

The Treasury

Phase 1 RBNZ Act Review Information Release

April 2019

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- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people
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Treasury Report: Approach to Implementation of Reserve Bank of New Zealand (Monetary Policy) Amendment Bill

Date:	22 August 2018	Report No:	T2018/2188
		File Number:	MC-1-7-6

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	<p>Agree to the proposed approach to setting the first charter and first remit, subject to any feedback.</p> <p>Refer this report to the Associate Ministers of Finance (Hon Parker, Hon Jones, Hon Shaw).</p>	5 September 2018

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Virginia McLean	Contractor - Macroeconomic and Fiscal Policy Team	[7]	N/a
Renee Philip	Manager - Macroeconomic and Fiscal Policy Team	[1]	

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

Return the signed report to Treasury and pass on any feedback on the approach outlined in this report from the Minister of Finance.

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

Note any feedback on the quality of the report

Enclosure: No

Treasury Report: Approach to Implementation of Reserve Bank of New Zealand (Monetary Policy) Amendment Bill

Executive Summary

Once enacted, you will have decision-making responsibilities to implement the transitional provisions in the Reserve Bank of New Zealand (Monetary Policy) Amendment Bill (the Bill). The decision-making responsibilities relate to appointing members of the first Monetary Policy Committee (MPC), and issuing the first remit and charter.

You have previously received advice on the process for appointing members of the MPC [T2018/2023] and have discussed this with the Chair of the Reserve Bank Board. This report focuses on your role in setting the first remit and charter, and seeks your feedback on the proposed approach and timeline.

Under the transitional provisions in the Bill, you and the Governor will formally agree to the remit and charter within 2 months of Royal assent of the Bill. Royal assent is expected to occur in early January 2019. Ideally a draft of the charter will be available in late 2018 to allow the Board to share it with the final short-list of candidates for the MPC. The charter forms an important document in helping the prospective MPC members to understand the role they would be required to perform, and therefore informs their consideration of the role.

We intend to provide you with a draft of both the remit and charter in late September, which provides time to incorporate your feedback and any consultations you may wish to undertake, before a draft charter is shared with the short-list of candidates to the MPC. It is not envisaged that the draft remit would be shared with candidates, but it may be helpful for you to read and provide feedback on drafts of both documents at the same time.

For the first remit, there is no requirement for the Bank to provide advice to you for consideration (this is a requirement for subsequent remits). Instead, officials from the Treasury and the Reserve Bank are working together to draft the first remit.

We are assuming the scope of charter and remit will reflect previous statements you have made. In particular:

- You have signalled to Cabinet [CAB-18-MIN-0086] that the charter should:
 - Aim to reach decisions by consensus, with decisions taken by a majority vote where a consensus cannot be reached, and with the Governor having the casting vote where necessary;
 - Require the MPC to publish meeting records that reflect any differences of view between members, but without attributing views to individual members;
 - Require the MPC to publish the balance of votes for any decision, where a vote is required, without attributing votes to individuals;
 - Designate the Governor as Chair of the MPC to be the sole spokesperson for decisions of the MPC; and
 - Aside from communicating the decision of the MPC, permit the MPC members to make their individual views known, after consultation with their colleagues on the MPC.

- Given that the Policy Targets Agreement (PTA) was amended very recently with the appointment of the new Governor in March 2018, we are planning to take the existing

PTA as the starting point in developing the remit. This reflects the fact that there is little new evidence or research that has occurred since we last reviewed the PTA. We are also intending to take as a starting point your earlier comments that you are comfortable with the current inflation target and that you do not intend for there to be a quantitative target for maximum sustainable employment. Our proposed approach is to provide options for updating the existing PTA to better reflect:

- The important role that monetary policy plays in promoting the prosperity and well-being of New Zealanders, and contributing to a sustainable and productive economy;
- Supporting maximum sustainable employment as an economic objective within the Act; and
- Operational guidance for balancing the economic objectives of price stability and employment.

The proposed timeline for developing the remit and charter is as follows:

- End of September: Draft remit and charter for your feedback;
- October: Ministerial consultation;
- November: Updated draft of the charter for your approval to send to final short-list of candidates for the MPC;
- By late February or early March: Final remit and charter to be signed by you and the Governor (you and the Governor must take all reasonable steps to agree the charter and remit within 2 months of Royal assent, expected to be early March).

