Contents

Section 1

Overview of the Reserve Bank of New Zealand ........................................... 2
Governance and funding ........................................................................... 2
Environment and live issues ................................................................. 3

Section 2

Functions – Overview ............................................................................... 5
Monetary policy formulation .................................................................. 6
Financial market operations ................................................................... 7
Prudential supervision ........................................................................... 8
Macro-financial stability ....................................................................... 11
Currency .................................................................................................. 12
Settlement services ................................................................................ 13
Corporate services ................................................................................ 13

Section 3

Governance and management ................................................................. 14
Reviewing the Bank’s performance ....................................................... 15
Organisational structure ....................................................................... 15
Financial Management ........................................................................... 16
Risk Management .................................................................................. 16

Appendix 1

Significant powers and functions under:
   the Reserve Bank of New Zealand Act 1989 ....................................... 17
   the Anti-Money Laundering and Countering Financing of Terrorism Act 2009.... 19
   the Insurance (Prudential Supervision) Act 2010 .................................. 20
   the Non-Bank Deposit Takers Act 2013 .............................................. 22
SECTION 1

Overview of the Reserve Bank of New Zealand

The Reserve Bank manages monetary policy to maintain price stability, promotes the maintenance of a sound and efficient financial system, and supplies New Zealand banknotes and coins.

Role and accountability

- The Bank is a Crown agency that contributes to the Government’s goal of improving New Zealand’s economic performance by targeting three outcomes. These are designed to foster confidence and stability in New Zealand’s financial system by:
  - Maintaining stability in the general level of prices.
  - Maintaining a sound and efficient financial system.
  - Providing legal tender to meet the currency needs of the public.

- To achieve these outcomes, the Bank’s functions cover: monetary policy formulation; financial market operations; macro-financial stability; prudential supervision; settlement services; and currency operations. These functions, the outcomes that the Bank targets, and the measures used to evaluate performance are described in the Bank’s Annual Report, copies of which have been forwarded to your Office.

- A chart is contained (pages 17-22), detailing the significant powers and responsibilities of the Minister of Finance, the Reserve Bank, and the Reserve Bank Board, under the Reserve Bank Act 1989, the Anti-Money Laundering and Countering Financing of Terrorism Act 2009, the Insurance (Prudential Supervision) Act 2010, and the Non-Bank Deposit Takers Act 2013.

- Section 9 of the RBNZ Act requires that the Minister shall fix, in agreement with the Governor, policy targets for monetary policy. This is required whenever a Governor is re/appointed. Also, the Minister and Governor may “from time to time” review or alter the PTA. Any alterations must be recorded, tabled at the Board, and gazetted.

- The Reserve Bank endeavours to keep the Minister and the Treasury informed about its views on the economic outlook, policy developments and other significant matters affecting the Bank. We provide regular briefings focused on the broader economy ahead of each Monetary Policy Statement. We also meet regularly with the Minister and Treasury, providing information and seeking the Minister’s input, on proposed regulatory policy developments. Under the Memorandum of Understanding on Macro-Prudential Policy, the Bank is required to keep the Minister and Treasury informed about our thinking on macro-prudential policy developments, and to consult the Minister prior to any decision to deploy macro-prudential policy instruments.

Governance and funding

- In February 2013, the Bank established a Governing Committee, comprising the four governors. This committee discusses the major monetary and financial policy decisions falling under the Bank’s responsibilities.

- The Bank has a Five-year Funding Agreement. The current Funding Agreement covers the five-year period ending 30 June 2015, and provides funding of $56.4 million for
2014/15. Preparation of a new Funding Agreement, covering the period 1 July 2015 – 30 June 2020, is underway.

Environment and live issues

Monetary and macro-prudential policies

- In many respects, the economy is performing well. The economic expansion is in its fifth year, real Gross Domestic Product is currently growing at an annual rate of around 3.5 percent, the unemployment rate is falling, and inflation remains low. Labour force participation is at historically high levels, and consumer and business confidence is robust. The main challenge is to ensure that the recovery can be sustained, and the price stability goal is achieved. House prices and the real exchange rate are overvalued and the Bank’s forecasts show a significant deterioration in the current account.

- Financial stability considerations associated with the overvalued housing market became a major policy concern in 2013, with house prices high by international standards. In September 2013, the Bank increased the capital risk weights on banks’ high loan-to-value mortgage lending (to borrowers with less than a 20 percent deposit). It also introduced macro-prudential policy in the form of a ‘speed limit’ on the amount of high loan-to-value ratio (LVR) lending by banks.

- In March 2014, the Bank raised interest rates – the first central bank among the advanced economies to raise rates in the current cycle. The Bank has since raised the Official Cash Rate three further times for a total of 100 basis points to 3.5 percent.

- The Bank’s experience with macro-prudential policy has been positive, particularly in light of the unanticipated strength of net migration and the associated demand for housing. Macro-prudential policy has played a useful role in dampening a build-up in financial system risk, has helped to lower house price inflation, and supported monetary policy. There has been limited financial disintermediation. The Bank is continuing to research the relationship between macro-prudential and monetary policies.

Prudential supervision and regulation

- The Bank recently started work on a Regulatory Stocktake project, to ensure the consistency, clarity, and efficiency of the existing stock of prudential regulations applying to banks and non-bank deposit takers (NBDTs). The project will also identify any improvements that can be made to the current processes for introducing or amending these prudential regulations.

- Three years ago, the Government gave the Bank added responsibility for the regulation and supervision of insurance institutions. During the past year, the Bank completed its licensing of more than 100 insurance companies, and is finalising its risk-based supervisory framework.

- Regulatory staff recently commenced a review of the prudential regulation of banks and non-bank deposit takers. Its aim is to improve the efficiency, clarity and consistency of prudential measures. A review of the prudential regime for Non-bank Deposit Takers was completed last year, recommending technical changes to improve this specific regime.
• A comprehensive framework for stress testing the credit portfolio of New Zealand’s domestically-owned banks is currently under development.

Withheld, OIA section 9(2)(f)(iv)

• A review of the Bank’s powers in respect of the payments system is underway, with a view to strengthening the Bank’s oversight of financial market infrastructures.

