THE TREASURY
Kaitohutohu Kaupapa Rawa

RESERVE BANK
OF NEW ZEALAND
TE PŪTEA MATUA

Safeguarding the future of our financial system

Background paper 3: Current governance arrangements for the Reserve Bank of New Zealand

Phase 2 of the Reserve Bank Act Review

November 2018

New Zealand Government

The Treasury URL at 1 November 2018 for this document is
https://treasury.govt.nz/publications/background/rbnz-review-current-governance-arrangements

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About this background paper

This background paper accompanies the consultation document, *Safeguarding the Future of Our Financial System: The role of the Reserve Bank and how it should be governed*, which was released on 1 November 2018.[1] Part B of the consultation document focuses on issues related to the governance of the Reserve Bank.

This background paper describes the Reserve Bank's current governance and decision-making arrangements. It describes the roles and responsibilities specified in the legislation, and the participants to whom those responsibilities are legally assigned.

The wider context

Together, the consultation document and this background paper are part of Phase 2 of a review of the Reserve Bank of New Zealand Act 1989 (the 'Reserve Bank Act'). The Review aims to ensure that the Reserve Bank's monetary and financial policy frameworks are the most efficient and effective for New Zealand.

Phase 1 focused on improving New Zealand's **monetary policy framework**, and the resulting Cabinet decisions were announced on 26 March 2018.[2]

Phase 2 focuses mainly on the Reserve Bank Act's **financial policy framework**, which provides the basis for prudential regulation and supervision. The Minister of Finance announced its terms of reference on 7 June 2018.

[1] This paper was prepared by members of the joint Treasury-Reserve Bank Phase 2 Review team. If you have any questions about this paper please send an email to rbnzactreview@treasury.govt.nz.

[2] You can find more information about Phase 1 on the Treasury website.

Executive summary

This paper provides an overview of how financial policy-related decisions are currently made at the Reserve Bank, and the roles of various external and internal participants in the wider governance framework. This description of current arrangements includes the non-statutory committees that support the Reserve Bank's 'governing body'. This governing body is currently the Governor of the Reserve Bank (a single-decision-maker model) who has statutory responsibility for both corporate and major policy decisions.

The paper also describes the current set of transparency and accountability arrangements that are an important part of the 'checks and balances' of a governance framework.

In Phase 1 of the Review, the Minister of Finance agreed to implement a Monetary Policy Committee (MPC), which would have statutory responsibility for monetary policy decisions. Cabinet also approved a number of changes to the Reserve Bank's governance arrangements which would be explicitly required to implement an MPC. These changes will be enacted through the Reserve Bank of New Zealand (Monetary Policy) Amendment Bill.

The Reserve Bank of New Zealand (Monetary Policy) Amendment Bill:

- establishes the MPC role, which is to formulate monetary policy[3]
- makes the Reserve Bank Board responsible for monitoring the MPC's performance (with some additional information-gathering powers)
- makes the Reserve Bank Board responsible for monitoring individual MPC members
- changes the mechanism for setting policy targets. Currently the Minister of Finance and the Reserve Bank Governor agree on the monetary policy targets through a 'policy targets agreement'. The Bill makes the Minister of Finance responsible for setting operational objectives, following non-binding advice from the Reserve Bank.

This background paper assumes that the functions and structure of the MPC that was agreed in Phase 1 will be implemented, and considers the 'current arrangements' to be a governance structure with a statutory MPC in place.

Note, Phase 2 of the Review will not directly assess the Reserve Bank's existing non-statutory committees for financial policy, although there may be consequential implications for these committees arising from any governance-related changes to the Reserve Bank Act.

Phase 2 of the Review will consider the role of the Reserve Bank Board and this may have a consequential impact on its role with respect to Phase 1 decisions tied to the new MPC.

[3] The Reserve Bank will continue to have delegated responsibility for **implementing** monetary policy.

Part 1: Setting the scene

The overarching governance framework

Governance encompasses the system by which an organisation is controlled and operates, and the mechanisms by which it, and the people within it, are held responsible. 'Governance' captures who makes policy and regulatory decisions, who makes organisational decisions, and how decision-makers are held to account.

The Reserve Bank's responsibilities, powers, and perimeter

Parliament sets the Reserve Bank's overarching framework through the Reserve Bank of New \ Zealand Act 1989 (the Reserve Bank Act). Under Section 1A of the Reserve Bank Act (assuming that the changes from Phase 1 are implemented) the Reserve Bank is responsible for:

- formulating and implementing monetary policy designed to maintain stability in the general level of prices over the medium term and to support maximum sustainable employment
- promoting the maintenance of a sound and efficient financial system
- issuing banknotes and coins in New Zealand to meet the needs of the public
- carrying out other functions, and exercising powers, specified in the Reserve Bank Act.

The Reserve Bank fulfils these responsibilities primarily by formulating and implementing monetary policy, and through the powers it is granted to prudentially regulate and supervise banks. The Reserve Bank also has responsibility for regulating insurers and non-bank deposit takers (NBDTs) but these powers are specified in separate legislation.

The Reserve Bank's independence and constraints on independence

The Reserve Bank has a high level of discretion in interpreting its objectives, deciding regulatory settings, exercising its powers, and deciding its approach to the supervision of participants in the financial system. The Reserve Bank Act provides it with substantial independence from Parliament and the Minister of Finance in achieving its objectives.

That said, the Reserve Bank Act does provide a role for the Minister, which limits the Reserve Bank's independence. You can read more about Reserve Bank operational independence in Chapter 7 of the full consultation document.

Box 1 describes the Reserve Bank’s place in the State sector.

Box 1: State sector agencies and the Reserve Bank

New Zealand’s State sector agencies can be divided into those that are both ‘part of the Crown’ and ‘instruments of the Crown’ and those that are not ‘part of the Crown’ but are ‘instruments of the Crown’.

Agencies that are ‘part of the Crown’ are legally a part of the executive branch of government. They include ministries and other public service departments such as the New Zealand Police and the New Zealand Defence Force. These agencies tend to be run by Chief Executives who are responsible to their respective Ministers.

