

Submission

to

Treasury

on the

Review of the Reserve Bank Act 1989: Scope of Phase 2

9 March 2018

About NZBA

1. NZBA works on behalf of the New Zealand banking industry in conjunction with its member banks. NZBA develops and promotes policy outcomes that contribute to a strong and stable banking system that benefits New Zealanders and the New Zealand economy.
2. The following seventeen registered banks in New Zealand are members of NZBA:
 - ANZ Bank New Zealand Limited
 - ASB Bank Limited
 - Bank of China (NZ) Limited
 - Bank of New Zealand
 - Bank of Tokyo-Mitsubishi, UFJ
 - China Construction Bank
 - Citibank, N.A.
 - The Co-operative Bank Limited
 - Heartland Bank Limited
 - The Hongkong and Shanghai Banking Corporation Limited
 - Industrial and Commercial Bank of China (New Zealand) Limited
 - JPMorgan Chase Bank, N.A.
 - Kiwibank Limited
 - Rabobank New Zealand Limited
 - SBS Bank
 - TSB Bank Limited
 - Westpac New Zealand Limited

Background

3. NZBA welcomes the opportunity to provide feedback to Treasury on its review of the Reserve Bank Act 1989 (**Review**), in particular, in its development of the list of issues for consideration as part of phase 2 of the Review.
4. If you would like to discuss any aspect of the submission further, please contact:

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NZBA supports the objectives of the Review and a broad scope for phase 2

5. NZBA strongly supports a comprehensive and broad Review of the Reserve Bank of New Zealand's (**RBNZ**) activities. In particular, NZBA supports a focus on financial stability and current governance and accountability settings to ensure these arrangements remain appropriate and relevant for New Zealand today.

6. NZBA understands that Treasury's objective in undertaking this scoping exercise is to identify a broad list of issues for consideration as part of phase 2 of the Review. NZBA supports this approach; Treasury's mandate for phase 2 should be to investigate all potential avenues in order to identify the approach that will best fit New Zealand's economic conditions, in addition to providing appropriate flexibility and autonomy in RBNZ's functions.

Specific matters for consideration under phase 2

7. We refer to Treasury's document: *Scoping Phase 2 of the Review*. NZBA agrees that the Review should broadly focus on the following areas:
- (a) The role of RBNZ, including how it discharges its responsibilities.
 - (b) Prudential powers, supervision and processes.
 - (c) Macroprudential policy.
 - (d) Resolution and crisis management.
8. Noting those focus areas, if the Review assumes that the RBNZ retains prudential regulation, NZBA considers the following specific matters should be included in the scope of the Review:
- (a) **Purposes:** the Review should consider whether the purposes of financial stability, soundness and efficiency are well defined, and are being applied appropriately.
 - (b) **Governance and decision making model:** the Review should seek feedback on a range of options for internal governance and decision-making, including:
 - (i) The role of the RBNZ Board.
 - (ii) A committee model (and the potential for independent external membership).
 - (iii) A formal review process for financial policy decision making.
 - (c) **Legislative framework for regulatory change:** the Review scope should include the legislative framework for regulatory change, including:
 - (i) The aim of macroprudential policy, and clear parameters in the legislation reflecting that aim.
 - (ii) The mechanisms for transparency, accountability, consultation, regulatory risk assessment, and appeal.
 - (d) **Accountability:** the Review should consider whether having the right checks and balances is more useful than measuring good financial regulation based on outcomes, and what external or internal features might improve accountability for decision making.
 - (e) **Macroprudential policy:** as noted at (c)(i) above, the Review should consider the aim of macroprudential policy and whether it is more useful to

measure effectiveness by outcome or to enhance the level of buy in for decision making.

- (f) **Conditions of registration:** the Review scope should include the relationship between the Banking Supervision Handbook and conditions of registration.
- (g) **Funding model / resourcing:** the funding model and resourcing of RBNZ should be captured by the scope of the Review, with a particular focus on ensuring that adequate resources are available to carry out its prudential and crisis management functions, and that resourcing does not have unnecessary impact on policy outcomes.
- (h) **Approach to materiality in the supervisory framework:** the approach to materiality should be included in the Review in the context of legislative purpose and efficiency, particularly materiality in the context of breaches of conditions of registration.
- (i) **Crisis management:** the Review should include consideration of the roles of RBNZ, Government and Treasury in crisis management, in addition to exploring whether there are improvements that could be made to ensure efficient resolution of Trans-Tasman issues (this will unavoidably require planning between RBNZ and the Australian Prudential Regulation Authority (APRA)). Consideration should also be given to the methodology for analysing and balancing costs and benefits of current and future crisis management policies.
- (j) **Relationship with Minister of Finance:** the Review should consider whether operational independence (from Government influence) is necessary or desirable outside of macroeconomic policy.
- (k) **Open Bank Resolution:** the Review should consider whether to modify Open Bank Resolution. In particular, the Review should consider proactively setting the de minimis amount to provide greater certainty for the financial industry and customers.
- (l) **Interaction / overlap with other regulatory bodies:** the Review scope should include gathering feedback on:
 - (i) Whether RBNZ's objectives should include any consumer protection angles.
 - (ii) Whether RBNZ's efficiency objective could be achieved by reviewing its responsibility for regulating Anti-Money Laundering/Countering the Financing of Terrorism) and the insurance sector.
 - (iii) The role of APRA, with a focus on avoiding duplication and inefficiency for those banks supervised by both RBNZ and APRA.

9. NZBA looks forward to the opportunity to comment further on phase 2 as Treasury's Review progresses.