

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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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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Report: Phase 2 of the Reserve Bank Act Review – Completion of the review

Date:	16 April 2021	Report No:	T2021/1014
		File Number:	MC-1-7-3-1-12

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	<p>Agree the IEAP (Panel) should be wound down on or around 30 September 2021</p> <p>Indicate if you would like to meet with officials to discuss further</p>	By 23 April 2021

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Tamiko Bayliss	Review Director, Reserve Bank Act Review – Phase 2	[35]	✓
Geoff Bascand	Deputy Governor, Reserve Bank		
James Beard	Director, Economic System, Treasury		

Minister's Office actions

Return the signed report to Treasury.

Enclosure: No

Report: Phase 2 of the Reserve Bank Act Review –
Completion of the Review

Recommended Action

We recommend that you:

- a **note** the substantial progress made on the Review, and the proposal that the remaining policy work (related to the DTA) be conducted primarily by a project team within the Reserve Bank under the oversight of a Treasury and Reserve Bank steering committee from on or around April 30.
- b **note** that the Reserve Bank and the Treasury propose to wind down the formal joint review team located at the Treasury, and associated budget, on or around 30 April 2021.
- c **agree** to wind down the independent expert advisory panel on or around 30 September 2021.

Agree/disagree

- d **indicate** if you would like to meet with officials to discuss further.

Yes/no

Geoff Bascand
Deputy Governor, Reserve Bank

James Beard
Director, Treasury

Hon Grant Robertson
Minister of Finance

Report: Phase 2 of the Reserve Bank Act Review –
Completion of the review

Purpose of Report

1. This report summarises the progress of Phase 2 of the Reserve Bank Act Review (the Review) and recommends a process to bring the work to completion.

Background

2. You set up a joint Treasury and Reserve Bank review in 2018 (Phase 2, after monetary policy provisions were looked at in Phase 1) with the aim of modernising the legislation underpinning the Reserve Bank's governance and financial policy functions. The policy work to achieve the objectives set out in the terms of reference is well advanced. Following two rounds of substantial public consultation, the Reserve Bank of New Zealand Bill is in select committee and is expected to be enacted in the second half of 2021. After a third round of public consultation on prudential matters, Cabinet is scheduled to agree on the key policy recommendations relating to the Deposit Takers Act (DTA) on 19 April. This will lead to the drafting of the DTA in coming months, although some residual policy work (described below) will be required.
3. The Review was set up with a joint Reserve Bank/Treasury steering group, and an external panel (chaired by Suzanne Snively, who also participated in the steering group), with external panel members formally appointed by Cabinet. Policy work has been led by a joint team of Treasury and Reserve Bank staff.

Reserve Bank and the Treasury – remaining policy work and responsibilities related to implementation and stewardship

Remaining policy work on the DTA

4. While key policy decisions have been taken (as above), the April Cabinet papers provide you and associated Ministers with a delegated authority to take further decisions necessary to complete the DTA. These matters principally relate to crisis management and the deposit insurance scheme, although further policy issues are likely to also arise during the drafting process (and a further cabinet paper may well be required). In general, the policy work related to the Review is likely to become increasingly detailed and technical following the April Cabinet decisions.
5. Given your decision that the Reserve Bank should administer the DTA, the Reserve Bank will be leading on the drafting instructions and have ongoing stewardship obligations in respect of the legislation. On enactment, the Reserve Bank will be responsible for a significant work program to implement

the legislation. These considerations influence how we should manage the process post-April through to enactment of the Bill to ensure it is efficient and starts the build-up of knowledge and expertise at the Reserve Bank for implementation.

6. On or around 30 April 2021, we propose that the remaining policy work (related to the DTA) will be conducted primarily by a project team within the Reserve Bank, but with some Treasury secondees within that team. The formal joint Review team located at the Treasury, and associated budget, will be wound down at the same time. An inter-agency steering committee will continue to provide oversight of the project on behalf of both organisations and to provide you with joint policy advice until an exposure draft of the bill for the DTA is released. We also expect some continued input from Suzanne Snively in the process as discussed below.
7. The Reserve Bank legal team will work with the Parliamentary Counsel Office (PCO) as the Bill is drafted. The project team at the Reserve Bank will work to ensure the draft Bill captures the policy intent of the review, and to resolve issues that arise along the way. It will then lead on assisting you and the Select Committee as the Bill goes through the Parliamentary process. The Treasury will remain involved and advise you as necessary, particularly on areas of the Bill that set out the role of the Minister or impact the crown balance sheet.

Implementation and future arrangements

8. Even after the DTA is enacted, there will be an ongoing need for the Reserve Bank and Treasury to cooperate closely on a number of matters. The Treasury will monitor the Reserve Bank (as outlined in the Reserve Bank Bill), and advise on matters such as appointments of board members, and the financial policy remit.
9. The Reserve Bank will administer the new Deposit Takers Act, and will also need to complete a lot of implementation work (such as setting up the deposit insurance scheme (T2021/783 refers), creating the prudential standards deposit takers will have to meet, running the licensing process, etc).
10. The Treasury will also have an ongoing interest in the prudential and resolution regimes, as they are key mitigants to the potential fiscal risks that could be caused by a financial crisis. It will also provide policy advice to the Minister of Finance over time related to matters like the funding strategy for Deposit Insurance, and interlinkages between Reserve Bank prudential actions and other government priorities (such as housing-related objectives).
11. We expect that these matters will be discussed at a regular meeting of senior Reserve Bank and Treasury staff – essentially a steady-state successor to the current steering group. The Treasury and The Bank will work together on mechanisms to ensure strong cooperation.

Role of the Independent Expert Advisory Panel

12. The Independent Expert Advisory Panel (IEAP) has regularly met the review team throughout the policy process, since the full phase 2 panel was appointed in 2018 (APH-18-MIN-0155 refers). They have provided valuable perspectives to the Review team and directly to Ministers as key policy decisions have been taken.
13. As the joint review team winds down, we suggest that the Cabinet-appointed IEAP will be needed less and should be wound down around the time the DTA exposure draft is released (around September).
14. However, until then (subject to Suzanne's views and availability), we think there will be value in maintaining Suzanne's role on the joint steering committee. This would provide continuity and an independent perspective on outstanding policy matters. The remaining IEAP members could also be consulted as needed during that period.
15. You could instead elect to wind the IEAP down more immediately, either completely, or retaining Suzanne Snively as part of the steering group through September. On balance, if Suzanne's role is retained, we suggest retaining the full panel through September so they are available to provide a range of external views if needed.

Communications

16. The Reserve Bank and Treasury are engaging with your office on press releases to accompany the Cabinet decisions. After these decisions are communicated, future updates will be on the Reserve Bank's website (which will note the oversight role provided by the interagency steering group). If asked, you could note that the interagency oversight of the project continues, but as the project reaches implementation stages it is appropriate for the Reserve Bank to take the lead.