

The Treasury

Phase 1 RBNZ Act Review Information Release

April 2019

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Information withheld

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act).

Where this is the case, the relevant sections of the Act that would apply have been identified.

Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to sections of the Act under which information has been withheld:

- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [2] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand
- [3] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [4] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [5] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [6] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [7] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [8] Not relevant

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Treasury Report: Treasury Report: Draft Reserve Bank Board Letter of Expectations for 2019/20

Date:	14 February 2019	Report No:	T2019/208
		File Number:	MC-1-7-2

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	Comment or agreement on proposed letter of expectations to the RBNZ Board	18 March 2019

Contact for Telephone Discussion (if required)

Name	Position		Telephone	1st Contact
Connor Gavin	Graduate Analyst Macroeconomic and Fiscal Policy	[7]	N/A	✓
Renee Philip	Manager Macroeconomic and Fiscal Policy		[1]	

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

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: Yes (attached) - [Board Letter of Expectations \(Treasury:4059145v1\)](#)

Treasury Report: Treasury Report: Draft Reserve Bank Board Letter of Expectations

Purpose of Report

1. You previously agreed to send a new letter of expectations to the Board of the Reserve Bank of New Zealand (the Board), alongside the previously agreed letter of expectations to be sent to the Reserve Bank of New Zealand (the Bank) [T2018/3342 and T2018/3361 refer].
2. This report seeks your views on the draft letter to the Board. The letter reflects changes to the role of the Board as a result of amendments made to the Reserve Bank of New Zealand Act 1989 (the Act).

Letter Content

3. The letter is an opportunity to set your expectations for how the Board will fulfil its function of monitoring the Bank's and the Governor's performance in meeting their responsibilities under the Act.
4. The attached draft letter is modelled on the last letter of expectations sent in 2015, with a number of substantive amendments to reflect changes to the Act, including to:
 - a **Support the implementation of changes to the Reserve Bank of New Zealand Act:** the letter emphasises the need to ensure the full benefits of the MPC, dual mandate, and Treasury observer are realised.
 - b **Monitor the performance of the MPC and its members in carrying out its objectives, as set out in the Act and remit:** this retains similar text from the 2015 letter, but reflects that the Board is no longer concerned with the Bank meeting the Policy Targets Agreement, but rather with the MPC meeting the remit. The letter also requests that the Board provide you with clarity on how it develops the framework it uses to assess the performance of the MPC.
 - c **Contribute to phase 2 of the Reserve Bank Act Review where appropriate:** this text sets out the expectations for the Board's contribution to the review.
 - d **Monitor the Bank's relationships:** in addition to this expectation set out in the 2015 letter, this letter sets out that the Board inform you on ways in which the Bank could engage more broadly within government.
 - e **Monitor the Bank's organisational strategy and financial management:** this retains similar text from the 2015 letter, with an additional requirement that the Board monitor the Bank's upcoming review of its balance sheet practices.
 - f **Support the review of people and culture:** as also noted in your letter to the Bank, this text indicates your support for the Governor's ongoing change process at the Bank, and instructs the Board to monitor the Bank's plans to increase diversity in its senior leadership.
5. The text setting out the Board's other core monitoring functions remain the same. This includes: assessing the performance of the Bank in promoting the maintenance of a sound and efficient financial system; monitoring the Bank's regulatory policy processes; and monitoring the Bank's operational functions.

6. Additionally, the letter sets out expectations that the Board's annual report should assess performance of the individual members of the MPC in addition to the Governor and the Deputy Governor.
7. The letter is also an opportunity to set your expectations for how the Board engages and updates you on its monitoring of the Bank. The letter states your expectations that this include:
 - a you meeting with the full Board once a year, with additional meetings scheduled should they be required
 - b the Board sharing any other documents regarding the Bank's performance which would support the discussion, and
 - c any other suggestions the Board may have to promote greater visibility of the Board's activities throughout the year.
8. We have consulted the Chair of the Board on these expectations. In his view, the most important expectation is to ensure that the Board meets you once a year, with additional meetings set as required. We have amended the text of the letter to reflect this.
9. You may wish to remove or clarify the other reporting requirements, depending on how useful you find the current level of information provided by the Board.

Next Steps

10. If you advise that there are further issues you would like to include in the letter, we will provide you with a revised version in late February 2019.
11. We recommend sending a final agreed letter to the Board, alongside the letter to the Bank, in March 2019.

Recommended Action

We recommend that you:

- a **comment** on the attached draft letter of expectations for the Board of the Reserve Bank of New Zealand, noting any further issues you wish to raise in the letter.

Comment/no comment.

- b **agree** to send the attached letter of expectations, revised with your comments as required, in March 2019.

Agree/disagree.