All other agencies are only ‘instruments of the Crown’, and are subject to less influence by the government of the day than ministries and departments. ‘Crown entities’ make up a large proportion of the instruments of the Crown. Crown entities are responsible for undertaking the State sector functions that Parliament considers require a degree of independence from the Government of the day.

Crown entities include Crown agents, independent Crown entities, and autonomous Crown entities, which are collectively known as ‘statutory entities’. Although they have slightly different governance arrangements, they each have a governing body (typically a board) and almost all are monitored by a Ministry or department on behalf of the responsible Minister. Different types of Crown entity differ mainly in the appointment processes for governance figures, and in whether the responsible Minister may issue a direction to the entity.

The Reserve Bank is an instrument of the Crown but is not a Crown entity. It is its own category in the State sector. However, its functions are very similar in substance to those of some Crown entities. The Reserve Bank’s uniqueness lies not just in its legal status, but also in its governance arrangements.

The Reserve Bank’s funding arrangements

The Reserve Bank earns income from the issuance of currency (seigniorage), financial market operations, and commercial activities such as payment systems.

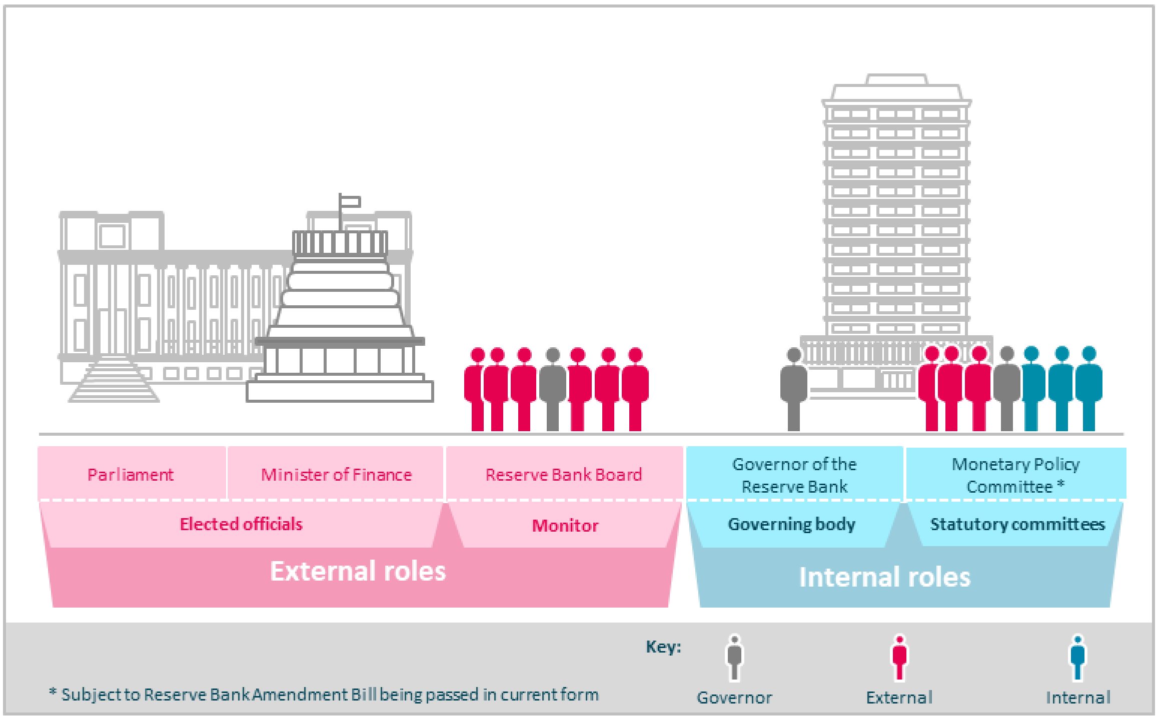
Given that the Reserve Bank earns income, it does not receive funding from the Government via ‘appropriations’. Instead, the Minister of Finance and the Governor of the Reserve Bank agree a five-year funding agreement. The funding agreement sets out how much of its income the Reserve Bank can keep to spend on its operating expenses. Within that overall constraint, the Reserve Bank retains autonomy over how funding is allocated. The span of the funding agreement provides the Reserve Bank a degree of budgetary independence and disconnects the funding cycle from the Government’s electoral cycle. The agreement must be ratified by Parliament.

Options for the Reserve Bank funding model will be considered in the next round of consultation.

Participants in the Reserve Bank's governance framework

The Reserve Bank's governance framework includes both external and internal participants (see Figure 1). The external participants are Parliament, the Minister of Finance, and the Reserve Bank Board. These participants have roles in defining the regulatory framework, monitoring, and holding the Reserve Bank accountable for its performance against that framework.

Figure 1: Participants in the Reserve Bank governance framework



The Governor is a key internal participant and is formally responsible for:

- **corporate decisions** – these relate to the Reserve Bank's organisational strategy and other corporate functions such as resourcing, balance sheet management, human resources, and technology infrastructure
- **policy decisions** – given Phase 1 outcomes these are now primarily financial policy decisions.

In practice, a number of management committees and internal coordination mechanisms support the Governor in making these decisions.

The governance arrangements at the Reserve Bank are supported by accountability and transparency requirements. It is common for independent regulators to be given formal, specific accountability and transparency requirements. As the OECD states, "Accountability and transparency are the other side of the coin of independence," creating "balance" in the governance framework.

Part 2: What the participants in the Reserve Bank governance framework do

The Reserve Bank governance framework has eight broad dimensions, which are summarised in Box 2. Box 2 is followed by a description of the role of each participant in the governance framework in relation to these aspects. You can read more about the areas of responsibility in Chapter 6 of the full consultation document.

Box 2: Roles and responsibilities in the Reserve Bank governance framework

1. **Appointments and dismissals** – appointments to and dismissals from statutory roles, including those of the Governor, Deputy Governor, MPC, and Reserve Bank Board members.

