

The Treasury

Reserve Bank Act Review Phase 2 Submission Information Release

October 2019

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SAFEGUARDING THE FUTURE OF OUR FINANCIAL SYSTEM

Submission form for consultation document 2A

The role of the Reserve Bank and how it should be governed

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.

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

Should prudential regulation remain with the Reserve Bank?

No follow-up questions for Chapter one.

Please use “any other comments” section to provide feedback in this section.

Chapter 2

What financial policy objectives should the Reserve Bank have?

- 2.A What other objectives should the Reserve Bank have?
- Which of the objectives discussed in Chapter 2 should feature in the Reserve Bank Act, and why?
 - Are there any other objectives not covered in Chapter 2 that should be considered?
- 2.B Should the Reserve Bank be given a more explicit climate change objective? If so, what would be your preferred mechanism for achieving this?
- 2.C Where in the legislative hierarchy should any additional objectives sit – as ‘secondary objectives’, or as ‘considerations’ that the Reserve Bank must look at?
- 2.D How should the Reserve Bank’s objectives be specified? Do you see a role for a ‘financial policy remit’? If so, what should it include?
- 2.E What is your view on creating a new ‘Deposit Takers Act’ that combines material from the NBDT Act with the Reserve Bank Act’s banking regulation material?
- 2.F Looking at the example of the Reserve Bank’s objective set, which elements do you support and which would you change, and why?

2A. Climate change should, like the Treaty of Waitangi, be an overarching objective which the Reserve Bank needs to consider in all of its decisions and ambitions. Devastating climate change effects would

make any other considerations irrelevant as it would affect all the "potential objective categories" outlined in Figure 2B in the report "Safeguarding the future of our financial system" Pg.19

2.B The Reserve Bank needs to have an explicit climate change objective given that climate change is an existential threat which could overwhelm not only the financial system but society as a whole within a few decades.

We strongly disagree with the notion outlined by Patricia Wright in her paper "Climate Change and Prudential Regulation: Issues in New Zealand" that the way we respond to climate change "... will often only have consequences that will not be seen until well into the future" (pg. 1).

The Intergovernmental Panel on Climate Change (IPCC) in their December 2018 report gave the world only 12 years to prevent a climate catastrophe.

The OECD has warned about the potential devastating economic effects of delaying a transition to a low-carbon economy and commented that a delay until 2030 could reduce globally GDP by 2.5%.

The World Bank has stated that "Without urgent action climate change impacts could push an additional 100 million people into poverty by 2030."

The Ministry for the Environment in their briefing papers to the incoming Climate Change Minister, James Shaw in 2018 advised that NZ will see between \$14 - 36 billion shaved off its growth forecasts between 2021 - 2031 due to climate change impacts. This was twice that given to the Minister of Energy, Judith Collins by MfE in December 2016.

Local Government New Zealand in their 2019 report titled "Vulnerable: The Quantum of Local Government Infrastructure Exposed to Sea Level Rise" noted that at even at the almost certain sea-level rise of 0.5 metres New Zealand councils would see \$1.4 billion of damages to Council infrastructure.

New Zealand's international trading arrangements may also be seriously affected if the nation fails to meet its Paris Climate Agreement targets. Some Western countries are already discussing the idea of imposing a carbon adjustment fee or quota on carbon-intensive goods from countries that fail to meet their climate obligations. With the high methane and nitrate emissions content of our agricultural exports this could have major financial implications for the country.

Another financial risk is that if New Zealand fails to reduce its net carbon emissions - due either to a failure to reduce gross emissions or by a lack of available domestic carbon credits, due to the declining forestry stock - the country would be forced to buy overseas carbon credits at a predicted price of between \$25 to \$50 per tonne. The Ministry for the Environment predicts this would cost the country over the 2021 to 2030 period between \$3.5 billion to \$7 billion.

2C. The additional climate change objective should be an overarching primary objective and sit under "considerations" that the Reserve Bank must look at (not as a "secondary objective").

2D. If a "financial policy remit" would enhance the additional climate change objective above "considerations" we are in favour to introduce that. Such a "financial policy remit" should put the climate change considerations as a top priority.

- 3.A What factors are most important for achieving the establishment of an effective governance board with responsibility for all the Reserve Bank's decisions outside of monetary policy?
- 3.B What is the appropriate degree of delegation from the board to the Governor? Are there any decisions that should be reserved for the board?
- 3.C What approach should the Treasury adopt in monitoring the Reserve Bank? What should the Treasury's monitoring responsibilities be? Should the Treasury's monitoring responsibilities be different for the MPC?
- 3.D Do you think there is merit in reclassifying the Reserve Bank as an independent Crown entity?
- 3.E For the new governance board:
- what should the split of executive and non-executive members be?
 - what skills and expertise should non-executive members have? Is there merit in having representation from the FMA and/or the Treasury?
 - how should members be appointed and removed? Should the board be able to appoint the Governor as CEO?
- 3.F Are there any aspects of the board's operation would benefit from legislative clarity or guidance?

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

How should the regulatory perimeter be set?

- 4.A What is the appropriate definition of 'deposit taker'? Do you agree that the definition should be framed around entities that take retail 'deposits' and lend? If not, what approach do you consider would be preferable?"
- 4.B Should the Reserve Bank's ability to monitor non-licensed entities be enhanced, for example through increased data reporting requirements? What do you consider would be the costs and benefits of such an approach?
- 4.C Should the Reserve Bank be given discretion to extend the perimeter within clearly specified parameters to avoid regulatory arbitrage (such as designating in entities with business models economically similar to deposit takers)? Do you agree that changes that are more significant may be more suited to legislative change, supported by pre-positioning?
- 4.D Should tools that are not linked to licensing have a different perimeter? For example, it is common internationally for non-bank lending institutions to be subject to macro-prudential lending tools, even though they do not take deposits.

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

Should there be depositor protection in New Zealand?

- 5.A Are the interactions between depositor protection and the other parts of the financial safety net set out in Part I of Section 2 described appropriately?
- 5.B What objectives should the depositor protection regime in New Zealand have? Should its objectives be:
- to protect depositors from loss?
 - to contribute to public confidence and financial stability?
 - both of these?
 - something else?
- 5.C The Minister has made an in-principle decision that the depositor protection regime should have a limit in the range of \$30,000-\$50,000. Given your answer to 5.B, what coverage level would be best within this range?
- 5.D How would your preferred limit affect depositor wellbeing, public confidence, and depositors' responsibilities for their financial choices?
- 5.E Do you think the New Zealand depositor protection regime should be supported by a preference for insured depositors? How would this affect the costs and benefits of a depositor protection regime in New Zealand?

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



Any other comments?

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

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Details of submitter

For individuals

Name:	
Contact number:	
Contact email:	
Region/country:	

For organisations

Name of organisation:	Carbon Neutral New Zealand Trust
Contact person:	Lindsay Jeffs
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