Impact Summary: Reserve Bank Act Review – Detailed Design

Section 1: General information

Purpose
This analysis and advice has been produced for the purpose of informing second order decisions necessary to proceed with a policy change that Cabinet has previously agreed (CAB-18-MIN-0086 refers) and for which a Regulatory Impact Statement (RIS) has already been completed. For more information see: https://treasury.govt.nz/publications/risa/regulatory-impact-assessment-reserve-bank-act-review. Cabinet previously agreed to two high-level legislative reforms. These are: • to re-specify the objectives of monetary policy to: achieving and maintaining stability in the general level of prices over the medium-term and supporting maximum sustainable employment, and • to institute a committee decision-making structure for monetary policy, with decisions to be made by a Monetary Policy Committee (MPC), including external members, appointed by the Minister of Finance (the Minister). The motivation for these changes is as follows: **Re-specifying the objectives of monetary policy:** Under the Reserve Bank of New Zealand Act 1989 (the Act) monetary policy is directed towards the single objective of price stability. Since 1989 the Reserve Bank's practice in implementing monetary policy has evolved and it is recognised that, while it remains important to maintain price stability in the medium-term, monetary policy is also an important tool in assisting in stabilising the real economy, for example in helping to reduce fluctuations in unemployment. Updating the legislation to include consideration of employment recognises this second objective of monetary policy and ensures that this consideration will be taken into account in the future. **Legislating for a Monetary Policy Committee:** Under the Act, the Governor has sole responsibility for monetary policy decisions and the implementation of monetary policy, although informally the Reserve Bank makes monetary policy decisions through a Governing Committee. Evidence suggests that committees make better decisions on average than individuals because they include diversity of perspectives and guard against extreme views, but at present there is no requirement for monetary policy decisions to be made by committee. Further, the approach to decision making is constrained by the Act, which has been designed around a single decision-maker. Cabinet delegated authority to a subgroup of Finance Ministers to take decisions on second-order issues before Cabinet approves the full details of reform. It is these second order decisions which are analysed in this RIS. Decisions previously taken by Cabinet are referred to as "decisions". Issues not yet addressed by Cabinet, which are recommendations supported by analysis in this RIS are referred to as "recommendations".

The Treasury is solely responsible for the analysis and advice set out in this Regulatory Impact Statement (RIS), except as otherwise explicitly indicated.

Key Limitations or Constraints on Analysis
Cabinet has already decided to replace the single decision-maker for monetary policy related matters with a Monetary Policy Committee (MPC). Proposals analysed in this RIS are limited in scope to the design details necessary to implement that decision, and which are substantive in their own right. These are: a) Setting the operational objectives for the MPC b) The committee Charter c) Reporting on monetary policy d) MPC duties and accountabilities Accordingly, this RIS discusses the recommended approach for each of these issues, and explains the rationale for the preferred approach. However, given the detailed nature of these issues and the fact that the earlier RIS provided in depth analysis of the substantive decisions, this RIS does not have a full options analysis or use explicit criteria to conduct a full cost benefit analysis to arrive at preferred solutions. Data was not used to arrive at solutions. Instead a New Zealand specific comparative institutional analysis has been undertaken, while taking into account practices abroad. The proposals have been developed in consultation with the Reserve Bank, who agree with the recommended approach except where explicitly stated. Certain issues are not covered in this RIS, as they have no or minor regulatory impacts. These include: • details about the non-voting Treasury representative on the MPC (which is not prescribed in detail in the legislation, beyond what has already been agreed by Cabinet), • requirements for an MPC code of conduct, and • elements of MPC decision making procedure, including quorum rules and emergency powers.
Responsible Manager (signature and date):
Renee Philip Macro and Fiscal Policy Team Economic Systems The Treasury   27 June 2018

