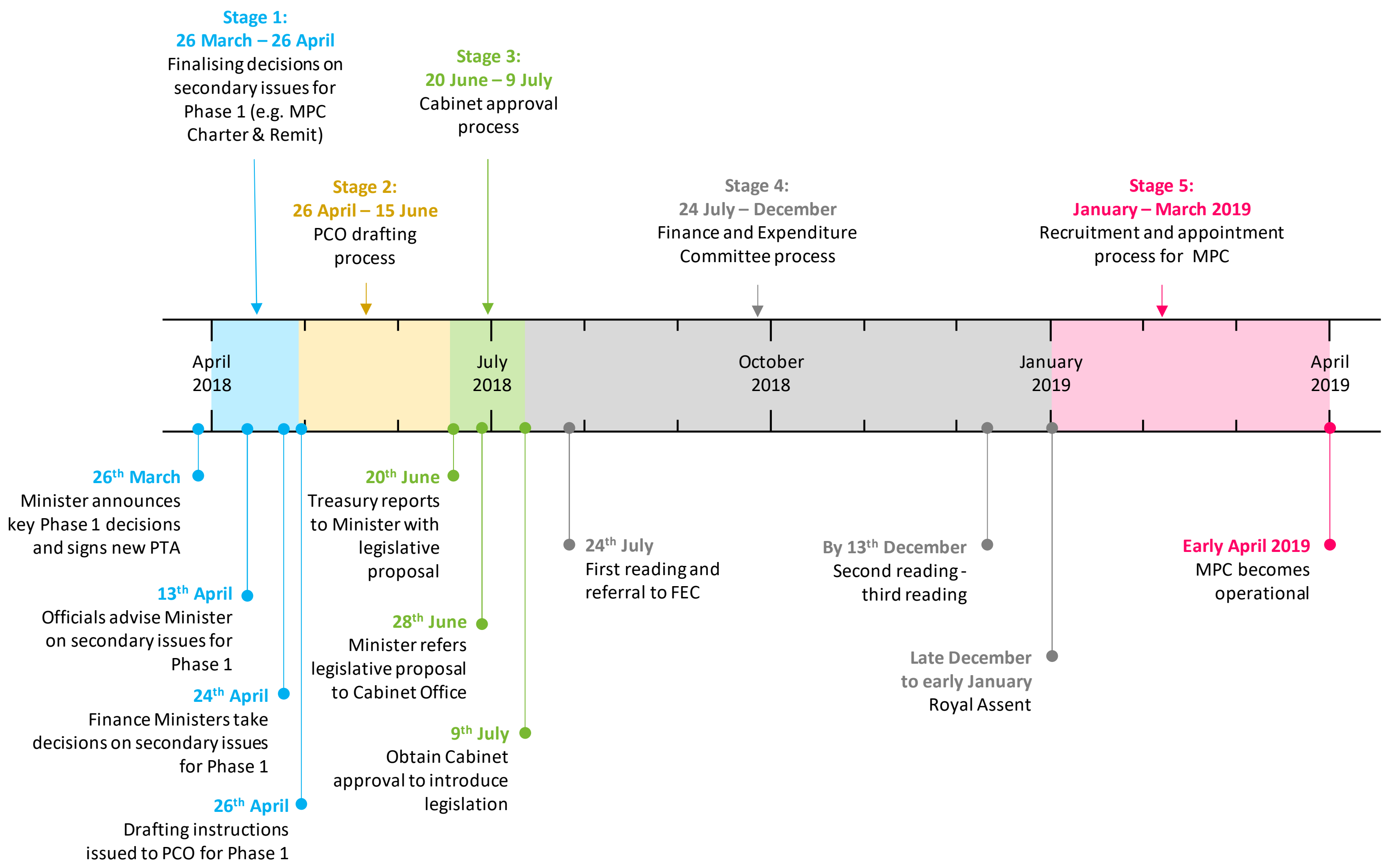
Next Steps

36. As noted above, officials request decisions on this report by 24 April, to ensure that drafting instructions can be issued by the end of April. This will enable legislative drafting to be completed by mid-June, and Cabinet approval of the draft legislation by 9 July.

37. The Treasury will also report to you on a number of minor issues in late April/early May. These issues include the remuneration and interim appointment processes for MPC members and emergency provisions for when the MPC cannot be convened. While these issues need to be resolved before the legislation can be finalised, delaying decisions on these issues until early May will not delay the drafting process.

38. An indicative legislative timetable is set out in full in Figure 1 below.

Figure 1: Indicative legislative timetable



Summary of detailed recommendations

Box 1
 	
Key elements of the process to set the Remit for the Monetary Policy Committee
	i. the 'Remit for the Monetary Policy Committee' will set 'operational objectives' for the formulation of monetary policy by the MPC that must be consistent with the legislative objectives;
	ii. the Remit will be able to specify the details as to how the MPC must take the legislative objectives into account in the formulation of monetary policy (e.g. the measures/targets to be used in pursuing the objectives and the weighting of the objectives), and may set out additional matters to which the MPC must have regard to in formulating monetary policy directed at the legislative objectives;
	iii. the Bank will be required to provide its advice on the Remit to the Minister at least three months prior to the first date on which the Minister may reset the Remit (i.e. 5 years after the last Remit commenced);
	iv. the Minister will be required to consider the Bank's advice prior to setting the Remit;
	v. if the Bank fails to provide advice to the Minister, the Minister will still be required to reset the Remit;
	vi. the Bank shall be required to publicly release its advice as soon as practicable after the Minister sets the Remit (and cannot publish it before the Remit is announced);
	vii. in preparing its advice, the Bank shall be required to:
	    i. consult the Minister on the scope of the advice, and consider the comments of the Minister;
	    ii. undertake public consultation; and
	    iii. consult the MPC before providing the advice to the Minister, and consider the comments of the MPC;
	viii. the Bank (rather than the MPC) will be formally responsible for producing, publishing and delivering the advice to the Minister;
	ix. the Minister will be required to reset the Remit at five yearly intervals, with a six-month window of flexibility to allow for exceptional circumstances;
	x. the Minister will have the option to trigger an early renewal of the Remit in which case:
	    i. the Remit shall be set by the Governor-General by Order in Council (and in this case the Remit shall run for the standard term);
	    ii. the Bank will not be required to provide formal advice but the Minister must consult the Bank, and consider the comments of the Bank, prior to the re-setting of the Remit;
	    iii. the duration of the Remit will be the same as if it had been set via the normal process;
	xi. the Minister shall be required to table any new Remit in the House of Representative as soon as practicable after it is set and the Remit should be publicly notified;

