MEMORANDUM TO THE GOVERNOR OF THE RESERVE BANK OF NEW
ZEALAND

Reconfirmation of direction to the Reserve Bank to intervene in the foreign
exchange market under section 17 of the Reserve Bank of New Zealand Act

1. This memorandum reconfirms the delegated authority from the Minister of Finance to
the Governor of the Reserve Bank of New Zealand (the Bank) in relation to the
Bank’s authority to intervene under section 17 of the Reserve Bank of New Zealand
Act (the Act) up to a specified amount without the need for further authority from the
Minister of Finance.

2. I agree with the Bank’s advice that it must maintain a capacity to intervene in the
foreign exchange market to prevent or resolve market dysfunction. I also accept the
Bank’s advice that foreign exchange intervention undertaken by the Bank for this
purpose would generally occur pursuant to a direction from the Minister of Finance
under section 17 of the Act. I note that this does not rule out the possibility that the
Bank could choose to conduct such intervention using its powers under section 16 of
the Act, without the need for a direction from the Minister of Finance, provided that
the Bank is satisfied that the exercise of its powers would be consistent with its
authority under the Act.

3. In a period of market dysfunction, it is recognised that the Bank may need to
intervene very quickly, where it is not possible to first obtain a direction from the
Minister of Finance. In recognition of this, as Minister of Finance I hereby give the
Bank a standing direction, pursuant to section 17 of the Act, to intervene in the
foreign exchange market for the purpose of stabilising the market in a period of, or to
avoid, market dysfunction, in an amount up to SDR175 million\(^1\), in circumstances
where intervention is urgently required and the Minister of Finance or any Deputy or
Associate Minister of Finance is not able to be contacted quickly.

4. In giving this direction, I require the Bank to brief the Minister of Finance or a
Deputy or Associate Minister of Finance as soon as possible following the
commencement of intervention. More generally, I note that, consistent with section
23 of the Act, the Bank will advise the Minister of Finance when it becomes
concerned about the possibility of market dysfunction. If the Bank considers that the
appropriate response should include intervention in the foreign exchange market, the
Bank will make recommendations to the Minister of Finance, seeking authorisation to

\(^1\) Currently equivalent to around US$260 million
intervene under section 17 of the Act, as soon as practicable. The Treasury will also be advised of the Bank’s recommendation. The Minister of Finance and Treasury will be kept fully informed of developments in the foreign exchange market and the Bank’s intentions, to the extent practicable.

Hon Dr Michael Cullen
Minister of Finance