

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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Information Withheld

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act).

Where this is the case, the relevant sections of the Act that would apply have been identified.

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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Joint Report: Cabinet Legislation Committee approval to introduce the Reserve Bank of New Zealand Bill

Date:	14 July 2020	Report No:	T2020/1269
		File Number:	MC-1-7-3-1-13 (Reports to Minister of Finance and Cabinet)

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Agree to lodge the paper and associated documents (Annexes 1-3) with the Cabinet Legislation Committee.	Lodge by 16 July for the Committee meeting on 21 July.

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Evealyn Whittington	Senior Analyst, Reserve Bank Act Review	[39]	n/a (mob) ✓
James Haughton	Manager, Reserve Bank Act Review	[35]	

Minister's Office actions (if required)

Return the signed report to Treasury. **Submit** the attached Cabinet paper and associated documents (Annexes 1-3) to the Cabinet Office by Thursday 16 July, for the Cabinet Legislation Committee meeting on 21 July.

Note any feedback on the quality of the report

Enclosure: Yes (attached)

Treasury:3544113v1

Joint Report: Cabinet Legislation Committee approval to introduce the Reserve Bank of New Zealand Bill

Purpose of Report

1. This report seeks your agreement to lodge the following documents by 16 July for consideration by the Cabinet Legislation Committee (LEG) at their meeting on 21 July:
 - a Cabinet paper seeking approval for introduction of the Reserve Bank of New Zealand Bill (the Bill) (**Annex 1**)
 - Departmental Disclosure Statement for the Bill (**Annex 2**)
 - Regulatory Impact Assessment: Standards for devices testing the quality and authenticity of New Zealand bank notes (**Annex 3**)
2. We have provided talking points to support you at the LEG meeting. These are in **Annex 4**.
3. We have also attached a copy of the latest draft of the Reserve Bank of New Zealand Bill (the Bill) in **Annex 5** for your information, although we note that the Parliamentary Counsel Office has the responsibility for providing the Cabinet office with the finalised copy.
4. This report also updates you on the outcome of Ministerial and agency consultation on the Bill, and seeks your agreement on the transitional arrangements for the Governor and Deputy Governor.

We are seeking your agreement to lodge the LEG paper and the Bill

5. Subject to your agreement to the matters dealt with in this paper, the LEG paper and associated documents will need to be lodged by 16 July, ahead of the Committee's meeting on 21 July. This timetable will allow for introduction of the Bill to the House on 28 July 2020. Suggested talking points for the LEG meeting are attached at **Annex 4**.
6. We are liaising with both your office and the Reserve Bank on communications material to support introduction of the Bill, including on any press releases and on the publication of further supporting material on the Treasury website.
7. We are also preparing additional advice for you on the transition to the new governance board after enactment of the Bill, including on the role of the existing board in this process. We expect to provide you with this advice and a suggested letter to the existing board prior to LEG consideration of the Cabinet paper.

Updates from Ministerial and agency consultation and other drafting matters

8. The Bill has been out for Ministerial and final agency consultation. No major issues or recommended changes to policy have arisen as part of this process. The Office of the Ombudsman has, however, signalled that it will give further consideration to the interaction between the confidentiality provisions and the Official Information Act and that this issue may need to be clarified at the Select Committee stage.

9. Some minor drafting matters have been clarified. In particular, Parliamentary Counsel Office have recommended that the commencement of the Bill be given effect via an Order in Council, rather than a specified date in the Bill, in order to retain flexibility. We still expect that the Bill should commence on 1 July 2022.

Regulatory impact assessment for managing cash quality reforms

10. Cabinet made policy decisions in June 2020 [DEV-20-MIN-0091 refers] in relation to the cash quality management provisions in the Bill, including enabling the Reserve Bank to set standards in relation to machines that test the quality and/or authenticity of bank notes. These changes resulted from the Reserve Bank’s ‘Future of Cash’ work programme rather than as part of the Review of the Reserve Bank Act.
11. While a Regulatory Impact Assessment (RIA) was prepared for these changes and was assessed as meeting the quality assessment requirements, it was inadvertently not provided to Cabinet when it made policy decisions (contrary to what was stated in the Cabinet paper).
12. We therefore propose that the RIA for these changes be attached to this LEG paper. The attached LEG paper is drafted on this basis, and notes that the RIA was not provided when Cabinet made policy decisions on for these changes.

Transitioning to the new Governor and Deputy Governor arrangements

13. The Bill contains significant changes to the role of the Governor of the Reserve Bank, and for the disestablishment of the role of Deputy Governor. The role of the Governor will change significantly to being similar to that of a standard Crown entity chief executive, but with additional responsibilities as the Chair of the MPC.
14. The Bill will need to provide for what happens to the appointments of the current Governor and Deputy Governor on commencement. After consultation with the Reserve Bank, we recommend that:
- the Governor’s appointment be transitioned to the new legislative framework on commencement of the Bill in July 2022 for the remainder of his term (which ends in March 2023), and
 - the Deputy Governor is transitioned to being an employee at the commencement of the Bill in July 2022 for the remainder of his current term, which also ends in March 2023.
15. This approach will provide certainty and continuity in leadership, while being fair to the individuals involved.