	xii. the first Remit will be set by agreement between the Minister and Governor and will take effect from the commencement of the Act and will last for 5 years. The Bank will not be required to provide advice under the legislated process in respect of this Remit.
Box 2 Requirements for reports on the conduct of monetary policy (section 15)	xiii. the Bank shall be required to provide reports at least four times a year, at intervals of no less than two monthly, that contain the content currently required to be included in policy statements (section 15(2)) with the following amendments: i. section 15(2)(a), which requires the Bank to set out the means by which it intends to achieve the policy targets, is amended to take account of the replacement of policy targets with operational objectives; ii. section 15(2)(c) is amended to require the Bank to state how it proposes to formulate and implement monetary policy over "the medium term", rather than "the next five years"; iii. section 15(2)(d), which requires the Bank to review and assess the implementation of monetary policy since the previous statement is repealed; and iv. section 15(2) is amended so that it relates to formulation of monetary policy by the MPC, rather than the Bank[1]; xiv. add a new requirement that the Bank be required to deliver to the Minister and publish a report, at least every five years, that provides a review and assessment of the formulation and implementation of monetary policy by the Bank; xv. repeal the current requirement that policy statements apply for a period of six months from the date of publication (section 15(1)); xvi. add a power to enable additional requirements for the content and frequency of reports to be set in the Charter; xvii. repeal the power of the Minister of Finance to alter the frequency of reports by direction to the Bank (section 15(1B)) as this will now be set in the Charter; xviii. add a requirement that the Bank must seek the approval of the MPC prior to delivering or publishing the reports required four times a year and must consult the MPC in the production of the report required at least every five years; xix. repeal the legislative requirement for the Governor to sign the MPS.
Box 3 Process for the setting of the MPC Charter and code of conduct	xx. the Act will require that the Charter sets out the MPC's detailed approach to accountability, transparency and decision-making in respect of the following defined matters; i. what information must be published by the MPC; ii. any requirements regarding the frequency or timeliness for any information to be published;

[1] There is no policy change to section 15(2)(b).

	iii. additional guidelines on MPC members' communications; iv. additional guidelines on the decision-making process; and v. any other matters related to accountability, transparency and decision-making agreed by the MPC and Minister of Finance; xxi. the Act will require the MPC to publish a record of its meetings and the publication of the Charter; xxii. the MPC will be free to determine committee processes beyond the matters covered in the Act and the Charter; xxiii. the MPC and its members will have a statutory duty to adhere to the Charter; xxiv. the MPC members will have a statutory duty to adhere to a code of conduct that will be determined by the Bank and approved by the Reserve Bank Board; xxv. the Act will require the code of conduct to include detailed requirements on conflicts of interest and confidentiality, and any others matters the Bank determines; xxvi. the Charter will be required to be agreed at every standard reset of the Remit, with an ability to conduct interim reviews as required; xxvii. the Minister or the MPC may initiate an interim review of the Charter at irregular intervals without triggering a renewal of the Remit; xxviii. the first Charter will be agreed by the Minister of Finance and the Governor and take effect from the commencement of the Act.
Box 4 Changes to the role of the Reserve Bank Board that implement and reflect previous Cabinet decisions.	xxix. repeal the Board's existing duty (section 53(1)(c)) to keep the performance of the Governor in ensuring that the Bank achieves the policy targets under constant review (the Board will continue to keep under constant review the performance of the Governor in discharging his or her remaining duties); xxx. add a duty for the Board to keep the performance of the MPC in achieving its statutory duties (including to achieve the objectives set in the Remit) under constant review; xxxi. add a duty for the Board to keep the performance of the members of the MPC in achieving their statutory duties under constant review; xxxii. repeal the Board's existing duty to advise the Minister/power to recommend the Governor be removed from office if the performance of the Governor in ensuring that the Bank achieves the policy targets has been inadequate (section 53(3)(c)); xxxiii. repeal the Board's existing duty (section 53(1)(d)) to determine whether each MPS is consistent with the Bank's primary function and the policy targets; xxxiv. repeal the Board's existing duty to advise the Minister/power to recommend the Governor be removed from office if the MPS is not consistent with the policy targets (section 53(3)((d));

	xxxv.	add a duty for the Board to include in its Annual Report a statement of whether in its opinion the MPC, the members of the MPC and the Governor have adequately performed their statutory duties over the past year;
	xxxvi.	add a duty for the Board to advise the Minister/power to recommend the dismissal of members of the MPC if: i. the performance of the MPC in carrying out its statutory duties is inadequate; and ii. the performance of the individual members of the MPC in carrying out their statutory duties is inadequate.
Box 5 Changes to the role of the Reserve Bank Board to further enhance the powers and duties of the Board.	xxxvii.	add a duty for the Board to include an explanation in its Annual Report of how it assessed whether the MPC, members of the MPC and the Governor have adequately performed their statutory duties in the past year;
	xxxviii.	add a duty for the Board to supply to the Minister any relevant information on the Bank that the Minister requests, including any regular reporting;
	xxxix.	add a duty for the Bank to supply to the Board any information that the Board considers necessary for it to adequately carry out its duties.

Annex A: Setting the operational objectives for monetary policy – replacing the PTA

Background

39. In accordance with the recommendation of the Independent Expert Advisory Panel ("the Panel"), Cabinet has agreed to amend the Act, as part of phase 1 of the Reserve Bank Act Review, such that operational objectives for monetary policy will be set by the Minister following the receipt of non-binding public advice from the Reserve Bank. The Reserve Bank will retain operational independence for achieving the objectives.

40. Currently the operational objectives for monetary policy ('policy targets') are set by agreement between the Governor of the Reserve Bank and the Minister through the Policy Targets Agreement (PTA). Under the amended Act, the monetary policy committee (MPC) will have collective responsibility for monetary policy formulation. The process for agreeing operational objectives needs to change because it would be inconsistent with collective committee responsibility for the Governor alone to agree the operational objectives with the Minister. It would also be difficult to transfer the current agreement approach for such significant policy decisions to an MPC given the revolving nature of committee membership.

41. The new approach provides the government of the day the right to set economic policy, but provides mechanisms to hold Ministers to account for their decisions through requiring that the Reserve Bank provide formal, public advice to the Minister before the Minister sets the objectives, and requiring Ministers to be transparent about his or her decisions and justify them to the House of Representatives.

42. As the setting of operational objectives will not be by agreement in future, a new name will be needed for the document that sets the objectives. Officials recommend that henceforward the document be referred to as the "Remit for the Monetary Policy Committee" (the Remit).

