

The Treasury

Reserve Bank Act Review Phase 2 Second Consultation Information Release

July 2019

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Report: Phase 2 of the Reserve Bank Act Review - Update on second consultation document and Review timeline

Date:	13 March 2019	Report No:	T2019/655
		File Number:	MC-1-7-3-1-13

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	<p>Agree to the revised release date of 18 June 2019 for the second consultation document</p> <p>Indicate any comments on how outstanding in-principle decisions are being captured in the second consultation document</p> <p>Refer a copy of this report to Associate Ministers of Finance and Hon Twyford</p>	21 March 2019

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Bernard Hodgetts	Director, Reserve Bank Act Review	[1] (wk)	[1] (mob) ✓

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

Return the signed report to the Treasury.

Refer a copy of this report to Associate Ministers of Finance and Hon Twyford once agreed by the Minister of Finance

Note any feedback on the quality of the report

Enclosure: No

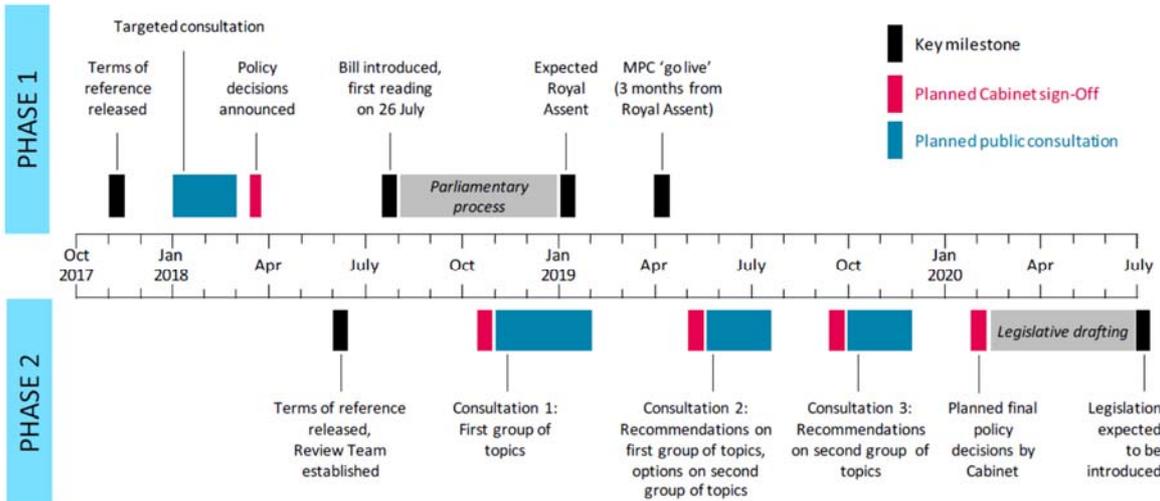
Report: Phase 2 of the Reserve Bank Act Review - Update on second consultation document and Review timeline

Purpose

1. The purpose of this report is to update you on the proposed timeline for delivering Phase 2 of the Reserve Bank Act Review (the Review) following the first consultation and your subsequent in-principle policy decisions. It also seeks your agreement to amend the proposed release date for the second consultation document from late May to 18 June and updates you on the approach to preparing this document following your in-principle policy decisions relating to the Review last month.

Background

2. The Terms of Reference for Phase 2 of the Reserve Bank Act Review, published in June 2018, set out an expectation that “most of the major legislative amendments [stemming from the Review] could be advanced within the current Parliamentary term”.
3. In July 2018, we provided you with a draft timeline for the delivery of the Review (T2018/1888 refers). This timeline set out three consultation periods during 2019, with policy development concluding in early 2020, and legislation being introduced into the House in July 2020. You also signalled at the time that following discussions with your ministerial colleagues this date would be the latest you would be looking for legislation to be introduced.
4. The original draft timeline for the Review is summarised in the diagram below, which was included in the first consultation document back in November 2018. We committed to come back to you in early 2019, after preliminary decisions are taken following the first consultation, to re-assess the draft timeline.



Review timeline

5. Overall, we remain confident that the Review timeline allows for legislation to be introduced by July 2020 covering the main decisions stemming from the Review. This assumes that final Cabinet decisions on the first group of topics of the Review are taken in October 2019 with decisions on the remaining items taken by March 2020. The assessment around the timing of legislation is also based on initial discussions with the Parliamentary Counsel Office (PCO) around options and approach for introducing legislation in 2020.
6. We have also reassessed the policy development phase of the Review timeline. This has highlighted two main points:
 - The Independent Expert advisory Panel (the Panel) has fed back they have had limited time for engagement in the preparation of Review material. This is likely to be more pressing in drafting the second consultation document given the breadth and volume of material being prepared (the document will be covering both the first and second groups of Review topics).
 - The policy development stage of the Review is running about two weeks behind the original draft timeline agreed in July 2018 (T2018/1888 refers). This is mainly due to the first consultation document being released slightly later than planned in 2018. This delay has created pressure to prepare the second consultation for the originally planned May 2019 release.
7. To address these two points we propose amending the release date of the second consultation from May, as set out in the original draft timeline, to a new release date of 18 June 2019. We seek your agreement through this report to make this change.
8. Moving the release date of the second consultation to mid-June will allow the Review team to factor in an additional opportunity for the Panel to engage in the consultation material and additional time for Panel members to reflect on the material and provide collective feedback.
9. We propose partly offsetting this later release date by reducing the consultation period from ten weeks to eight weeks. Based on our experience from stakeholders engaging and submitting during the first consultation, the reduction in consultation period should not affect stakeholders' ability to submit on the Review. An eight week consultation period remains consistent with good practice. The Review team will also seek to manage any residual risk through further engagement with stakeholders in the run up to, and during, the next consultation to help them plan their own engagement and plans for submitting.
10. The Phase 2 Steering Committee (comprising senior officials from The Treasury and Reserve Bank plus Suzanne Snively, Chair of the Independent Panel) support the revised release date above and consider the reduced consultation period will not compromise the overall level and quality of stakeholder engagement.

