



TE TAI ŌHANGA
THE TREASURY

Reference: 20220012

28 February 2022

Dear [REDACTED]

Thank you for your Official Information Act request, received on 17 January 2022. You requested:

Information in relation to the monitoring and performance assessment of the RBNZ and the RBNZ Board undertaken by the Minister of Finance and the NZ Treasury

[...]

I request, under the Official Information Act, any internal papers, memoranda or other documents that set out:

- the criteria applied by the Treasury in assessing the performance of the RBNZ and Governor in respect of each of the statutory functions of the RBNZ;*
- the methodology employed by the Treasury in undertaking assessments of the RBNZ and the Governor;*
- the results of any assessments made by Treasury of the performance of the RBNZ and Governor;*
- the nature of the engagement that the Treasury has with the Board of the RBNZ;*
- the means by which the Treasury assesses the performance of the Chairman and Deputy Chairman of the Board of the RBNZ, and the Board as a whole, and the nature of any assessments made by Treasury in relation to these matters;*
- the nature and extent to which the Treasury undertakes meaningful assessments of regulatory impact assessments and cost/benefit analyses of the RBNZ, and reviews the adequacy of the consultation processes adopted by the RBNZ;*
- the level of resourcing in Treasury for undertaking reviews of regulatory impact statements and cost/benefit assessments of government agencies;*
- the extent to which the Treasury undertakes comparative analysis to assess the performance of the RBNZ and governor by reference to relevant international benchmarks and what those benchmarks are;*

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- the extent to which the Treasury has engaged independent experts to assess the performance of the RBNZ;

- the extent to which the Minister of Finance has requested reports from the Treasury on its assessment of the RBNZ and the RBNZ Board, and the frequency and nature of the reporting from Treasury to the Minister of Finance on the performance of the RBNZ and its Board;

- the extent to which the Minister of Finance has engaged independent external parties to assist in the assessment of the performance of the RBNZ and its Board;

- the frequency of meetings the Treasury has with the Minister of Finance and the briefings it provides to the Minister of Finance in relation to the RBNZ.

Treasury officials made contact with you by email on 20, 21 and 26 January 2022 to discuss the scope of your request. You were then contacted via telephone to discuss specific points raised in your request, and clarified your request to be for the following information:

Any internal papers, memoranda or other documents, since 1 January 2020, that set out:

- the criteria applied by the Treasury in assessing the organisational performance (i.e. performance of decision makers at the RBNZ, not reviews of the RBNZ's policy frameworks) of the RBNZ and Governor in respect of each of the statutory functions of the RBNZ;

- the methodology employed by the Treasury in undertaking assessments of the organisational performance of the RBNZ and the Governor;

- the results of any assessments made by Treasury of the organisational performance of the RBNZ and Governor;

- the nature of the engagement that the Treasury has with the Board of the RBNZ, including meeting briefings that indicate the nature and extent of this engagement;

- the means by which the Treasury assesses the performance of the Chairman and Deputy Chairman of the Board of the RBNZ, and the Board as a whole, and the nature of any assessments made by Treasury in relation to these organisational performance matters;

- the nature and extent to which the Treasury undertakes meaningful assessments of regulatory impact assessments and cost/benefit analyses of the RBNZ, and reviews the adequacy of the consultation processes adopted by the RBNZ (i.e. documents indicating the overall approach, rather than individual RIA assessments);

- the level of resourcing in Treasury for undertaking reviews of regulatory impact statements and cost/benefit assessments of government agencies (i.e. FTE numbers dedicated to actual assessments, excluding coordination activities);

- *the extent to which the Treasury undertakes comparative analysis to assess the organisational performance of the RBNZ and governor by reference to relevant international benchmarks and what those benchmarks are;*
- *the extent to which the Treasury has engaged independent experts to assess the organisational performance of the RBNZ;*
- *the extent to which the Minister of Finance has requested reports from the Treasury on its assessment of the RBNZ and the RBNZ Board, and the frequency and nature of the reporting from Treasury to the Minister of Finance on the organisational performance of the RBNZ and its Board;*
- *the extent to which the Minister of Finance has engaged independent external parties to assist in the assessment of the organisational performance of the RBNZ and its Board;*
- *the frequency of meetings the Treasury has with the Minister of Finance and the briefings it provides to the Minister of Finance in relation to the RBNZ's organisational performance and other organisational matters (excluding briefings related to policy work such as the RBNZ review and Deposit Takers regime).*

In accordance with section 15(1AA) of the OIA, the timeframe was restarted at 28 January 2022.

Information being released

Please find enclosed the following documents that are within scope of your request:

Item	Date	Document Description	Decision
1.	25 November 2021	Treasury Report: Appointing the monitor of the Reserve Bank	Release in Part
2.	23 July 2020	Aide Memoire: 2019-20 Dividend recommendation	Release in Part
3.	26 August 2021	Aide Memoire: 2020-21 Dividend recommendation	Release in Part
4.	3 November 2021	Draft monitoring engagement plan/principles	Release in Part
5.	19 October 2021	Board meeting briefing	Release in Part
6.	11 August 2021	Memo: Reserve Bank Monitoring Proposal	Release in Part

I have decided to release the documents listed in the table, subject to information being withheld under one or more of the following sections of the Official Information Act, as applicable:

- to protect substantial economic interests, section 9(2)(d) - the withholding of the information is necessary to avoid prejudice to the substantial economic interests of New Zealand.
- advice still under consideration, section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials,
- direct dial phone numbers of officials, under section 9(2)(k) – to prevent the disclosure of information for improper gain or improper advantage.
- Some information has been removed from the documents as it is outside of the scope of the request. This is because the documents include matters outside your specific request.

Direct dial phone numbers of officials have been redacted under section 9(2)(k) in order to reduce the possibility of staff being exposed to phishing and other scams. This is because information released under the OIA may end up in the public domain, for example, on websites including Treasury's website.

Information publicly available

The following information is also covered by your request and is publicly available on the Treasury website:

Item	Date	Document Description	Website Address
7.	25 March 2020	Treasury Report – RBNZ 2020-25 Funding Agreement Proposal	https://www.treasury.govt.nz/publications/information-release/rbnz-2020-25-funding-agreement
8.	17 July 2020	Owners Expectations	https://www.treasury.govt.nz/publications/guide/owners-expectations

Accordingly, I have refused your request for the documents listed in the above table under section 18(d) of the Official Information Act:

- the information requested is or will soon be publicly available.

Some relevant information has been removed from documents listed in the above table and should continue to be withheld under the Official Information Act, on the grounds described in the documents.

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

Additional information

Note that since the recent passing of the Reserve Bank of New Zealand Act 2021 in August 2021, it has been agreed that the Treasury will be the department who will monitor the RBNZ. This role will formally come into effect once the legislation comes into force, from 1 July 2022. Prior to this, the RBNZ was monitored by the RBNZ Board, whose primary function was to review the performance of the Governor and the RBNZ on behalf of the Minister of Finance. The Treasury's role was to provide a secondary monitoring role, which included:

- Drafting the Letter of Expectations on behalf of the Minister and subsequently assessing the Statement of Intent (SOI); and
- Providing the Minister advice on the RBNZ's annual dividend and five-year funding agreement.

More information and context on Treasury's role and how it is changing are provided in item 6 – *RBNZ monitoring proposal* – along with our approach in establishing a full primary monitoring role, including relationship management issues.

With regard to the part of your request relating to "*the nature of the engagement that the Treasury has with the Board of the RBNZ, including meeting briefings that indicate the nature and extent of this engagement*", we note that Treasury senior leaders occasionally meet with the Board of the Bank and the Board chairperson. These meetings may cover a range of issues and are not focused on organisational performance of the Bank.

Furthermore, on 2 February 2022, you contacted a Treasury official, Linda Cameron in our Regulatory Strategy team, for the following information:

1. *How many staff (FTEs) are employed by Treasury in the RIS assessment function?*
2. *To what extent does Treasury engage external subject matter specialists to assist Treasury in reviewing draft RISs?*
3. *Does Treasury report to Cabinet or Cabinet Committees on its assessment of RISs submitted to Cabinet/Cabinet Committee?*
4. *Does Treasury report annually (publicly) on its assessment of RISs in a similar to that done by the OBPR in Canberra?*

Our response to these questions, as well as to the questions in your original request about regulatory impact assessments (for which there are no relevant documents), are as follows:

How many staff (FTEs) are employed by Treasury in the RIS assessment function?

The amount of resources in Treasury dedicated to the QA of regulatory impact statements has changed over time, with reference to the fluctuating volume of RIS's being produced, the QA capacity/capability of other departments, and internal priorities. At the moment, the Regulatory Strategy Team has approximately 1 FTE dedicated to the QA of Regulatory Impact Statements. Beyond the Regulatory Strategy Team there is some additional resource applied to the QA of RIS, such as through members from other teams sitting on QA panels.

To what extent does Treasury engage external subject matter specialists to assist Treasury in reviewing draft RISs?

Draft Regulatory Impact Statements (RISs) may be reviewed using the Quality Assurance criteria by:

- Treasury's Regulatory Impact Assessment Team;
- Treasury's Regulatory Impact Assessment Team and experienced people within agencies (this may include the wider Treasury);
- Internal Quality Assurance panels within agencies;
- Panels made up of people from several agencies; and
- An individual assigned as the Quality Assurance specialist, who may be inside or outside of the agency (especially in the case of smaller agencies).

Currently, the more significant RISs are quality assured by the Treasury's Regulatory Strategy Team (RST) jointly with experienced people from agencies or other teams in Treasury. The majority of RISs are quality assured by an independent expert or panel established in the authoring agency for that purpose.

Where the agency is responsible for arranging Quality Assurance, the agency must ensure it is done by a person or group not directly involved in the policy process for the proposal. Agencies generally have a pool of experienced people who can be drawn on, on an ad hoc basis. This pool can include people from other agencies (not just internally sourced).

Independent Quality Assurance may be outsourced such as from a private sector consultant or subject matter expert (e.g., academic) for some large or complex pieces of work, or for small agencies where conflicts of interest are difficult to avoid.

Does Treasury report to Cabinet or Cabinet Committees on its assessment of RISs submitted to Cabinet/Cabinet Committee?

The review panel provides a Quality Assurance Statement for inclusion in the Impact Analysis Section of the Cabinet paper and in the RIS. The Treasury does not report separately to Cabinet or Cabinet Committees on its assessment of RISs submitted to Cabinet/Cabinet Committee.

Does Treasury report annually (publicly) on its assessment of RISs in a similar to that done by the OBPR in Canberra?

The Treasury has commissioned independent reviews of RISs and their quality assurance assessments. This is done on an ad hoc basis and the last review was in 2016. For more information please visit the following link to the Treasury website:

<https://www.treasury.govt.nz/information-and-services/regulation/impact-analysis/ris-review>.

A performance indicator on Significant Regulatory Impact Statements meet most or all of Regulatory Impact Analysis Requirements was last published in the Treasury Annual Report 2016/17. Please see page 54 of the document at the following link:

<https://www.treasury.govt.nz/sites/default/files/2018-03/ar16-17.pdf>.

The nature and extent to which the Treasury undertakes meaningful assessments of regulatory impact assessments and cost/benefit analyses of the RBNZ, and reviews the adequacy of the consultation processes adopted by the RBNZ. The level of resourcing in Treasury for undertaking reviews of regulatory impact statements and cost/benefit assessments of government agencies.