Other key Reserve Bank initiatives

• To enhance the security of New Zealand’s banknotes, the Bank plans to launch a new series of polymer banknotes in the fourth quarter of 2015. Improvements include greater complexity and security features in the transparent windows, as well as colour changing and optically variable features. The Bank expects to publicly release the ‘near final’ banknote designs in November this year.

• The currency function also has a preparedness project underway, to ensure that the security, safety and operational efficiency of the cash operations are not compromised by the release of the new banknotes.

• A review of the payments system infrastructure is underway, led by the Bank’s settlement services function, aimed at developing a roadmap for the systems prior to undertaking major technology investment.

• In 2013, the Bank doubled the number of on-the-record speeches given and expanded the geographical spread of the 100 off-the-record addresses it provides, on top of its suite of formal regular communications. It has also introduced a regular comprehensive stakeholder engagement survey to provide a measure of stakeholders’ familiarity with and trust in the Bank.
SECTION 2

Functions

Overview
The Reserve Bank is constituted under the Reserve Bank of New Zealand Act 1989.

As New Zealand's central bank, the Reserve Bank performs a number of functions that promote monetary and financial stability including:

- **Monetary policy** (promoting price stability)
- **Domestic market operations and foreign reserves management**
- **Prudential supervision** (including regulating banks, insurance and deposit-taking finance companies and carrying out crisis management roles)
- **Macro-financial stability** (monitoring the build-up of financial system risk through the credit cycle and using designated tools to act if necessary)
- **Currency** (issuing banknotes and coins)
- **Settlement services** (operating the interbank settlement system banks use to settle obligations between each other)

Further details on each function are outlined in the following pages.
Monetary policy formulation

The Bank works to keep prices stable by adjusting the Official Cash Rate (OCR). This affects the price of money in New Zealand and therefore the amount of spending and investment taking place. Monetary policy takes time to affect inflation, with OCR changes based on economic forecasts for inflationary pressures over the medium term.

Objective
The objective of monetary policy is to achieve and maintain stability in the general level of prices. The current Policy Targets Agreement, agreed with Government, requires that the Bank “keep future CPI inflation outcomes between 1 percent and 3 percent on average over the medium term, with a focus on keeping future average inflation near the 2 percent midpoint”. It also requires that: “In pursuing its price stability objective, the Bank shall... have regard to the efficiency and soundness of the financial system, and seek to avoid unnecessary instability in output, interest rates and the exchange rate.”

Environment and live issues

- The New Zealand economy is performing well and is currently expanding, increasing pressure on productive resources. In the year to June 2014, Consumer Price Inflation was 1.6 percent. Over this period the high exchange rate and low global inflation continued to dampen tradables inflation. Wage inflation has also remained subdued.

- Inflationary pressures are expected to become more pronounced over the next two years due to strong momentum in economic activity.

- The Bank is currently pausing in a monetary policy tightening cycle.

- The Bank produces a full report on the state of the economy and its monetary policy implementation each quarter in the Monetary Policy Statement. The latest Monetary Policy Statement was released in September. This accountability document is discussed by Parliament’s Finance and Expenditure Committee after each release.
Financial market operations

Objectives

Domestic market operations

Domestic market operations conducted by the Bank's Financial Markets Department support the effective implementation of monetary policy and promote the efficient functioning of New Zealand's financial system. This is done by:

- Keeping short-term wholesale interest rates consistent with the Bank's monetary policy stance;
- Promoting adequate liquidity in the New Zealand banking system to facilitate payments;
- Assisting with the Crown's financial liquidity through the provision of the Crown Settlement Account; and
- Maintaining confidence in the efficient functioning of New Zealand's financial markets.

Foreign reserves management

The Foreign reserves management team within the Financial Markets Department manages a pool of foreign reserves to support and execute the Bank's foreign exchange intervention policy, and to maintain an effective crisis intervention capability. Foreign reserves are held at a level agreed with the Minister of Finance in a liquid and secure form and suitable for foreign exchange market intervention.

Asset and liability management

The structure of the Bank's balance sheet reflects its statutory functions and provides the capacity to carry out those functions. The scale of the balance sheet reflects the demands of the Bank's key 'customer' groups – the Crown, the commercial banks and the public. The Bank is required, by virtue of its statutory obligations, to supply its liabilities (currency and settlement account balances) to its customers in an amount demanded by them.

Environment and live issues

- The combination of higher domestic interest rates and a higher NZ dollar, combined with lower global rates, until very recently has resulted in lower returns from the Bank's unhedged foreign reserves.

- The Bank's domestic market operations and foreign reserves management activity is overseen internally by the Asset and Liability Committee and reported on in the Bank's Annual Report. The Bank also sets benchmarks for expected returns on reserves portfolios and has exceeded these benchmarks in recent years.
Prudential supervision

The Reserve Bank has a number of functions and powers and undertakes several activities relating to the following areas of prudential supervision:
- Banking system regulation and supervision;
- Insurance regulation and supervision;
- Non-bank deposit taker regulation;
- Payment system oversight; and
- Supervision of anti-money laundering and countering financing of terrorism.

Banking system oversight

Objectives
We register and supervise banks for the purposes of promoting the maintenance of a sound and efficient financial system, or avoiding significant damage to the financial system that could result from the failure of a registered bank.

All prudential policy considers matters of financial system efficiency and dynamism, as well as financial stability objectives. The Bank achieves this by setting out its proposals and reasoning in consultative processes that include clear cost and benefit analysis.

Environment and live issues
- Bank supervision in New Zealand emphasises market- and self-discipline (with significant emphasis placed on the role of the independent directors). Compared to most overseas jurisdictions, our rules are not detailed or prescriptive, and unlike most other bank supervisors, the Reserve Bank does not undertake onsite visits for the purposes of validating banks’ risk management procedures. Our regime is risk-based, which means that systemically important institutions generally receive more supervisory and regulatory focus than their smaller counterparts.

- The banking system remains sound and has maintained its increase in profitability over the past few years, buoyed by the improving macro-economic environment, and continued low impaired asset expenses. Bank lending is growing at a modest pace, and credit growth has been funded through strong retail deposit growth.

- From 1 January 2014, all locally incorporated banks were required to maintain a conservation buffer of 2.5 percent above the minimum capital requirement, if they wish to avoid restrictions on dividend distributions.