Section 2: Problem definition and objectives

2.1 What is the policy problem or opportunity?
In March 2018, Cabinet agreed to changes to the Act to add employment as a second objective of monetary policy, in addition to price stability, and to institute a Monetary Policy Committee (MPC) to take monetary policy decisions. The policy problem is discussed in the previous RIS (see link in section 1). A number of second-order policy decisions are necessary to implement Cabinet's previous decisions. This RIS discusses these decisions in respect of four specific areas: • Section 3a: Setting the operational objectives of monetary policy. Cabinet has previously agreed that the operational objectives of monetary policy will be set by the Minister, rather than by agreement between the Minister and the Reserve Bank Governor (Governor) as is the case with the current Policy Targets Agreement (PTA). Decisions must be made about how to give effect to this. • Section 3b: The Committee Charter. Cabinet previously agreed that the MPC will be required to adhere to requirements set by a Charter, to be agreed between the Minister and the MPC. Decisions must be made about how to give effect to this, including on the boundaries of the Charter and how it should be set. • Section 3c: Reporting on monetary policy. The current requirements for Policy Statements in respect of monetary policy must be updated in light of the new monetary policy objectives and the MPC, and can also be modernised to align the legislation with current practice and provide for long-term reviews. • Section 3d: Duties and accountabilities. The institution of the MPC requires adaption to the accountability model, as responsibilities that formally sat with the Governor will now be the responsibility of the MPC or members of the MPC. Decisions must be made about the statutory duties of the MPC and MPC members, and the duties of the Reserve Bank Board (the Board) in its role of monitoring the MPC and its members.

2.2 Who is affected and how?
Recommendations do not regulate entities outside of Government. The changes in this RIS follow on from earlier decisions and put in place the apparatus for the MPC's operations and for communicating its decisions, with a particular focus on transparency. A better informed public is better placed to plan and respond to monetary policy decisions, a necessary condition for effective monetary policy. Analysis in this RIS reflects the Treasury's views and conclusions are supported by the Reserve Bank unless otherwise specified (see section 5 of this RIS for further information on stakeholder consultation). There will always be some debate about the exact design details, and it is anticipated these will be fully debated during the select committee process.

2.3 Are there any constraints on the scope for decision making?
As discussed earlier, the scope of this RIS is limited to recommendations to address second-order issues that support the implementation of decisions already made. Beyond the primary changes to legislation discussed earlier, phase 2 of the Review of the Reserve Bank Act is also being undertaken. This is focused on other parts of the Act but could result in further changes to the Reserve Bank's governance structure. However, it is expected that the matters discussed in this RIS will not be substantially altered by the further review.

Section 3a: Options identification – Setting the Operational Objectives

3a.1 What options have been considered?
• *List the options and the criteria you used to assess them. Briefly describe their pros and cons.*

Below, the recommended approach for setting the operational objectives for monetary policy is outlined. The next section sets out the justification for these recommendations.

Currently the Minister is required to agree a Policy Targets Agreement ('PTA') with the Governor, which sets out the "policy targets" for carrying out monetary policy during the Governor's term of office. The new approach, agreed by Cabinet in March, is that the Minister will set operational objectives of monetary policy, which fulfil the function that policy targets currently do. This will be called a Remit for the Monetary Policy Committee ('Remit'). The Minister will set the operational objectives following the receipt of non-binding public advice from the Reserve Bank. This change in the process to set the detailed objectives was necessitated by the change from a single decision-maker model to committee decision-making. This decision was assessed in the previous Regulatory Impact Statement and is therefore not discussed in this document.

A number of additional changes to the Act are needed as a consequence of the change to a Remit and other changes to the Act. The purpose of these additional changes is to implement Cabinet's previous decision.

Proposed changes

The main recommendations are:

- **Scope of the Remit -**The Remit will set 'operational objectives' for the formulation of monetary policy by the MPC that must be consistent with the legislative objectives. The Remit will also be able to specify additional matters to which the MPC must have regard to when formulating monetary policy.

- **Reserve Bank required to provide advice** – the Reserve Bank will be required to provide advice on the Remit to the Minister prior to the Remit being set.

- **Public consultation** – in preparing its advice the Reserve Bank shall be required to undertake public consultation.

- **Frequency** – the Minister shall be required to reset the Remit at five yearly intervals.

- **Early renewal** – the Minister will have the option to trigger an early renewal of the Remit in which case the Remit shall be set by Order in Council.

3a.2 Which of these options is the proposed approach?

The recommendations above were guided by the following principles:

- The need for flexibility in economic policy over time.
- That operational objectives of monetary policy are a significant part of economic policy and hence should be consistent with the policy of the government of the day.
- The necessity to utilise the technical expertise of the Reserve Bank in setting operational objectives and ensuring that decision-makers are accountable for their decisions.
- Any changes should be consistent with, and ensure effective operation of, the package of recommendations already agreed.