43. This section discusses the detailed implementation of the Remit, namely:

- the scope of the Remit
- the Reserve Bank's advice process
- the timing of setting the Remit
- ensuring Ministerial accountability, and
- the process for the first Remit.

The scope of the Remit

44. The Act currently requires that in the PTA the Reserve Bank Governor and the Minister agree "policy targets" for monetary policy. In practice the policy target has always been set as a numerical inflation target. Going forward the Remit will likely continue to set a numerical price stability target, but is also likely to set out non-quantitative guidance for how the Reserve Bank is to consider maximum sustainable employment.

45. The legislative wording for the Remit needs to be broad enough to enable this non-quantitative guidance. Officials consider that the term 'policy target' is too narrow in light of the dual legislative mandate. While a number of terms are suitable, officials recommend that the amended legislation refer to "operational objectives", as we consider this term broad enough to cover the scope of the dual mandate.

46. Cabinet has agreed that the new legislative objective will require the Reserve Bank to consider price stability *and* maximum sustainable employment; that is, the legislation will not specify a weighting for the dual objectives. However, the operational objectives for monetary policy are likely to provide guidance on how the Reserve Bank should weight the two legislative objectives over different time periods. Therefore, we recommend that the wording of the empowering provision be broad enough to allow the Remit to specify how the legislative objectives should be weighted at different times.

47. The current PTA sets out a number of matters the Reserve Bank must have regard to in the implementation of monetary policy (i.e. the Reserve Bank must seek to avoid unnecessary instability in output). We recommend that the empowering provision provide that the Remit may set out the matters to which the Reserve Bank must have regard in implementing monetary policy.

The Reserve Bank's advice process

48. Cabinet has agreed that the Reserve Bank will be required to provide non-binding public advice to the Minister before the Minister sets the Remit. This ensures that the Remit is based on a robust review process and also provides discipline on the Minister's decision-making. This section considers the details for the process for the Reserve Bank providing advice.

49. First, as the setting of monetary policy objectives is a significant decision, officials recommend that the Reserve Bank be required to consult publicly in developing its advice. The exact form of this consultation would not be specified in the legislation, to maintain flexibility.

50. Second, it is recommended that the Reserve Bank be legislatively required to consult with the Minister on the scope of its intended advice to ensure the advice is relevant to the issues the Minister will be considering. The Reserve Bank will be required to consider the comments of the Minister, similar to the current provisions in respect of the Statement of Intent (SOI).

51. Third, it is expected that the Reserve Bank will undertake a programme of research before providing its advice, but this expectation will not be legislated. Similar to the process at the Bank of Canada, the research programme would be shaped by a number of key research questions or issues identified by the Reserve Bank each cycle.

52. Fourth, while the Reserve Bank will be required to deliver and publish the advice, we recommend that the Reserve Bank be required to consult the MPC before providing its advice to the Minister.

53. It will be important to ensure that the advice from the Reserve Bank is timely so that the Minister can fully consider it and can consult colleagues, seek Treasury advice and seek clarification if necessary. Hence, we recommend that the Reserve Bank be legislatively required to provide its advice at least three months before the first date the Minister can reset the Remit under a standard renewal (i.e. five years after the extant Remit commenced). The Minister will be required to consider advice provided, however, should the Reserve Bank fail to provide advice the Minister will still be able to set the Remit in order to ensure the effective operation of government.

54. In order to ensure transparency and sufficient checks on decision-making, we recommend that the legislation require the Reserve Bank to publish its advice. Publication would be allowed and required as soon as practicable after the Minister has set the Remit in order to enable the Minister to make an informed decision (but would be prohibited prior to the new Remit being announced).

The timing of setting the Remit

55. Currently, the PTA is an agreement with the Governor and as such is required to be renewed every time a new Governor is (re)appointed (five yearly). However, in the new framework, the Governor will not agree the Remit. As a consequence, we recommend introducing a standard renewal period for the Remit. We recommend this renewal period be five years. This has proved long enough to allow for a meaningful review of the monetary policy targets, while also being frequent enough to allow for regular evolution. We recommend that a six-month window be built in to provide flexibility as to the precise date the Remit is set and allow for extraordinary circumstances such as elections. We recommend leaving PCO to formulate the exact wording of this provision.

56. We also recommend allowing the Minister to trigger an early renewal of the Remit, recognising the right of the government of the day to determine economic policy. In this case the Reserve Bank will not be legislatively required to provide advice. However, given the undesirability of frequent changes in the Remit we recommend that an early renewal should be required to be set by the Governor-General by Order in Council to ensure the change has the broader agreement of the Executive Council. The Remit will run for the standard period in this case (five years with the six month window). We also recommend that the Minister should be required to consult with the Reserve Bank, and take account of the Reserve Bank's comments, prior to re-setting the Remit out of cycle.

57. In the event of either an extension or early renewal being triggered, the standard five-yearly renewal cycle would commence again from the date the new Remit came into force.

Ensuring Ministerial accountability

58. In addition to the transparency requirements already discussed, it will be necessary to introduce formal mechanisms to hold ministers to account for their decisions once they have set the Remit.

59. As with current practice for the PTA, we recommend that the Minister be required to table the new Remit in the House of Representatives as soon as practicable after it is set. This provides an opportunity for Parliamentary scrutiny and debate on the new operational objectives which is likely to occur through the Ministers appearing at select committee to defend their decisions should Parliament decide this is necessary.

Process for the first Remit

60. We recommend that the first Remit be set by agreement between the Governor and the Minister, along the lines of the current PTA process. The Reserve Bank will not be required to provide advice in accordance with the legislative process in respect of this Remit. It will take effect from the date of commencement of the amended Act and last for five years. This will ensure that the reforms are not delayed by the need to set the Remit.

Annex B: Amending the requirements for reports on the conduct of monetary policy

Background

61. Under the current regime the monetary policy statement (MPS) is a key document through which the Reserve Bank reports on its implementation of monetary policy. This is empowered by section 15 of the Act, which requires that policy statements be produced at intervals not exceeding six months. Since 1995, MPSs have been published every three months. Section 15(2) lists the matters policy statements must:

    (a) specify the policies and means by which the Reserve Bank intends to achieve the policy targets fixed under section 9;

    (b) state the reasons for adopting those policies and means;

    (c) contain a statement of how the Reserve Bank proposes monetary policy might be formulated and implemented during the next five years;

    (d) contain a review and assessment of the implementation by the Reserve Bank of monetary policy during the period to which the preceding policy statement relates.