2. **Monitoring** – keeping under constant review the performance of the Reserve Bank in carrying out its functions, the performance of the Governor, and the Reserve Bank's use of resources.

3. **Monetary policy** – formulating and implementing monetary policy to maintain stability in the general level of prices and supporting maximum stable employment.

4. **Organisational strategy and corporate functions** – setting the Reserve Bank's strategy and the performing of corporate functions, such as capability and performance planning, operational risk management, and compliance.

5. **Foreign exchange, balance sheet management, and 'other functions'** – policies and processes relating to foreign exchange dealing, issuing currency, and other functions such as 'lender of last resort' and providing settlement account services.

6. **Prudential regulation and supervision** – developing the approach to supervision and identifying and taking action to remove or reduce financial system risks, including risks arising from the actions or omissions of individual financial firms.

7. **Crisis management** – taking action to avoid significant damage to the financial system that could result the failure, or the risk of the failure of an institution.

8. **Macro-prudential policy** – developing the approach to monitoring, identifying, and taking action to remove or reduce systemic risks from the financial system as they vary across the financial cycle.

Parliament

Parliament is the legislative body of New Zealand. It is responsible for passing any changes to the legislation that empowers the Reserve Bank.

Finance and Expenditure Committee scrutiny

Parliament's Financial Expenditure Committee (FEC) examines matters related to economic and fiscal policy, taxation, revenue, banking and finance, superannuation, insurance, government expenditure and financial performance, and public audits.

As part of this role FEC scrutinises the Reserve Bank's *Annual Reports*, *Financial Stability Reports* (FSRs), and *Monetary Policy Statements* (MPSs) (for more information on these documents, see 'Publication requirements' in Part 5 of this paper). FEC has access to an independent adviser to support it in scrutinising the Reserve Bank.

The Minister of Finance

The Minister of Finance is responsible for managing the Crown's relationship with the Reserve Bank. As a result, the Reserve Bank is accountable to Parliament through the Minister of Finance.

The Minister's role includes:

- managing changes to the legislative framework within which the Reserve Bank operates
- appointing and dismissing the Governor and the non-executive members of the Reserve Bank Board
- setting the Reserve Bank's operational objectives for monetary policy
- influencing or directing the Reserve Bank in relation to its financial policy functions
- consenting to directions that the Reserve Bank issues to registered banks
- monitoring the Reserve Bank's performance through the Reserve Bank Board
- making various decisions relating to the statutory management of a failing bank or insurer.

These roles are discussed in detail further below. Monitoring is discussed under the 'The Reserve Bank Board' heading in this Part.

Managing changes to the legislative framework

The Minister of Finance is responsible for managing any changes to the legislative framework within which the Reserve Bank operates. The Minister is involved in two types of legislation:

- **primary legislation**, which is made by Parliament. If there is to be a change to primary legislation affecting the Reserve Bank, the Minister of Finance is responsible for taking this to Parliament

- **secondary legislation**, which is made by the Governor-General through Orders in Council. The Minister provides recommendations to the Governor-General to make regulations, for example in relation to bank disclosure requirements and NBDT requirements such as capital ratios.[4]

Appointments and dismissals

The Minister of Finance is responsible for the appointment of:

- the non-executive members of the Reserve Bank Board, and
- the Governor of the Reserve Bank. The Reserve Bank Board is responsible for recommending a candidate (or candidates) for the role of Governor of the Reserve Bank to the Minister of Finance.

Following the Phase 1 legislative changes, the Minister will:

- appoint MPC members, on the Board's recommendation
- appoint the Deputy Governor on the recommendation of the Board. The Board will have to consult the Governor before making its recommendation. At present the Board can appoint up to two Deputy Governors on the recommendation of the Governor. There is currently one Deputy Governor.

The Minister is also responsible for providing recommendations to the Governor-General for dismissal from these roles. The Minister can only recommend that a person be removed from a statutory position if the statutory reasons for dismissal are met.

Monetary policy objectives

Since 1989 the policy targets agreement has been used to set specific targets for the Reserve Bank in achieving its price stability objective. The Minister of Finance and the current Governor of the Reserve Bank negotiated the most recent agreement before the Governor's appointment.

When the MPC legislation is passed the Minister will become solely responsible for setting the operational objectives for monetary policy. The Minister will set these objectives after receiving non-binding advice from the Reserve Bank. The Reserve Bank's advice must be made public once the new operational targets have been set.

Financial policy objectives

The Minister of Finance is able to influence the Reserve Bank's financial policy objectives through the *Statement of Intent* (SOI).

The Reserve Bank Act requires the Reserve Bank to prepare an SOI every year, outlining the Reserve Bank's intended policy and corporate objectives for that year and the following two years (see 'Publication requirements' in Part 5 for more).

The Minister can influence these objectives by commenting on a draft of the SOI. The Reserve Bank is required to provide the Minister with a draft SOI 30 days before publication. If the Minister makes comments, the Reserve Bank must also provide a response to the Minister's comments that

[4] Some statutory powers must also be invoked by Order in Council.

demonstrates how it has taken those comments into account in formulating its objectives. A final SOI, along with any amendments, is then referred to Parliament.

In recent years the Minister has established a practice of writing a 'letter of expectations' to the Governor of the Reserve Bank. The letter is a non-statutory mechanism for setting out the Minister's expectations of how the Reserve Bank should engage with the Minister and outlines the Minister's areas of particular interest.

Ministerial influence over functions using a Ministerial direction

The Minister of Finance has the power to direct the Reserve Bank to have regard to Government policy when it relates to the Reserve Bank's financial policy functions. However, such direction must not require the Reserve Bank to undertake a particular act or seek to achieve a particular result. This direction power has never been used.

Subject to authorisation by the Governor-General, the Minister of Finance may also require the Reserve Bank:

- through an Order in Council, to formulate and implement monetary policy for different economic objectives for up to 12 months (renewable annually)
- to deal in foreign exchange (within guidelines) as a way to influence the exchange rate or exchange rate trends.