Treasury's Regulatory Impact Assessment (RIA) Team has some oversight of RBNZ proposals but generally RBNZ arranges independent quality assurance of its regulatory proposals in line with Treasury's guidance. the RIA team generally only gets involved with QA of significant RISs, which is assessed on a case-by-case basis.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This reply addresses the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

Renee Philip
Manager Macroeconomic and Fiscal Policy

TOIA 20220012

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Treasury Report: Appointing the monitor of the Reserve Bank

Date:	25 November 2021	Report No:	T2021/2508
		File Number:	CM-1-3-122-1

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	Agree to appoint the Treasury as monitor of the Reserve Bank. Provide feedback on the draft letter of monitoring expectations.	9 December 2021

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Leona Feng	Senior Analyst, Financial Markets	s9(2)(k)	s9(2)(g)(ii)	✓
Alice Courtney	Senior Analyst, Commercial Performance			
Dasha Leonova	Manager, Financial Markets			
Lars Piepke	Acting Manager, Commercial Performance			

Minister's Office actions (if required)

Return the signed report to the Treasury. **Provide** the Treasury with any feedback on the draft letter.

Note any feedback on the quality of the report

Enclosure: Yes (attached)

Treasury Report: Appointing the monitor of the Reserve Bank

Executive summary

The Reserve Bank of New Zealand Act 2021 (the Act) received Royal assent on 16 August 2021, and is expected to come into force on 1 July 2022. On commencement of the Act, the new Board will become accountable for the Reserve Bank's governance and all its functions, replacing the Reserve Bank's single decision-maker model. The Monetary Policy Committee (MPC) will continue to be responsible for formulating monetary policy. The new Board will continue to monitor the MPC.

At present, the Reserve Bank Board is also the Minister's primary monitoring agent for the Reserve Bank. Under the new Act, the new Board will be accountable for the Reserve Bank's governance and all its functions, and the current monitoring arrangements will need to change to align with the shift to a governance board. Cabinet has agreed in principle that the Treasury will be the new monitor of the Reserve Bank [*DEV-19-MIN-0161; CAB-19-MIN-0303 refer*].

To ensure there is clarity as to the role and expectations for the monitor, the Minister is required to issue a notice of expectations to the monitoring agency (section 81 of the Act). This first notice must be given as soon as practicable after the main commencement date.

In forming the proposed monitoring expectations, we have drawn on the principles and practices that guide the Treasury's monitoring approach for other entities. The Treasury considers that an active and engaged approach to monitoring is in line with best practice and is necessary to support your statutory role in relation to the Reserve Bank. The Treasury is also preparing a request for funding through Budget 2022 in order to give effect to this new monitoring role. The draft letter, along with any feedback you have, will be used to guide the Treasury's establishment of the monitoring role ahead of the formal commencement date of the Act. The Reserve Bank has been consulted on the draft letter of monitoring expectations, and its feedback has been included in the draft letter.

Recommended Action

We recommend that you:

- a **note** that section 80(1) of the Reserve Bank of New Zealand Act 2021 (the Act) provides for the Minister of Finance to appoint a department as the monitor of the Reserve Bank of New Zealand (the Reserve Bank),
- b **note** that Cabinet has made an in-principle decision that the Treasury will be the monitor of the Reserve Bank [*DEV-19-MIN-0161; CAB-19-MIN-0303 refer*],
- c **agree** to appoint the Treasury as the department who will monitor the Reserve Bank, consistent with section 80(1) of the Act,

Agree/disagree

- d **note** that section 81(1) of the Act provides for the Minister to give a written notice to the monitor that sets out the Minister's expectations relating to the monitor carrying out that role,
- e **provide** feedback on the attached draft letter of monitoring expectations,
- f **note** that this draft letter, including your feedback, will be used to guide Treasury's implementation of the monitoring role ahead of the formal commencement date of the new Act, which is expected to be 1 July 2022,
- g **note** the Treasury is seeking funding through Budget 2022 to give effect to the new monitoring role,
- h **note** that the notice of monitoring expectations is required to be given as soon as practicable after the commencement date of the Act, so a final version of this letter will be submitted for your signature at that time,
- i **note** that the Reserve Bank has been consulted in preparing the draft letter.

Dasha Leonova
Manager, Financial Markets

Lars Piepke
**Acting Manager, Commercial
Performance**

Hon Grant Robertson
Minister of Finance

Treasury Report: Appointing the monitor of the Reserve Bank

Purpose

1. This report seeks your agreement to appoint the Treasury as the monitor of the Reserve Bank of New Zealand (Reserve Bank). It also provides a draft letter of monitoring expectations (i.e. the written notice to the monitor) for your feedback.

Context

In-principle decisions

2. In 2019, you agreed that the Treasury, as the Government's lead economic and financial advisor, would be the most appropriate organisation to administer the Reserve Bank's enabling legislation i.e. the new Reserve Bank of New Zealand Act 2021 (the Act) [T2019/2764 refers].
3. We advised the Treasury would be well-placed to perform the monitoring role. Where regulatory functions are performed by an independent entity, monitoring is generally carried out by the relevant policy department. We considered there were strong synergies between administration of the Act and monitoring the Reserve Bank, and the Treasury would be best placed to undertake both roles as the Minister's agent.
4. On 19 June 2019, Cabinet made in-principle decisions that the Treasury will administer and be the monitoring agency for the Reserve Bank [DEV-2019-MIN-0161; CAB-19-MIN-0303 refer]. These decisions were confirmed on 11 December 2019 [DEV-19-MIN-0345; CAB-19-MIN-0675 refer].

Reserve Bank Act 2021

5. The Act received Royal assent on 16 August 2021, and is expected to come into force on 1 July 2022. The Act replaces the Reserve Bank's single decision-maker model with a governance board, strengthens the Reserve Bank's accountability and transparency requirements, provides a clearer financial policy mandate for the Reserve Bank, and provides for an external monitoring department to be appointed by the Minister.

Key changes to monitoring under the Act

Role of the Board

6. At present, the Reserve Bank Board is the Minister's primary monitoring agent for the Reserve Bank. The main function of the Board is to review the performance of the Governor and the Reserve Bank on behalf of the Minister. The Treasury currently provides a secondary monitoring role (e.g. reviewing the Reserve Bank's Statement of Intent (SOI) and providing advice on the funding agreement and annual dividend).
7. On commencement of the Act (expected to be 1 July 2022), the new Board will become accountable for the Reserve Bank's governance and all its functions, other than those given to the Monetary Policy Committee (MPC) for formulating monetary policy. The new Board will continue to monitor the MPC.

8. The Board's new role includes responsibility for financial policy matters, which means it has significant policy responsibility in relation to developing prudential requirements for regulated entities (e.g. under the future Deposit Takers Act and other sectoral legislation), in addition to the responsibility for supervision and enforcement of regulated entities, crisis management and the Reserve Bank's future role tied to depositor compensation.
9. This new governance model largely parallels the provisions that apply to Crown entities under the Crown Entities Act 2004. This is a well-developed framework that relies on the Minister, the entity, and the monitoring department working well together to deliver on the entity's objectives.¹

New monitoring arrangements

10. The current monitoring arrangements will need to change to align with the shift to a governance board. To assist the Minister in their role to oversee and manage the Crown's interests in, and relationship with, the Reserve Bank and to exercise any statutory responsibilities given to the Minister, the Act provides for an external monitoring agency to be appointed by the Minister (section 80 of the Act). Monitoring plays an essential role in assessing whether regulatory agencies are effective, efficient and accountable.
11. The role of the monitor includes assisting the Minister to carry out his role under the Act (for example by appointing members of the Board, participating in the process of setting the Reserve Bank's strategic direction and performance expectations, monitoring the Reserve Bank's performance, issuing a Financial Policy Remit, and agreeing a foreign exchange framework with the Reserve Bank), administering appropriations, administering legislation and tendering advice to Ministers.
12. To ensure there is clarity as to the role and expectations for the monitor, the Minister is required to issue a notice of expectations to the monitoring agency (section 81 of the Act). This first notice must be given as soon as practicable after the main commencement date.

An active and engaged approach to monitoring

13. The Treasury performs an essential stewardship function in relation to best practice Crown entity monitoring and Crown ownership policy. Currently, it is responsible for providing advice to Ministers on the performance of nearly forty companies and entities in which the Crown has an interest. These existing capabilities and frameworks will be leveraged to develop the monitoring approach for the Reserve Bank.
14. The Treasury considers that an active and engaged approach to monitoring is in line with best practice and is necessary to support your statutory role in relation to the Reserve Bank. The monitoring role will include:
 - a Building and maintaining a constructive relationship with the Reserve Bank Board and management.
 - b Supporting the development of high-quality public accountability information by the Reserve Bank.
 - c Providing an independent view to the Minister on the Reserve Bank's strategic direction, performance, risks to the organisation and opportunities for organisational improvement.

¹ This reflects the "It Takes Three: Operating Expectations Framework" endorsed by the Public Service Commission.
T2021/2508 Appointing the monitor of the Reserve Bank

15. The Treasury will now have both a second opinion policy role and monitoring role. This is not a unique situation with the Treasury already navigating both policy and monitoring roles for entities such as the Earthquake Commission and the Crown Financial Institutions. The Treasury will coordinate these roles with clear role definition to achieve efficient and effective performance of these functions.

Expectations of the monitor

16. In forming the proposed monitoring expectations, we have drawn on the principles and practices that guide the Treasury's monitoring approach. These include the Public Service Commission's *'It Takes Three'* framework for statutory Crown entities and the Treasury's *'Owner's Expectations'* for Crown companies and entities monitored by the Treasury. These guides provide a good framework for monitoring the Reserve Bank, even though it is neither a Crown entity, nor a Crown company.
17. Drawing on this framework as a base, the approach to monitoring the Reserve Bank will be developed over the coming months and will be based on a number of inputs including further engagements with the Board chair, Reserve Bank management and the transition board. We therefore note that these proposed expectations and approach may be subject to further refinement and development.

Key expectations of the monitor

18. The attached draft letter of monitoring expectations is largely self-explanatory. The following sections draw out some of the key points.

Performance reporting

19. The Treasury assesses performance of entities across a range of dimensions including strategic alignment, effective leadership, organisational capability and capacity, and achievement of financial and operational results. This framework aims to capture a broad view of performance and to provide leading indicators of risks and opportunities on the horizon. Our approach to performance reporting is flexible and will take into account the particular context of the Reserve Bank.
20. The Treasury reports to Ministers formally on performance twice per year across the portfolio of Crown companies and entities. We anticipate the Reserve Bank would be included in this regular portfolio reporting. We would also report on other performance matters when they arise.
21. We utilise a range of information to inform our monitoring, including from the entity and from keeping across relevant industry trends. We are currently establishing relationships and setting up expectations with the Reserve Bank to ensure efficient information flows. We will provide you with advice in early 2022 regarding your Letter of Expectations (LOE) to the Reserve Bank for the 2022/23 financial year. This will include advice that these expectations regarding information flows be reinforced in your letter (as is standard practice for inclusion in entity LOEs).
22. Given the Reserve Bank is not a government department and will be delegated significant policy responsibility as an independent entity, some oversight of its financial policy processes would be appropriate. This would not amount to assessing the Reserve Bank's policy judgements on financial stability, but would look at the transparency and accountability of policy processes, which would be important from a reputational perspective. This is a separate role to the Treasury's second opinion advice on financial policy matters.

Governance and appointments

23. You have agreed to appoint Professor Neil Quigley as the new Board Chair from 1 July 2022, and Rodger Finlay and Susan Paterson as new board members. All three are members of the transition board, which had its first meeting in early November 2021. The Treasury is working (in coordination with the future Chair) to recruit the remaining three members of the new Board over the coming months.