62. In addition to these legislative requirements, the PTA has been used to specify additional matters to be addressed in the MPS. The current PTA requires that the MPS include the following matters, which are specific to the objectives set in the PTA:

    (a) explain what measures it has taken into account in respect of meeting the requirements of section 2(c) and explain how these matters have been taken into account in its implementation of monetary policy;

    (b) when inflation outcomes, and/or expected inflation outcomes, are outside of the target range explain the reasons for this; and

    (c) explain how current monetary policy decisions contribute to supporting maximum levels of sustainable employment within the economy.

63. The need to review the provisions empowering policy statements arises partly due to other changes in the Act (such as removal of the policy targets). However, there are a number of ways these provisions could be updated in light of changes in the approach to monetary policy since 1989. This section therefore recommends a number of changes to section 15 in respect of: the content and frequency of reports; the mechanism to set additional reporting requirements; and who will have responsibility for the delivery of reports in light of the creation of an MPC.

Content and frequency of reports

64. This section considers the required frequency and content of reports under section 15 of the Act. The intention is that section 15 will not be prescriptive about the reports that the Reserve Bank produces, apart from setting the minimum frequency for production and the minimum content of reports. The content and frequency of reports is, however, linked and it is recommended that reports be required at two different minimum frequencies. It is proposed that the Reserve Bank will be required to produce reports four times a year (at intervals of no more than two months) covering shorter-term matters and a report at least once every five years covering longer term issues.

Quarterly reports

65. It is recommended that the Reserve Bank be required to deliver to the Minister and publish reports four times a year (at intervals of no less than two months) that provide the content currently required in section 15(2) of the Act, with some small amendments in light of other changes to the Act and modern monetary policy practice. Requiring reports four times a year, with some flexibility on the exact date of publication, would allow for substantive updates to the market more frequently than six-monthly, which is what the Act currently requires. In practice, the Reserve Bank produces an MPS quarterly.

66. The proposals in respect of the content of quarterly reports are to:

- Retain the requirements in sections 15(2)(a) and (b) for the Reserve Bank to set out the policies and means by which the Reserve Bank intends to achieve the policy target and the reasons for adopting these policies and means, but amend section 15(2)(a) to recognise the replacement of policy targets with operational objectives.
- Amend the requirement in section 15(2)(c) that the Reserve Bank provide a statement of how it proposes to formulate and implement monetary policy "during the next five years" such that this requirement applies "over the medium term" – generally interpreted to be around 2-3 years. This reflects the way monetary policy is usually set.
- Repeal section 15(2)(d), which requires the Reserve Bank to review and assess the implementation of monetary policy during the period to which the preceding policy statement relates. At present assessments largely repeat the previous policy decision and the rationale for it. This is because the lags between monetary policy decisions and their impact on the economy (typically 18 months to 2 years) mean it is not possible to assess whether a policy decision made three months earlier was appropriate. As discussed below, we recommend replacing this regular reporting requirement with a requirement to conduct a more thorough review of the conduct of monetary policy at least once every five years.
- Delete from section 15(1) the requirement that policy statements are "for a period of six months from and after the date of publication."

Five-yearly reports

67. It is also proposed that a new requirement be placed on the Reserve Bank to provide a report at least every five years that provides a review and assessment of the formulation and implementation of monetary policy by the Reserve Bank. These reports would be produced at a frequency sufficient to assess the impacts of monetary policy on the real economy over a business cycle. The report could be part of the MPS or a separate document.

Setting additional reporting requirements

68. Over time the PTA has been used to set additional requirements for matters to be included in the MPS. The Act also allows the Minister to increase the frequency of legislatively required reports by direction to the Reserve Bank (section 15(1B)).

69. The Treasury recommends that the process of setting additional requirements for the content of reports be codified and that to do this the Act specifically empower the setting of additional requirements in respect of the content of reports. It is recommended that these additional requirements should be set in the Charter, as the Charter will cover other communication issues such as publication of meeting records. In order to ensure a consistent approach it is recommended that section 15(1B) be repealed and that the Charter also be able to set the frequency of reports required under section 15.

70. Reporting requirement may be specific to the operational objectives. In order to ensure consistency, it is recommended that the Charter be required to be reset whenever there is a standard renewal of the Remit.

Responsibility for reports on monetary policy

71. Currently policy statements are delivered and published by 'the Bank'. In practice Reserve Bank staff will produce the reports, and the Governor will be responsible for operational matters, so we consider that the reports should continue to be delivered and published by the Reserve Bank. However, similar to the Bank of England Act, we recommend that the quarterly report cannot be published without the approval of the MPC given it sets out the strategies and decisions of the MPC. We recommend that the Reserve Bank be required to consult the MPC in the production of the report required every five years.

72. Currently, policy statements are signed by the Governor, consistent with the Governor's sole responsibility for monetary policy. We recommend that there no longer be a legislative requirement to sign the reports.

73. Policy statements currently set out the policies of the Reserve Bank (15(2)). With decisions and strategy on monetary policy being made by the MPC going forward, we recommend that in the amended Act the quarterly reports set out the policies of the MPC. The report required at five yearly intervals will however set out the assessment of the Reserve Bank.

74. We also recommend PCO have the authority to remove redundant parts of section 15 and otherwise update this section in light of modern drafting practice.

Annex C: The MPC Charter and code of conduct

Background

75. Cabinet has agreed that the MPC should periodically agree a Charter with the Minister. The Charter will set out additional transparency and accountability requirements that the MPC must adhere to beyond those included in the Act and the Remit. Once agreed, the Charter will be binding on the MPC, with the MPC and its members having statutory duties to comply with the Charter.

76. The Charter mechanism was recommended by the Panel, and agreed by Cabinet, to give more flexibility as to the MPC's procedures than would be possible if the detail were set in legislation. The decision to have the Charter agreed by the Minister and the MPC recognises that the MPC's communications form part of the transparency and accountability arrangements for the MPC in addition to being a monetary policy tool.

77. This annex discusses the detailed implementation of the Charter, both in terms of the legislative requirements and the likely convention for process. It begins by considering what the boundaries of the Charter should be for issues that are relevant to accountability and transparency (that is, what is in legislation, what is in the Charter, and what is determined entirely by the MPC). It then discusses whether the Charter should cover other issues, before discussing the process for setting the Charter, including for the first Charter.

78. The Treasury provided an aide memoire on the potential operation of the Charter in March, before Cabinet decisions were taken (T2018/540 refers). The advice in this note is broadly consistent with that aide memoire. However, several refinements have been made and more detail has been added about the overall process.