These powers are generally subject to transparency requirements including publication in the *New Zealand Gazette* (the official Government newspaper) or through a statement to Parliament.

Consenting to directions issued by the Reserve Bank to registered banks

The Minister of Finance has a role in consenting to the Reserve Bank exercising its powers under the Reserve Bank Act to direct registered banks. Examples of instances where the Reserve Bank might issue a direction could include when a bank or associated person is insolvent, presents a risk to the wider financial system, is contravening the Reserve Bank Act, or has been convicted of an offence against it.

Decisions relating to the statutory management of a failing bank

After receiving a recommendation from the Reserve Bank, the Minister of Finance may advise the Governor-General to put an entity into statutory management by Order in Council. The Minister is also responsible for making other recommendations to the Governor-General relating to entity's statutory management.

The Reserve Bank Board

The Minister of Finance relies on the Reserve Bank Board to monitor the Reserve Bank. This makes the Reserve Bank Board a *supervisory body* rather than a *governing body*. An unusual feature of the monitoring arrangements for the Reserve Bank is that the Governor is also a director of the Reserve Bank Board.

The Board is funded by the Reserve Bank and has no independent resources. It is made up of five to seven non-executive members and the Governor of the Reserve Bank. Currently there are seven members.

The Board's three main roles are to:

- monitor the Reserve Bank's performance
- provide advice to the Reserve Bank
- manage nominations for, appointments to, and recommendations for dismissal from, the positions of Governor, Deputy Governor and MPC member.

Performance monitoring

The Reserve Bank Board's legislative responsibilities are to:

- keep under constant review the Reserve Bank's performance in carrying out its statutory functions
- keep the Governor's performance under review in relation to the delivery of the Reserve Bank's statutory responsibilities
- (following the implementation of the MPC) keep the performance of the MPC and all MPC members under review.

The Reserve Bank Act requires the Board to prepare a report each year setting out its assessment of the Governor's and the Reserve Bank's performance. The Board chooses to publish these assessments in the Reserve Bank's *Annual Reports*, which are scrutinised by FEC.

If the Reserve Bank of New Zealand (Monetary Policy) Amendment Bill 2018 is enacted in its current form, the Reserve Bank Board will become responsible for monitoring the performance of the MPC and its members as well. The Reserve Bank will have to provide the Board with any information that would reasonably be necessary to enable the Board to undertake its statutory functions. In addition, the Board will have to supply the Minister of Finance with any information the Minister asks for about the performance of its duties.

The Board may also provide advice to the Governor on any matter relating to the Reserve Bank's functions or the exercise of its powers. This advice could relate to both policy and corporate matters.

Recommendations for dismissal

In addition to its responsibilities in recommending candidates for various Reserve Bank roles, the Board may also recommend to the Minister of Finance that a Governor be removed from office if (among other things) it is not satisfied with the Governor's performance in meeting his or her statutory obligations.

A note on the Audit Committee

In accordance with the provisions of the Reserve Bank Act,[5] the Board has set up an audit committee that is responsible for:

- reviewing the Reserve Bank's financial reporting
- arranging internal and external audits

[5] The Reserve Bank Act allows the Board to appoint committees and delegate its functions and powers to committees if it wishes.

- monitoring the Reserve Bank's system of internal controls
- auditing and advising the Governor on the operation of the payment systems owned by the Reserve Bank
- providing advice to the Governor on these matters.

The Governor is not required to act on the audit committee's advice. However, in practice the Board informally expects the Governor to consider the audit committee's advice.

A note on the Treasury's role

The Treasury currently has a role in advising the Minister of Finance on any proposed changes to the Reserve Bank's legislation and monetary policy objectives. This role stems from its role as the Government's lead adviser on economic matters.

In 2012, the Treasury and the Reserve Bank signed a Memorandum of Understanding clarifying that the Reserve Bank was the lead adviser on matters relating to the formulation and implementation of monetary policy, prudential supervision, macro-prudential policy, and financial markets. The Treasury has a second-opinion role in relation to prudential regulation and supervision where there are impacts on the wider economy and risks to the Crown's balance sheet.

The Minister of Finance and the Reserve Bank have also signed a Memorandum of Understanding on macro-prudential policy (see Part 5). This Memorandum requires the Reserve Bank to consult both the Minister and the Treasury before making any changes to macro-prudential policy arrangements.

Once the Reserve Bank of New Zealand (Monetary Policy) Amendment Bill has been passed, the Treasury will have a role as an observer on the MPC.

Governance participants within the Reserve Bank

The Reserve Bank Governor is the 'governing body' of the Reserve Bank and runs the organisation. This means that the Governor is solely responsible for all corporate decisions as well as all statutory and non-statutory policy decisions except those reserved for the Board or the MPC.[6] In practice, several committees support the Governor in decision-making (see Part 4).

6 Once implemented, the MPC will make decisions on the formulation of monetary policy. The MPC will comprise five to seven members, with a minority of two or three external members, depending on the size of the committee. The Governor and the Deputy Governor will be ex-officio members of the MPC, with one or two additional Reserve Bank staff appointed as members. If the current monitoring arrangements remain, the MPC will be supported by Reserve Bank staff and monitored by the Reserve Bank Board.

Part 3: Non-statutory support committees

In practice, the Reserve Bank Governor relies on a number of internal committees for support in making decisions. These committees are non-statutory, so the Governor can dissolve them or change their functions at any time. Two important committees are the 'Governing Committee' and the 'Senior Management Group' (SMG) because these are the committees in which the Governor makes key decisions. The other committees are purely advisory committees, although the Governor may make decisions at these committees as well, because all members of the Governing Committee are usually present.

The Governor has been making decisions in Governing Committee since 2013, and advisory committees have existed since the 1990s. Internal coordination is facilitated through cross-committee membership.

Policy decisions relating to statutory functions

Figure 2 below illustrates the Reserve Bank's internal governance and decision-making structure for policy matters.