- Overall, the system core funding ratio (funding required from more stable retail deposit and longer-term sources) remained well above the minimum regulatory requirement of 75 percent. Banks are also comfortably meeting the 10 percent high Loan-to-Value Ratio residential mortgage lending speed limit, effective as of 1 October 2013.

- The Bank has continued to enhance its monitoring of risks to bank balance sheets and profitability. This is enabled by the collection of prudential data that allows analysis of banks’ own risk reporting, more frequent and broader engagement with senior bank executives, and the beginning of selected thematic reviews to assess risk across the banking sector.

- We recently carried out a staged review of our capital adequacy requirements for housing loans. The first stage resulted in an increase in the capital requirements for high-LVR loans from 30 September 2013. The second stage focused on definitional issues,
which led to some changes, most of which took effect on 1 July 2014. Further changes are still being consulted on.

Non-bank deposit taker regulation

Objectives
The Bank's Prudential Supervision Department is responsible for the regulation of non-bank deposit takers (NBDTs) for the purposes of promoting the maintenance of a sound and efficient financial system, and to avoid significant damage to the financial system that could result from the failure of a non-bank deposit taker.

Environment and live issues
- NBDTs comprise retail-funded finance companies and savings institutions such as building societies, and credit unions.
- The new Non-Bank Deposit Takers Act 2013 is now in force, and all NBDTs are required to obtain a licence from the Bank by 1 May 2015.

Insurance regulation and supervision

Objectives
We licence and supervise insurers for the purposes of promoting the maintenance of a sound and efficient financial system, and to promote public confidence in the insurance sector.

Environment and live issues
- The transitional licensing phase for insurers was completed in September 2013, with the number of fully licensed insurers having increased from 65 as at 1 July 2013, to 99, with a further four run-off insurers continuing on provisional licences (as at 1 September 2014).
- Since transitional licensing was completed, there has been some merger and acquisition activity in the sector, most notably Lumley General Insurance (N.Z) Limited is now part of the IAG group.
- Settling claims for the Canterbury earthquakes remains a focus for the relevant insurers.

Payment system oversight

Objectives
The Bank's Prudential Supervision Department oversees payment systems and designated settlement systems for the purpose of promoting the maintenance of a sound and efficient financial system.

Environment and live issues
- The Reserve Bank and Financial Markets Authority are joint regulators of designated settlement systems other than those classed as 'pure payment systems'. These systems remain reliable.
A review of regulatory oversight of Payments and Settlement Systems is underway. 

Withheld, OIA section 9(2)(f)(iv)

The anti-money laundering regulatory regime

Objectives
We are one of three supervisors tasked with ensuring that firms comply with obligations designed to help deter and detect money laundering and terrorist financing.

Environment and live issues
- The Bank has developed and implemented an effective Anti-Money Laundering and Countering Financing of Terrorism supervisory regime, using procedures and processes that draw on international principles.
Macro-financial stability

Objectives
The Reserve Bank’s macro-financial stability function focuses on maintaining a sound and efficient financial system that supports the functioning of the economy. Where possible, an objective is to reduce or manage the risks to the financial system arising from extremes in the credit cycle or developments in liquidity conditions and global debt markets. This function is closely inter-related with the Reserve Bank’s Prudential Supervision function and interacts with monetary policy.

Environment and live issues
- New Zealand’s financial system is sound, with the banking system well capitalised and its funding and liquidity buffers comfortably above required minimums.

- However, several risks to the financial system have remained in focus: household debt and house prices are high relative to incomes and house price inflation has risen sharply in Auckland and Canterbury since 2012. Rising demand was partly fuelled by a rise in high loan-to-value ratio (low-deposit) lending.

- To strengthen financial stability, the Bank introduced restrictions on high loan-to-valuation (LVR) residential lending in October 2013. This initiative saw house price inflation moderate from late 2013.

- Other key issues for macro-financial stability include high levels of bank debt in the dairy sector, which could expose financial risks if the recent fall in dairy prices is sustained; and the high level of New Zealand’s net external liabilities, which increases the country’s exposure to international financial markets.

- In the Financial Stability Report, the Bank publishes a comprehensive set of indicators that enable it to present its analysis and assessments on the soundness and efficiency of the New Zealand financial system. Our macro-financial indicators have been enhanced and we have begun publishing a chart pack of key macro-financial indicators on the Reserve Bank’s website.

- The development of a new collection of bank performance data has been completed and is expected to begin being publishing in aggregate form during 2014.

- A work programme is underway to develop a comprehensive stress testing framework of the New Zealand banking system.

- A re-development of managed funds statistics jointly with Statistics New Zealand, and in consultation with the industry, has been undertaken. The new data is expected to be published in late 2014.

- We are currently consulting with the insurance industry on a proposed collection of insurance sector statistics. The data will enable the Reserve Bank to monitor and report on the health of the insurance sector, and assist it to meet its obligations to monitor individual organisations. The new collection is expected to be implemented in 2015.
Currency

The Reserve Bank has the sole right to issue legal tender bank notes and coins in New Zealand.

Objectives
The goal of Currency Operations is to meet the currency needs of the public by ensuring the supply and integrity of bank notes and coins.

There are three specific objectives. These are:

- To hold sufficient reserves of currency so that all orders from banks that meet the Reserve Bank’s guidelines are supplied within agreed times.
- To ensure that notes and coins in general circulation are of a good quality.
- To keep the number of counterfeits at a very low level.

The Reserve Bank also issues legal tender collectors’ coins through an outsourcing arrangement with New Zealand Post.

Environment and live issues

- Cash remains an important means of undertaking transactions in New Zealand. The value of currency in circulation grew by 5.9 percent to $4.88 billion in the year to 30 June 2014. Over 10 years to June 2014, currency in the hands of the public rose by 74.3 percent.

- Currently the Bank purchases bank notes from Note Printing Australia. It buys the 10, 20 and 50 cent coins from the Royal Canadian Mint and the one and two dollar coins from the Royal Mint.

- Each year we issue about 70 million notes to banks and receive a similar number as repatriations. About 42 percent of the repatriated notes are machine processed to confirm the reported value, to identify and destroy unfit notes and to check for counterfeits.

- Counterfeiting of New Zealand banknotes remains low by international standards.