Boundaries of the Charter for accountability and transparency

79. While the Charter could set additional transparency requirements, we recommend that the Act set a minimum level of transparency. We recommend that the Act should require the MPC to publish a record of its meetings. The Act will also set requirements for the Reserve Bank to publish reports on its decisions (as discussed separately in Annex B) and will require the Charter to be published. We recommend that the Act require the Charter to include details on:

- requirements for content the MPC must publish (including additional requirements for content to be included in the Reserve Bank's reports as covered in Annex B)
- requirements for frequency or timeliness of any publications
- additional guidelines on MPC members' communications, and
- additional guidelines on the decision-making process (see below).

80. We also recommend that the Act enables the Charter to cover other issues relating to accountability, transparency and decision-making, as agreed by the Minister and the MPC. This provides flexibility to include other issues that may emerge in future.

81. The specific content of the Charter would be set later, however, Table 1 below shows the recommended boundaries of the Act, Charter and code of conduct in detail.

82. Overall, our judgement is that these boundaries will ensure a suitable minimum level of transparency in the legislation, while also providing flexibility for the approach to communications to evolve in future.

Other issues beyond accountability and transparency

83. There is scope for the Charter to provide details on other matters, such as the decision-making process, the terms of engagement for the external members of the MPC and the code of conduct, beyond what is covered in the Act.

Decision-making process

84. With regards to decision-making, the Cabinet paper on phase 1 indicated an intention for decisions of the MPC to be taken by consensus wherever possible, with decisions taken by a majority vote where consensus cannot be reached, and with the Governor having the casting vote where necessary. While the legislation will need to specify these tie-breaking procedures and quorum, the intention to make decisions by consensus could either be included in the Act, the Charter, or left entirely to the MPC. We recommend the Charter elaborate on the intended approach for decision-making, and that the Act provide for this to be included in the Charter. This will allow the approach to decision-making to evolve in line with the desired communications model, while also ensuring transparency about the approach to decision-making.

Terms of engagement for external members

85. The Panel suggested setting the terms of engagement of the external members, including the expected time commitment and their level of support in the Charter. This was because the terms of engagement are likely to influence the ability of external members to offer robust challenge to the internal members, so a Minister may wish to set a minimum standard. On balance, we do not consider that it is necessary for the Charter to cover the terms of engagement for external members. This is because the Minister has other channels to influence this through both the appointment process (specifically through the letter of appointment and the contract) and the funding agreement.

Code of conduct

86. While the Charter will largely set collective requirements for the MPC, the code of conduct will define rules for individual members. We recommend that MPC members have a statutory duty to follow the code of conduct. Failure to follow the code of conduct would therefore be a possible ground for dismissal. We recommend that the requirement to have a code of conduct be established in the Act, and that the code of conduct should left to the Reserve Bank to determine and for the Board to approve.

87. Given the link to dismissal, we have considered whether either the Act or the Charter should provide guidance on what should be included in the code of conduct. Our conclusion is that the Act should stipulate the code of conduct should include detailed requirements on conflicts of interest and confidentiality. Having the detailed code of conduct determined by the Reserve Bank and approved by the Board is consistent with typical corporate practice, and we do not foresee any significant risks given that the Minister will have ultimate control over any dismissals. Moreover, the Act would retain general provisions relating to conflicts of interest for MPC members (akin to those currently included in section 46(1) of the Act).

Table 1: Boundaries of the Act, the Charter and the code of conduct

Legislation	**Communications** The Act would require the MPC to publish a record of its meetings and reports on its conduct of monetary policy. The Act would require the MPC to agree a Charter with the Minister that sets out any additional requirements for transparency, accountability and decision-making that the MPC must adhere to. The Act would require the Charter to be published. The Charter would need to include specific details on: • **What information must be published by the MPC** (in addition to reports on the conduct of monetary policy and a record of meetings). • Any **requirements for the frequency or timeliness** for any information to be published. • Additional guidelines **on MPC members**' communications. **Decision-making** The Act would set quorum and tie-breaking procedures. The Act would also provide for the Charter to elaborate on the intended approach to decision-making. **Code of conduct** The Act would require the MPC to have a code of conduct that includes detailed requirements on conflicts of interest and confidentiality. MPC members would have a statutory duty to comply with the code of conduct. The code of conduct would be set by Reserve Bank and approved by the Reserve Bank Board.
Charter	The Charter would be agreed periodically between the Minister and the MPC, and would be binding on the MPC. Based on the Cabinet paper, the first Charter could include the following details: **What information must be published by the MPC** • The MPC must publish the unattributed balance of votes for each decision taken by vote. • The meeting record should reflect any differences of view of MPC members without attribution. • In the MPC's reports on monetary policy, the Reserve Bank must explain: how it has taken the operational objectives into account in the implementation of monetary policy; the reasons for inflation outcomes and/or expectations being outside the target range; and, how monetary policy contributes to supporting maximum levels of sustainable employment within the economy (as currently required in the PTA). • The MPC must publish its code of conduct. **Requirements for frequency or timeliness of information published** • The meeting record and the balance of votes must be released as soon as reasonably practicable after a meeting and in such a manner that the MPC thinks fit. **Additional guidelines on MPC members' communications** • The Governor, as Chair for the MPC, is the designated spokesperson for announcing MPC decisions. • Following the announcement of the MPC's decisions, MPC members can discuss economic developments related to monetary policy in public after consultation with their MPC colleagues. **Additional guidelines on the decision-making process** • The Chair of the meeting must seek to secure that decisions of the MPC are reached by consensus wherever possible.
Code of conduct	In addition to detailed provisions about conflicts of interest and confidentiality, the code of conduct could include other issues as determined by the Reserve Bank and approved by the Board.

MPC to determine	The MPC would be free to agree their processes and procedures outside the scope of the Act, the Charter and the code of conduct. Based on the indicative scope of the Charter set out above, with regards to communications, the MPC would be able to: • Release additional information, beyond what is required by the Act or the Charter, as they see fit. • Set the process for agreeing that different views have been adequately captured in the meeting record. • Set the exact date and method of publication of required publications. • Set limits on when individuals can express their views publicly (e.g. black-out periods could apply immediately before and after decisions).

Process

88. The Act will need to provide details on how the Charter is agreed, the frequency at which it is reviewed and set, and the process for the first Charter.