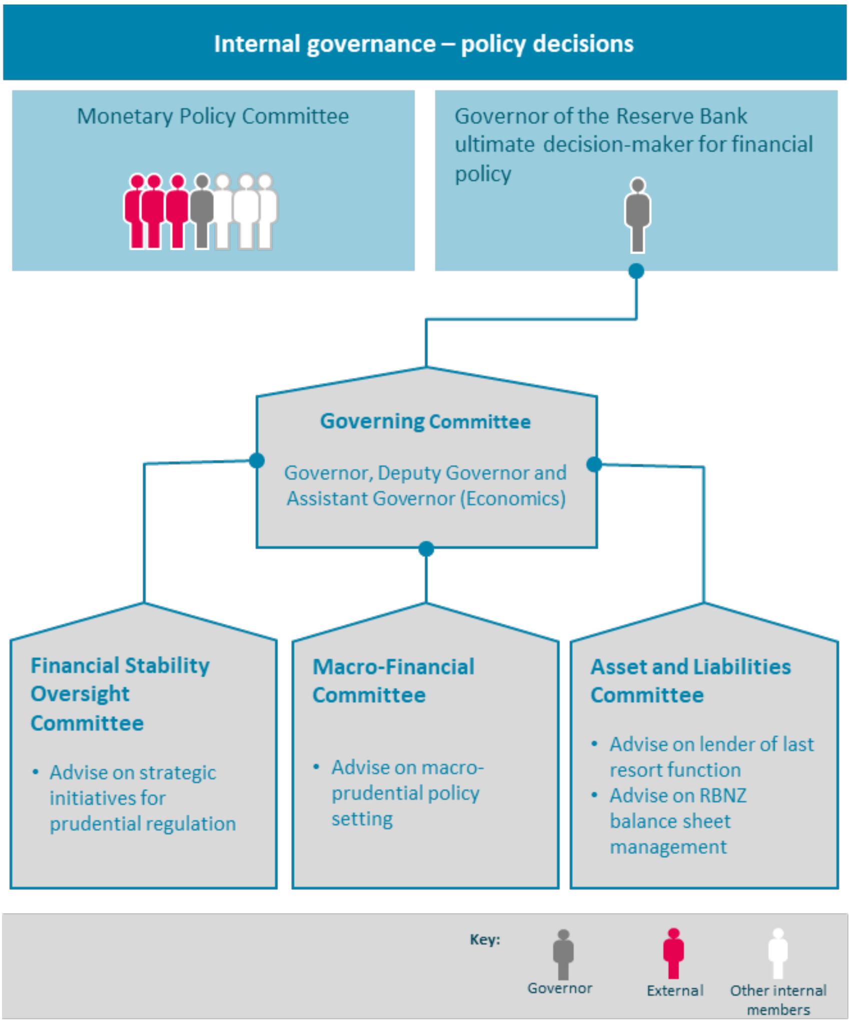
Note these arrangements reflect those in place at the time of publication. The Reserve Bank is currently reviewing its organisational structure. While this review will not substantively change the Reserve Bank's internal decision-making processes, it could result in adjustments to the number and remit of existing committees, most notably by consolidating the Financial Stability Oversight Committee and the Macro-financial Committee.

The Governing Committee

The Governing Committee currently comprises the Governor, the Deputy Governor, and the Assistant Governor (Head of Economics). It is responsible for considering all major monetary and financial policy decisions that exercise functions of the Reserve Bank according to the legislation. This means the Governor makes policy decisions in consultation with the Governing Committee, although the Governor is not legally required to do so.

The Governing Committee meets alone as required, but all members are also present at the non-statutory advisory committees. Once the Phase 1 changes to the legislation have been made, the MPC will become responsible for all monetary policy decisions; the Governing Committee will no longer consider these decisions.

Figure 2: Support structure for governance decisions on financial and monetary policy



The Monetary Policy Committee

The current MPC is a non-statutory committee that advises the Governing Committee on formulating monetary policy. Meeting fortnightly, the MPC:

- provides a forum for members to exchange and consider information and research relevant to monetary policy
- considers and establishes priorities for future research relating to monetary policy.

The MPC is currently the only committee that has external advisers, although they only advise on decisions for the Official Cash Rate (seven times per year in recent years). The external advisers are not part of the more regular MPC meetings.

The new MPC that will be brought about as a result of Phase 1 will be a statutory decision-making committee, and the current Monetary Policy Committee will cease to exist.

The Financial Stability Oversight Committee

The Financial Stability Oversight (FSO) Committee oversees and advises on initiatives for entities in the financial system. The Committee is chiefly responsible for the approach to the prudential regulation and supervision of banks, insurers, NBDTs, and payment and settlement systems. It assesses the impacts on these sectors of proposed changes to regulatory settings, and considers any material supervisory concerns about individual firms or classes of firm.

The Committee meets fortnightly, or more frequently if required. FSO makes recommendations to the Governor in the Governing Committee on high-impact policy initiatives in prudential regulation and supervision or on decisions that are sensitive.

The Macro-financial Committee

The Macro-financial Committee (MFC) promotes the soundness and efficiency of the New Zealand financial system by identifying and monitoring any risks to financial system stability that may arise in New Zealand or abroad.

MFC is primarily responsible for advising the Governing Committee on macro-prudential policy. It also provides strategic direction for the Reserve Bank's FSR, which discuss the soundness and efficiency of the financial system. MFC meets monthly or as required.