The Bill also gives you the responsibility to appoint the Chair and Deputy Chair of the Board. Currently, the Board elects its own Chair and Deputy Chair annually. The transitional provisions mean that the Chair and Deputy Chair in place when the Bill comes into force will continue in their roles until their one-year terms end in September 2019. Therefore, no action is required by you during the transition period, but you will be required to decide which of the Board members will fill the Board Chair and Deputy Chair roles in September 2019.

Subject to your feedback on this report, and how the Finance and Expenditure Committee's (FEC) consideration of the Bill develops, we may seek a meeting with you to discuss the charter and remit in detail.

Recommended Action

We recommend that you:

- a **note** that following passage of the Reserve Bank of New Zealand (Monetary Policy) Amendment Bill you will have responsibilities for appointing the external and internal members of the MPC and issuing the first remit and first charter;

First charter and remit

- b **note** that we will send you a draft remit and a draft charter by the end of September 2018 for your feedback;
- c **note** that the draft remit will be based on the current PTA and your previous statements that you are comfortable with the current inflation target and not intending there to be a quantitative target for supporting maximum sustainable employment;

- d **note** that the draft charter will be based on what you signalled to Cabinet in March 2018 [CAB-18-MIN-0086];
- e **agree** that, subject to your and the Governor's approval of a draft charter, the Reserve Bank Board will share the draft charter, but not the draft remit, with final short-listed candidates for the position of external member of the MPC to inform their consideration of the role;

Agree/disagree

- f **note** that under the transitional provisions in the Bill, you and the Governor must take all reasonable steps to agree the charter and remit within 2 months of Royal assent of the Bill (likely to be in early January 2019);
- g **note** that the first remit and charter will need to be publicly issued in March 2019, and will come into force three months after Royal assent;

Feedback and referral

- h **provide** any feedback on the approach or the timeline for implementing the transitional provisions in the Bill;

Feedback/no feedback

- i **refer** this report to the Associate Ministers of Finance (Hon Parker, Hon Jones, Hon Shaw) for their information.

Refer/not referred

Renee Philip
Manager

Hon Grant Robertson
Minister of Finance

Treasury Report: Approach to Implementation of Reserve Bank of New Zealand (Monetary Policy) Amendment Bill

Purpose of Report

1. This report informs you of your responsibilities to implement the transitional provisions in the Reserve Bank of New Zealand (Monetary Policy) Amendment Bill (the Bill), subject to the Bill being passed. It also seeks your feedback on a proposed approach and timeline for the preparation of the first charter and first remit.

Background

2. The Bill gives effect to decisions from the phase 1 Review of the Reserve Bank of New Zealand Act 1989 (the Review) to add employment to the objectives of monetary policy and establish a monetary policy committee (MPC). The Bill had its first reading on 26 July and was referred to the Finance and Expenditure Committee (FEC). FEC will report to the House by 3 December. Closing date for submissions is 7 September.
3. The Bill is scheduled to be passed in December and receive Royal assent early next year. The main provisions will come into force 3 months after Royal assent. The transitional provisions come into force the day after Royal assent.
4. Officials from the Treasury and the Reserve Bank have commenced planning and delivery activities to implement the transitional provisions in the Bill, subject to it being passed. Both agencies have responsibilities to operationalise the legislation and officials are coordinating shared activities.

Implementation of transitional provisions in the Bill

5. The Bill contains transitional provisions for the first charter, remit and code of conduct, appointment of the members of the MPC, Treasury observer, and appointment of the Chairperson and Deputy Chairperson of the Board of the Reserve Bank.
6. You have decision-making responsibilities relating to appointing the first MPC members, issuing the first charter and remit, and subsequently for appointing the Board Chair and Deputy. We have reported to you separately on appointing the first MPC [T2018/2023]. Below we explain your roles in implementing the transitional provisions for the charter and remit and the approach that we propose taking to operationalise them. **Annex 1** contains a timeline of key milestones for the Bill and the transitional period where you have decision-making responsibilities.
7. Officials will keep you informed on the progress of implementing all areas of change in the Bill primarily through the Treasury's Weekly Status Report and by liaising with your Office. Subject to your feedback on this report, and how FEC's consideration of the Bill develops, we may seek a meeting with you to discuss matters in detail.