The rationale for each recommendation is set out below:

- **Scope of the Remit** - Setting operational objectives at regular intervals, including further matters to which policy makers must have regard, ensures that objectives remain appropriate for the economic situation of the time and the policy of the Government of the day.
- **Reserve Bank required to provide advice** – requiring the Reserve Bank to deliver advice to the Minister prior to the Remit being set, and requiring that advice be published, balances the Government's right to set economic policy against the need to utilise technical expertise. It also ensures Ministers are publicly accountable for their decisions.
- **Public consultation –** This approach will allow greater transparency and public input into the setting of monetary policy objectives, therefore facilitating public debate and supporting greater democratic legitimacy in the setting of operational objectives over time.
- **Frequency** – Currently the PTA is set at five year intervals to be aligned with the Governor's term. 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. Because the Remit is set by the Minister, there is no longer a need to link it to the Governor's appointment.
- **Early renewal** – Allowing for early renewal provides flexibility and recognises the right of the Government of the day to set economic policy. However, frequent changes to the Remit could undermine the credibility of the existing monetary policy regime - creating uncertainty over the future direction of monetary policy. An early renewal is therefore required to be set by the Governor General by Order in Council to ensure the change is transparent and has the broader agreement of the Cabinet and Executive Council. In the case of an early renewal the Remit may not be informed by advice from the Reserve Bank, and so an Order in Council ensures additional scrutiny, relative to the Minister having the power to make a decision. Furthermore any Remit set by Order in Council will be a disallowable instrument, meaning it can be disallowed by resolution of the House of Representatives.

Section 3b: Options identification – The Committee Charter

3b.1 What options have been considered?

In March Cabinet agreed on the existence of an MPC Charter. The Charter is an agreement between the MPC and the Minister that governs the MPC's activities and procedures in greater detail than is provided for in the Act. The benefit of setting some operational rules of the MPC in a Charter rather than legislation is to ensure rules that can evolve in response to changing circumstances and policy preferences, while ensuring that the MPC is not wholly responsible for key elements of its accountability regime.

This section sets out recommendations for the key design elements of the Charter. The next section sets out the justification for these recommendations.

Proposed changes

The main recommendations are:

- **The purpose of the Charter -** The purpose of the Charter is to provide for additional details about:

  - transparency and accountability; and
  - decision-making procedures (specifically whether decisions are taken by vote or by consensus).

  Only matters consistent with these purposes can be included in the Charter, and insofar as operational matters for the MPC are addressed in the Act, they cannot be modified by Charter.

- ***The boundaries between the Act and the Charter* -** The Act will require:

  - that the MPC publish a record of its meetings;
  - reports on monetary policy (discussed in section 3c);
  - a basic decision making procedure, including the quorum for meetings, the rules around voting (in the case that a vote occurs) and emergency decision making powers; and
  - that the Charter itself be published.

  The Act will require the Charter to include:

  - requirements for records of the MPC's meetings (including the content and frequency of such publications); and
  - requirements or guidelines relating to public communications by individual members of the MPC.

  The Act will empower, but not compel, the Charter to include:

  - requirements for reporting on monetary policy, in addition to the requirements in the Act and for any other information that must or may be published by the MPC (discussed in section 3C);
  - decision-making procedures (for example whether the MPC adopts a consensus

decision-making approach, or whether decisions should always be taken by vote); and
- any other matter consistent with the purpose of the Charter.

- ***Setting the Charter*** - In terms of when the Charter is set and reviewed, there are two key elements of the design:

  - the Charter should be required to be reviewed whenever the remit is set, and
  - either the MPC or the Minister should be able to initiate an interim review.

- ***Agreement process and continuity of the charter*** - There are two options to address a situation where the Minister and the MPC cannot agree on a new Charter when it is required to be reviewed. Those are:

  - Option one: the existing Charter continues until a new Charter can be agreed *(the Reserve Bank's preferred option)*, or
  - Option Two: the Minister has the power to set the Charter, subject to Cabinet approval, if agreement is not possible *(the Treasury's preferred option)*.

3b.2 Which of these options is the proposed approach?

When deciding on each issue, there is a need to balance three competing factors:

- Ensuring there is a minimum level of *transparency and accountability*,
- Maintaining *flexibility* in the MPC's operational rules
- Maintaining an appropriate degree of *operational independence* for the Reserve Bank.