- The Bank holds reserves of bank notes as contingency stocks for a crisis and to meet seasonal peaks in demand, e.g. at Christmas. The contingency stocks could be needed in the event of an earthquake or tsunami, a pandemic, a major breakdown in the infrastructure for electronic transactions, or a financial crisis.

- The Bank is now procuring its new Series 7 banknotes from Canadian Banknote Company Limited, for the scheduled first denomination release [IA s18(d)]. Both the current series and new notes will be legal tender. A public release of the note designs is planned for November 2014.

- The Bank has been reviewing banknote processing workload, process and management requirements and investing in renewing the note processing plant and facilities.

- A quality survey of banknotes has been undertaken and the results are being analysed.
Settlement services

Objectives
To ensure that payments system infrastructure services support the smooth functioning of the economy, are provided efficiently and reliably, and meet international standards.

The Bank:
- Operates the Exchange Settlement Account System (ESAS) and the New Zealand central securities depository system (NZClear).
- Operates the infrastructure required for settlement of interbank payments (Settlement Before Interchange), and that required for foreign exchange transactions through CLS Bank.

Environment and live issues
- The Bank administers securities on behalf of members of the NZClear system, with a value totalling more than $187 billion, and each day settlements with a value totalling more than $8 billion are made by members of NZClear. ESAS processes payments the value of which on average exceeds $25 billion each day. ESAS and NZClear, together with CLS, provide certainty to financial institutions in processing their high-value transactions. This is particularly important during periods of financial instability.
- Technology is changing quickly and existing payment systems are complex and need to be upgraded in order to support developments in the payments industry. With very stringent requirements for service reliability, the upgrade is a major undertaking. Consultation with industry participants on both the scope of the services that the Bank should provide and on future investment in technology is underway. Following this consultation the Bank will issue a roadmap for its operation of, and investment in, payment systems. The Bank will consult with the Minister on any proposals that might involve a change in ownership or operation of the NZClear system.

Corporate services
The Bank operates a number of corporate service departments including:
- The Knowledge Services Group, which provides core technology infrastructure (both payments systems and the Bank corporate systems); business analysis and applications development; help desk and web support; library, information and records management; and programme management and business continuity services.
- The Financial Services Group, which provides the financial control for the Bank’s activities.
- The Human Resources team, which provides strategic human resource advice and support services to the Bank regarding its 272 staff (as at 30 June 2014).
- The Communications team, which provides strategic advice and management for the Bank’s external and internal communications and for the maintenance of its reputation and credibility.
- The Risk Assessment and Assurance unit, which is responsible for ensuring that the wide range of risks faced by the Bank are identified, monitored and managed in line with best practice. Risks include financial, operational, and strategic risks. The unit includes the Bank’s internal audit function.
SECTION 3

Governance and management

The Reserve Bank Act provides:
- Considerable day-to-day operational autonomy to the Bank;
- An important role for the Minister of Finance in some key decisions; and
- A robust accountability structure in which the Bank’s Board, the Minister, and Parliament all have formal roles.

Please see Appendix I for a full description of where significant powers under the Reserve Bank of New Zealand Act, Anti-Money Laundering and Countering Financing of Terrorism Act, Insurance (Prudential Supervision) Act and the Non-Bank Deposit Takers Act lie.

Board of Directors

Section 53 of the Reserve Bank Act specifies the duties of the Board, among other things, as being to:
(a) keep under constant review the performance of the Bank in carrying out—
   (i) its primary function [monetary policy]; and
   (ii) its functions relating to promoting the maintenance of a sound and efficient financial system; and
   (iii) its other functions under this Act or any other enactment;
(b) keep under constant review the performance of the Governor in discharging the responsibilities of that office;
(c) keep under constant review the performance of the Governor in ensuring that the Bank achieves the policy targets agreed to with the Minister [the Policy Targets Agreement];
(d) determine whether policy statements made pursuant to section 15 [Monetary Policy Statements] are consistent with the Bank’s primary function and the policy targets agreed to with the Minister;
(e) keep under constant review the use of the Bank’s resources.

Section 53 also specifies that the Board may provide advice to the Governor on any matter relating to the performance of the Bank’s functions and the exercise of its powers.

The Board’s Audit Committee reviews the Bank’s financial statements and internal and external audit activity. Each year, the Board writes an assessment of the Bank’s and the Governor’s performance, which is provided as advice to the Minister of Finance and made public later in the Bank’s Annual Report.

List of the current Board of Directors

<table>
<thead>
<tr>
<th>Non-executive</th>
<th>Role</th>
<th>Term expiry</th>
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</thead>
<tbody>
<tr>
<td>Dr Rod Carr</td>
<td>Chair</td>
<td>15 July 2017</td>
</tr>
<tr>
<td>Mr Keith Taylor</td>
<td>Deputy Chair</td>
<td>30 June 2019</td>
</tr>
<tr>
<td>Ms Bridget Liddell</td>
<td></td>
<td>30 September 2018</td>
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<tr>
<td>Professor Neil Quigley</td>
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<td>31 January 2015</td>
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<td>Mr Jonathan Ross</td>
<td></td>
<td>11 August 2018</td>
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<tr>
<td>Ms Tania Simpson</td>
<td></td>
<td>15 June 2019</td>
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<tr>
<td>Ms Kerrin Vautier, CMG</td>
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<td>8 February 2015</td>
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<tr>
<td><strong>Executive</strong></td>
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<tr>
<td>Graeme Wheeler</td>
<td>Governor</td>
<td>First appointed 26 September 2012</td>
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</tbody>
</table>

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Reviewing the Bank’s performance

The Bank and the Governor are also subject to ongoing assessment by Parliament’s Finance and Expenditure Committee (FEC), including a hearing after each quarterly Monetary Policy Statement and half-yearly Financial Stability Review.

- FEC is advised by a contracted economist.
- The Reserve Bank Act enables the Minister to require a review or performance audit of the Bank.
- The Bank’s operational autonomy is balanced by a responsibility to exercise its powers under public scrutiny through a number of public documents. These include: The Policy Targets Agreement, Monetary Policy Statement, the Statement of Principles: Bank Registration and Supervision, Financial Stability Report, the Annual Report and the Statement of Intent.

