

# The Treasury

## Additional Documents Related to Phase 2 of the Reserve Bank Act Review - December 2019 to April 2021 - Proactive Release

June 2021

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<https://treasury.govt.nz/publications/information-release/additional-documents-related-phase-2-reserve-bank-act-review-december-2019-april-2021>

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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:

- [7] 6(e)(ii) - to prevent serious damage to the economy of New Zealand by disclosing prematurely decisions to change or continue government economic or financial policies relating to the regulation of banking or credit
- [27] 9(2)(ba)(ii) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely otherwise to damage the public interest
- [29] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand
- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment
- [36] 9(2)(h) - to maintain legal professional privilege
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

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Reference: T2020/474

MC-1-7-3-1-13

Date: 28 February 2020

To: Minister of Finance  
(Hon Grant Robertson)  
Associate Minister of Finance  
(Hon David Parker)

Deadline: None

## **Aide Memoire: A Cabinet paper on the Deposit Takers Cabinet Economic Development Committee on 4 March 2020**

A Cabinet paper seeking approval to publicly consult on the Deposit Takers Act has been finalised for consideration by the Cabinet Economic Development Committee on 4 March 2020. Final versions of the Cabinet paper and consultation document have been uploaded into CabNet for lodgement by your Office. We understand that Minister Parker is available to take this paper should it be discussed after the Minister of Finance is scheduled to leave DEV.

The consultation document follows the December 2019 Review Update which set out the in-principle decisions which Cabinet considered in November. The document has been consulted with all parties and the Associate Ministers of Finance. The release of the document will commence a public consultation period starting on or around Tuesday 10 March 2020 through to the week beginning 20 April 2020. It will inform the final set of in-principle decisions which, in turn, will inform the drafting of the Deposit Takers Act.

Below we provide a bit more detail on review progress and the content of the consultation document, using material from the Cabinet paper. Suggested talking points for the Cabinet committee are attached as **Annex 1**.

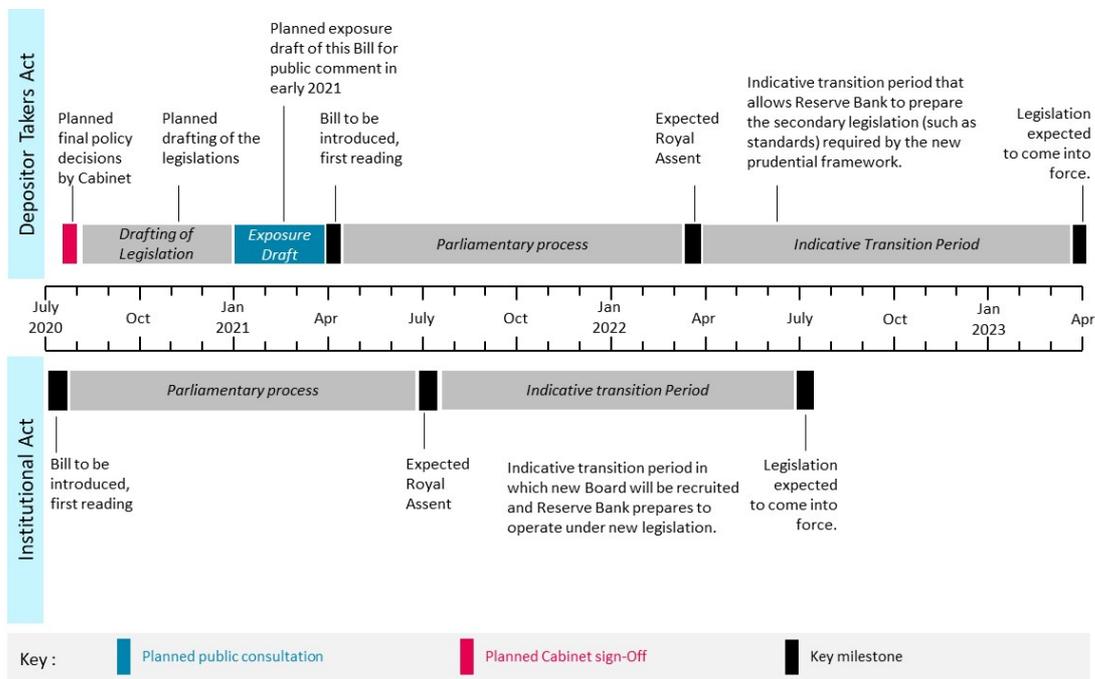
### **Review Progress**

After completing changes to the governance arrangements for monetary policy (Phase 1), Phase 2 has focused on the wider governance of the Reserve Bank and powers related to financial regulation (as well as depositor protection). The wider governance reforms are being progressed in the Institutional act, which is currently being drafted, and expected to be introduced to Parliament later in the year (see diagram below).