- ***The purpose of the Charter*** - Ensuring the MPC is accountable depends on transparency about the MPC's decisions. The surest means of securing transparency about decisions would be to specify all reporting requirements in detail in the legislation. However, this would be a highly prescriptive approach, which risks becoming outdated as the best practice approach for monetary policy communications evolves. Allowing the Charter to provide operational details on transparency and accountability therefore enables the system to evolve over time.

  Whether decisions are taken by consensus or by vote can have significant impacts on both the quality of decisions made and incentives for individual members. Both approaches have advantages and disadvantages, so the benefit of having the exact approach specified in the Charter is the regime can evolve over time. Moreover, the choice of the decision-making approach is closely related to accountability and transparency. For example voting lends itself to a more individualistic communications model, which has consequences for both individual and collective accountability. Accordingly, changes in the decision-making model should be considered for their impact on accountability, and coordinated with the overall transparency model.

  Given the need for the Reserve Bank to retain an appropriate degree of operational independence, we do not recommend allowing the Charter to cover issues beyond the stated purpose. Doing so would give the Minister powers to influence the Reserve Bank's processes in ways that are not necessary to increase overall accountability or transparency, but may unduly reduce the Reserve Bank's independence.

- ***The boundaries between the Act and the Charter***

  Issues which are set in the Act - These issues are fundamental to accountability, and flexibility is not desirable or necessary. For example, the requirement to publish a record of each meeting, and to publish the Charter ensure minimum levels of transparency, and we do not envisage situations where publication of these documents would be inappropriate. Similarly, by specifying that each member has a single vote and that a simple majority carries decisions, the Act ensures a 'committee of equals', which is a premise underpinning the design of the MPC.

  Issues which must be covered in the Charter – Given that a meeting summary is required by the Act, and the public scrutiny individual members of the MPC will face, it will always be necessary to decide protocols for both the meeting summary and individual member communications. The details of these protocols will need to evolve over time, and how the protocols change will influence the transparency and accountability of the overall regime. Accordingly, ensuring these details are set in the Charter means that the Minister is involved in key decisions affecting transparency and accountability, while still enabling flexibility over time.

  Issues which may be covered in the Charter – The Act will empower, but not compel, the Charter to include details on other aspects relating to transparency, accountability and decision-making. As with issues that *must* be covered in the Charter, the issues that *may* be included will likely need to evolve over time and will influence the overall accountability of the regime. However, it will not always be necessary to set additional requirements in the Charter beyond what is included in the legislation (for example, the minimum requirements for decision-making and reporting may be sufficient such that further requirements are unnecessary).

  Issues left to discretion of the MPC - For issues not addressed above (such as detailed meeting procedures), flexibility is paramount and there is no impact on accountability. Accordingly, allowing the Governor or MPC the discretion to set those procedures is entirely appropriate and consistent with maintaining an appropriate degree of operational independence for the Reserve Bank.

- ***Timing for reviewing the Charter*** - We recommend that the Act require the Charter be reviewed every time there is a standard reset of the Remit. This is because various issues addressed in the Charter will be influenced by the content of the Remit, so the two instruments should be set in a coordinated fashion. For example the operational objectives set in the Remit will influence the additional reporting requirements to be set in the Charter.

  We recommend the Minister or the MPC be able to initiate an interim review of the Charter at irregular intervals without triggering a renewal of the Remit. This will preserve flexibility, enabling policies to be changed based on whether they are working.

- ***Agreement process and continuity of the Charter*** – Option one, the Reserve Bank's preferred option is for the Minister to have no default power to set the Charter, and for the existing Charter to roll over if there is no agreement. This would provide a 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.

Under option two, without mutual agreement, the Minister would effectively have the power to impose a Charter on the MPC. There is a risk that power would 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).

Option two, the Treasury's preferred option, is for the Minister to have the power to set the Charter, subject to Cabinet approval, if the Minister and the MPC cannot reach agreement. This would be consistent with having the Minister set the accountability arrangements for the Reserve Bank. Giving the Minister the power to set the Charter would also allow the Minister to impose a more transparent or individualistic communications model over time, if that was desired. 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.

Section 3c: Options identification – Reporting on Monetary Policy

3c.1 What options have been considered?

This section sets out recommendations for reporting requirements on the conduct of monetary policy, with reference to existing provisions. The following section sets out the justification for these recommendations.