Next Steps

16. Subject to your agreement, the relevant dates and milestones will be:

Milestone	Dates
Paper lodged with the LEG Committee	16 July

LEG Committee consideration	21 July
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Cabinet consideration	27 July
Introduction	28 July
First reading	Late 2020

Recommended Action

We recommend that you:

- a **agree** to lodge the papers at **Annex 1-3** by 16 July for consideration by the Cabinet Legislation Committee on 21 July

Agree/disagree

- b **note** that talking points to support you at the LEG meeting are provided at **Annex 4**, and that a near-final copy of the Reserve Bank of New Zealand Bill has been provided for your information at **Annex 5**

- c **note** that no significant changes have been made to the Bill as a result of either Ministerial or interagency consultation

- d **note** that a RIA for the managing cash quality changes in the Bill was not provided to Cabinet when it made policy decisions in June 2020

- e **agree** that the managing cash quality RIA should instead be attached to the LEG paper

Agree/disagree

- f **agree** to the current Governor's term being transitioned to the new legislative framework upon commencement of the Bill in July 2022, for the remainder of his term

Agree/disagree

- g **agree** to the Deputy Governor being transitioned to being an employee upon commencement of the Bill in July 2022 for the remainder of his term

Agree/disagree

James Haughton
Manager, Reserve Bank Act Review

Hon Grant Robertson
Minister of Finance

T2020/1269 Cabinet Legislation Committee approval to introduce the Reserve Bank of New Zealand Bill

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Annex 1: Reserve Bank of New Zealand Bill: Approval for Introduction (Cabinet Legislation Committee paper)

Annex 2: Departmental Disclosure Statement

Annex 3: Regulatory Impact Assessment: Standards for devices testing the quality and authenticity of New Zealand bank notes

Annex 4: Suggested talking points for the LEG meeting

Annex 5: a near-final draft of the Reserve Bank of New Zealand Bill

Reserve Bank of New Zealand Bill: Talking Points for Cabinet Legislation Committee

This Bill is the outcome of a broad-ranging review, intended to create a modern monetary and financial policy framework

- This Bill implements decisions taken by Cabinet in December last year and in March and June this year on the institutional arrangements of the Reserve Bank, as part of Phase 2 of the Review of the Reserve Bank Act.
- The Bill will replace the Reserve Bank's current legislation, updating the governance arrangements for the Reserve Bank and bringing the institutional design and accountability requirements closer to those of a Crown entity.
- The Bill also carries over the changes made to the monetary policy framework in 2018 as part of Phase 1 of the Review, including providing the Reserve Bank with a new employment objective and the creation of the Monetary Policy Committee.
- The Government's in-principle decisions in relation to the regulation of deposit takers and the introduction of a deposit insurance scheme will be progressed through a separate Deposit Takers Act, scheduled for introduction in 2021.

In summary, the key changes in the Bill are as follows:

- Adding an overarching financial stability objective, to complement the recently updated monetary policy objectives.
- Strengthening decision-making through moving from a single decision maker to a board model.
- Ensuring operational independence is balanced with appropriate accountability, with a number of changes to update the Reserve Bank's accountability and reporting frameworks to align with state sector practice.
- Providing for a Financial Policy Remit issued by the Minister, setting out matters that the Reserve Bank board must have regard to when setting and implementing its strategic approach to financial stability.
- Increasing accountability and transparency in the Reserve Bank's management of foreign reserves, by requiring the Reserve Bank and the Minister to agree a Foreign Reserves Management and Co-ordination Framework.
- Changes to the funding model to promote transparency and allow for appropriate recovery of costs, through industry levies and fees.
- Providing the Council of Financial Regulators with a statutory mandate to support effective and responsive regulation of the financial system by facilitating cooperation and coordination between its members.
- Supporting public confidence in banknotes by enabling the Reserve Bank to set standards for devices that check the authenticity and/or quality of banknotes.

This Bill is a priority and I want to introduce it prior to the election

- This Bill is a key step forward in implementing a modern monetary and financial policy that works towards improving the wellbeing of New Zealanders. I therefore recommend that we introduce this Bill before the election.
- The first reading and referral to the Finance and Expenditure Committee will take place after the election.

Please refer to the final version of documents relating to the Review of the Reserve Bank of New Zealand Act, which can be found at:

<https://www.treasury.govt.nz/news-and-events/reviews-consultation/reviewing-reserve-bank-act/proactive-releases>