The Treasury

Reserve Bank Act Review Phase 2 Submission Information Release

October 2019

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RESERVE BANK
OF NEW ZEALAND
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SAFEGUARDING THE FUTURE OF OUR FINANCIAL SYSTEM

Submission form for consultation document 2B

The Reserve Bank's role in financial policy: tools, powers and approach

To have your say on these important issues, please answer the questions below and send this form by email to rbnzactreview@treasury.govt.nz by 5pm on 16 August 2019.

To get more information on these topics and the wider Reserve Bank Act Review, see the full consultation document at treasury.govt.nz/rbnz-act-review.

Chapter 1

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

1.A Do you agree that the broader Reserve Bank Act model strikes an appropriate balance between primary legislation and delegated powers? If not, why not?

1.B Are there any areas of the Reserve Bank Act where changes to the model are required, such as the introduction of greater safeguards?

1.C Does the Chapter appropriately identify the key issues with the current framework for setting prudential rules? If not, what is missing?

1.D What are your views regarding the potential options proposed for setting the core prudential instrument? Are there any other changes to the rule-making framework that should be considered?

1.E What do you see as the costs and benefits of introducing enhanced process rights for administrative decisions? If you consider there is a case to introduce these rights, how should they be framed?

1.F Is there a case to change the breach reporting and liability models that apply to regulated entities in the Reserve Bank Act? If so, what models would be preferable?

1.G Is there a need to increase executive accountability?

1.H If so, which of these models would be most effective in doing so, and why?

Click or tap here to enter your answer. Text box expands as you type

Chapter 2

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

2.A Does the Reserve Bank's framework document (Ovenden, 2019) present its expected macro-prudential strategy in enough detail to allow monitors to ensure the Reserve Bank is following the strategy and predict future macro-prudential actions?

2.B What are your views on the conduct of macro-prudential policy in the past five years? It may be useful to read the recently released framework document (Lu, 2019) and the sub-questions below:

- Are there any lessons to be learned from New Zealand's experience with loan-to-value ratios (LVRs) to date?
- Do you think LVR policies that have greater impacts on certain buyers (e.g. investors) or regions than on others are appropriate?
- Has the Reserve Bank's 'speed limit' approach reduced risks without affecting too severely buyers who may need high LVR loans owing to special circumstances?
- Would a greater use of macro-prudential tools other than LVRs have been appropriate during the recent housing boom?

2.C Is it appropriate to regulate lending standards (e.g. LVRs)? How broad should these powers be (should they include other tools such as debt-to-income restrictions)?

- Should lending standards apply only to deposit takers or to all lenders?
- Should there be special governance arrangements for these tools?
- Should the Reserve Bank reconsider its view that these tools should only be applied temporarily?

2.D Other than lending standards, when the Reserve Bank makes time-varying use of standard prudential tools such as capital ratios, are there any concerns or reasons for wider political oversight?

Click or tap here to enter your answer. Text box expands as you type

Chapter 3

How should the Reserve Bank supervise and enforce prudential regulation?

3.A What do you think are the strengths and weaknesses of the Reserve Bank's current approach to supervision and enforcement?

3.B Do you think that the Reserve Bank's planned approach to the supervision and management of climate change-related risks is appropriate and adequate? Do you think that the Reserve Bank's approach to climate change would be different if it was given a more explicit climate change objective, as considered in question 2B of Consultation Document 2A?

3.C In what areas do you think the Reserve Bank could improve its approach to supervision and enforcement? How could this be best achieved (e.g. through legislative change, resourcing, relationships with regulated entities)?

3.D Do you think the Reserve Bank should take a more intensive approach to verifying supervisory information? If so, which verification model do you favour?

3.E What are the appropriate enforcement tools for the Reserve Bank? Which tools in particular should be added to the toolkit?

3.F Is the Minister's role in issuing directions and deregistration appropriate?

Click or tap here to enter your answer. Text box expands as you type

Chapter 4

How should the Reserve Bank's balance sheet functions be formulated?

4.A Should more detailed principles for the Reserve Bank's LoLR function be set out in legislation? Do the principles and governance considerations in Chapter 4 seem appropriate? Would you add others?

4.B If the Reserve Bank were to launch an asset purchase programme (quantitative easing), do you believe it should be able to make its own decisions to purchase government debt, but require ministerial consent to purchase other assets? Are there other implementation issues around asset purchase programmes that should be considered?

4.C How much power should the Minister have in determining the scope and objectives of the Reserve Bank's foreign exchange interventions? Should the current arrangements – which will give some decision-making power to the Minister, the MPC and the new Reserve Bank governance board – be broadly retained, or should the Reserve Bank's autonomy be increased?

4.D Do you have any other comments on the balance sheet functions described in Chapter 4?

Click or tap here to enter your answer. Text box expands as you type

Chapter 5

What features should New Zealand's bank crisis management regime have?

5.A What are the most important objectives for New Zealand's resolution authority? Should they be ranked in order of importance? Would the objectives suggested above strike the right balance between providing guidance and accountability for the Reserve Bank and flexibility for the Reserve Bank to deal effectively with a crisis?

5.B Is the proposed resolution authority function for the Reserve Bank specified appropriately? Do you see any alternatives to the Reserve Bank as resolution authority??

5.C Should the current requirements for ministerial consent be replaced with an ability for the Minister to direct the Reserve Bank when public funds could be at risk? Are there additional circumstances in which the Minister should be able to direct the Reserve Bank on a resolution if public funds are not at risk?