For accountability and transparency purposes, it is important that periodic reports on the conduct of monetary policy are produced. The Act currently sets requirements as to the content and frequency of reports which the Reserve Bank meets through the publication of monetary policy statements (MPS). These types of reports will continue to be a key mechanism for communicating the approach to, and decisions on, monetary policy alongside the requirement that a summary of meetings be published by the MPC.

A number of operational changes are recommended to the requirements for reports on monetary policy to update the Act and align with other changes.

Proposed Changes

The main recommendations are:

- **Quarterly reports** – the Reserve Bank will be required to provide a report (approved by the MPC) at least four times a year. In these reports the Reserve Bank must set out its approach to meeting the operational objectives, including providing its reasons for current decisions and its medium-term intentions. This increases the legislative frequency of such reports, which are currently required only every six months.
- **Long-term reviews** – the Reserve Bank will be required to provide a report at least every five years that reviews and assesses the formulation and implementation of monetary policy by the Reserve Bank over this term. At present, each regular report is required to review the conduct of monetary policy in the period since the last report.
- **Additional reporting -** the Charter will be able to set extra requirements for the content and frequency of reports above the legislative minimum. The PTA is currently used as a vehicle to prescribe additional reporting requirements beyond what is provided for in the Act.
- **Consequential changes** – a number of minor changes to the provisions setting reporting requirements are made as a consequence of other changes to the Act. This includes defining the responsibility of the Reserve Bank and the MPC in regards to the reports and updating the provisions in light of the replacement of policy targets with operational objectives.

3c.2 Which of these options is the proposed approach?
In making the recommendations above, we were guided by the principles that: - the Reserve Bank be subject to a consistent and comprehensive set of reporting requirements without undue duplication; - reporting requirements provide the information users need in a timely manner; and - the regime is adaptable so as to meet changing needs over time. With respect to each recommendation the rationale is as follows: • **Quarterly reporting** – The Reserve Bank's current practice is to produce an MPS four times per year. Hence quarterly reports on monetary policy are consistent with current practice and reflect the availability of new statistics, as well as the need to regularly communicate to justify actions. International comparisons show that similar countries all produce reports at least quarterly. This would ensure a minimum frequency of reporting to ensure transparency. • **Long-term reviews** –The requirement that the Reserve Bank provides a regular longer term review of the performance of monetary policy aims to enhance accountability and provide more in-depth analysis of the performance of monetary policy over a period of time that allows the impact of a series of monetary policy decisions to have taken effect (e.g. a tightening or loosening cycle). This self-assessment should aid performance improvement. This would replace the current requirement, which is over too short a period for meaningful review to occur. • **Additional reporting –** Allowing for additional requirements as to the content and frequency of information to be provided in reports to be set in the Charter provides a clear legislative mechanism to adjust reporting requirements and provides flexibility around the content and frequency of the information by not setting these attributes out in the Act. At present, the PTA is currently used as a vehicle to prescribe additional reporting requirements beyond what is provided for in the Act.

Section 3D: Options identification – Duties and accountabilities

3d.1 What options have been considered?

Cabinet has previously agreed that MPC members can be removed from office by the Governor-General, on the advice of the Minister, based on certain criteria. However it did not agree what those criteria would be. The Board will monitor the compliance of the MPC and the members of the MPC with their duties and can recommend to the Minister that they be removed if they fail to perform their duties.

Proposed changes

We recommend that members of the MPC have individual and collective duties, the breach of which could result in members being removed. The main recommendations are:

- **Individual Duties of all Members** - We recommend that members of the MPC have individual duties to:
  - act consistently with the Remit, Charter, code of conduct and the Act;
  - act with honesty, integrity and in good faith without regard to their own interests;
  - act with reasonable care, diligence and skill;
  - disclose if the member is likely to become disqualified from being on the MPC; and
  - not improperly disclose information they gain as a member.

  We also recommend disqualification grounds which would result in a member of the MPC being automatically removed from office and provides specific failures that can result in a member being removed (such as not attending meetings or gross misconduct).

- **Collective Duties of All Members -** We recommend the MPC have a collective duty to formulate monetary policy in a manner consistent with the legislative objectives and the Remit and to comply with the Charter. A member of the MPC will be able to be removed from office if the MPC breaches a collective duty and the member supported the decision that led to the breach of collective duty.