Future stages of the Review

11. The proposed change to the timing of the second consultation will have some subsequent knock-on impacts to remaining stages of the Review. Based on the timeline below the consultation stages of the Review would still be completed by the end of 2019 and legislation introduced in 2020. We will continue to keep the timeline under review.

	Original draft timeline	New timeline
C2 consultation period	Mid-May to late July 2019	18 June – 11 August 2019
Final Cabinet decisions (on the first group of topics)	Late September 2019	Mid-October 2019
C3 consultation period	Early October to end November 2019	End October – mid-December 2019
Final Cabinet decisions (on remaining topics)	Feb 2020	Early March 2020
Introduction of legislation	By July 2020	By July 2020

Second consultation document

12. The Review team are currently preparing the second consultation document following your in-principle decisions last month (T2019/80 refers). The second consultation document is being split into two parts:
 - **Part A** – covering in-principle decisions made on topics from the first consultation, including follow-up questions to consult on further aspects of some of these topics (such as consultation of lower-tier objectives and composition of the proposed new Reserve Bank Board).
 - **Part B** – covering consultation on the remaining Review topics (including prudential regulation and supervision, crisis management, macro-prudential policy, the role of the Reserve Bank in climate change, funding and resourcing of the Reserve Bank, and coordination arrangements).
13. The consultation document will be accompanied by around four background papers to provide additional context on some of the topics covered in Part B.
14. Splitting the main consultation document into two parts will allow the consultation to be more targeted to stakeholders' areas of interest and better delineate the stages of development of the two groups of Review topics, particularly given the breadth of topics being covered.
15. For the topics in Part A where you are still considering your in-principle decisions:
 - Establishment of a separate Financial Policy Committee – we will provide further analysis on the merits of governance options being considered for prudential policy being the Policy Board (prudential policy is the responsibility of the board) and the FPC (prudential policy is the responsibility of the FPC). Further information will be provided on key choices around design details such as composition and appointments. The intention is to better inform stakeholders how both models could work and further draw out the advantages and disadvantages associated with each option.
 - Introduction of formal depositor protection – we will situate the possible role of deposit protection within New Zealand's broader regulatory framework, and explore how proposals currently being considered around capital requirements and crisis management could impact the costs and benefits of a deposit insurance scheme.

- 16. We will provide you with an early draft of these three sections by 17 April in order to support your ongoing engagement with ministerial colleagues around these in-principle decisions. A full draft of the document will be provided to you in May 2019 (see timeline set out below in 'Next Steps' section).

The Banking Executive Accountability Regime (BEAR)

- 17. You recently met with the Minister of Commerce and Employment to discuss the Bank Conduct and Culture Review. In that meeting, you requested the Review team consult on the merits of implementing the Banking Executive Accountability Regime (BEAR) framework to enhance prudential and conduct regulation of financial institutions.
- 18. BEAR is part of the regulatory regime for authorised deposit-taking institutions (ADIs) in Australia and is administered by the Australian Prudential Regulation Authority. The BEAR regime establishes accountability obligations for ADIs and their senior executives and directors. The regime also establishes deferred remuneration, key personnel and notification obligations for ADIs.
- 19. The Review team did not anticipate consulting on the BEAR framework as part of the current scope of the Phase 2 Review. The proposed change to the Review timeline (discussed above) will allow additional time for the Review team to prepare material on BEAR as part of the second consultation document.

Next steps

- 20. The table below sets out the key upcoming dates for delivering the next consultation document based on the proposed release date of 18 June 2019.
- 21. For the ministerial workshop on 9 April we will provide you with material the week before for you to review and refer on to ministers attending the workshop.

Date	Milestone
1 April	Independent Expert Advisory Panel meet to discuss material on remaining Review topics
9 April	Ministerial workshop on remaining Review topics
17 April	Draft consultation material (on topics where in-principle decisions are still outstanding) circulated to you
16 May	Full draft of the next consultation document circulated to you for your comment
22 May – 4 June	Proposed Ministerial and coalition consultation
12 June	DEV meeting to approve release of consultation document
17 June	Cabinet sign off
18 June	Proposed release date for second consultation

Recommended Action

We recommend that you:

- a **note** the update to the timeline for Phase 2 of the Reserve Bank Act Review

Noted

- b **agree** to the revised release date of 18 June 2019 for the second consultation document

Agree/disagree

- c **note** the second consultation document will comprise two separate parts (Part A covering in-principle decisions on topics from the first consultation, and Part B covering consultation on the remaining Review topics)

Noted

- d **indicate** any comments on how outstanding in-principle decisions should be captured in the second consultation document

- e **refer** a copy of this report to Associate Ministers of Finance and Hon Twyford

Referred/Not referred

Bernard Hodgetts
Director, Reserve Bank Act Review

Hon Grant Robertson
Minister of Finance