Organisational structure

The Bank’s functions are generally conducted within departments, although a number of functions are managed across different departments, either by committees or through cross-department project management. The main committees are:

- Governing Committee
- Senior Management Group
- Communications Committee
- Monetary Policy Committee
- Macro-financial Committee
- Financial System Oversight Committee
- Assets and Liabilities Committee

Please see the latest Statement of Intent (page 5) for further details of governance and organisational structure.
Financial Management

Financial Structure

Balance sheet overview and funding of the Bank’s operations

The Reserve Bank is both a statutory agency and a financial institution. It receives no direct funding through the central government budgetary process. Instead, the Bank’s main source of income is the return on the substantial investments the Bank holds, which are funded by the issue of currency and by the Bank’s equity. Currency in circulation is a liability on which no interest expense is incurred. The funds received when currency is issued are invested and earn interest income, which is known as seigniorage.

Drivers of the Bank’s financial performance and financial position

The principal drivers of the Bank’s financial performance are:

- The value of currency in circulation.

- The size of the Bank’s open foreign exchange position and related changes in foreign exchange rates.

- Interest rates earned on the Bank’s investment in government securities and other securities.

- The size and performance of the Bank’s foreign reserve management and market operations functions.

- Operating expenditure incurred by the Bank.

- The level of equity available for investment and the dividend paid by the Bank.

Further information on the Bank’s financial management is available in the Bank’s latest Annual Report.

Risk management

The Reserve Bank faces a wide range of strategic, financial and operational risks associated with our policy responsibilities (policy mistakes or misjudgments), payment system, reserve management and currency operations.

The Bank has developed a strong risk management culture and a number of management systems and internal controls based on best international practice. We ensure we can function in the event of physical crises, including localised loss of access to our building and a wider regional disaster.

The Bank has two units with specific responsibilities for monitoring and managing risks: The Risk Assessment and Assurance Department, responsible for maintaining the Bank’s enterprise risk management framework and general risk monitoring; and the Risk Unit within the Bank’s Financial Markets Department, being a specialised and dedicated team actively overseeing financial market-related risks.
<table>
<thead>
<tr>
<th>SECTION</th>
<th>POWERS</th>
<th>GOVERNOR</th>
<th>BOARD</th>
<th>MINISTER</th>
<th>CABINET (ORDER IN COUNCIL)</th>
<th>OTHER PROCEDURES</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Powers of Natural Person</td>
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<td></td>
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<tr>
<td>9</td>
<td>Determine Policy Targets</td>
<td>Agree</td>
<td></td>
<td>Agree</td>
<td></td>
<td>Gazette and tabled in House</td>
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<tr>
<td>12</td>
<td>Change Monetary Policy Objective</td>
<td></td>
<td>Decide</td>
<td>Required</td>
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<td>Gazette and tabled in House</td>
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<tr>
<td>16</td>
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<td>Direct Foreign Exchange Intervention</td>
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<td></td>
<td>Decide</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18/20</td>
<td>Fix Foreign Exchange Rates</td>
<td>May refuse</td>
<td>Decide</td>
<td>Required</td>
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<td>Level of Foreign Reserves</td>
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<td>Determine</td>
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<td>39</td>
<td>General Powers</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>40</td>
<td>Appointment of Governor</td>
<td></td>
<td>Recommend</td>
<td>Appoint</td>
<td></td>
<td></td>
</tr>
<tr>
<td>43/45</td>
<td>Appointment/Removal of Deputy Governor</td>
<td>Recommend</td>
<td>Appoint/Remove</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>49</td>
<td>Removal of Governor</td>
<td></td>
<td>May Recommend</td>
<td>Decide</td>
<td>Required</td>
<td></td>
</tr>
<tr>
<td>63</td>
<td>Fees &amp; Expenses of Directors</td>
<td></td>
<td>May Recommend</td>
<td>Decide</td>
<td></td>
<td></td>
</tr>
<tr>
<td>73</td>
<td>Register Banks</td>
<td>✓</td>
<td></td>
<td></td>
<td>Gazette</td>
<td></td>
</tr>
<tr>
<td>74</td>
<td>Conditions of Registration</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>77</td>
<td>Deregister Banks</td>
<td>Recommend</td>
<td></td>
<td>Decide</td>
<td>Gazette</td>
<td></td>
</tr>
<tr>
<td>81</td>
<td>Public Disclosure Statements</td>
<td>Recommend</td>
<td></td>
<td>Decide</td>
<td>Required</td>
<td></td>
</tr>
<tr>
<td>99</td>
<td>Bank may appoint Investigator</td>
<td>✓</td>
<td></td>
<td>Decide</td>
<td>Gazette</td>
<td></td>
</tr>
<tr>
<td>113</td>
<td>Give Directions to Banks</td>
<td>✓</td>
<td></td>
<td>Consent</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Section</td>
<td>Powers</td>
<td>Governor</td>
<td>Board</td>
<td>Minister</td>
<td>Cabinet (Order in Council)</td>
<td>Other Procedures</td>
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</tr>
<tr>
<td>116</td>
<td>Approve sale of registered bank's business to third party, bypassing need for regulatory consent</td>
<td>✓</td>
<td></td>
<td>Consent</td>
<td></td>
<td></td>
</tr>
<tr>
<td>117</td>
<td>Statutory Management</td>
<td>Recommend</td>
<td>Decide</td>
<td>Required</td>
<td></td>
<td></td>
</tr>
<tr>
<td>119</td>
<td>Advisory Committee</td>
<td>Recommend</td>
<td>Decide</td>
<td>Required</td>
<td>Gazette</td>
<td></td>
</tr>
<tr>
<td>123</td>
<td>Vest assets and liabilities of branch bank in newly incorporated company.</td>
<td>Recommend</td>
<td>Decide</td>
<td>Required</td>
<td></td>
<td></td>
</tr>
<tr>
<td>132</td>
<td>Statutory manager may transfer bank in statutory management's assets to a newly incorporated company.</td>
<td>Receive consultation</td>
<td>Consent</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>144</td>
<td>Terminate Statutory Management</td>
<td>Recommend</td>
<td>Decide</td>
<td>Required</td>
<td></td>
<td></td>
</tr>
<tr>
<td>149</td>
<td>Advance to Statutory Management</td>
<td></td>
<td>Consent</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>156ZA</td>
<td>Bank may decide application for designation by payments system.</td>
<td>Recommend</td>
<td>Decide</td>
<td>Required</td>
<td>Co-Regulator with FMA</td>
<td></td>
</tr>
<tr>
<td>156ZC</td>
<td>Bank may disallow proposed amendment to rules of a designated settlement system.</td>
<td>✓</td>
<td></td>
<td></td>
<td>Co-Regulator with FMA</td>
<td></td>
</tr>
<tr>
<td>156ZH</td>
<td>Bank may independently begin review of settlement system.</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>159/160</td>
<td>Determine funding for the Bank.</td>
<td>Agree</td>
<td>Agree</td>
<td></td>
<td>Parliament ratifies</td>
<td></td>
</tr>
<tr>
<td>162</td>
<td>Surplus Income (Dividend).</td>
<td>Recommend</td>
<td>Advise</td>
<td>Decide</td>
<td></td>
<td></td>
</tr>
<tr>
<td>167</td>
<td>Require performance audit.</td>
<td></td>
<td>Decide</td>
<td></td>
<td>Tabled in House</td>
<td></td>
</tr>
</tbody>
</table>
## Significant Powers and Functions under the Anti-Money Laundering and Countering Finance of Terrorism Act 2009