Administering the annual accountability cycle

24. The Act includes requirements for new accountability documents, specifically a Statement of Performance Expectations, a Statement of Financial Risk Management, and a Statement of Prudential Policy. The Treasury will engage with the Reserve Bank in the preparation of these important accountability documents. The Reserve Bank has signalled it will share early drafts with the Treasury to assist the consultation process.

Other issues to note*Main commencement date*

25. It is proposed that the new Act will commence on 1 July 2022 [T2020/1269 refers]. A commencement order (via an Order in Council) will be required to give effect to the commencement date. We will provide further advice in early 2022 on the commencement order.

Treasury's role in relation to monetary and financial policy

26. The Treasury is responsible for regulatory stewardship of the new Act, which provides the institutional framework for the Reserve Bank. This includes advising the Minister on the development of the financial policy remit and other matters in relation to the Act.
27. With respect to the Reserve Bank's policy functions, the Treasury also plays a separate role in advising the Minister. For monetary policy, while the Reserve Bank has operational independence, the Treasury has a stewardship responsibility for the macroeconomic frameworks that the Reserve Bank operates within. For example, the Treasury provides advice on the economic objectives for monetary policy as set out in legislation, and the operational objectives as specified in the MPC's remit.
28. For financial policy, the Reserve Bank is the lead policy advisor and the Treasury provides second opinion advice on financial stability issues. This includes second opinion advice on the development of macroprudential and microprudential policy measures and the future Deposit Takers regime.

The first Financial Policy Remit must be issued by 1 July 2022

29. The Act requires that the Minister of Finance issue a Financial Policy Remit (after consulting with the Reserve Bank), which provides a mechanism to communicate the Government's policies and priorities, while respecting the independence of the Reserve Bank in setting prudential policy.
30. The Financial Policy Remit will enable the Minister to set out matters that the Reserve Bank must have regard to when setting the prudential strategic intentions and making prudential standards. This would be issued at least five yearly, and the first remit must come into force on the main commencement date. We will provide further advice to you on the draft Financial Policy Remit in early 2022.

31. Unlike the monetary policy remit, which the MPC must act consistently with when formulating monetary policy, the Reserve Bank is only required to have regard to the Financial Policy Remit when making decisions on prudential policy.

Request for funding in Budget 2022

32. The responsibility for monitoring the Reserve Bank is a new function under the Act. The monitoring approach proposed will require new resource within the Treasury to provide sufficient capability, capacity and resilience to give effect to the role. We note that the Treasury is preparing a request for funding through Budget 2022 in order to give effect to this new monitoring role. s9(2)(f)(iv)

Consultation

33. The Reserve Bank has been consulted on the draft letter of monitoring expectations, and its feedback has been included in the draft letter.
34. In developing our monitoring approach, we will engage with and be guided by best practice across other Crown entities and overseas regulators. We have recently discussed with the Australian Treasury its approach to monitoring financial regulators.

Next Steps

35. The draft letter, along with any feedback you have, will be used to guide the Treasury's establishment of the monitoring role ahead of the formal commencement date of the Act, which is expected to be 1 July 2022. It will also allow adequate time for the Reserve Bank to take into account your monitoring expectations and engage with the Treasury as it prepares new accountability documents for the 2022/23 financial year. These accountability documents will need to be drafted in early 2022 to meet the timeframes in the Act.
36. The notice of monitoring expectations is required to be given as soon as practicable after the commencement date of the Act, so a final version of this letter will be submitted for your agreement and signature at that time. This will also provide the opportunity to include refinements that arise from the establishment process.
37. The table below sets out the next steps related to the monitoring and implementation work, leading up to the Act coming into force on 1 July 2022.

Next steps	Timeframe
Minister's feedback on draft letter of monitoring expectations	9 December 2021
Advice to Minister on draft Financial Policy Remit and commencement order	Early 2022
Advice to Minister on 2022/2023 Letter of Expectations to the Reserve Bank	Late January 2022
Advice to Minister on Board candidates	February 2022
Consultation with Reserve Bank on Financial Policy Remit	March 2022

Minister formally issues notice to the monitor	1 July 2022
Reserve Bank of New Zealand Act 2021 (including monitoring arrangements and Financial Policy Remit) come into force	1 July 2022
Advice to Minister on draft Statement of Performance Expectations and Statement of Intent	July/August 2022



Reference: T2020/2456 MC-1-2 (Reserve Bank Funding and Operation)

Date: 23 July 2020

To: Minister of Finance (Hon Grant Robertson)

Deadline: 6 August 2020

Aide Memoire: Reserve Bank 2019/20 Annual Dividend Recommendation

The Reserve Bank (the Bank) reported to you its provisional 2019/20 dividend recommendation on 23 July 2020. This aide memoire informs your response to the Bank's in principle recommendation. We broadly support this recommendation.

What is the Bank annual dividend?

In accordance with section 162(3) of the Reserve Bank of New Zealand Act 1989 (the Act), you determine the dividend amount the Bank must pay to the Crown with regard to the recommendation of the Bank, the views of the Board of the Bank and any other relevant matters.

Every year, the Bank formally recommend a dividend in late-August after its annual external audit and subsequent Board meeting. According to the Act, this recommendation must be made in accordance with the principles set out in its Statement of Intent. These principles were originally agreed in 2009 and have not changed substantively since.¹ The key principle relevant to the Bank's recommendation this year is:

- *The Reserve Bank should maintain sufficient equity for the financial risks associated with performing its functions. Equity in excess of that required to cover those risks will be distributed to the Crown.*

The Bank's dividend equals its revenue remaining after funding its operating expenses and retaining enough capital to offset the financial risk on its balance sheet. The Bank refer to this capital level as its target capital level. The Bank usually estimates this capital level through a backward-looking, largely mechanical process which aims to offset 99.9% of potential losses.

¹ In 2009 the Bank moved from a formula-based model to its current principles-based approach in determining its recommended dividend.

The Bank's dividend payment has no implication on net core Crown debt and OBEGAL because it is a transfer within the government reporting group.

The Bank's 2019/20 provisional dividend recommendation

This year, the Bank recommends increasing its 2020/21 target capital level from \$2.3 billion to \$2.4 billion. This is the first increase in its capital level since 2013. This increase ensures the Bank can offset most of the overall increased risk on its balance sheet following COVID-19.² The two points below are the main aspects contributing to this year's recommended increase in capital. In addition, improvements to the Bank's statistical model partly offset the estimated increase in capital.

1. The Bank's response to COVID-19 introduced new liquidity facilities that increased the risk on its balance sheet. The main source of increased risk is the Term Lending Facility, which supports the Business Finance Guarantee Scheme. The main risk from this facility is interest rate risk. This results from a potential earning difference between the fixed loan interest rate and the Official Cash Rate (OCR), if the OCR falls.
2. A stress-test scenario where a severe yet plausible 30% appreciation in the New Zealand dollar causes the Bank to face financial losses and end up in negative equity. This scenario is part of the Bank's new approach to calculating the target capital level. These scenarios require more judgement and complement the Bank's usual more mechanical statistical process. This 30% appreciation scenario suggests the Bank requires more capital than the statistical process suggests.

The Bank is therefore recommending increasing capital to offset these specific risks. This increase in capital excludes risks from facilities that have received a Crown indemnity. You have provided an indemnity to offset risk from Large Scale Asset Purchases (LSAPs). You are receiving advice on an indemnity request for an expanded LSAP programme and an expanded term lending facility (funding-for-lending programme) today (T2020/2364 refers – *Indemnifying the Reserve Bank for further Alternative Monetary Policy tools*).

This year, the Bank recommends withholding its \$210 million 2019/20 realised earnings which would usually be the dividend. The Bank Board Audit Committee has also confirmed its support for withholding the \$210 million realised earnings. There are two aspects to this recommendation.

1. The Bank would use \$100 million of its realised earnings to increase capital from \$2.3 billion to \$2.4 billion.

² The Bank offsets risk so it can avoid going into negative equity. The Bank aim to offset all risk except for a 1-in-1000 year shock. The Bank want to avoid negative equity as it can have negative impacts on Bank independence and credibility.

2. The Bank would hold the remaining \$110 million as a buffer. The Bank suggest this buffer would offset heightened uncertainty about the financial risks associated with performing its functions and the potential need for the Bank to take additional actions in the future to achieve its policy objectives. The Bank prefers to temporarily preserve financial capacity so it can react quickly and strongly to adverse circumstances if the need arises. The Bank does not intend to permanently withhold this buffer. It has indicated that when conditions improve and there is less uncertainty and risk, it will distribute the surplus capital. The Bank and government took a similar approach following the global financial crisis.

We broadly support the Bank's 2019/20 dividend recommendation

We are comfortable the Bank's recommendation outlined above is consistent with the dividend principles set out in its Statement of Intent. That is, the Bank should maintain sufficient equity for the financial risks associated with performing its functions and distribute excess equity to the Crown.

We are comfortable the Bank withholds \$110 million of the realised earnings as a buffer given it does not intend for the retained earnings to be permanent. However, alternative options are possible. If the Bank were required to introduce additional facilities at short notice, it could operate with increased financial risk temporarily, request a capital injection, withhold a future dividend, or request an indemnity. The risks to the total Crown are largely the same under each scenario. As noted above, the Bank is taking a more risk averse approach by increasing capital and so it is debatable whether it needs to withhold more earnings to offset further uncertainty. Given this is a temporary buffer and there is heightened uncertainty due to COVID-19 we are comfortable with the Bank's recommended approach.

Next steps

If you agree in principle with the Bank's recommendation then you will need to agree to the Bank's formal recommendation in late-August. If you disagree or want further advice then please notify us and we will consult further with the Bank ahead of its formal recommendation.

Connor Gavin, Graduate Analyst, Macroeconomic and Fiscal Policy, s9(2)(k)
Renee Philip, Manager, Macroeconomic and Fiscal Policy, s9(2)(k)



Reference: T2021/1968 MC-1-2

Date: 26 August 2021

To: Minister of Finance (Hon Grant Robertson)

Deadline: 30 August 2021

Aide Memoire: Reserve Bank 2020/21 Annual Dividend Recommendation

This Aide Memoire provides additional context and information to help inform your determination of the Reserve Bank of New Zealand's ('the Bank') annual dividend.

The Bank has provided you with its annual dividend recommendation for 2021, recommending that a dividend of \$140 million be paid to the Crown for the year ended 30 June 2021. This recommended includes \$110 million of realised earnings held back last year as a buffer against uncertainty. The Treasury supports this recommendation.

The Bank's dividend payment has no impact on the Government's headline fiscal indicators because it is a transfer within the government reporting group, however it influences the Bank's capacity to take on financial risk when performing its functions.

What is the Bank's annual dividend?

Section 162 of the Reserve Bank Act of New Zealand 1989 (the Act) requires you to determine the annual dividend to be paid, having regard to the recommendations of the Bank, the views of the Board of the Bank, and any other relevant matters.

The Bank's dividend recommendation must be made in accordance with the principles set out in its Statement of Intent (see annex) and is calculated in a similar manner most years. The Bank recommends a dividend equal to the revenue remaining after the Bank has funded its operating expenses and retained enough capital to offset the financial risk on its balance sheet. The Bank refers to the capital needed to offset the financial risk on its balance sheet as its target capital level. The Bank usually estimates this capital level through a backward-looking, largely mechanical process which aims to offset 99.9% of potential losses.

The Bank's dividend payment has no impact on core Crown net debt or the total Crown operating balance before gains and losses (OBEGAL) because it is a transfer within the government reporting group. The Bank's losses, however, will impact the total Crown operating balance.

The dividend recommendation is separate from the forward-looking process for agreeing the Bank's five-year funding agreements. The five-year funding agreement covers the period from 1 July 2020 to 30 June 2025, providing funding of \$122.8 million for 2020/21.