Decision-making role in Bill: Issue the first charter by agreement with the Governor

8. Under the Bill, you and the Governor will agree to issue the first charter. There are provisions in the Bill in the event that you and the Governor are unable to agree a charter. We do not anticipate drawing on these provisions. Officials from the Treasury and the Reserve Bank are working together on the draft charter.

9. You and the Governor will formally agree to the charter within 2 months of Royal assent of the Bill. Royal assent is expected to occur in early January 2019. Ideally a draft of the charter will be available in late 2018 to allow the Board to share it with the final short-list of candidates for the MPC. The charter forms an important document to help the prospective MPC members understand the role they would be required to perform, and therefore informs their consideration of the role.
10. We intend to provide you with a draft of both the remit and charter by late September. This provides time to incorporate your feedback and any consultations you may wish to undertake, before a draft charter is shared with the short list of candidates to the MPC, subject to your agreement. We are not intending to share the draft remit with candidates, but it may be helpful for you to consider drafts of both documents at the same time given the linkages between the two.
11. FEC may also be interested in what the charter will look like during its consideration of the Bill. The planned timeline has not factored in providing a draft charter to FEC. The current FEC timeline suggests the Treasury's Departmental Report responding to submissions on the Bill will be due with the FEC by the end of September. A draft of the charter is unlikely to be ready to send to the FEC under this timeframe. Instead, we plan to inform FEC in the initial briefing of your intentions for the first charter, as you signalled to Cabinet in March 2018 [CAB-18-MIN-0086]:
 - a Aim to reach decisions by consensus, with decisions taken by a majority vote where a consensus cannot be reached, and with the Governor having the casting vote where necessary;
 - b Require the MPC to publish meeting records that reflect any differences of view between members, but without attributing views to individual members;
 - c Require the MPC to publish the balance of votes for any decision, where a vote is required, without attributing votes to individuals;
 - d Designate the Governor as Chair of the MPC to be the sole spokesperson for decisions of the MPC; and
 - e Aside from communicating the decision of the MPC, permit the MPC members to make their individual views known, after consultation with their colleagues on the MPC.
12. We will send your office a draft of the initial briefing on the Bill on 23 August 2018.
13. The next steps and indicative timing for the charter are:
 - a September 2018: You will receive a draft charter for your feedback;
 - b October 2018: Subject to your approval of an updated draft, you may wish to consult ministerial colleagues on the draft charter;
 - c November 2018: Subject to your approval, the Reserve Bank Board will send the draft charter to the final short-list of MPC candidates for their information;
 - d By late February or early March 2019: You and the Governor agree to issue the first charter (you both must take all reasonable steps to agree the charter within 2 months of Royal assent). Cabinet notes the charter. The Bank publishes the charter on its website;
 - e April 2019 (3 months after Royal assent): First charter comes into force.

Decision-making role in Bill: Issue the first remit after reaching agreement on its contents with the Governor

14. Under the Bill, you will issue the first remit after reaching agreement on its contents with the Governor. Similar to the charter, the Bill contains provisions in the event that you and the Governor cannot reach agreement. We do not anticipate drawing on these provisions. For the first remit, there is no requirement for the Bank to provide advice to you for consideration (this is a requirement for subsequent remits). Instead, officials from the Treasury and the Reserve Bank are working together on the first remit.
15. Our proposed approach for setting the first remit is to take the current Policy Targets Agreement (PTA) as the starting point but update it so the remit reflects:
 - a The important role that monetary policy plays in promoting the prosperity and well-being of New Zealanders, and contributing to a sustainable and productive economy;
 - b The specific inclusion of supporting maximum sustainable employment as an economic objective within the Act; and
 - c Operational guidance for balancing the economic objectives of price stability and employment.
16. We do not intend to undertake a comprehensive review of the policy target for inflation, as the PTA was amended recently with the appointment of the new Governor in March 2018, and there is little new evidence or research that has occurred since the Treasury last reviewed it. The Treasury's advice to you was to keep the current level of the inflation target [T2018/176]. We have also noted your previous statement that you do not intend for there to be a quantitative target for maximum sustainable employment.
17. The sections of the PTA relating to transparency and accountability will be removed for the first remit and will refer readers to the charter, reflecting the fact that under the Bill such requirements are set in the charter.
18. The next steps and indicative timing for the remit are:
 - a September 2018: You will receive a draft remit for feedback alongside the draft charter;
 - b October-November 2018 (TBC): Subject to your approval of an updated draft, you may wish to consult ministerial colleagues on the draft remit;
 - c February 2019: You and the Governor agree the contents of the first remit (you both must take all reasonable steps to agree the remit within 2 months of Royal assent);
 - d By late February or early March 2019: Cabinet notes the remit. You issue the remit. As soon as practicable after the remit is issued, you must notify the issue of the remit in the *Gazette* and present a copy to the House of Representatives. The Bank publishes the remit on its website. This is likely to occur after the announcement of the Monetary Policy Statement (MPS) on 13 February but before the Official Cash Rate decision on 27 March 2019;
 - e April 2019 (3 months after Royal assent): First remit comes into force.