<table>
<thead>
<tr>
<th>Section</th>
<th>Powers</th>
</tr>
</thead>
</table>
| 131/132 | Monitor and assess the level of risk of money laundering and the financing of terrorism across all of the reporting entities that it supervises:  
Monitor the reporting entities that it supervises for compliance with this Act and regulations, and for this purpose to develop and implement a supervisory programme:  
Provide guidance to the reporting entities it supervises in order to assist those entities to comply with this Act and regulations:  
Investigate the reporting entities it supervises and enforce compliance with this Act and regulations:  
Co-operate through the AML/CFT Co-ordination Committee (or any other mechanism that may be appropriate) with domestic and international counterparts to ensure the consistent, effective and efficient implementation of this Act.  
The Bank has powers as necessary to carry out the above functions. |
<p>| <strong>Governor</strong> | ✓ | | | | |</p>
<table>
<thead>
<tr>
<th>SECTION</th>
<th>POWERS</th>
<th>GOVERNOR</th>
<th>BOARD</th>
<th>MINISTER</th>
<th>CABINET (ORDER IN COUNCIL)</th>
<th>OTHER PROCEDURES</th>
</tr>
</thead>
<tbody>
<tr>
<td>19</td>
<td>Bank may grant a licence.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21(2)</td>
<td>Conditions of licence.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>Cancel a licence.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>36</td>
<td>Issue fit and proper standards.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>38</td>
<td>Bank may remove directors or relevant officers from appointment.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Gazetted and tabled in House</td>
</tr>
<tr>
<td>49</td>
<td>Approve or refuse any amalgamation or portfolio transfer.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>55</td>
<td>Issue solvency standards.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Gazetted and tabled in House</td>
</tr>
<tr>
<td>108</td>
<td>Bank may bring High Court action to recover losses for policyholders.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>121</td>
<td>Require insurer to supply information.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>130</td>
<td>Bank may appoint investigator.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>143</td>
<td>Bank may give directions to insurer or associated person.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>151</td>
<td>Apply to High Court for liquidation.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>152</td>
<td>Apply to High Court to reduce value of contracts of insurance.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>153</td>
<td>Apply to High Court for voluntary administration.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>154</td>
<td>Approve appointment of voluntary liquidator.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>155-168</td>
<td>Participate in the liquidation of an insurer.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>170</td>
<td>Statutory Management.</td>
<td>Recommend</td>
<td></td>
<td>Decide</td>
<td>Required</td>
<td></td>
</tr>
<tr>
<td>183</td>
<td>Sales of insurer business by statutory manager require approval.</td>
<td>Receive</td>
<td>Consultation</td>
<td>Consent</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Ref #5864033 v1.8
### Significant Powers and Functions under the Insurance (Prudential Supervision) Act 2010

<table>
<thead>
<tr>
<th>Section</th>
<th>Powers</th>
<th>Governor</th>
<th>Board</th>
<th>Minister</th>
<th>Cabinet (Order in Council)</th>
<th>Other Procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td>185</td>
<td>Vest assets and liabilities of branch insurer into newly formed company.</td>
<td>Recommend</td>
<td></td>
<td>Decide</td>
<td>Required</td>
<td></td>
</tr>
<tr>
<td>191</td>
<td>Values of contracts of insurance may be reduced.</td>
<td>Recommend</td>
<td></td>
<td>Decide</td>
<td>Required</td>
<td></td>
</tr>
<tr>
<td>197</td>
<td>Termination of Statutory Management.</td>
<td>Recommend</td>
<td></td>
<td>Decide</td>
<td>Required</td>
<td></td>
</tr>
<tr>
<td>237/238</td>
<td>Recommend making of regulations, including the jurisdictions being prescribed for exemptions available under certain provisions.</td>
<td>Recommend</td>
<td></td>
<td>Decide</td>
<td>Required</td>
<td></td>
</tr>
<tr>
<td>SECTION</td>
<td>POWERS</td>
<td>GOVERNOR</td>
<td>BOARD</td>
<td>MINISTER</td>
<td>CABINET</td>
<td>OTHERS</td>
</tr>
<tr>
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</tr>
<tr>
<td></td>
<td><strong>SIGNIFICANT POWERS AND FUNCTIONS UNDER THE NON-BANK DEPOSIT TAKERS ACT 2013</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Bank may grant a licence.</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Conditions of licence.</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>Cancel a licence.</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>43</td>
<td>Consent to change of ownership.</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>44</td>
<td>Require trustee to attest to licensed NBDT's compliance.</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>47</td>
<td>Require information from licenced NBDT.</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>48</td>
<td>Require information from associated person.</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>49</td>
<td>Require reports for investigatory purposes.</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>50</td>
<td>Require trustee to provide information about licensed NBDTs.</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>51</td>
<td>Production and search powers when offence suspected.</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>56</td>
<td>Bank may direct licensed NBDTs or associated persons.</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>57</td>
<td>Bank may direct trustees.</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>60</td>
<td>Bank may appoint or remove directors of licensed NBDTs.</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>70</td>
<td>Bank may exempt NBDTs from requirements under the Act or regulations.</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>73</td>
<td>Recommend regulations for capital, liquidity, related party and credit ratings.</td>
<td>Recommend</td>
<td></td>
<td>Decide</td>
<td>Required</td>
<td></td>
</tr>
</tbody>
</table>