Agreement process

89. We foresee a process whereby the MPC proposes a Charter to the Minister, with any changes made to reflect the Minister's views. Once both parties are satisfied, the Charter would be agreed formally by the Minister and the Governor, as the Chair of the MPC. As with all MPC decisions, we would expect the MPC to seek a consensus when proposing and agreeing the Charter, but where a consensus does not exist amongst the MPC a majority would be sufficient to agree a Charter with the Minister.

90. Most of this process can be left to convention and doing so will leave flexibility for the process to evolve. Accordingly, we recommend that the Act only require that the Minister and the MPC agree the Charter, and the protocols where agreement cannot be reached, as discussed below.

91. Officials consider there are two viable options where the Minister and the MPC are unable to agree a Charter. The first option is for the existing Charter to continue until agreement can be reached between both parties. The second option is to give the Minister the power to set the Charter, subject to Cabinet approval, where agreement cannot be reached.

92. The Reserve Bank has a strong preference for the first option, where the existing Charter would continue to prevail until changes to the Charter can be mutually agreed between the Minister and MPC. The Reserve Bank favours this option as it provide an important safeguard for the Reserve Bank's operational independence and is in line with the Cabinet's previous decision that the Charter should be a genuine 'agreement' between the two parties. Without mutual agreement, the Minister would effectively have the power to impose a Charter on the MPC. That power could then be used to undermine the Reserve Bank's operational independence (if, for example, the Charter were used to specify how MPC members should communicate in public or even how MPC members should vote).

93. The Treasury's preferred option is for the Minister to have the power to set the Charter, subject to Cabinet approval, if agreement is not possible. The Treasury's view is that such an arrangement would be consistent with having the Minister set the accountability arrangements for the Reserve Bank. We also note that if the Charter was not used, the Treasury would recommend the issues covered in the Charter be set in the Act, rather than be at the discretion of the MPC. Giving the Minister the power to set the Charter would also better support a transition to a more transparent communications model over time. This option will also better ensure that inconsistencies do not arise between the Remit and the Charter, given that the Minister will set the Remit. Finally, we consider that the need for Cabinet approval would place a check on the Minister and create an incentive for the Minister to reach agreement with the MPC, given the signals that failure to reach an agreement would send.

94. It should also be noted that the second option has potential implications for the classification of the Charter in the Legislation and could make the Charter a disallowable instrument. However, the exact implications are unclear at this stage, given that the Legislation Bill is currently being considered by select committee. Accordingly, if the second option is preferred, officials will refine the specific details of the Cabinet approval process, and therefore the nature of the Charter in the Legislation, with the Parliamentary Counsel Office during the drafting process.

Frequency of renewal

95. We recommend that the Charter be agreed every time there is a standard renewal of the Remit (which we recommend be every five years). This would mean the MPC would propose a Charter to the Minister at the same time the Reserve Bank advises the Minister (which would be at least three months before the Remit is set).

96. We also recommend that the Minister and the MPC would be able to conduct interim reviews of the Charter at irregular intervals, without reconsideration of the Remit. These interim reviews could be triggered by the Minister and/or the MPC.

97. In our view a five-year process should give sufficient certainty about the communications approach, but also be frequent enough to enable evolution. We also consider it appropriate that a standard renewal of the Remit triggers a review of the Charter, given that the approach to communications will be dependent on the MPC's operational objectives. However, the communications approach may need to change more frequently than the Remit, which is why we recommend an approach where interim reviews of the Charter can occur independently of changes to the Remit.

Process for the first Charter

98. The need to have the Charter agreed by the Minister and the MPC risks delaying the effective operation of the MPC until after the Charter has been agreed. To avoid this, we recommend that the first Charter be agreed by the Minister and the Governor before the MPC is established. This would mean that the MPC as a whole would not be required to agree a Charter until the first standard renewal of the Remit, which is likely to be in 2023 or 2024. However, the interim review process would give scope for the Minister and the MPC to agree a Charter before that if desired.

Annex D: Implications for the Reserve Bank Board's monitoring role

Background

99. The introduction of a committee decision-making model necessitates a number of changes to the duties of the Reserve Bank Board (the Board) in order to align with the new allocation of responsibilities. These changes are discussed below in the section on consequential changes.

100. Further, the introduction of a committee shifts the accountability model for monetary policy fr6e powers and duties of the Board: (1) strengthen accountability of the Reserve Bank and the Board; (2) have a greater medium-term perspective; (3) give more emphasis to the quality and effectiveness of decision-making processes; and (4) ensure that the Board can effectively undertake its monitoring function, and is perceived as doing so.

Consequential changes to the role of the Board as a result of implementing an MPC

101. Currently the Board is required to monitor the performance of the Governor in the discharge of his or her duties. In light of the implementation of an MPC, Cabinet has agreed to amend the legislative duties of the Board such that it will now have duties to monitor:

    a the MPC in the performance of its statutory duties (which will include the formulation of monetary policy in accordance with the legislative objectives and the Remit and compliance with the Charter)

    b the individual members of the MPC in the performance of their statutory duties, and

    c the Governor in the performance of his or her duties (whose duties will be amended to include a duty to implement the decisions of the MPC).

102. The new duty to monitor the MPC in the performance of its duties (which will include meeting the Remit and the operational objectives therein) will replace the Board's existing duty to keep under constant review the Governor in ensuring that the Reserve Bank achieves the policy targets agreed to with the Minister.[2]

103. Officials also recommend a number of additional adjustments to the Board's monitoring powers that are consequential to other changes made in phase 1, namely:

Remove and replace some of the Board's evaluation duties with other duties of evaluation

104. The Board currently has, in general terms, a duty to determine whether policy statements made (i.e. the MPSs) are consistent with the Reserve Bank's primary function and the policy targets agreed to with the Minister.[3]

105. Consistent with the recommendation from the Panel, the Treasury recommends that this duty is repealed and replaced with a duty for the Board to include in its Annual Report a statement of whether in its opinion the MPC, the members of the MPC and the Governor have performed their statutory duties adequately over the past year.

106. This change will encourage the Board to have a greater medium-term perspective, as the Board's focus will shift from quarterly monitoring of each MPS to a wider consideration of how the MPC, the members of the MPC and the Governor are performing their statutory duties. The Board would likely review each MPS anyway, but may also take account of other information that it considers relevant. Also, the duty for the Board to include the statement in the Annual Report will ensure that the Board reviews the performance of the MPC at suitable intervals.

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2 Section 53(1)(c) of the Act.