The Assets and Liabilities Committee

The Assets and Liabilities Committee (ALCO) oversees and advises on the development and management of the Reserve Bank's balance sheet. The Committee meets monthly and makes recommendations to the Governor in the Governing Committee on:

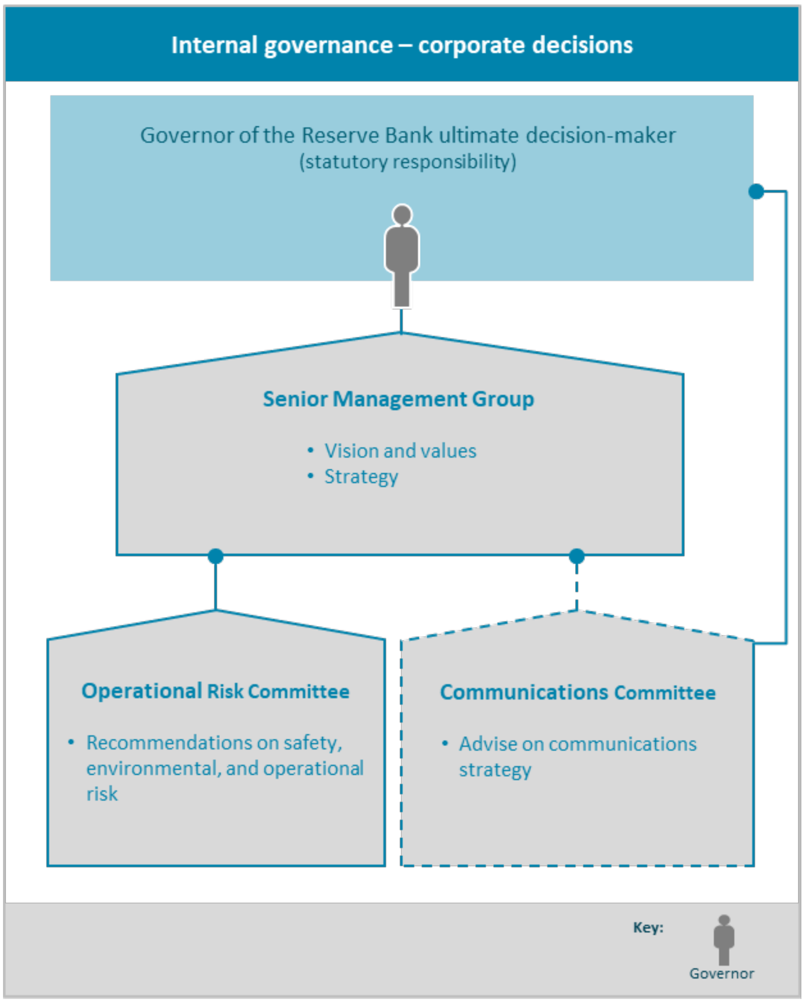
- the appropriate level of capital for the Reserve Bank
- the composition of the Reserve Bank's assets and liabilities
- the performance of components of the Reserve Bank's balance sheet
- the implementation of foreign reserves and liquidity management
- any changes to the Reserve Bank's borrowing and lending facilities
- the design of the risk management framework for assets and liabilities.

ALCO is unusual because its function is not purely policy or purely corporate. It also has a role in operationalising policy and putting monetary policy decisions into effect via the Reserve Bank's balance sheet activities. While 'lender of last resort' decisions would be made by the Governor in the Governing Committee, ALCO would likely be involved in developing recommendations.

Corporate decisions

Figure 3 illustrates the Reserve Bank's internal decision-making structure that supports the Governor. It is followed by a description of the role of each participant.

Figure 3: Support structure for governance decisions on corporate matters



Senior Management Group

In practice, the SMG has a pivotal role in overseeing corporate decisions on operational policy and the Reserve Bank's direction. Meeting weekly, it supports the Reserve Bank's governance framework by providing leadership for the Reserve Bank to achieve its goals.

Specifically, SMG is responsible for:

- promoting the Reserve Bank's vision and values
- leading the strategic direction, which is implemented through plans and budgets
- overseeing organisational performance and capabilities relative to plans and budgets
- overseeing capital expenditure and significant resourcing initiatives
- managing non-balance sheet risk
- providing a forum for exchanging information
- overseeing internal communications.

The Operational Risk Committee

The Operational Risk Committee was established in 2017, for the purpose of supporting the Reserve Bank Governor and SMG in fulfilling their responsibilities in relation to the Reserve Bank's operational risk management and compliance. This Committee makes recommendations on the safety, environmental, and operational risk relating to the Reserve Bank's operational activities. It ensures that the Reserve Bank has the appropriate policies and procedures in place to increase its operational resilience.

The Communications Committee

The Communications Committee's role is to agree, review, and monitor the approach to the Reserve Bank's communications strategy. It is also an advisory body to the Governor on strategic communications for both internal and public-facing issues.

The Committee has some operational responsibilities, such as agreeing the timing and themes for speeches and publications. However, the communications department, rather than the Committee, is responsible for most management decisions. The Communications Committee meets fortnightly, or as required.

Part 4: Safeguards, accountability, and transparency

Publication requirements

The publications that the Reserve Bank Act requires the Reserve Bank to produce are the key transparency mechanisms in the Reserve Bank's governance and decision-making framework.

Statement of Intent

Produced every year, the SOI outlines the Reserve Bank's intentions and direction for that year and the following two years. It provides information on the Reserve Bank and:

- its strategic financial policy priorities
- its corporate strategy and priorities
- its operating environment
- the outcomes it seeks to achieve and how it plans to achieve them
- its plans for engaging with the Minister of Finance
- its strategy for judging its performance.

Annual Report

The Reserve Bank must deliver an Annual Report to the Minister within three months after the end of each financial year. The report must:

- cover the operations of the Reserve Bank and its subsidiaries during the financial year
- include audited financial statements and an auditor's report
- provide an assessment of the Reserve Bank's performance against the intentions and metrics in the SOI
- provide information on the remuneration, compensation, and other benefits received by the Reserve Bank Board and staff.

The *Annual Report* is referred to Parliament and is scrutinised by the Finance and Expenditure Committee.

The Financial Stability Report and Monetary Policy Statement

The Reserve Bank is also required to publish an FSR and MPS twice a year. Like the *Annual Report*, both are scrutinised by FEC.

FSRs discuss the financial system's soundness and efficiency, in particular the key risks. They also provide information that enables assessments of the Reserve Bank's activities in achieving its statutory prudential purposes.