- **Duties of the Governor and Deputy Governor** – In addition to the individual and collective duties discussed above, we recommend the Governor and Deputy Governor have responsibilities in respect of those offices (most notably the Governor will be Chair of the MPC). As they are *ex-officio* members of the MPC, removal from their role also results in them being removed from the MPC. We also recommend dismissal provisions for the Governor no longer explicitly reference achievement of the policy targets, with dismissal relying instead on the individual and collective duties.

- **Duties of the Board** - We recommend that the Board's responsibilities to assess performance be broadened from focusing on the Governor and the Reserve Bank to also include each MPC member, and the MPC itself. We also recommend that the Board be required to include in their annual report a statement as to whether all members have adequately discharged their responsibilities during the year and explain how the Board has made this assessment.

3d.2 Which of these options is the proposed approach?
• **Individual Duties of all Members** - Individual duties serve two purposes. First to ensure that each MPC member fulfils their role with diligence and care. Second to ensure that the integrity of the MPC is not compromised by conflicts of interest or misconduct. The specific duties enhance accountability by providing performance standards that MPC members must meet, and a clear link between performance and dismissal. • **Collective Duties of the MPC** - Collective duties are designed to ensure that the MPC gives effect to the intent of the legislative framework: for example implementing monetary policy in a way that is consistent with the Remit. These duties provide a way to hold the MPC, as a whole, accountable for not acting consistently with the Act, the Remit or the Charter. • **Duties of the Governor and Deputy Governor** – As a general principle, the same duties should apply to each of the MPC members, given their collective responsibility for monetary policy. However, given the additional duties that apply to the Governor as Chair of the MPC (and the Deputy Governor in the absence of the Governor), it is appropriate for additional duties relating to that function to apply solely to them. Relative to the current legislation, the only other substantive change to the Governor's duties is the removal of specific reference to achieving the policy targets. In part, this is because the whole MPC has responsibility for achieving monetary policy objectives. More significantly, the change recognises the difficulties in measuring performance against specific objectives under a dual mandate, and that individual MPC members should not be at risk of dismissal if they make a decision that they considered was consistent with achieving the monetary policy objectives, but in hindsight the objectives were not achieved. • **Duties of the Board** – Widening the Board's focus to include all MPC members is a consequence of adopting a committee decision-making model. Requiring the Board to make a statement about whether the MPC and its individual members are meeting their responsibilities, and making the rationale for these judgements public, will enhance transparency around the performance of the MPC. Moreover, it will enable more scrutiny of how the Board are performing their role, which should be a positive incentive for the Board.

Section 4: Impact Analysis (Proposed approach)

4.1 Summary of recommendations

In summary, we recommend that:

- **Section 3a – Setting the Operational Objectives**
  - A Remit should set 'operational objectives' for the formulation of monetary policy, and set out additional matters to which the MPC must have regard to when formulating monetary policy.
  - The Reserve Bank should be required to provide advice on the Remit to the Minister prior to the Remit being set. In preparing its advice the Reserve Bank shall be required to undertake public consultation.
  - The Minister should be required to reset the Remit at five yearly intervals and will have the option to trigger an early renewal of the Remit, in which case the Remit shall be set by Order in Council.
- **Section 3b – The Committee Charter**
  - The purpose of the Charter should be to provide for additional details about transparency, accountability and decision-making procedures.
  - The Act should set certain operational requirements for the MPC, and set what the Charter must cover and what the Charter may cover.
  - The Charter should be required to be reviewed whenever the remit is set, and there should be the ability for either the MPC or the Minister to initiate an interim review.
  - The Minister should have the power to set the Charter, subject to Cabinet approval, if agreement is not possible.
- **Section 3c – Reporting on Monetary Policy**
  - The Reserve Bank should be required to provide a report (approved by the MPC) about monetary policy at least four times a year. In these reports the Reserve Bank must set out its approach to meeting the operational objectives, including providing its reasons for current decisions and its medium term intentions.
  - The Reserve Bank should be required to provide a report at least every five years that reviews and assesses the formulation and implementation of monetary policy by the Reserve Bank over this term.
  - The Charter should be able to set extra requirements for the content and frequency of reports above the legislative minimum.