The reforms to financial regulation and introduction of deposit insurance (which are the focus of this consultation paper) are expected to be agreed by Cabinet in early August,

which will allow drafting to commence. After drafting and consultation on an exposure draft, the Deposit Takers Bill is expected to be introduced around April 2021.

### Indicative timeframe for legislative process



### Matters addressed in the Consultation Paper (listed by chapter)

1. Update on the Review.
2. The purposes of the Deposit Takers Act – the proposed purposes of the legislation and the specification of the Reserve Bank’s decision-making principles.
3. The regulatory perimeter – the definition of a ‘deposit-taker’ and the consequential treatment of entities that sit on the boundary of that definition.
4. Standards and licensing – the permitted scope and process requirements for prudential standards and the licensing requirements for deposit takers.
5. Liability and accountability – the liability of entities and individuals for breaches of the Deposit Takers Act and the proposed accountability framework for the directors of deposit takers.
6. Supervision and enforcement powers – the supervision powers of the Reserve Bank and the enforcement tools available to it to effect corrective action.

7. Resolution and crisis management - the design of some key elements of the new framework, the framework for implementation of the new bail-in powers and the application to deposit takers of CIMA statutory management.
8. Depositor protection – the design of the deposit insurance scheme, including: the scope of insured products; the functions and governance of the insurer and how the deposit insurer will be funded. The chapter also discusses the option of giving depositors preference, or priority, over other unsecured creditors.

David Hargreaves, Principal Advisor, Reserve Bank Act Review, [39]  
Tamiko Bayliss, Director, Reserve Bank Act Review, [39]

## Annex 1: Talking points for the Cabinet Economic Development Committee

- The Minister of Finance is seeking Cabinet approval to release a consultation document on the design of a new regulatory framework for deposit takers and the new deposit insurance scheme.
- This consultation is part of the review of the Reserve Bank Act, being jointly led by the Treasury and the Reserve Bank, supported by an Independent Expert Advisory Panel.
- The goal of the overall review is to modernise New Zealand's monetary and financial stability policy frameworks and the Reserve Bank's governance and accountability settings.
- We initially completed high-priority improvements to the monetary policy framework (Phase 1). Phase 2 is a broad review of the Reserve Bank's governance and accountability framework and its financial regulatory powers.
- Changes to the governance of the Reserve Bank are being progressed as part of a separate Institutional Act, which the Minister of Finance expects to introduce into Parliament in the middle of this year.
- This consultation paper builds on the in-principle decisions on the regulation of deposit takers that Cabinet made in June and December 2019. These included:
  - that the Reserve Bank would retain responsibility for prudential regulation and supervision
  - the creation of a single, flexible prudential regulation regime for banks and other deposit takers
  - the introduction of a deposit insurance scheme with a maximum coverage of \$50,000 per depositor per institution
  - increased accountability requirements for directors of deposit takers
  - strengthened crisis management and resolution tools and powers for the Reserve Bank.
- The consultation document covers the broad range of policy decisions that will need to be made in order to progress legislation. While many of these issues are relatively detailed, some will have significant implications for regulated firms and their customers.
  - [see the main text of the Aide-Memoire for a list of principal topics covered in the consultation document, or could refer colleagues to point 20 in the Cabinet paper]
- Stakeholders are likely be most interested in:
  - the regulatory approach to finance companies and wholesale-funded lenders

- the scope of the Reserve Bank's standard-setting power, including in relation to macro-prudential standards such as loan-to-value ratios
  - the specification of new accountability duties on directors of deposit takers
  - the products that would be covered by deposit insurance
  - the implications for depositors, other creditors and industry of deposit preference and future funding arrangements for deposit insurance.
- A six week consultation period is proposed, through to the week commencing 20 April 2020. While this timeframe is tight, it is necessary to allow policy decisions on the Deposit Takers Act to be made prior to the election.
  - The Minister of Finance intends to report back to Cabinet with final policy decisions for the Deposit Takers Act in early August 2020, with a view to releasing an exposure draft of the legislation in early 2021 and introducing legislation to Parliament in the first half of 2021.