The Reserve Bank also uses the FSR to report on the reasons for, and impacts of, any use of macro-prudential policy instruments, as agreed under the Memorandum of Understanding on Macro-prudential Policy with the Minister of Finance (see below).

MPSs must specify how the Reserve Bank seeks to achieve its policy targets (soon to be 'operational objectives'), why it seeks to achieve them that way, and how it intends to formulate and implement monetary policy in the following five years. MPSs must also include an assessment of policy implementation since the previous assessment.

In practice the Reserve Bank publishes four MPSs every year. Interim Official Cash Rate reviews between MPSs are covered by short media releases.[7]

Memorandum of Understanding on Macro-prudential Policy

In 2013, the Reserve Bank and the Minister of Finance signed a Memorandum of Understanding that defines macro-prudential policy, its objectives, and operating guidelines for the use of macro-prudential tools. The Memorandum also specifies the tools that the Reserve Bank uses to implement macro-prudential policy.[8]

The Reserve Bank must consult the Minister of Finance and the Treasury when it is actively considering the use of macro-prudential tools or if it is seeking to recalibrate a tool that is already in use.

Performance audit

The Minister of Finance may appoint a person (or people) to assess the Reserve Bank's performance with regard to its functions or the exercise of those functions. The appointee(s) would have access to all information under the Reserve Bank's control, must submit a report to the Minister of Finance after completing the assessment. The report is then referred to Parliament.

The Reserve Bank is excluded from the Auditor-General's scope under the Public Audit Act 2001 to initiate a performance audit of the extent to which a public entity is carrying out its activities effectively and efficiently or an inquiry into any matter concerning the Reserve Bank's use of its resources.

7 In total, there are seven reviews of the OCR annually.

8 The Memorandum specifies that the macro-prudential framework is to be reviewed sometime after five years. The review of macro-prudential policy has since been subsumed by the review of the Reserve Bank Act.

Appendix 1: Coordination arrangements with domestic and international agencies

Arrangements with domestic agencies

The following domestic and international coordination mechanisms are not strictly part of the Reserve Bank's governance framework. However, they have been included in this paper for completeness, to show the many relationships that may influence the Reserve Bank's strategic decision-making.

Domestic Memoranda of Understanding

The Reserve Bank has entered into Memoranda of Understanding with the Treasury and the Financial Markets Authority (FMA) in the interests of supporting a coordinated and effective regulatory system. These are:

- a Memorandum of Understanding between the Reserve Bank and the Treasury on information exchange and collaboration
- a Memorandum of Understanding between the Reserve Bank and the FMA on the designation and oversight of settlement systems.

Council of Financial Regulators

The Reserve Bank is one of four agencies[9] that make up New Zealand's Council of Financial Regulators (CoFR). CoFR is an informal arrangement, not a statutory requirement. CoFR aims to:

- contribute to the efficiency and effectiveness of New Zealand's prudential and financial markets regulatory model
- promote the stability of the New Zealand financial system by providing a forum to review industry trends and issues.

International arrangements

Trans-Tasman Council on Banking Supervision

Under the Reserve Bank Act, the Reserve Bank must, to the extent reasonably practicable, avoid taking action that would have a detrimental impact on financial stability in Australia. This provision is reciprocated in Australian legislation.

[9] The four CoFR agencies are the Reserve Bank, the FMA, the Treasury, and the Ministry of Business, Innovation and Employment.

In addition, the Reserve Bank, the Treasury, and the FMA work with their Australian counterparts[10] through the Trans-Tasman Council on Banking Supervision (more commonly known as the Trans-Tasman Banking Council or TTBC). Its main role is to monitor and coordinate trans-Tasman home-host regulatory issues, including crisis management preparedness.

The Council's key goals are to:

- enhance cooperation on the supervision of trans-Tasman banks and other financial institutions, and information-sharing between respective supervisors
- promote and review regularly trans-Tasman crisis response preparedness for events that involve banks and other financial institutions that are common to both countries
- guide the development of policy advice to both governments, underpinned by the principles of policy harmonisation, mutual recognition, and trans-Tasman coordination.

International Memoranda of Understanding

The Reserve Bank has Memoranda of Understanding on cooperation in banking supervision with Australia, China, Cook Islands, India, Korea, UAE, and the UK.

As part of the TTBC, New Zealand and Australia have signed a Memorandum of Understanding on Trans-Tasman Bank Distress Management.

Outside of banking, the Reserve Bank has a number of additional cooperation agreements. These include a Memorandum of Understanding with the Bank of England on the regulation of central counterparties (a type of financial market infrastructure) and a number of memoranda of understanding in relation to insurance.

[10] The Australian Treasury, the Reserve Bank of Australia, the Australian Securities and Investment Commission, and the Australian Prudential Regulation Authority, together with the New Zealand agencies, all form part of the TTBC.

Appendix 2: The evolution of the Reserve Bank governance framework since 1989

There have been a number of changes to the Reserve Bank's governance framework since the introduction of the Reserve Bank Act in 1989.[11]

The original intent of the Reserve Bank Act

When the Reserve Bank Act was first passed, it was designed to be consistent with broader State sector reforms at the time, which were aimed at improving performance through clearer objectives and increased accountability.

The clear focus was on monetary policy, with price stability being the primary objective. The Reserve Bank Act made the Reserve Bank more independent and more accountable (via the single decision-maker model) than it had been under the previous Reserve Bank of New Zealand Act 1986.[12]

The Reserve Bank of New Zealand Amendment Act 2003

The Reserve Bank of New Zealand Amendment Act 2003 (2003 Amendment Act) altered both the Reserve Bank's banking supervision powers and the governance framework. The governance changes stemmed from the *Independent Review of the Operation of Monetary Policy in New Zealand* (the Svensson review).[13]

In its original formulation, the Reserve Bank Act provided for the Reserve Bank Governor to be the Chair of the Reserve Bank Board, and the Deputy Governor(s) was a member of the Board.