Context

The Bank withheld paying a \$210 million dividend for the financial year 2019/20 [T2020/2456 refers].

- \$100 million was withheld by the Bank to reflect an increase in the Bank's target capital level from \$2.3 billion to \$2.4 billion. The increase was driven by a new stress-test scenario¹ (in addition to the Bank's existing Value-at Risk modelling) and to account for risk from activities undertaken in response to COVID-19 (in particular, the Term Lending Facility), consistent with the risk based dividend principles.
- A further \$110 million was withheld by the Bank as a buffer for the 2020/21 year to cover for the heightened uncertainty from COVID-19.
- You have confirmed your interest in this \$110 million buffer being returned in 2020/21 if uncertainty decreased.

A review of the Bank's financial arrangements is currently underway, but will not be finished in time to influence the 2020/21 dividend recommendation. This review involves advice which may have implications for the Bank's capital level, either through a request for more capital, or through the 2021/22 dividend process. Separately, the Bank is reviewing the modelling it uses to determine the Bank's target level of capital.

The Bank is also reviewing the level of foreign exchange reserves it holds, which may have capital implications. This review will inform the Foreign Reserves Management and Co-ordination framework to be agreed between yourself and the Bank when the new Reserve Bank of New Zealand Act comes into force in July 2022.

The Bank's 2020/21 dividend recommendation

The Bank has recommended that a \$140 million dividend be paid to the Crown for the 2020/21 financial year. This recommendation is based on the Bank's financial position for the year ended 30 June 2021, along with the Bank's target level of capital, and changes in both unrealised gains and revaluation reserves.

The Treasury is satisfied that the Bank's recommendation is consistent with the dividend principles set out in the Bank's Statement of Intent. The Board of the Bank has also confirmed its support for the recommendation of a \$140 million dividend.

The Bank has provided the Treasury with relevant Audit Committee papers. You may wish to note the following information from these papers:

- **The recommended dividend comprises \$110 million held back last year, and realised earnings (less accumulated unrealised FX losses) in 2020/21 of \$30 million.** The Bank reported an overall loss \$107 million for 2020/21. The difference between this loss and the \$30 million realised earnings represents a

¹ The Bank models a scenario under which the New Zealand dollar appreciates by 30 percent and domestic interest rates rise and credit losses occur from the default of a small number of domestic and foreign entities.

\$137 million decrease in the level of unrealised gains that existed at the beginning of the year.

- **The Bank's audited net equity position has decreased by \$134 million for the year ended 30 June 2021 to total \$2,975 million, and is attributable to:**
 - An overall loss of \$107 million – Realised gains through the 2020/21 year of \$37 million were offset by unrealised losses associated with the interest rate and currency revaluations totalling \$144 million.
 - Revaluation reserves decreased by \$27 million – Consisting of small decreases in the value of the Bank of International Settlements shares and property, currency and artworks.
- **The Bank proposes retaining a target capital level of \$2,400 million, unchanged from 2019/20.** This leaves \$140 million of surplus equity available for distribution, calculated as the total net equity position less revaluation reserves and unrealised interest rate revaluation gains.
- **The Bank's Funding for Lending Programme has minimal impact on the required capital level.**
- **The Bank has remained within its funding agreement for 2020/21.** Net operating expenses for 2020/21 were \$93 million, \$30 million below the amount in the funding agreement, due to staff vacancies and delayed work impacted by COVID-19 and a data breach. Likewise, direct net currency issue expenses were \$7 million below the funding agreement.

Next steps

If you agree with the Bank's dividend recommendation, we recommend that you respond to the Bank's dividend recommendation letter and direct the Bank to pay a dividend of \$140 million to the Crown for the year ended 30 June 2021. The Bank has requested a response by Monday 30 August 2021 to give the Bank enough time to finalise their annual financial statement and audit within their legislatively required timeframe. If you disagree with the Bank's dividend recommendation, the Bank has indicated a preference to discuss your options.

Sarah Unwin, Graduate Analyst, Macroeconomic and Fiscal Policy, s9(2)(k)
Katy Simpson, Team Leader, Macroeconomic and Fiscal Policy, s9(2)(k)

Annex

The Bank's Dividend Principles

The Bank's dividend recommendation to the Minister must be made in accordance with the principles set out in its Statement of Intent.² As of the 2021 Statement of Intent, these were:

- *The Reserve Bank should maintain sufficient equity for the financial risks associated with performing its functions. Equity in excess of that required to cover those risks will be distributed to the Crown.*
- *In general, unrealised gains should be retained by the Reserve Bank until they are realised in New Zealand dollars. However, we may recommend the distribution of unrealised gains where we believe the probability of the gains being realised is high.*

² In 2009 the Bank moved from a formula-based model to its current principles-based approach to determine its recommended dividend.

Key Monitoring Engagement Relationship Principles				
1. Recognition of Framework	2. Close Engagement	3. Transparency	4. Timeliness	5. Consultation
<ul style="list-style-type: none"> • Board accountable for governance and performance of the RBNZ from July 2022. • Treasury monitoring from July 2022 to provide the Minister of Finance with an independent view of material strategic issues, risks and influences on performance and any action required. 	<ul style="list-style-type: none"> • Access to RBNZ senior management and Board Chair. • Availability of senior Treasury resource for key engagements. • Treasury Monitoring Team has dedicated Relationship Managers for the RBNZ relationship. 	<ul style="list-style-type: none"> • Open approach taken by both parties with regard to work programmes and strategy. • Both Treasury and RBNZ operating on a 'no surprises' basis (noting there may be limitations in relation to monetary policy and regulatory actions). 	<ul style="list-style-type: none"> • Timely notification by each party of emerging issues, risks and key strategic developments. • Timely access to relevant documentation (including performance information). 	<p>RBNZ and Treasury Monitoring Team to, where appropriate, consult each other on key briefings to the Minister prior to finalisation, recognising the roles of the respective parties and in line with the principle of 'no surprises'. There should be a reasonable timeframe for consultation.</p>

Monitoring Engagement Plan*					
1. Leadership & Operational Engagement		2. Accountability Documents	3. Performance Reporting	4. Governance & Appointments	5. Cross-Treasury Coordination
Senior Leaders	Monitoring Team				
<ul style="list-style-type: none"> • Caralee/Leilani (Dep Sec sponsor) meet Transition Board (November and 2022). • Six-monthly Dep Sec-level meetings with senior RBNZ executives. • Monitoring implementation as a standing agenda item for regular Secretary/Governor meeting. • Leilani as escalation point to Chair/Governor, if required. 	<ul style="list-style-type: none"> Initial focus on building relationships and connecting with the expected primary contact points for the monitoring relationship. • Fortnightly/monthly catch-up with implementation team. • Monthly meetings with Transition Board Chair. • As required with GM Governance, Strategy, and Corporate Relations (strategic matters) and CFO (funding matters). 	<ul style="list-style-type: none"> • Active consultation throughout development of draft and formal versions of accountability documents. Key contact between Monitoring Team and RBNZ Performance and Corporate Relations team. 	<ul style="list-style-type: none"> • Initial engagement to establish regular performance reporting and information sharing protocols (including confidentiality protocols for market sensitive information). To be developed with RBNZ and agreed with Board Chair. 	<ul style="list-style-type: none"> • The Treasury Governance & Appointments Team will work with the RBNZ Board Chair and will coordinate with the Monitoring Team, when relevant, regarding the appointments process and governance matters that inform performance monitoring. 	<ul style="list-style-type: none"> • Monitoring Team in regular contact with other Treasury teams to maintain visibility of workstreams relating to the RBNZ, and to ensure that information requests and flows are streamlined where possible and practical.

*This plan is focussed on the current monitoring establishment phase (i.e. from now until the end of June 2022). It will evolve later into more of a business-as-usual monitoring engagement plan.

Policy & Operational Engagement
<ul style="list-style-type: none"> • The Treasury policy and operational teams (principally <u>Financial Markets</u>, <u>Macroeconomic Policy</u> and <u>Capital Markets</u>) will continue to engage with the RBNZ (at various relevant touch points) on particular streams of work. The policy teams will provide second-opinion policy advice independently of, but in coordination with, the Monitoring Team. • The RBNZ has various engagements with the Minister. Treasury teams will coordinate to ensure that the appropriate team is in attendance if required. • The <u>Treasury Observer</u> role on the Bank's MPC will operate independently of the Monitoring Team. • The Treasury <u>Fiscal Reporting Team</u> will work with the RBNZ and will coordinate with the Monitoring Team as required. • Other Treasury teams (e.g. <u>Legal</u>, <u>Communications</u>) may interact directly with the RBNZ from time to time and will coordinate with the Monitoring Team as relevant.

Briefing: Leilani Frew – Lunch meeting with RBNZ Board and Senior Leadership Team on 21 October 2021

19 October 2021

Purpose

This briefing provides an update on monitoring and governance issues ahead of your lunch meeting with the Reserve Bank of New Zealand (RBNZ) board and senior leadership team (SLT) scheduled for Thursday 21 October 2021.

Attendees

The tables below set out the current board and SLT of the RBNZ.

Board	
<i>Name</i>	<i>Role</i>
Professor Neil Quigley	Chair
Fiona Mules	Director
Susan Paterson	Director
Jonathan Ross	Director
Tania Te Rangingangana Simpson	Director
Dr Chris Eichbaum	Director

Senior Leadership Team	
<i>Name</i>	<i>Role</i>
Adrian Orr	Governor
Geoff Bascand	Deputy Governor / General Manager Financial Stability
Mike Wolyncewicz	Assistant Governor / CFO Finance
Simone Robbers	Assistant Governor / General Manager Governance, Strategy and Corporate Relations
John McDermott	Acting Assistant Governor / General Manager Business Operations
Juliet Tainui-Hernandez	Assistant Governor / General Manager Transformation and People
Christian Hawkesby	Assistant Governor / General Manager Economics, Financial Markets and Banking

Photos and summary biographies are **attached** to this briefing.

Geoff Bascand is leaving the RBNZ in January 2022. Christian Hawkesby will succeed him as Deputy Governor.

The RBNZ recently announced changes to its SLT, increasing from six to eight second-tier roles. The additional roles are the General Managers of 'Risk, Compliance and Legal Services' and 'Information and Data Analytics'. The senior leadership incumbents

have been confirmed, except for CFO Mike Wolyncewicz, who will be leaving the RBNZ next year. Recruitment for the vacant roles will commence shortly. A diagram of the new RBNZ SLT structure is **attached** to this briefing.

Governance

- Professor Neil Quigley has been reappointed as the Chair of the current board from 13 March 2022 until the current board ends with the creation of the new board on 1 July 2022.
- The process for appointment from 1 July 2022 of Professor Quigley as the new Chair for two years, and Rodger Finlay and Susan Paterson as new board members for five years, has been completed. These members, along with Suzanne Snively, are being contracted by the RBNZ as the 'transition board' on daily fees approved by the Remuneration Authority (Authority).
- The Authority is responsible for setting the fees for the new board, and also the remuneration for the Governor. This is different to the current arrangements, where:
 - board fees have been set by the Minister of Finance, with reference to the Cabinet Fees Framework
 - the Governor's remuneration has been set by agreement between the Minister and the Governor after consultation with the board.
- We are liaising with the Authority on the board fee process and expect the Authority will seek information from the transition board to inform its determinations.
- We are pursuing a new contract with a different external agency for recruitment of three further board members for the new board.