- **Section 3d – Duties and Accountabilities**
  - The members of the MPC should have both individual and collective duties to ensure the proper functioning of the MPC.
  - The Governor and Deputy Governor should be subject to the collective and individual member's duties but also have responsibilities in respect of the office of Governor and Deputy Governor.
  - The Board's responsibilities should be broadened such that the Board is required to issue a statement as to whether each MPC member, and the MPC itself, has adequately discharged their responsibilities during the year, and that the Board should be required to explain how they have performed this assessment**.**

Costs of the policy changes were assessed in the previous RIS. There are no additional estimates for costs from this policy.

4.2 What other impacts is this approach likely to have?
Potential implications are set out in section 6.1.

Section 5: Stakeholder views

5.1 What do stakeholders think about the problem and the proposed solution?

Prior to initial Cabinet decisions on phase 1 the Treasury held a series of targeted stakeholder engagement meetings. The Treasury also made a public call for written submissions. Four written submissions were received on Phase 1: Ganesh Nana, Michael Reddell, Geoff Mortlock, and Federated Farmers of New Zealand. These views are generally supportive of the direction of change but not on every detail.

These submissions are published on the Treasury website, along with a summary of submissions. This can be found on the Reserve Bank Act Review section of the Treasury website: https://treasury.govt.nz/news-and-events/reviews-consultation/reviewing-reserve-bank-act/public-consultation

After phase 1 decisions, the Treasury put out a further call for written submissions on phase 1 detailed decisions. No submissions were received. The select committee process will provide an opportunity for further public input.

The Reserve Bank agrees with the majority of policy proposals contained in this RIS and the previous RIS, however key differences in view are noted. The one major area of disagreement between the Treasury and the Reserve Bank in this RIS is the agreement process and continuity of the Charter (covered in section 3b.2)

Section 6: Implementation and operation

6.1 How will the new arrangements be given effect?
Legislation will give effect to the proposals, but the legislation will be permissive enough to allow arrangements to develop over time based on-going communications through the following means. **Setting the operational objectives** The MPC will not yet be formally established at the time the first Remit is due to be set. Therefore the first Remit will 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. We do not believe this is a problem as the Treasury and the Reserve Bank recently went through a process for developing advice on the March 2018 Policy Targets Agreement, during which proposed changes to the monetary policy objective was known. The Remit 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. **The Committee Charter** 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, the first Charter will 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. There is scope for the Minister and the MPC to agree a Charter before that if desired, as the Charter can be reviewed by agreement at any time. Arrangements will come into effect three months after Royal assent (currently estimated to be 1 April 2019). Risks will be managed through close communications and expectation setting between the Minister, the Treasury, the Reserve Bank and the Board about roles and responsibilities. Once established, the Remit and Charter and any other associated implementation details will be communicated to the public through press statements and websites.

Section 7: Monitoring, evaluation and review

7.1 How will the impact of the new arrangements be monitored?
Treasury Monitoring The Treasury will monitor the arrangements of the new model and will continue its role in providing advice to the Minister on the Act. It is expected that the performance of the framework would be routinely reviewed alongside the periodic renewal of the operational objectives. **Reserve Bank Board Reporting** The Board will retain their role as monitoring agent. The Board's role will be adapted such that it keeps the performance of the MPC, members of the MPC and the Governor and Deputy Governor under constant review, which will provide an indication of how the regime as a whole is performing. The Board is only require to review the performance of the Reserve Bank. Reviewing changes to the legislation is not one of the Board's functions. The Board is required, under the Act, to provide an Annual Report to the Minister no later than 3 months after the end of the financial year. The Annual Report provides the Board's assessment of the performance of the Reserve Bank's functions and the exercise of its powers. This annual assessment will be a key vehicle for the Board to report on the performance of the MPC as a whole, MPC members and the Governor and Deputy Governor (as discussed in section 3d). Accordingly, at the moment there is considerable information already made available to assess the performance of monetary policy and related decisions. This will be added to through additional reporting requirements and the availability of minutes relating to MPC decisions. These new provisions along with existing monitoring and review provisions (when modified where needed to reflect the change in governance to committee decision making) will be satisfactory for the purposes of policy and decision-making assessments.

7.2 When and how will the new arrangements be reviewed?
The select committee process will scrutinise the proposed change to the Reserve Bank Act, both in concept and in legal drafting. Beyond the passage of legislation, there are currently no plans for a formal review of these changes, outside the commitment to periodic review alongside the renewal of the operational objectives and the Charter. However, further review and consultation in relation to other parts of the Reserve Bank Act will occur as part of the phase 2 of the Reserve Bank Act Review.