As a result of the Svensson review, the 2003 Amendment Act removed the Governor as the Board Chair and Deputy Governors as directors. It also increased the number of non-executive directors, and made it a formal requirement for the Board to report its assessments of the Reserve Bank's performance to the Minister of Finance.

Public Finance Amendment Act 2004

The Public Finance Amendment Act 2004 revised the Reserve Bank's annual reporting requirements and first introduced the requirement for the Reserve Bank to prepare an annual SOI and to engage with the Minister of Finance in that process.

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11 Note that this appendix primarily focuses on the *governance* changes over time. It is not a detailed summary of the changes to the Reserve Bank's functions or other parts of the Reserve Bank Act.

12 For an early explanation of the 1989 Act see a 1990 article by Stephen Dawe.

13 For more details on the Svensson review see the Reserve Bank webpage on the Indpendent Review of the Operation of Monetary Policy, an article on the Reserve Bank of New Zealand Amendment Act 2003, the Reserve Bank Board's Response to the Svensson Report; and the Reserve Bank's Submission to the Minister of Finance on the Monetary Policy Review.

Reserve Bank of New Zealand Amendment Act 2008

The Reserve Bank Act was amended again in 2008 primarily to align with the implementation of a prudential oversight regime for non-bank deposit takers (superseded by the Non-Bank Deposit-Takers Act 2013). Again, there were also changes to the governance and accountability framework.

The key governance and accountability amendments:

- introduced a power for the Minister of Finance to direct the Reserve Bank to have regard to Government policy with respect of its financial stability functions (Section 68B)
- changed the scope of the SOI to cover all of the Reserve Bank's operational areas and the objectives it seeks to achieve
- formally recognised the Reserve Bank's FSR as an accountability document, with a requirement that it contain enough information for the Board to use it in performance assessments
- amended the Board's role to require it to assess the Reserve Bank's performance of all of its purposes (both monetary policy and financial stability)
- enabled the Minister of Finance to request advice from the Reserve Bank
- made the Reserve Bank subject to a requirement to produce regulatory impact assessments of the policies implemented under its legislation.

Appendix 3: Central bank/prudential regulator governance models in selected jurisdictions

Country	Australia	
Institution	Central Bank	Prudential Regulator
	Reserve Bank of Australia	Australian Prudential Regulation Authority
Governance model	9-member Board: 3 ex-officio members plus 6 non-executive members appointed by the Treasurer There is also a Payments System Board responsible for determining the Reserve Bank's payments system policy. Membership of the Board comprises the Reserve Bank Governor, another Reserve Bank representative appointed by the Governor, a representative of the Australian Prudential Regulation Authority, and up to five other members appointed by the Treasurer.	3 to 5-member Executive Group appointed by the Treasurer
Notes	More information: RBA APRA	

Country	Canada	
Institution	Central Bank	Prudential Regulator
	Bank of Canada	Office of the Superintendent of Financial Institutions
Governance model	15-member Board for general oversight of management and administration: 12 independent directors appointed by the Cabinet, plus the Governor and Senior Deputy Governor (both appointed by the independent directors), plus the Deputy Minister of Finance (non-voting) 6-member Governing Council (Governor, Senior Deputy Governor, 4 Deputy Governors) responsible for monetary policy and promoting a sound and stable financial system.	Single-decision maker appointed by and reporting to the Minister of Finance
Notes	More information: Bank of Canada OSFI	

Country	United Kingdom
Institution	Central Bank & Prudential Regulator
	Bank of England (including the Prudential Regulation Authority)
Governance model	Headed by the Court of Directors (Governor, Deputy Governors and a majority of non-executive directors) appointed by the Queen on the recommendation of the PM and the Chancellor. The Court is responsible for corporate governance and organisational strategy. Monetary Policy Committee – 9 members: the Governor, the three Deputy Governors, the Chief Economist, and four external members appointed by the Chancellor. A non-voting Treasury representative observes. Financial Policy Committee – 13 members: 6 internal (including the Governor and four Deputy Governors), 5 external, the CEO of the Financial Conduct Authority, plus a non-voting member from the Treasury. The FPC identifies, monitors, and takes action to remove or reduce systemic risks with a view to protecting and enhancing the resilience of the UK financial system. Prudential Regulation Committee – 11 members: 4 internal (Governor and three Deputy Governors), the CEO of the Financial Conduct Authority, a member appointed by the Governor with the approval of the Chancellor (currently also a Deputy Governor), plus at least 6 members appointed by the Chancellor.
Notes	More information: Bank of England

Country	Singapore
Institution	Central Bank & Prudential Regulator
	Monetary Authority of Singapore
Governance model	Board of directors of between 5 and 14 members, appointed by the President. The current board members include the Deputy Prime Minister (Chair), the Minister for Finance, and the Minister for Education.
Notes	More information: MAS

Country	Norway	
Institution	Central Bank	Prudential Regulator
	Norges Bank	Finanstilsynet (the Financial Supervisory Authority of Norway
Governance model	Executive board: 8 members appointed by the King in Council	Non-executive board: 5 members appointed by the Ministry of Finance on delegation from the King
Notes	More information: Norges Bank FSA	

Country	Ireland
Institution	Central Bank & Prudential Regulator
	Central Bank of Ireland
Governance model	Commission (board) of 10-12 members: the Governor appointed by the President, two Heads of Functions appointed by the Commission with the consent of the Minister for Finance, the Secretary-General of the Department of Finance, plus 6-8 members appointed by the Minister for Finance.
Notes	More information: Central Bank of Ireland

Country	Malaysia
Institution	Central Bank & Prudential Regulator:
	Bank Negara (Central Bank of Malaysia)
Governance model	10-member Board of Directors: the Governor (appointed by the Yang di-Pertuan Agong – the King), up to three Deputy Governors (appointed by the Minister of Finance), plus 5-8 directors appointed by the Yang di-Pertuan Agong on the advice of the Minister of Finance.
Notes	More information: Bank Negara