Monitoring Implementation

Engagement

- A Treasury team responsible for implementing monitoring for the RBNZ has been established within the Commercial Performance group. It is led by Principal Advisor Lars Piepke with Senior Analyst Alice Courtney, and overseen by Manager Shelley Hollingsworth. Brian McCulloch is providing additional contracted support.
- The team has already established regular contact with the RBNZ's Act implementation team, and a regular fortnightly catch-up is being scheduled.
- Last week the team met separately with the board Chair, Neil Quigley and Simone Robbers. At our meeting with Simone she indicated she would like to set up a meeting with you, Adrian and possibly Caralee, and that she would be reaching out to arrange this. We anticipate that this meeting would be to discuss the high-level approach to establishing the monitoring role, and roles and responsibilities for each party.
- A monitoring implementation relationship/engagement plan is being drafted. It will be shared with you shortly and then with the RBNZ.

Notice of Monitoring Expectations

- The Minister will be required under the new RBNZ Act 2021 to issue a notice of monitoring expectations to the Treasury as monitor. A draft has been prepared

(refer to the **attached** copy of the draft letter). It has been shared with the RBNZ and the board Chair for any comment.

- The draft letter covers the broad range of functions the Minister should expect from a monitor, including performance reporting, governance and appointments, administering the accountability cycle, relationship management, maintaining sector knowledge, and administering appropriations and legislation.
- This letter is expected to be agreed in principle by the Minister within the next month so it can form the basis of our monitoring implementation planning. It would be issued formally by the Minister once the RBNZ Act 2021 commences next July.

Letter of Expectations

- The next formal step in the accountability cycle will be the Letter of Expectations from the Minister, which is expected to be issued in December 2021. It will be prepared in coordination with the letters of expectations that are prepared for each entity across the Commercial Performance portfolio.
- Letters of expectation are intended to inform the development of the entities' business planning processes for the forthcoming year. Although they are not a legislated requirement, it is standard practice across the Crown to issue these letters to each entity at the start of each year's planning process.
- This letter will be consulted with the RBNZ as part of its preparation.
- This letter relates to the Minister's expectations of the RBNZ for the 2022/23 financial year, under the new RBNZ Act 2021. It will therefore be addressed to the board Chair, reflecting the change in governance arrangements under the new RBNZ Act 2021. In past years, the letter of expectations was addressed to the Governor with, in some years, a side letter also being sent to the board Chair.

Other Matters

s9(2)(d)



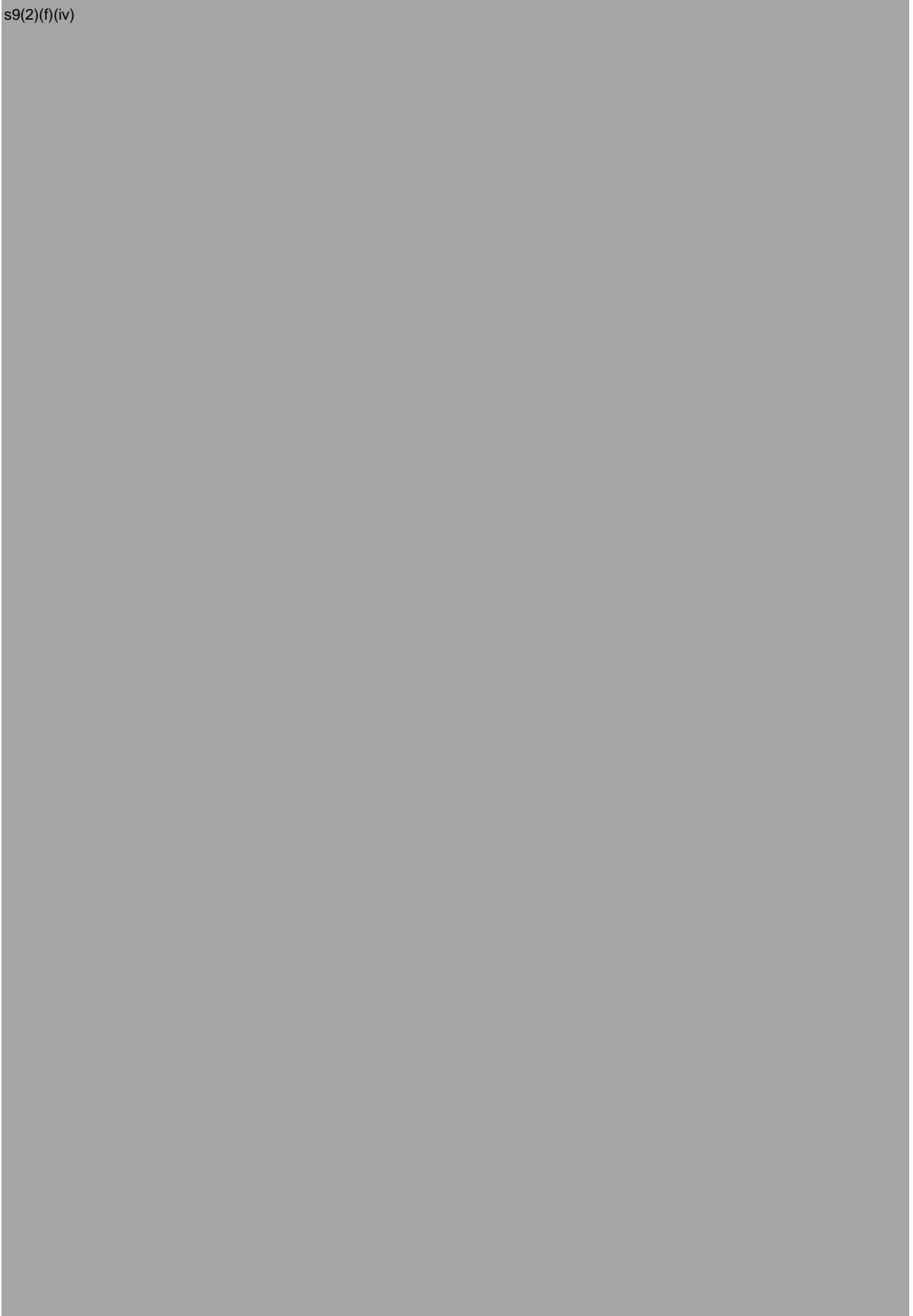
Financial Policy Remit

- Under the new RBNZ Act 2021, the Minister is required to issue a Financial Policy Remit (FPR), which sets out matters the RBNZ is required to have regard to in relation to its prudential strategic intentions and prudential standards. This will need


to come into force once the RBNZ Act 2021 commences next July. The RBNZ currently only makes standards in relation to insurers but will also have a standard making power for banks and other deposit takers when the Deposit Takers Act comes into force.

- The FPR is intended to communicate the Government of the day's policies and priorities, while respecting the independence of the RBNZ in setting prudential policy. It is distinct to the Monetary Policy Remit (which provides operational objectives for the RBNZ in relation to monetary policy).
- The Treasury's Financial Markets team is currently working on advice on the draft FPR and will consult with the RBNZ on this work. Advice on the draft remit is expected to go to the Minister in November 2021, and formal consultation on the remit with the RBNZ Governor and appointed members of the board is expected to take place in early 2022.


s9(2)(f)(iv)



s9(2)(f)(iv)










s9(2)(f)(iv)



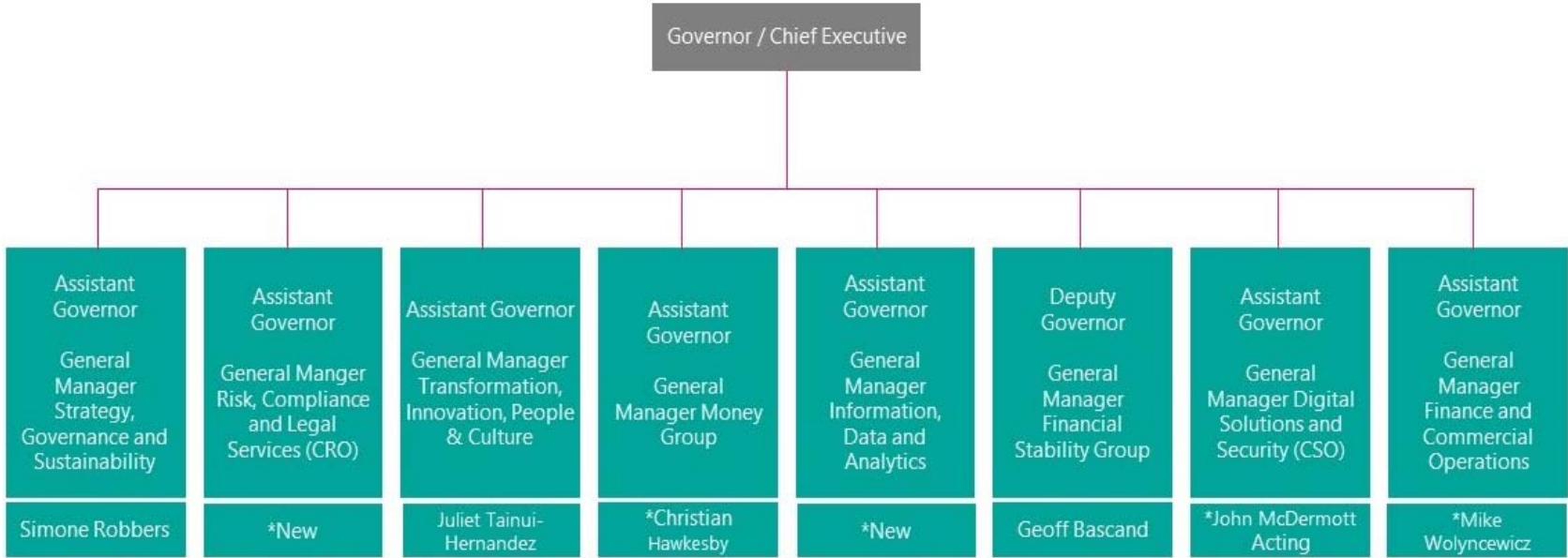
Attachment: RBNZ Board Summaries

	<p>Professor Neil Quigley, Chair, is Vice-Chancellor of the University of Waikato and is based in Hamilton. He has a BA and MA from the University of Canterbury and a PhD from the University of Toronto. Neil has been a director of the Reserve Bank of New Zealand since January 2010 and Chair since 2016. Neil has also served as a director of the New Zealand Qualifications Authority (NZQA) since 2010.</p>
	<p>Fiona Mules commenced her career as an investment banker specialising in transactions and valuations. Fiona helped the New Zealand Treasury to establish a Public-Private-Partnership (PPP) programme in New Zealand. Since leaving the Treasury, Fiona has pursued a governance career and continues to remain involved in large scale infrastructure financing and procurement in a consulting role. Fiona is based in Rangiora and joined the RBNZ board in February 2020</p>
	<p>Susan Paterson, ONZM, has been a professional director since 1996. She has a Bachelor of Pharmacy and practised as a pharmacist before moving into management roles. Susan completed an MBA at London Business School and was a strategy consultant for the Boston-based Index Group, focussing on the strategic use of IT. She chairs Steel and Tube and Theta Ltd, with other directorships including Goodman Property, Electricity Authority, Arvida Group Ltd, Eroad, and Sky TV. Susan is based in Auckland and joined the RBNZ board in July 2019.</p>
	<p>Jonathan Ross is a corporate, capital markets and financial services lawyer, based in Auckland. He retired as a partner of Bell Gully in February 2011 after 23 years. He has previously worked with major US and UK law firms. Jonathan has an LL.B. (Hons) from Victoria University of Wellington and a B.A. in Economics and Politics and a B.C.L. from Magdalen College, Oxford University, which he attended on a Rhodes Scholarship. Since leaving Bell Gully, Jonathan has also held a number of board positions and joined the RBNZ board in August 2013.</p>
	<p>Tania Te Rangingangana Simpson is of Tainui, Ngāi Tahu, and Ngā Puhi descent and is based in Hamilton. She is a director of Auckland International Airport, Tainui Group Holdings, and Ngai Tahu Tourism. She is a member of the Waitangi Tribunal, the Conservation Authority, the Waitangi National Trust and the Deep South National Science Challenge. She was made a Commander of the Order of the Taniwha in 2014 and a Commander of the Order of St Lazarus in 2017 for her services to Maori business and community. Tania joined the RBNZ board in June 2014.</p>
	<p>Dr Chris Eichbaum is an Adjunct Associate Professor in Government at Victoria University of Wellington and is based in Masterton. He is also a Senior Associate of the Institute for Governance and Policy Studies. He has been on the staff of three NZ Prime Ministers and was a Senior Ministerial Advisor. He has also held positions in the Australian Commonwealth and the New Zealand public service in policy advisory, and programme evaluation roles. Chris joined the RBNZ board in March 2018.</p>