Ref: 5864033 v1.8
## Briefing for Incoming Minister – Issues Paper
### October 2014

<table>
<thead>
<tr>
<th>Section</th>
<th>Issue</th>
<th>Timing</th>
<th>Minister’s involvement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Board membership</td>
<td>Lead time to appointments in Jan &amp; Feb 2015</td>
<td>Minister’s recommendation to APH</td>
</tr>
<tr>
<td>2</td>
<td>Funding agreement</td>
<td>Lead time to July 2015</td>
<td>Cabinet agreement. Tabling in Parliament</td>
</tr>
<tr>
<td>3</td>
<td>OBR</td>
<td>Withheld, OIA section 9(2)(f)(iv)</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Payments Oversight Review</td>
<td>Withheld, OIA section 9(2)(f)(iv)</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Exchange rate</td>
<td>Information</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>LVRs</td>
<td>Q4 2014</td>
<td>Information</td>
</tr>
<tr>
<td>8</td>
<td>Banknotes</td>
<td>OIA section 18(d)</td>
<td>Information</td>
</tr>
<tr>
<td>9</td>
<td>Bank stress testing</td>
<td>Stage 1: Q4, 2014 Stage 2: 2015</td>
<td>Information</td>
</tr>
<tr>
<td>10</td>
<td>NBDT Review</td>
<td>Withheld, OIA section 9(2)(f)(iv)</td>
<td>Information</td>
</tr>
<tr>
<td>12</td>
<td>Insurance supervision regime</td>
<td>2015</td>
<td>Information</td>
</tr>
</tbody>
</table>
IN CONFIDENCE

I. For Minister’s decision

1. Board membership

1.1. The Board has an important statutory role in monitoring the Bank's performance and providing advice, especially in regard to its monetary policy and financial stability decisions and activities. We draw your attention to recent and upcoming changes in Board membership.

1.2. In the last year or more, Jonathan Ross, Bridget Liddell and Tania Simpson joined the Reserve Bank Board (following the departure of Dr Chris Eichbaum, Dr Arthur Grimes and Sue Sheldon). Dr Rod Carr took over as Board chair from Dr Arthur Grimes in September 2013.

1.3. Two Board members reach the end of their term in 2015. Professor Neil Quigley’s term expires 31 January and Kerrin Vautier’s expires on 8 February. A full list of current Board members is provided in Section 3.

1.4. We would like to discuss these appointments with you. In order to ensure a full complement of Board members early in 2015, an APH decision would be needed before the Christmas break.

1.5. Section 9 of the RBNZ Act requires that the Minister shall fix, in agreement with the Governor, policy targets for monetary policy. This is required whenever a Governor is re/appointed. Also, the Minister and Governor may “from time to time” review or alter the PTA. Any alterations must be recorded, tabled at the Board, and gazetted. The Bank is not proposing any changes to the current PTA.
II. For Cabinet agreement

2. Funding Agreement

2.1. The Reserve Bank's operating expenditure is funded from the income it earns. The Bank's spending is limited by a five-year Funding Agreement between the Governor and the Minister (as per Section 159 of the Act) that sets out the amount of the Bank's income that may be expended in exercising the powers specified in the Act.

2.2. The current Funding Agreement expires on 30 June 2015, and a new one needs to be negotiated and agreed before the next fiscal year. The new Funding Agreement must be tabled in Parliament within 12 sitting days of it being signed by the Minister and the Governor.

2.3. The Bank has been intensively reviewing its functions and resourcing to determine the necessary level of funding for the forthcoming five-year period, and has commenced discussions with Treasury. The Bank and Treasury expect to provide a briefing to you in March on the Bank's proposed 2015-20 Funding Agreement.

2.4. The Bank's responsibilities have expanded in recent years, particularly in the regulatory and supervisory area. New responsibilities for insurance sector supervision and anti-money laundering enforcement were resourced from additional funding. On the other hand, responsibilities for macro-prudential policy and increasing regulation of non-bank deposit-taking financial institutions were resourced internally. In February 2014 the Cabinet Economic Growth and Infrastructure Committee supported the Bank's proposal to enter into a five year commitment with a banknote supplier to print a new series of banknotes for New Zealand, which will result in additional expenditure over that period.

2.5. We would welcome a discussion with you around our businesses and resourcing.

3.

3.1. Withheld, OIA section 9(2)(f)(iv)

3.2.

4. OBR and depositor protection

4.1. The Reserve Bank required all registered banks with more than $1 billion of retail funding to pre-position for the Open Bank Resolution (OBR) policy from 30 June 2013. OBR is a crisis management tool that would allow a failed bank to re-open the day after failure, providing customers with access to a portion of their funds while authorities work towards a final resolution.

4.2. The OBR policy is now available to the Government if required. Withheld, OIA section 9(2)(f)(iv)
4.3. The OBR policy is designed to ensure that shareholders and creditors bear the costs of failure, in line with their legal ranking, rather than taxpayers.

5. Payments Oversight Review

5.1. The Reserve Bank oversees Payments and Settlement Systems (Financial Market Intermediaries, FMIIs) so as to promote the maintenance of a sound and efficient financial system, and avoid significant damage to the financial system that could result from the failure of a participant in an FMI.

5.2. Under the Reserve Bank Act, the Bank has some powers for the regulatory oversight of FMIIs. These powers are limited to the gathering of information on payments systems; the establishment of or changes to conditions of designation; and overview of system rules for designated payment or settlement systems.

5.3. The Bank is undertaking a risk-based review of the scope and effectiveness of these powers, in the context of both soundness and efficiency of the payments and settlements sector specifically, and the financial system more generally. Preliminary draft recommendations were prepared earlier this year.
III. For information

6. Exchange rate

6.1. The New Zealand dollar exchange rate remains at exceptional levels compared with its history.

7. Loan to Value Restrictions (LVRs)

7.1. In October 2013, the Reserve Bank introduced conditions of registration for banks limiting their mortgage lending at LVRs of 80 percent or above to no more than 10 percent of total mortgage lending. The move was in response to rapid increases in house prices, particularly in Auckland and Canterbury, and indications that nearly a third of all new housing loan commitments were being undertaken at high LVRs. House prices were becoming increasingly stretched on most metrics, and household debt was already elevated following increases over the past decade. We were conscious of the risks to the stability of the domestic financial system and broader economy if house prices were to fall sharply.

