

The Treasury

Reserve Bank Act Review Phase 2 Second Consultation Information Release

July 2019

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Cover note for Panel and Steering Committee: Papers for Panel Session on 1 April 2019 and your feedback

Enclosed with this note are preliminary drafts of the two documents that will make up the second consultation on phase 2 of the Reserve Bank Act Review:

- 'In principle decisions and follow-up questions on: The role of the Reserve Bank and how it should be governed' (C2A)
- 'The Reserve Bank's role in financial policy: tools, powers and approach' (C2B)

The title of C2A is self-explanatory and progresses the topics covered in the first round of consultation. C2B aims to cover all the remaining issues in the terms of reference for the Review. Supporting the consultation will be four or five background papers, which we will distribute over the coming weeks.

Plan for Panel Session

To make the most of the time available at the panel session on 1 April, we are not proposing to substantively discuss the material in C2A given these topics have been considered in previous panel sessions. Instead, we would like to focus the session on four key topic areas from the C2B document.

Below are the four key areas we would like to discuss at the session along with some key questions and issues to consider on the day.

Session 1

What prudential tools and regulatory powers should the Reserve Bank Have?

Chapter 2

This session will explore the models and instruments used to set prudential regulation in New Zealand such as the use of conditions of registration and standards. Key issues for the Panel to consider include:

1. Where on the spectrum should New Zealand be in a prescriptive versus principles-based approach to prudential regulation?
2. What is the appropriate balance between prudential regulation through primary legislation versus regulation through instruments like conditions of registration that are delegated to the Reserve Bank?
3. What would be the advantages (and disadvantages) of the Reserve Bank using standards rather than conditions of registration to implement prudential regulations?

Session 2

What role should the Reserve Bank play in macro-prudential policy?

Chapter 3

Session 2 will focus on New Zealand's macro-prudential policy framework, building on the introductory session at the Panel session in December. Key issues for the Panel to consider include:

1. Is the review of New Zealand's macro-prudential policy experience and sufficiently comprehensive? Are there any gaps?

2. How should the macro-prudential tools available to the Reserve Bank be circumscribed eg only in legislation, or detailed in a remit?
3. What role, if any, should the Minister of Finance and Treasury play in the macro-prudential policy framework?
4. Do macro-prudential instruments (eg loan to value ratios and debt to income ratios) justify special governance arrangements? If so why?
5. Would it be beneficial for the Reserve Bank consult with the Council of Financial Regulators (COFR) before using instruments such as LVRs/DTIs?

Session 3

How should the Reserve Bank supervise and enforce prudential regulation?

Chapter 4

Session 3 will consider the Reserve Bank's approach to supervision and enforcement in light of developments and lessons learned from the GFC.

1. Are the definitions of supervision and enforcement well-explained? Are the links to other topics across the Review clear?
2. Is the description of the New Zealand supervision and enforcement model easy to follow – does it align with any priors or understandings you have?
3. Is the section on lessons learned from the GFC informative and have the appropriate balance of material? Does this section set up the subsequent sections on 'potential issues with the existing approach', and 'options' sufficiently well?
4. Are the alternative options for the supervision and enforcement model clear and well explained? Is there the right amount of detail to provide an informed judgement on what potential improvements to the current approach would look like?

Session 4

What features should New Zealand's Crisis Management Regime Have?

Chapter 6

Session 4 will consider the Crisis Management and Resolution regime and how it can be improved.

1. Noting that there will be a substantive background paper on crisis management, does the crisis management chapter nevertheless stand well on its own?
2. Are there any areas/aspects in particular that the Panel would hope to see given further attention in the background paper?
3. Is crisis management clearly situated in the wider financial safety net/regulatory framework? Has the case been made for crisis management reforms irrespective of how strong other elements of the financial safety net might be (e.g., prudential regulatory settings)?

We have left additional time towards the end of the panel session for further discussion (including on other areas not covered in sessions 1-4).

Feedback on areas not covered at the Panel Session

As noted, we are not planning to have separate sessions on the material contained in document C2A or chapters 1, 5, 7 and 8 of C2B during the Panel day (although there will be opportunity to discuss aspects during the last session).

However, we would invite Panel members to provide their feedback on this material. Consistent with previous practice, we suggest that feedback is provided through the chair of Panel. Alternatively we would be happy to take feedback from individual Panel members through phone calls or face-to-face meetings.

A revised agenda and timings for the session are appended to this note.

29 March 2019

Proposed Agenda for Panel Session (1 April 2019)

Room 3.3, Level 3, The Treasury

9.00 – 9.30am	Panel Only Meeting
9.30 – 9.45am	Update on process and decisions, timeline
9.45 – 11.10am	What prudential regulatory tools and powers should the Reserve Bank have?
	<i>10 minute coffee break circa 10.15am</i>
11.10 – 12.20pm	What role should the Reserve Bank play in macro-prudential policy?
12.20 – 12.50pm	<i>Lunch</i>
12.50 – 2.05pm	How should the Reserve Bank supervise and enforce prudential regulation?
2.05 – 3.30pm	What features should New Zealand's crisis management regime have?
	<i>10 minute coffee break circa 3pm</i>
3.30 – 4.45pm	Remaining issues and residual discussion