Attachment: RBNZ Senior Leadership Team

	Adrian Orr, Governor , was appointed in March 2018. Prior roles include chief executive of the Guardians of the New Zealand Superannuation Fund, Deputy Governor and Head of Financial Stability at the Reserve Bank, and Chief Economist at Westpac Bank, as well as roles with The Treasury, OECD, National Bank, and NZIER.
	Geoff Bascand, Deputy Governor/General Manager Financial Stability Geoff leads the Financial Stability departments in the Bank, responsible for forming and implementing policies to promote a sound and efficient financial system. Geoff's role includes overseeing the major functions of policy and analysis, supervision and data and statistics. Before joining the Bank, Geoff was the Chief Executive of Statistics New Zealand.
	Mike Wolyncewicz, Assistant Governor/CFO Finance Mike leads the team responsible for the Reserve Bank's financial management, internal and external reporting, treasury systems and procurement. Mike has been the Reserve Bank's Chief Financial Officer since March 2000 and was appointed Assistant Governor in December 2018. Prior to joining the Reserve Bank Mike was Chief Financial Officer for At Work Insurance Limited.
	Simone Robbers, Assistant Governor/General Manager Governance, Strategy & Corporate Relations Simone is responsible for the Bank's strategic planning and performance function, communications, legal, risk and audit teams, and the Board secretariat. Simone has a wealth of public and private sector experience, most recently as Director of Strategy, Risk and Assurance at the Financial Markets Authority
	John McDermott, Acting Assistant Governor/General Manager of Business Operations John's responsibilities include digital services, property assets, security teams and business continuity arrangements.
	Juliet Tainui-Hernandez, Assistant Governor/General Manager Transformation & People Juliet has worked with Iwi and a large New Zealand law firm, and overseas in roles ranging from litigation and dispute resolution, risk management and regulatory compliance, strategy, development and delivery of business transformation projects. Juliet is of Ngāi Tahu and Whakatohea descent.
	Christian Hawkesby, Assistant Governor/General Manager Economics, Financial Markets & Banking Christian is responsible for formulating monetary policy, providing liquidity in financial markets, managing the foreign reserves, operating interbank payment and settlement systems, and the circulation of currency. Christian was part of the team that established Harbour Asset Management and before this, spent nine years at the Bank of England,

Attachment: New Reserve Bank Organisation Structure



* To be recruited

MEMO

Date: 11 August 2021 [With subsequently updated resourcing proposal]
To: Bryan Chapple, Leilani Frew
From: Andy Hagan, James Beard, Matt Gilbert
Prepared by: Leona Feng, Sarah Unwin, Madeleine Lock, Emily Howe
Subject: Reserve Bank Monitoring Proposals

Purpose

This memo seeks agreement from the Deputy Secretaries of Financial & Commercial and Macroeconomics & Growth to the recommendations outlined below regarding the Treasury's new monitoring function that it is expected to take on for the Reserve Bank of New Zealand (RBNZ). This memo sets out the proposed scope, approach, relationship management model, and resourcing required to carry out the Treasury's likely monitoring role.

Executive summary

The Treasury is expected to be appointed as the formal monitor of the RBNZ by the Minister of Finance following the passage of the Reserve Bank of New Zealand Bill on 10 August 2021. This role will formally come into effect once the legislation comes into force, from 1 July 2022.

Under the legislation, the Minister of Finance is required to issue a letter of monitoring expectations to the RBNZ's monitor, and the new legislative regime has been developed with the expectations of an active monitoring role. The Financial Markets, Macroeconomic & Fiscal Policy teams have led this work.

As part of considering the scope of and approach to monitoring, the Financial Markets, Macroeconomic & Fiscal Policy teams have approached the Commercial Performance (CP) and Financial Institutions (FI) teams to understand what best practice monitoring looks like and to develop a proposed approach. As a result of teams collaborating in this respect, we consider that best practice monitoring would include the following elements:

- i. assisting the Minister to execute their role with respect to monitoring and facilitating engagement with RBNZ Board;
- ii. assessing RBNZ's governance and management capability, giving effect to transparent operational, performance, risk and assurance policies; and
- iii. facilitating coordination of Treasury resource to provide an informed, objective perspective of RBNZ strategy and performance, including on implementation of significant projects, financial performance and use of its balance sheet.

Establishing a full primary monitoring role, with separate policy and monitoring functions, is recommended

Establishing a full primary monitoring role of the RBNZ would support the Minister's statutory oversight of the Crown's interests in and relationship with the RBNZ.¹ It would also help the Treasury to fulfil its role as the regulatory steward of the Reserve Bank of New Zealand Act 2021.

We propose separate policy and monitoring functions if a full primary monitoring role is established. CP has been identified as the most appropriate team for entity monitoring of the RBNZ. CP performs an important stewardship function in relation to best practice Crown entity monitoring and Crown ownership policy. CP has the ability to leverage its existing capabilities as a Crown monitoring centre with a proven track record and robust existing monitoring model for the new RBNZ function.²

Independence of policy and monitoring functions would best enable a proactive and engaged approach to CP's monitoring, and better enables management of potential conflicts at the senior relationship level and in advising the Minister. Under this approach, the policy teams (Financial Markets and MacroPol) would provide the advice to the Minister (with consultation from CP) on the letter of monitoring expectations, which will be addressed to CP. This letter will cover strategic monitoring objectives, key matters of importance in the Treasury and RBNZ relationship, and other risk factors.

There should also be a new relationship management approach for the monitoring role based on a Deputy Secretary sponsorship model


We propose that separate policy and entity monitoring be supported by a revised relationship management approach, based on a Deputy Secretary (DS) sponsorship model. On monitoring and governance issues, the DS of Financial & Commercial would assure the relationship with the RBNZ Board. On policy issues, the DS of Macroeconomics & Growth would be responsible for the relationship with the RBNZ Board or senior leadership. The Treasury Secretary would continue to lead the relationship with the RBNZ Governor on general policy issues. The relevant managers (or principal advisor for entity monitoring) would coordinate the relationship and day-to-day issues with the RBNZ Board.

Additional resourcing is required to support the full primary monitoring role

Responsibility for RBNZ monitoring requires investment in a function that currently does not exist, and which will require new resource within CP to provide sufficient capability, capacity and resilience to give effect to the role. Out of Scope

¹ Note that the term "primary monitoring" is to differentiate from a "secondary monitoring" function, which the Treasury also undertakes for other Crown companies, for example, the Crown Research Institutes. For clarity, the RBNZ Board has, and will continue to have, overriding responsibilities for oversight and monitoring of RBNZ activities and performance. The Treasury's monitoring role will not supersede the legally binding duties of the RBNZ's directors.

² CP also offers helpful links to entities it currently monitors (for example, EQC for its similar policy/entity monitoring model within Treasury and Kiwi Group Holdings (KGH) for its sector links. Note that Kiwi bank (a subsidiary of KGH) is regulated by the RBNZ – CP would manage any perceived or actual conflicts by appointing separate relationship managers to RBNZ and KGH.



The best practice monitoring approach proposed is based on the new function being adequately resourced. If sufficient resource is not able to be allocated, the Treasury (via CP) would not be able to undertake effective entity monitoring. In that case, we propose light-touch monitoring would remain with Treasury policy teams to enable synergies between existing policy roles and light-touch entity monitoring. In that scenario, however, the Treasury runs a significant reputational risk in its ability to carry out this monitoring role. There would be low assurance on developing capability and maintaining sufficient resourcing to carry out monitoring in the event of policy pressures, based on past experiences at the Treasury and other Departments.

Recommendations


- a. **Note** that the Reserve Bank Bill (which has been passed and is expected to come into force by 1 July 2022) provides for the Minister of Finance (the Minister) to appoint a department as the monitor of the RBNZ, and this department is expected to be the Treasury.
- b. **Note** that the Minister is required to issue a letter of monitoring expectations to the Reserve Bank's monitor under the legislation, and the new regime has been developed with the expectation of an active monitoring role.
- c. **Note** that advice to the Minister on the proposed monitoring approach should be provided in September 2021 to allow adequate time for the RBNZ to prepare and implement new accountability and reporting requirements in draft, for the Minister's review by 30 April 2022, and meet statutory deadlines for publication by 1 July 2022.
- d. **Note** that the Treasury has agreed to meet with the interim RBNZ Board in October 2021 to discuss and outline our role as monitor, once the monitoring roles and responsibilities have been agreed to by the Minister.
- e. **Note** that a full primary monitoring role would require an active and engaged approach to monitoring, which is in line with best practice and would be necessary for the Treasury to fulfil its regulatory stewardship obligations and support the Minister's statutory role in relation to the RBNZ.
- f. **Note** that independence of policy and monitoring functions would enable a full primary monitoring approach, can support management of potential conflicts at the senior relationship level and in advising the Minister on the letter of monitoring expectations.

³ CP does not have capacity to take on immediate new entity monitoring functions, however, appropriate backfill could allow for some experienced Principal-level FTE to be re-allocated.

- g. Agree** to establish a full primary RBNZ monitoring function, which is allocated to Commercial Performance (CP), with the following features:
- separate and clearly defined policy and entity monitoring responsibilities between different teams within the Treasury (with policy teams feeding into the entity monitoring team's advice on specific matters);
 - relationship management with the RBNZ Board on entity and governance issues to be based on a Deputy Secretary (DS) sponsorship model, led by the DS of Financial & Commercial, with a lead Principal Advisor within CP to co-ordinate the entity monitoring relationship.

Agree / Disagree

Out of Scope



Background

Current context

- 1 The Minister's primary existing monitoring agent of the RBNZ's monetary and financial responsibilities is the RBNZ Board. The primary function of the Board is to review the performance of the Governor and the RBNZ on behalf of the Minister. The Treasury provides a secondary monitoring role, which is currently led by the Macroeconomics and Fiscal Policy (MacroPol) team. MacroPol's regular monitoring engagements include:
 - drafting the Letter of Expectations on behalf of the Minister and subsequently assessing the Statement of Intent (SOI);
 - providing the Minister advice on the RBNZ's annual dividend, five-year funding agreement and wider balance sheet; and
 - implementing the MoF's recommendations on appointments for the Governor and MPC, based on advice from the RBNZ Board.
- 2 Other Treasury policy activities relating to the RBNZ that sit outside of MacroPol's dedicated monitoring function include:
 - first opinion policy advice to the Minister of Finance (MoF) on monetary policy issues (led by MacroPol, and focused on the frameworks for monetary policy rather than the specific monetary policy decisions which are the domain of the Monetary Policy Committee (MPC);
 - second opinion policy advice to MoF on financial stability issues (led by Financial Markets), including RBNZ's development of macroprudential and microprudential policy measures, policy proposals under the future Deposit Takers Act;
 - administration of the RBNZ Act 2021 (led by Financial Markets), which includes overall coordination of the implementation of the Act, establishing the new monitoring function, developing the financial policy remit and regulations;
 - advising the MoF, MPC, and Governor on RBNZ Board appointments and producing ad-hoc briefings for the MoF regarding engagement with the Board or Governor (led by Governance and Appointments); and
 - producing a series of briefings for the Treasury Observer, MoF and Prime Minister about the MPC's decisions, and the Treasury Secretary for meetings with the RBNZ Governor (led by MacroPol with input from Financial Markets).