3 Section 53(1)(d) of the Act.

Duty of the Board to advise the Minister of inadequate performance and recommend dismissal

107. The Board currently has a duty to inform the Minister if the Governor's performance is inadequate and may recommend dismissal of the Governor. With changes in the allocation of responsibilities for monetary policy some changes to these duties/powers are needed so that they apply appropriately to the Governor, the MPC and individual members of the MPC.

108. First, if the Board is no longer required to certify that each MPS is consistent with the policy targets, the Treasury recommends that the corresponding duty for the Board to advise the Minister/power to recommend the Governor be removed from office if the MPS is not consistent with the policy targets also be removed.[4]

109. The Board also has an existing duty to advise the Minister/power to recommend the Governor be removed from office if the performance of the Governor in ensuring that the Reserve Bank achieves the policy targets has been inadequate.[5] As the MPC will have responsibility for formulating monetary policy in accordance with the Remit (rather than the Governor), this is no longer appropriate. The Treasury recommends that this provision be removed and replaced with a duty on the Board to advise the Minister if the MPC is not adequately performing its statutory duties, and a power for the Board to recommend to the Minister the dismissal of members in this case. While in practice it is most likely the Board would recommend dismissal of the Governor (as Chair of the MPC) if the MPC is not adequately performing its duties, other members of the MPC are also subject to dismissal in this case, consistent with the collective responsibility model.

110. The Board's duty to inform the Minister of inadequate performance of the Governor, and power to recommend dismissal, will stay the same for other areas of inadequate performance by the Governor.[6]

111. As the Board will now have a duty to monitor the performance of individual members, it is also recommended that it will be a duty of the Board to advise the Minister if the individual members of the MPC are not adequately performing their statutory duties, and that the Board have a power to recommend to the Minister the dismissal of members in this case.

Optional changes to enhance the duties and powers of the Board

112. The Panel recommended that consideration be given to a number of new powers/duties for the Board. These recommendations were made to increase the Board's powers of review/monitoring in the new model, given the move from a model based on individual accountability to collective responsibility of the MPC for the formulation of monetary policy. The Treasury has given consideration to the Panel's recommendations and has considered the merits of the following options, which are discussed below:

    a requiring the Board to explain how it has assessed the performance of the MPC, members of the MPC and the Governor

    b empowering the Board to undertake periodic substantive reviews of monetary policy performance, and having an independent budget to do so

    c requiring the Board to provide information and reports to the Minister on request

    d requiring the Reserve Bank to provide information to the Board on request, and

[4] Section 53(3)(d) of the Act.

[5] Section 53(3)(c) of the Act.

[6] These are: the Reserve Bank is not adequately carrying out its functions, the Governor has not adequately discharged the responsibilities of office, the resources of the Reserve Bank have not been effectively managed, conflict of interest or incapability, gross mis-conduct or neglect of duty.

e giving the Board the legal power to observe MPC meetings.

Duty requiring the Board to explain how it undertook its monitoring/review function

113. The Board and the Governor will have new responsibilities to monitor the performance of the MPC, its members and the Governor in the performance of their duties. In line with these changes, the Treasury recommends that a new requirement be added to the Act requiring that the Board must include in its Annual Report an explanation of how the Board has assessed whether the MPC, its members and the Governor have performed their statutory duties adequately over the past year.

114. This requirement will provide transparency as to the review process followed by the Board and thereby improve the accountability of the Board. Over time this should result in more robust processes being used by the Board. It may also improve the perception of the effectiveness of the Board.

Duty requiring the Board to provide information to the Minister

115. There is currently no provision in the Act requiring the Board to provide information or regular reporting to the Minister at the Minister's request. Even though the Board is responsive to any such requests from the Minister, the Treasury recommends that the Act make this an explicit requirement.

116. The new duty would require that the Board supply to the Minister any relevant information that the Minister requests, including any regular reporting the Minister may request. This power would be consistent with the approach taken generally for Crown entities.[7] The addition of this duty will strengthen the accountability of the Board to the Minister and strengthen the link between the Board and the Minister. It also codifies existing practice.

Duty requiring the Reserve Bank to provide information to the Board

117. There is currently no provision in the Act specifically empowering the Board to request (and a corresponding right to be provided with) information from the Reserve Bank. While the Treasury understands that the Reserve Bank fulfils any requests it does get from the Board, the Treasury recommends that the Act make it an explicit requirement for the Reserve Bank to comply with any such requests.

118. The new duty would require that the Reserve Bank supply to the Board any information that the Board requests that is required to enable the Board to carry out its monitoring duties (including for individual members). This power and duty would assist in ensuring that the Board can undertake its monitoring function, thereby strengthening the accountability of the Reserve Bank to the Board. It is also a clear signal that the Board is entitled to relevant information from the Reserve Bank and codifies existing practice.

119. The Reserve Bank has indicated that the existing power for the Board to tender advice to the Minister to remove the Governor (if the Governor has obstructed, hindered, or prevented the Board from discharging its duties) already has the effect of requiring the Reserve Bank to provide information requested by the Board.[8] The Reserve Bank has also raised a concern that, given the arguable overlap of these provisions, including this new duty may result in ambiguity as to what the existing provision means.

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7 Section 133 of the Crown Entities Act 2004.

8 Section 49((2)(c) of the Act.

120. Although the Treasury agrees that this existing provision in the Act arguably infers that the Governor should provide information on request of the Board, an explicit power would be more direct. Further, if there are issues of ambiguity by including both provisions, these could be dealt with in drafting. The Treasury therefore continues to recommend this power be formalised explicitly in legislation.

Explicit power for the Board to commission substantive reviews (and independent budget)

121. There is currently no provision in the Act explicitly empowering the Board to undertake or commission substantive reviews of aspects of the Reserve Bank's performance (including by external experts) and the Board does not routinely undertake such reviews. These reviews could, for example, include external reviews of the Reserve Bank's operational processes, such as the approach to forecasting.

122. There is nothing in the Act preventing this from occurring; the Board could commission reviews if it so desired at present. However, the Board is more likely to do so if specifically empowered and resourced to do so.

123. The benefits of the Board undertaking routine substantive reviews would include supporting the Board to have a greater medium-term perspective in its monitoring role, strengthening the accountability of the Reserve Bank, and increasing the effectiveness of the Board's monitoring role. If well directed, such reviews could also enhance the Reserve Bank's performance over time. There are precedents for such a power; the court of directors of the Bank of England has a power to arrange for reviews to be conducted in discharging any of its oversight functions.

124. There are also benefits in giving an independent budget to resource these reviews. Although the Treasury understands that existing practice is that the Reserve Bank provides the Board with necessary resources to carry out its role, it is conceivable that this may not occur in the future (particularly if the Board requested resources in relation to a contentious matter). Also, reliance on the Reserve Bank to provide such resources undermines the perceived ability for the Board to effectively and independently monitor the Reserve Bank.