5.D Should the Reserve Bank, as the resolution authority, have resolution powers (instead of only statutory managers having these powers)?

5.E In principle, should the Reserve Bank have the power to 'bail in' specified categories of unsecured liabilities (with details of eligible liabilities to be determined and subject to creditor property rights safeguards – see below) in order to recapitalise a failing large bank after its owners have absorbed maximum losses, and to minimise the need for taxpayer support? Alternatively (or in addition), should the recapitalisation of a failing large bank be funded through industry-wide levies?

5.F Do you agree with the proposal to allow continuous disclosure-to-market requirements to be suspended temporarily, subject to conditions and safeguards? Are the suggested conditions and safeguards appropriate, or should there be others?

5.G Should the resolution authority always be required to respect property rights (including the hierarchy of creditors in liquidation)? Or should it have discretion to override property rights as long as compensation is made available to creditors left worse off than they would have been in a liquidation? Or should no change be made to the protection of creditor property rights?

5.H Should an industry-funded resolution fund be established (alongside any deposit insurance scheme fund)?

5.I Do any other aspects of cross-border resolution need to be considered in the design of New Zealand's crisis management framework?

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Chapter 6

How should the Reserve Bank coordinate with other agencies?

6.A What do you see as the main pros and cons of the existing coordination arrangements, and why?

6.B What would you change about current arrangements, and why?

6.C Which, if any, of the options above for enhancing support for status quo coordination arrangements do you consider would be desirable, and why?

6.D Do you think that a high-level coordination objective would be an appropriate way to ensure that the Reserve Bank is coordinating with non-financial sector agencies (for example on climate change)?

6.E Which is your preferred option for the structure of CoFR and why?

6.F Do you agree with the analysis of the pros and cons of the different options?

6.G Are there any other specific coordination mechanisms, bodies, or transparency requirements that the Review should consider?

Click or tap here to enter your answer. Text box expands as you type

Chapter 7

How should the Reserve Bank be funded and resourced?

7.A Do you agree with the potential issues identified in the current funding model? Are there any additional issues with the current funding model?

7.B How should the Reserve Bank report its funding and spending? Do you have any comments on the transparency of, or accountability for, the Reserve Bank's funding and spending, including the possible channels to strengthen arrangements?

7.C Given the in-principle decisions to change the Reserve Bank's governance framework as outlined in Consultation Document 2A, what role should the Minister have in the Reserve Bank's funding model? Should it be different for prudential and non-prudential functions?

7.D Should the Reserve Bank continue to be fully funded from revenue (seigniorage and investment income) and fees, or should other funding sources be considered? In particular, should the Reserve Bank have the option to introduce an industry levy to fund the Reserve Bank's prudential supervisory function?

7.E Do you have any comments on the illustrative options in Figure 7C and Table 7B? Are there other options, combinations, or additional design features that should be considered?

Any other comments?

I would like to start by noting that the retail banks are given to much say in how fiscal policy should be run. They forget that they are only intermediaries between two parties wishing to carry out a monetary transaction. It is also true that the current manner in which they participate in these transactions is by loaning money that they do not actually have, that is they create money as debt, a debt that at the time they cannot pay back because they do not have it on deposit. In my opinion this is actually a fraudulent position on the part of banks and is what gets its customers into trouble when the banking system goes belly up. Retail banks should only be allowed to loan money up to the value of what they have on hand as deposits and assets. The practice of loaning money that they do not have and creating money as debt needs to stop and this is the first step in creating a safer and more equitable banking system. It is not the role of the retail banks to create money, it is actually the role of Treasury and the Reserve Bank ofNew Zealand to create money. One of the most important roles of the Reserve Bank should be to create money that is paid into the economy as credit as it assists the government to run its infrastructure programmes and the like. It has to be conceded that if retail banks can create money as debt, then it should also possible to create money as an asset. The Reserve Banks initiative of asking the retail banks to have more money on their books is a positive step but does not go far enough. If you want to increase the security of the banking system then retail banks must have deposits and assets that match their loans otherwise the banking system is ethically and morally unjustifiable.

Step One is to insist that retail banks can only loan out money that they have on deposit or as assets.

Step Two is for the Reserve bank to be able to pay money into the system as assets to pay for the Governments fiscal programmes.

Secondly, a guaranteed insurance deposit scheme is long overdue. The current proposal for a guaranteed insured deposit programme is woefully inadequate. The proposal should be for deposits up to $250,000 to be guaranteed by insurance. In addition the retail banks should not be able to pass the costs of this programme onto customers. Having a comprehensive Deposit Insurance Scheme is the second step required to make the banking system in New Zealand safe and operate for all users. The Government and Retail banks may balk at the cost of such a scheme, but if the Government and Treasury are serious about safeguarding the New Zealand Banking system then this has to be accomplished and not just toyed with at the margins. The USA's FDIC secures deposits up to $250,00 and there is no reason why New Zealand cannot do the same if Treasury, Government and the Reserve Bank take this on-board.

The Treasury, Government and Reserve Bank also have to find ways to encourage New Zealanders to carry out their business with New Zealand owned banks. In my opinion, it is time the Government brought back the Bank of New Zealand and allowed it to operate in competition to Kiwi Bank. Having two large commercially operated banks by New Zealanders would mean that more of the profits that banks make stay in this country, which can only be good for the country. One could make the case that Incentives should be made to ensure that all New Zealanders run all of their banking with New Zealand owned banks.

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Name:	[1]
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For organisations

Name of organisation:	
Contact person:	
Contact person's position in organisation:	
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