RBNZ Act 2021 – Proposed Changes to the Monitoring Function

- 3 Under the RBNZ Act 2021, the Minister may appoint a department as the formal monitor of the RBNZ, and this department is expected to be the Treasury. It also requires the Minister to issue a Letter of Monitoring Expectations to the monitoring agency. This

replaces the existing arrangements outlined above, under which the RBNZ Board is currently responsible for monitoring.⁴

- 4 The Act reforms the RBNZ's governance arrangements by establishing a Governance Board, and in effect moving from a model that relies on a single decision maker (the Governor) to a board model (although the new Board will include the Governor as a member). The new Board will be responsible for all organisational matters, prudential policy and other central bank functions, apart from formulating monetary policy decisions, which will remain the responsibility of the Monetary Policy Committee (which the Governor is the Chair of) and will be monitored by the new RBNZ Board. A summary diagram of changes is attached as **Annex 1**.
- 5 This new governance model is based in part on the Crown entity system, which relies on the Minister of Finance, RBNZ and the monitoring department working well together to deliver on the accountability and transparency arrangements set out in the RBNZ Act.⁵
- 6 The overall objective of this work is to leverage the Treasury's existing strengths and capabilities to establish an effective primary monitoring role, which carries out the new functions provided to it under the new RBNZ legislation and fulfils its obligations as the regulatory steward of the legislation.
- 7 In order to achieve this goal and support the Minister through this monitoring work, the objectives of the Treasury's new monitoring role should include:
 - Building and maintaining a constructive **relationship** with the RBNZ Board and executive management.
 - Supporting the development of high-quality public **accountability information** by the RBNZ (including its new obligations to publish an annual Statement of Performance Expectations, in addition to its Statement of Intent and Annual Report).
 - Providing an **independent view** of RBNZ's performance and its opportunities and risks for reporting to the Minister.

⁴ For clarity, the RBNZ Board has, and will continue to have, overriding responsibilities for oversight and monitoring of RBNZ activities and performance. The Treasury's monitoring role will not supersede the legally binding duties of the RBNZ's directors.

⁵ This reflects the "It Takes Three: Operating Expectations Framework" endorsed by the Public Service Commission.

Monitoring roles and responsibilities

- 8 Based on the role of the monitor as set out in subpart 5 of the Act, we have identified three areas of the Treasury's responsibilities that should support the Minister:
 - a. **Policy advice and related issues** on monetary and financial stability policy. This includes advising the Minister on the development of the monetary and financial policy remits, providing second opinion advice, as well as responsibility for policy and regulatory functions under the administration of the RBNZ Act;
 - b. **Entity performance and monitoring**, to assist the Minister in carrying out their role in reviewing the operations and performance of the RBNZ, and to participate in the process of setting the RBNZ's strategic direction and performance expectations, and monitoring the RBNZ's performance;
 - c. **Governance and appointments advisory**, to assist the Minister in decisions regarding the appointment and removal of members of the Board, the Governor and members of the Monetary Policy Committee. This will have some overlap with the entity and performance monitoring work.
- 9 **Table 1** (below) sets out the significant areas of responsibility in relation to RBNZ policy and monitoring (but is not an exhaustive list of all the relevant areas). For the purposes of the table, we have grouped entity performance and governance and appointments into the 'monitoring' category for ease of reference. Where there is likely to be overlap of responsibilities, the item is shaded in grey. The entity monitoring team would likely coordinate these activities, with input from relevant teams within the Treasury with various skills required, similar to an 'account manager' approach.
- 10 **Table 1** also indicates where Treasury functions are **existing** (mostly in either MacroPol or Financial Markets), **expands** on existing functions and turns these into formal primary monitoring activities, and **new** functions.

Table 1: Areas of policy and monitoring responsibility

Category	Existing, Expanded or New TSY Function?	Description	Proposed Responsibility	Notes
Policy	Existing	Financial stability policy	Financial Markets	Includes issuing financial policy remit, and second opinion policy.
Policy	New	RBNZ Act administration	Financial Markets	Includes coordination across TSY functions, regulation making (including infringement offences) and potential future levy setting for prudential supervision (this could be jointly done by Policy & Monitoring).
Policy	Existing	Monetary policy issues	MacroPol	Includes issuing the MPC remit.
Policy	New	Strategic direction on monitoring	Financial Markets	Includes Minister's initial letter to the monitor setting out monitoring expectations.
Monitoring	Expanded	Board appointments	Governance & Appointments	
Monitoring	Existing	Appointment of the Governor and MPC	Governance & Appointments	
Monitoring	New	Assessment of operational functions ^{6*} (assessment of <i>organisation / strategy and alignment</i>)	Commercial Performance	Will require policy team input from time to time (e.g. MacroPol and Financial Markets to feed into oversight / view on RBNZ's establishment of the foreign reserves framework).
Monitoring	Expanded	Advice on accountability documents (SPE, SOI, Letter of expectations)	Commercial Performance	
Monitoring	New	Ongoing entity monitoring per	Commercial Performance	Assessment of and advice on <i>organisational</i> performance,

⁶ E.g. liquidity, settlement, currency, risk management, and foreign reserves management framework.

		assessment frameworks		<i>strategy and alignment as an ongoing monitoring function.</i>
Policy & Monitoring	New	Financial policy monitoring ⁷ *	Financial Markets with input from Commercial Performance (TBC)	This is still being considered and will require a joined-up approach between Financial Markets and Commercial Performance.
Monitoring	New	Board performance oversight (assessment of <i>leadership</i> performance)*	Commercial Performance with input from G&A	This feeds into both entity performance and governance.
Monitoring	Expanded	Balance sheet issues*, annual dividend, and funding agreement (assessment of <i>financial</i> performance and capabilities)	Commercial Performance with input from Policy (e.g. Capital Markets Policy)	Some of this work is strategic (e.g. to direct Bank on minimum level of capital and financial risk management); some is operational. ⁸
Policy & Monitoring	New	Funding strategy and Levy funding for deposit insurance	Policy team with input from Commercial Performance	Advise Minister on funding strategy document (assumes TSY has role as advisor on fiscal issues, e.g. on capital markets policy issues).
Monitoring & Policy	New	Monitoring of deposit insurance (DI) scheme*	Commercial Performance with input from Policy (e.g. FM/Capital Markets Policy)	This work is related to balance sheet issues, and could also include review of RBNZ's pay-out processes for the DI scheme, etc.

⁷ This could involve looking at whether adequate processes have been followed to deliver on the financial stability objective – this does not mean evaluating the substantive merits of the RBNZ's financial policy decisions.

⁸ Similar examples exist for Treasury's dual role for ACC and EQC. For ACC, Vote ACC (primary monitor) works with FI (in its fiscal management role) to assist in setting levies. For EQC, CP and FI lead in levy-setting advice, with input from Financial Markets (in its policy role).

Establishment of a full primary monitoring role would be in line with best practice and utilises existing strengths of the Treasury

- 11 Undertaking all the responsibilities in **Table 1** would represent a “full primary monitoring” approach, which is the preferred approach of Directors. To undertake this approach, monitoring responsibilities (outlined above) would be largely undertaken by CP. This approach is based on existing best practice models and draws on existing strengths and experience within CP as steward for entity monitoring within the Crown sphere.
- 12 Ongoing input or consultation on specific matters (highlighted in Table 1) will be required from the MacroPol, Financial Markets, Capital Markets and Financial Institutions teams, where relevant. This will therefore require some ongoing resource within each of those teams on various monitoring functions requiring technical or policy input or expertise.
- 13 The benefits of establishing a full primary monitoring approach, within a separate entity monitoring team include:
 - a. best supports the Minister’s new responsibilities while enabling the Treasury to meet its regulatory stewardship obligations (i.e. those existing, expanded and new functions outlined in Table 1),
 - b. avoids perception of conflict of interest between policy and monitoring,
 - c. effective use of existing expertise and capability of different teams,
 - d. a model that has worked well in other areas, and
 - e. promotes a joined-up Treasury approach (but this relies on strong relationships to be established between teams).
- 14 To give effect to a full primary monitoring approach, a summary of the proposed CP resourcing and capabilities is set out in more detail below and in **Annex 2**.

A light touch approach would not enable the Treasury to carry out effective monitoring and would have significant reputational risks

- 15 Alternatively, a light-touch approach (or the current “status quo”) would reflect that, to date, no resourcing has been provided for the entity monitoring functions. There are significant reputational risks for the Treasury if no resourcing is provided for this formal monitoring role. Out of Scope

- 16 This approach would reflect a below-best practice monitoring effort. Basic entity monitoring would be performed either solely by a policy team (in addition to its usual policy responsibilities in relation to the RBNZ), or at a basic level by a monitoring team. This would mean not undertaking some of the areas of monitoring responsibility aligned with best practice marked with an asterisk (*) in Table 1.

- 17 There are some significant risks to a light touch approach, including:
- risks of under-delivering on the Treasury's newly established monitoring role,
 - unlikely to lead to effective monitoring of the RBNZ, due to lack of capability and resourcing,
 - Minister may not receive robust advice on entity monitoring issues,
 - not compatible with Treasury's regulatory stewardship role and monitoring role under the RBNZ Act.

An alternative option for monitoring arrangements

- 18 While the establishment of a full primary monitoring function would require entity monitoring functions to be set up in CP, we include an alternative case in **Table 2** below, as a basis for comparison – being to combine entity monitoring and policy into one policy team, which would be similar to the status quo.

Table 2: Options for monitoring arrangements

	Options	Description	Pros	Cons
1	Separate policy and entity monitoring roles (Our preferred option)	The policy teams will lead on their respective areas of interest, as listed in the Table 1. A dedicated monitoring team (CP) could lead on overall entity performance and monitoring issues. This model is similar to how we monitor for entities in which Treasury also has a policy or vote function (e.g. KiwiRail and EQC).	<ul style="list-style-type: none"> Ensures there is an organisational commitment to the formal monitoring role Avoids perception of conflict of interest between policy and monitoring Effective use of expertise and capability of different teams A model that has worked well in other areas Promotes a joined-up Treasury approach (but this relies on strong relationships to be established between teams) Reduces reputational risks posed by less oversight 	<ul style="list-style-type: none"> Risk of not having structured coordination between teams for joined up Treasury approach (noting that EQC example illustrates how this risk can be managed well)
2	Combined policy and entity monitoring (Status quo)	A single policy team within the Treasury has the lead for overall monitoring issues, as well as respective policy issues (e.g. either Financial Markets or MacroPol leads, but both teams still look after relevant financial and monetary policy issues). Appointments would still be undertaken by G&A.	<ul style="list-style-type: none"> May be easier to coordinate advice from within one team 	<ul style="list-style-type: none"> Unlikely to lead to effective monitoring of the RBNZ, due to limited resourcing and capability Experience demonstrates that policy advice is often prioritised over monitoring when issues arise If insufficient resourcing, Minister may not receive robust advice on entity monitoring issues If insufficient resourcing, poses significant reputational risk to the Treasury

- 19 **Recommendation:** Option 1 is preferable to Option 2 because it would ensure that the formal monitoring role is given sufficient priority by the Treasury as an organisation, and avoids the risk that monitoring is overshadowed by policy priorities, which is likely if it is located within a policy team without any additional resourcing or expertise to undertake the role. Ultimately, the Treasury is responsible for administering the RBNZ Act and for the outcomes set out in the Act. If there are performance issues that are not identified due to insufficient monitoring, while the Board is ultimately accountable, the Treasury may also be exposed to reputational risk.