125. The Treasury considers that the undertaking of substantive reviews by the Board could improve the Board's monitoring and, consequently, the Reserve Bank's performance. However, the Treasury recommends that these changes be considered as part of phase 2 of the Review as changes to the broader governance model that may follow in phase 2 could impact materially the implementation of any new review power and the resourcing of the Board.

Power for Board members to attend MPC meetings

126. The Treasury considers that there would be some value in new Board members attending some parts of the MPC's meetings to assist in obtaining an understanding of the processes and procedures that are followed in the MPC in reaching decisions, which would assist the Board in carrying out its monitoring role. However, there is a clear risk of confidentiality and conflict of interest issues if Board members were entitled to attend MPC meetings where policy decisions were actually made.

127. On balance, the Treasury does not consider that there should be a legislative requirement that Board members be entitled to attend MPC meetings. However, the Treasury would be supportive of new Board members being invited to attend MPC briefing meetings (i.e. non-decision-making meetings) on an informal basis as part of their induction.

Annex E: The role of the Treasury observer on the MPC

Background

128. Cabinet has agreed that there will be a non-voting Treasury observer on the MPC.

129. Cabinet is introducing a Treasury observer to help facilitate two-way information flows between the MPC and the Treasury/Government. These two-way flows are expected to help inform Treasury advice to the Government, and to aid the MPC's decision-making. These flows could also support monetary and fiscal policy coordination by the MPC and the Government, particularly in the context of the Reserve Bank's new dual inflation/employment mandate.

130. This annex provides the rationale for the recommendations in the paper relating to the Treasury observer on the MPC. It begins by considering who the observer should be, and how they are selected. It then considers the observer's rights and responsibilities on the MPC and concludes with a summary of what would be in the Act, and what would be determined outside legislation.

Who should be the observer?

131. We recommend that the observer be a senior Treasury official selected as part of an agreed non-legislative selection process for decision-making MPC meetings (as described below). Agreeing the selection process acknowledges the high level of responsibility inherent in the role for these decision-making meetings, as mirrored in the legislated appointment process for voting external MPC members.

How should they be selected?

132. We recommend that the terms of selection of the observer be determined in a non-legislative agreement between the Secretary to the Treasury and the Reserve Bank.

133. We expect that this agreement would make provision for continuity by nominating a single senior Treasury observer, with limited scope for one alternate where appropriate. The agreement could also specify a fixed length of term for the nominated observer to ensure continuity over time.

What should their rights and responsibilities be?

Observer rights

134. We recommend that the observer may attend, and speak at, any meeting of the MPC. Broad meeting access and speaking rights provide the widest scope for the observer to play their information-exchange role. These rights would be particularly useful when an observer helps facilitate monetary and fiscal policy coordination. This is consistent with practice at the Bank of England.

Observer responsibilities

135. We recommend that the observer be subject to similar confidentiality and conflict of interest restrictions as other MPC members.

136. Confidentiality and conflict of interest restrictions are necessary because of the observer's wide access to confidential market-sensitive committee materials, and committee discussions. Limited exemptions may be required in exceptional circumstances on agreement with the Reserve Bank. For example, the Reserve Bank may wish to allow discussion of live MPC policy debates by the observer with the Minister during large negative economic shocks.

137. We also suggest that the MPC's code of conduct expectations apply to the Treasury observer. We believe these restrictions are necessary because the Treasury observer

will have significant scope to shape discussions through their speaking role at the MPC.

What is included in legislation?

138. We recommend that the role of the Treasury observer be broadly defined in legislation. Specifically, we recommend that the Act provide that a Treasury observer may attend, and speak at, any meeting of the MPC.

139. We recommend that further details be included in a non-legislative agreement between the Treasury and the Reserve Bank, such as a Memorandum of Understanding (MoU) between the two agencies. We expect that any MoU would cover the process for selecting the observer and any alternate, their term, and the detailed requirements on the observer relating to confidentiality, conflicts of interest and conduct.

Annex F: Key design elements of the amended monetary policy regime

Remit elaborates on the Act's high-level objectives for monetary policy.

Remit

Description

- Sets the MPC's operational objectives.
- Provides government's direction on the high-level objectives in the Act.

Process

Reserve Bank

- Gives advice to the Minister at least 3 months before the Remit reset.
- Before providing its advice, the Bank is required to:
  - consult the Minister on the scope of advice.
  - undertake public consultation.
  - consult the MPC.

Minister of Finance

- Sets Remit, at 5-yearly intervals.
- Refers the Remit to the House of Representatives once determined.
- May re-set the Remit before the regular 5-year interval expires.
- Advises the Governor-General to execute early remit re-sets.
- Agrees the first Remit with the Governor of the Reserve Bank, to take effect from commencement.

Code of Conduct

Description

- Sets detailed MPC conduct requirements (e.g. confidentiality, conflict of interest).

Process

MPC members

- Statutory duty to comply with the code.

Reserve Bank

- Sets the code (approved by the Board).

Charter

Description

- Sets additional MPC transparency, accountability and decision making requirements beyond those in the Act.

Process

MPC

- Proposes and agrees new Charter with the Minister every 5 years.
- Able to conduct interim reviews of the Charter at irregular intervals.
- Members and the MPC have a statutory duty to comply with the Charter.

Minister of Finance

- Agrees Charter with the MPC.
- Able to conduct interim reviews of the Charter at irregular intervals.
- Agrees the first Charter with the Governor of the Reserve Bank, to take effect from commencement.

Reserve Bank Act

Description

- Sets:
  - high-level objectives for monetary policy, as conducted by the MPC.
  - minimum MPC transparency, accountability and decision-making requirements.
- Requires the creation of:
  - a Charter for detailed operations.
  - an MPC code of conduct.
  - the Remit.
- Requires the Reserve Bank to:
  - publish quarterly reports on the conduct of monetary policy (MPS).
  - complete a regular medium term review of monetary policy.

Process

MPC

- Publishes meeting records.
- Approves quarterly reports produced by the Bank and is consulted on 5 yearly reports.

Reserve Bank

- Publishes quarterly reports.
- Completes a medium term review of monetary policy at least every 5 years.

Code of conduct elaborates on MPC conduct requirements from the Act.

Remit reset informs corresponding Charter review.

Charter:

- can add to the Act's reporting requirements.
- groups all extra MPC reporting requirements together.