Decision-making role in Bill: appointment of MPC members on the recommendation of the Board

19. Under the Bill, you are responsible for appointing the internal and external members of the MPC on the recommendations of the Reserve Bank Board. We recently provided advice on the appointment process [T2018/2023] so have not repeated it here. For completeness the next steps and indicative dates for appointment of MPC members are included in **Annex 1**.

Implementation of transitional provisions in the Bill not requiring a decision by you

Code of conduct

20. Under the Bill, within a month of Royal assent, the Bank must prepare the first code of conduct for members of the MPC and submit it to the Board for approval. The first code of conduct must be approved and in force within two months following Royal assent. The Reserve Bank advises that this work is on track, and it will shortly provide an updated draft of the code of conduct and job description for members of the MPC for your information.

Office holders

21. The Bill gives you new responsibilities to appoint the Chair and Deputy Chair of the Board, and Deputy Governor, alongside your current role to appoint the Governor. Transitional provisions for office holders state that a person holding office at the commencement of the clause (i.e. 3 months after Royal assent) must be treated as continuing to hold that office for the balance of their term.
22. Currently, the Board elects its own Chair and Deputy Chair annually. The transitional provisions mean that the Chair and Deputy Chair in place when the Bill comes into force will continue in their roles until their one-year terms end in September 2019. Therefore, no action is required by you during the transition period, but you will be required to decide which of the Board members will fill the Board Chair and Deputy Chair roles in September 2019.

First Treasury observer

23. The Bill provides for the first Treasury observer to be nominated by the Secretary to the Treasury before the main commencement (3 months after Royal assent), with the nomination taking effect on that commencement.
24. It has been agreed that the Treasury observer will join the Bank's monetary policy meetings from November 2018 in advance of the statutory changes coming into effect. The Treasury has also advised the Reserve Bank that Gabriel Makhoul will be the observer. The Treasury and the Bank are now finalising the precise interim conditions for the observer, which primarily relate to confidentiality and conflicts of interest.

Next Steps

25. The immediate next step relates to the Bill. We will send your office a final draft of the initial briefing on the Bill on 23 August. This gives your office a week to review and provide any feedback by 30 August. We will finalise and submit the initial briefing to FEC on 3 September for presentation on 5 September.

Annex 1: Indicative timeline for the Bill and for implementation of transitional provisions in the Bill where you have responsibilities

	Aug 18	Sept	Oct	Nov	Dec	Jan 19	Feb	Mar	Apr
Bill <i>Dates may change depending on number of submission</i>	Initial briefing to FEC for your feedback, 23/8	Departmental Report for your feedback (TBC)			FEC reports to House by 3 Dec, final stages of House, Bill passed	Royal assent	1 month after Royal assent	2 months after Royal assent	Main commencement – 3 months after Royal assent
Appointment of members to the MPC		APH & Cab on daily fee for external members	Board sends you short-list of external candidates		Board informs you of intended recommendations. You consult ministerial colleagues	You decide external and internal members	APH & Cab on internal and external members	You notify external members in writing and notify in <i>Gazette</i>	1 Apr MPC operational
First charter		Draft charter for your feedback	Consult ministerial colleagues and, if required, the Governor (TBC)	Provide draft charter to final short-list of candidates				You and Governor agree to issue charter. Bank publishes on its website	First charter comes into force (3 months after Royal assent)
First remit		Draft remit for your feedback	Consult ministerial colleagues, and the Governor (TBC)				You and Governor agree contents. Cabinet notes remit	You issue remit, notify in <i>Gazette</i> , present copy to the House. Bank publishes on website	First remit comes into force (3 months after Royal assent)