Relationship management

- 20 The new monitoring arrangements under the RBNZ Act are expected to be a fundamental reset of the relationship between the RBNZ and the Treasury. It is intended that the new monitoring department (i.e. the Treasury) will provide an independent view of performance of the Board and RBNZ and act as agent of the Minister.
- 21 The purpose of agreeing to relationship management arrangements under the Treasury's formal monitoring role is to clarify the roles and responsibilities of the Treasury as a monitor, and set expectations for how the Treasury will work with the RBNZ Board under the future framework.
- 22 The future framework provides for decision making by the RBNZ Board, rather than the Governor as the single decision-maker at present. This means that the monitoring relationship with the RBNZ will predominantly be at the board level (i.e. the Board Chair) rather than with the Governor. It is noted however that typically some aspects of the monitoring relationship are delegated by the Board to Management in order to provide access to operational insights – the extent of this delegation would in part determine the extent and nature of the entity monitor's relationship to the Management team as well.
- 23 The following sections summarises the existing Treasury relationships under the current framework, and then proposes options for relationship management under the new framework.

Table 3: Key Treasury relationships and proposed approach

	Status quo	Proposed approach
ELT relationship	<p>Treasury Observer: The Secretary to the Treasury has a current non-voting role as an observer of the MPC (which can be delegated to the Deputy Secretary (Macroeconomics and Growth) or the Deputy Secretary (Chief Economic Advisor) in their absence).</p> <p>Policy and general RBNZ matters: Generally led by Deputy Secretary, Macroeconomics & Growth. The Treasury Secretary also has a direct relationship with the RBNZ Governor, with monthly meetings, beyond monetary policy.</p>	<p>Senior relationship sponsor on entity monitoring and governance issues: Deputy Secretary, Financial & Commercial assures the relationship with the Board on monitoring, appointments and general organisational issues.</p> <p>Senior relationship sponsor on policy issues: Deputy Secretary, Macroeconomics & Growth engages with RBNZ senior leadership on financial and monetary policy issues.</p> <p>The Treasury Secretary would continue to have a direct relationship with the RBNZ Governor, on general policy issues.</p>
Working level relationships	<p>Legislation Administration: Includes the RBNZ Act administration and implementation (Financial Markets).</p> <p>Policy: Includes both monetary policy (MacroPol) and financial policy (Financial Markets) matters. The relationships extend to senior management i.e. Deputy Secretaries have regular contact with Assistant Governors. dep</p> <p>Entity monitoring: Includes balance sheet and performance engagement (MacroPol). The RBNZ Board monitors the RBNZ. The Treasury currently does not have a formal relationship with the Board, except for Board appointments (currently a more administrative function rather than involving active assessment of leadership effectiveness).</p> <p>Appointments: Governance & appointments team leads engagement with RBNZ on board appointment issues.</p> <p>[Various Treasury analysts/senior analysts currently lead the key relationships with operational-level staff at the RBNZ for both of the legislative administration and policy functions]</p>	<p>Entity and policy monitoring: The relationship manager (preferably, an experienced Principal Advisor) appointed within CP will coordinate and manage the relationship with the RBNZ Board and Management (i.e. on day-to-day or regular issues). The full role will be scoped and established per the legislative functions outlined in the RBNZ Act. The establishment of a monitoring role changes and builds on existing entity monitoring functions within policy teams.</p> <p>Policy: Policy teams and managers (Financial Markets and MacroPol) will continue to engage with RBNZ at a working level on various issues, as relevant.</p> <p>Legislation administration: Financial Markets will continue to lead engagement with RBNZ staff on implementation of the Act, including through fortnightly implementation meetings.</p> <p>Appointments: Governance & appointments team will continue to engage with RBNZ as relevant on</p>

		day-to-day board and MPC appointment issues.
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Principles for relationship management under new monitoring function

- 24 In establishing a monitoring role, there may be a perceived or actual conflict of interest between these policy and entity monitoring roles. Management of this perceived or actual conflict would primarily be through delegating the monitoring oversight role to another senior leader within the Treasury. Proposed options for establishing key relationship(s) for Treasury's newly established monitoring role therefore seek to:
- manage the perceived or actual conflict with Treasury's MPC Observer role,
 - position the key monitoring relationship with the RBNZ Board at the appropriate level within the Treasury, and
 - maintain pathways of escalation, where required.

Proposed and alternative relationship arrangements between RBNZ and Treasury

25 Proposal:

- The entity monitoring team Relationship Manager (preferably an experienced Principal Advisor, consistent with the current CP model) co-ordinates the key relationship with the RBNZ Board and Management (i.e. is the frequent point of contact).
- The Deputy Secretary of Financial & Commercial would sponsor the relationship, by having contact with the Board but on a more infrequent basis (i.e. scheduled but infrequent meetings with the Board Chair, and on significant issues that arise).
- The CP Manager (supported by the Director) would feed into the Principal Advisor's advice and approach, particularly during the establishment and relationship-building phases (i.e. the next 18-24 months).

26 Rationale:

- While the Deputy Secretary sponsorship is an escalation on the typical CP relationship model, this recognises the importance of the relationship and high reputation and risk profile of the RBNZ. It also mirrors the relationship model on Treasury's policy side and the increased risk profile of the RBNZ. When agencies "wear both hats" (entity policy and monitoring), experience shows that the performance of the monitoring function is better positioned to succeed when the monitoring relationship is given equal footing and sponsorship.
- With a Principal Advisor leading the relationship, the approach is aligned to what is considered monitoring best practice and the operating model within

CP. This enables a clear escalation pathway (through clear escalation triggers) to the Manager, Director then Deputy Secretary.

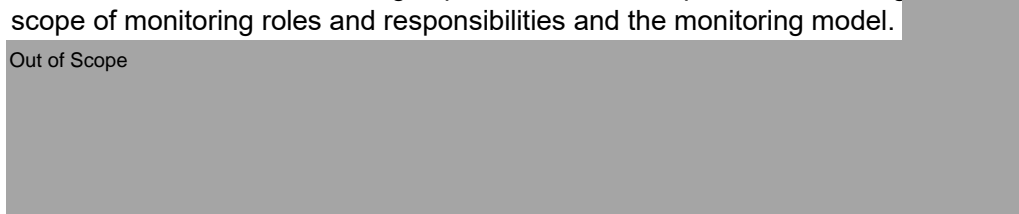
- c. Recognises that the relevant Deputy Secretary, Director and Manager will not likely have the capacity to engage with the RBNZ Board on a frequent basis that would be expected within a best-practice full monitoring approach.

- 27 **Alternatives:** Alternative options are around what level of seniority the relationship sponsor should be (i.e. next level, Director), and what level of seniority the relationship manager or co-ordinator should be (i.e. up or down a level, Director, or Principal Advisor).

Resourcing implications


- 28 Further to the above, resourcing implications will be dependent on the agreed scope of monitoring roles and responsibilities and the monitoring model.

Out of Scope

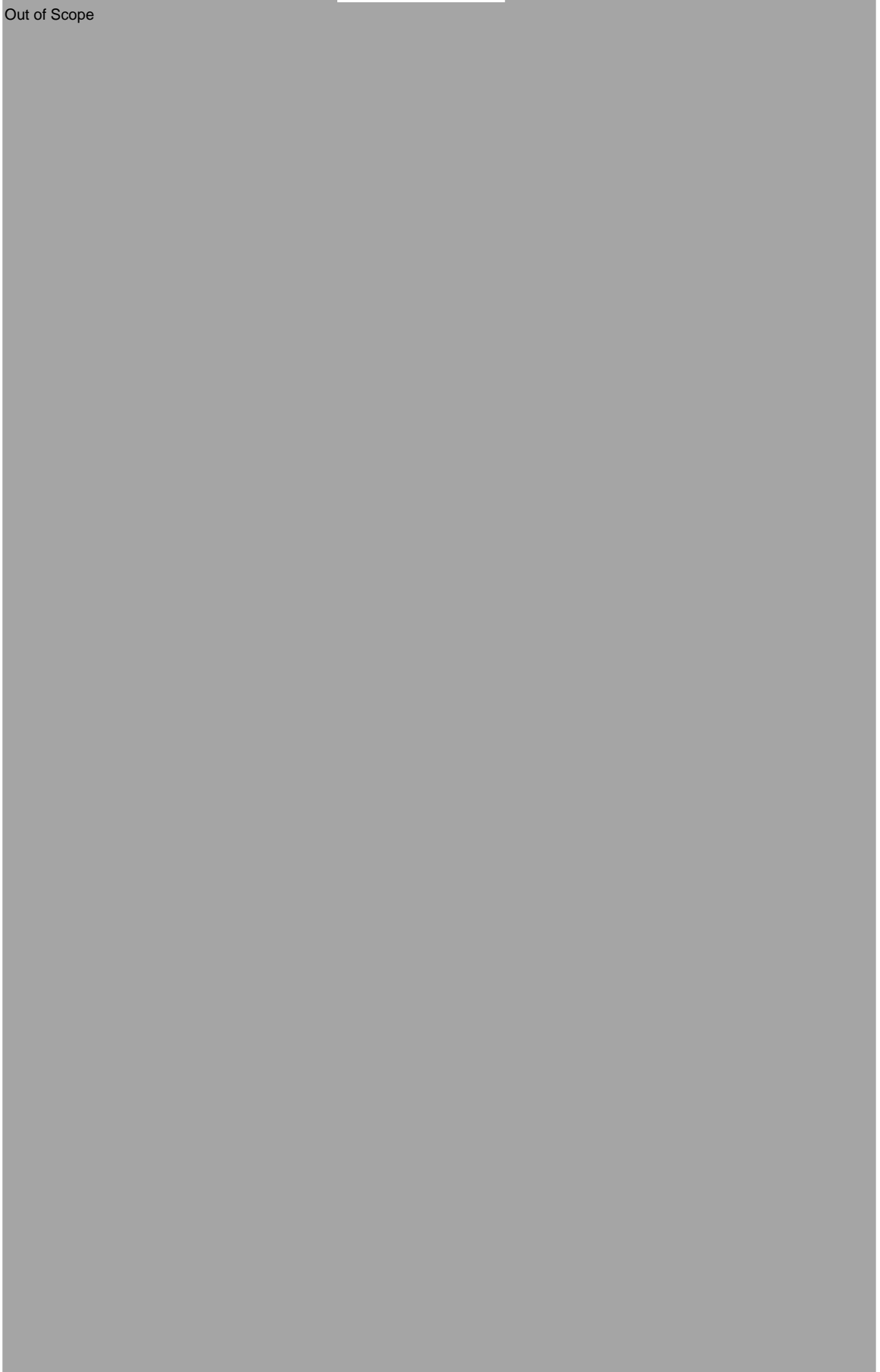


- 29 Currently, the MacroPol team has a role in RBNZ monitoring, which is a very light-touch approach, estimated at 0.15 FTE. This is largely focused on business as usual activities, such as drafting the Letter of Expectations on behalf of the Minister and reviewing the RBNZ's accountability documents (statements of intent, annual report). This also includes advice to the Minister on the RBNZ's annual dividend, five-year funding agreement and wider balance sheet.

Out of Scope




Out of Scope



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