7.2. Banks have all comfortably met the LVR speed limit, and house sales and house price inflation have moderated significantly. We estimate that annual house price inflation is around 4 percentage points lower than would have been the case if LVR speed limits had not been introduced. We believe that LVR restrictions have played a useful role in helping to dampen a build-up in financial system risk.

7.3. LVR speed limits are not intended to be a permanent measure. While they can help moderate demand, an increase in housing supply, especially in Auckland, will be essential to achieving a sustainable balance in the housing market. We welcome measures that can help to alleviate constraints on the housing supply.

7.4. Over the months ahead, the Reserve Bank will be closely assessing whether conditions will allow for some easing of the restrictions. We will be looking for evidence that some adjustment can be made without creating a marked resurgence in both house price inflation and high LVR lending. Our assessment will take into account the effects of recent and prospective increases in the OCR.

8. Banknotes

8.1. The Reserve Bank’s project to modernise New Zealand’s banknotes is progressing well. After an international multi-stage tender, we selected the Canadian Banknote Company to design and print New Zealand’s new banknotes. The banknotes will continue to be printed on polymer, and will feature the same New Zealanders and flora and fauna as the current notes. The designs will incorporate more complex security features, including colour-changing and optically-variable inks as well as larger transparent windows. We are speaking to your office about your or the Prime Minister’s involvement in the launch of the banknote designs.

8.2. The banknote designs will be made public in November 2014, and consultation with industry stakeholders to ensure a smooth transition to the new banknotes will continue. The banknotes will go through rigorous testing to ensure they are as robust, secure and durable as possible prior to release.
8.3. We will run a public awareness campaign to inform New Zealanders about the new notes in the lead-up to the first denominations entering circulation.\*\*\*

Withheld, OIA section 18(d)

8.4. Both the current banknotes, and the new banknotes, will circulate together for a period of time and both will be legal tender.

8.5. It is costing the Reserve Bank about $80 million to purchase the new notes. The estimated increase in operating expenses incurred in issuing the new notes over the five years ended 30 June 2020 totals $43 million. The costs of regular banknote upgrades, which typically take place every 10 - 15 years, have to be balanced against the increasing risks of counterfeiting as new technologies evolve.

9. Bank stress testing

9.1. Most bank supervisors now employ stress tests to gauge the resilience of banks to a range of economic shocks, and provide insights into their capital adequacy. The Reserve Bank and APRA have undertaken several stress testing exercises since 2009 under which the Australian banks and their New Zealand subsidiaries model the balance sheet effects of a severe economic downturn scenario. We have also conducted an initial high level stress test of the other New Zealand banks.

9.2. We are developing a more rigorous framework for regular bank stress testing, integrated with our other prudential oversight activities. Three key objectives of this work include:

- Strengthening the risk management culture of bank boards and management.
- Providing insights into the adequacy of banks’ capital and liquidity buffers.
- Improving the Reserve Bank’s understanding and publication of systemic risk.

9.3. We aim to have a system-wide stress testing framework that can be used regularly (potentially annually) to deliver reliable results on the key risks inherent in the New Zealand banking system. Initially, the Reserve Bank is working with the larger banks on the consistency and rigour of their modelling frameworks and internal risk management processes. We will look to improve the stress testing capability of the smaller domestic banks.

10. NBDT review

10.1. The Reserve Bank completed a review of the operation of the prudential regime for NBDT’s late in 2013. This found that the regime has helped to reduce the likelihood of failure in the NBDT sector, and encouraged sounder management. However, the review also concluded that there are technical refinements that could make its operation more efficient, and adaptable to changing circumstances and market conditions. These changes included:

- Amending the definition of ‘NBDT’ to improve its focus on the intended entities, and address boundary issues.

Ref #5861616 v1.3
Providing for technical amendments to legislation and enhanced guidance material for trustees, who are the frontline supervisors of NBDTs, to improve their effectiveness and efficiency.

Shifting from an approach where prudential requirements are set for NBDTs via regulation, to an approach were they are set via standards made by the Bank;

11. Regulatory stocktake

11.1. The Bank recently started work on a Regulatory Stocktake project, to ensure the consistency, clarity, and efficiency of the existing stock of prudential regulations applying to banks and non-bank deposit takers (NBDTs). The project will also identify any improvements that can be made to the current processes for introducing or amending these prudential regulations.

11.2. The project will seek to identify regulatory requirements that can be removed, that can be made more efficient, or can be presented in a better way to make them easier to navigate and understand. It is not the aim of the project to alter the fundamental shape of the existing regulatory framework: the terms of reference set out a number of key planks of the framework, such as minimum capital requirements, that need to remain in place to ensure that the over-arching objectives of the prudential regimes continue to be met.

11.3. For banks in particular, there has been rapid change and expansion in the range of prudential requirements in recent years, both in response to the GFC and for other reasons. It is an appropriate time to step back and review how the regime hangs together as a whole.

11.4. We launched the project formally in July 2014, and plan to publish a discussion paper in May 2015, and final conclusions in September 2015. The conclusions may include the need for follow-up work to implement further desirable changes. The Bank is regularly consulting other interested parties in the project, including the regulated entities themselves, the Treasury, MBIE and the FMA. One workshop with the industry has taken place and two more are planned by December. We are also close to finalising the membership of an Expert Panel to provide input to the project from alternative viewpoints.

12. Insurance sector supervision regime

12.1. The Bank is moving into the business-as-usual phase of insurance supervision. Our framework allows for supervisory intensity to vary by different types of insurers. The framework also reflects the Bank’s philosophical approach to supervising banks, in that it is risk-based, and rests on the three pillars of self-discipline, market discipline and regulatory discipline.
12.2. Our framework will apply a risk-based assessment to each insurer, proactively focusing supervisory resources on the larger insurers, and aimed at anticipating issues in time to facilitate any remedial action. Insurers in the lower impact categories will be supervised on a less intensive, more reactive basis.

12.3. We will likely publish an explanation of the framework and its implications for Bank engagement with insurers.