Renee Philip
Manager, Macroeconomic and Fiscal Policy

Hon Grant Robertson
Minister of Finance

Prof Neil Quigley
Chair
Reserve Bank of New Zealand
PO Box 2498
WELLINGTON 6140

Dear Neil

I am writing to provide you with my expectations for the Board of the Reserve Bank of New Zealand (the Board). The Board has a critical role in holding the Bank accountable for its performance and I wish to extend my appreciation for the Board's work in this respect.

The recent amendments to the Reserve Bank of New Zealand Act 1989 (the Act) change the role of the Board. In light of this, the purpose of this letter is to update you with my specific expectations and interests as Minister of Finance with respect to the Board's activities. It is intended to help inform the Board's focus and future engagements with me. It is not intended in any way to prescribe or limit the Board's duties, as set out in section 53 of the 1989 Act.

The primary role of the Board is to monitor and advise me on the Bank's performance in meeting its responsibilities under the Act. My specific interests for this monitoring role are for the Board to:

- ***Support implementation of changes to the Reserve Bank of New Zealand Act.*** The recently passed amendments to the Act involve significant change for the Bank. I expect the Board to support and take a close interest in the progress of the Bank in implementing these changes. I am particularly interested in ensuring that the full benefits of the MPC, dual mandate, and Treasury observer are realised.
- ***Monitor the performance of the MPC and its members in carrying out its objectives, as set out in the Act and remit.*** I expect the Board to continuously monitor and regularly inform me on the MPC's performance in carrying out its duties, as set out in the Act and remit. The amendments to the Act change the requirements of the Board and so the Board should consider how it can best carry

out this monitoring role. The Board should consider the appropriateness of the processes and procedures used by members of the MPC in reaching their monetary policy decisions. The Board should also provide me with clarity on how it develops the framework it uses to assess the performance of the MPC.

- **Contribute to phase 2 of the Reserve Bank Act Review where appropriate.** Wherever appropriate, the Board should assist the Review Team and Expert Panel in their development of changes to the Bank's legislation. In particular, I expect the Board to provide input in the development of the broader governance arrangements of the Bank.
- **Assessing the performance of the Bank in promoting the maintenance of a sound and efficient financial system.** I expect the Board to articulate how it judges performance with respect to this statutory objective. I am particularly interested in how the objectives of soundness and efficiency are promoted and balanced.
- **Monitoring the Bank's regulatory policy processes.** The Bank has important regulatory responsibilities. I expect the Board to take a close interest in the robustness of regulatory policy development and to articulate how it judges performance with respect to this function. In particular, I expect the Board to test the Bank's thinking on regulatory policy developments and be satisfied that the Bank has reasonably addressed any alternative perspectives from other relevant parties (eg, the Government, the Treasury, the Council of Financial Regulators, Australian stakeholders, the financial sector and the wider public through consultation).
- **Monitoring the Bank's relationships.** The Bank has a number of important stakeholder relationships – with me, with the Treasury, with regulated entities and with other agencies. I would expect the Board to keep under review how these relationships are operating in practice and whether the principles set out in the Relationship Charter are being achieved. I am particularly interested in ways the Bank can use its expertise to engage more broadly within government on the economic challenges facing New Zealand.
- **Monitoring of operational functions.** The Bank has a range of operational functions, including those related to payment systems and currency. I expect the Board to monitor the performance of the Bank's operational functions and risks, particularly with regard to the use of the Crown's resources and wider economic efficiency.
- **Organisational strategy and financial management.** The Bank is a complex organisation with a large balance sheet. I expect the Board to take a strong interest in the Bank's strategy and financial management. The Board should closely monitor the Bank's performance against the Statement of Intent (SOI). The Bank intends to undertake a review of its balance sheet practices and I expect the Board to monitor this.

- **People and Culture.** The Bank's people and culture are important in ensuring that the Bank can fully achieve its objectives. I expect the Board to take an interest in the Bank's efforts to enhance its performance culture, leadership capabilities, and employee wellbeing. I also expect you to monitor the Bank's plans for increasing diversity in leadership positions.

The Board is also responsible for keeping under review the performance of the Governor and deputy Governor of the Bank. I therefore expect to discuss your assessment of their performance when appropriate. Your communications on their performance should not be limited to the narrow criteria described in section 53 as I hope those circumstances would apply rarely, if ever.

The annual Board report, as required under the Act, is the formal document that sets out the Board's assessment of performance of the MPC, Governor, and the deputy Governor. I expect this to provide enough detail to enable me and the wider public to understand how the Board has undertaken its monitoring role and describe what framework the Board has used to assess performance.

I expect the Board to continue with its quarterly reports on the Bank's performance. In addition, I will ask my office to work with you to ensure that we meet once a year, with additional meetings should they be required. In advance of those meetings, I invite you to share any other documents regarding the Bank's performance which would support the discussion. I also welcome any other suggestions you may have to promote greater visibility of the Board's activities throughout the year.

Yours sincerely

Hon Grant Robertson
Minister of Finance