

Reserve Bank of New Zealand March 2016 OCR announcement Investigation into alleged leak

12 April 2016



1. Introduction

Background

- 1.1. At 9am on the morning of Thursday 10 March 2016 the Governor of Reserve Bank of New Zealand (“RBNZ” or “the Bank”), Mr Graeme Wheeler, shared with the market the Bank’s quarterly Monetary Policy Statement (“MPS”). A key component of the MPS is announcing whether the Official Cash Rate (“OCR”) is remaining unchanged or moving up or down. On this occasion the Governor announced to the market that the Official Cash Rate (“OCR”) had been reduced by 25 basis points to 2.25%. The announcement took place, as is usual practice, at RBNZ’s offices on The Terrace in Wellington.
- 1.2. A long-standing procedure has been established by RBNZ around the Governor’s quarterly OCR announcements that are connected to the Monetary Policy Statements (“MPS”) where in the two hours before the 9am announcement the RBNZ arrange lockups where the embargoed announcement is shared with media and external analysts, with measures in place that are designed to reduce the risk of any premature ‘leak’. The media and external analysts are effectively shut off in two separate rooms prior to the announcement which spans 7am to 9am (for media) and 8am to 9am (for external analysts). During this time, the lockup attendees in both rooms are not permitted to communicate what is being shared in the room until the embargo is lifted at 9am.
- 1.3. Mr Michael Reddell is a former RBNZ employee. Mr Reddell now runs a ‘blogger’ website that amongst other things provides commentary and opinion on RBNZ’s activity. At 9.08am on 10 March 2016, Mr Reddell advised RBNZ that at 8.04am that morning, while the media and external analysts were in their respective lockups, he received an email that recorded the OCR was reducing by 25 basis points.

Scope of this review

- 1.4. We were asked to carry out an independent investigation to determine whether or not a leak actually occurred and if so, establish (if possible) how it occurred and who was responsible for that leak.

Limitations

- 1.5. This engagement is subject to the following key limitations:
 - We are not qualified to provide legal advice and are not responsible for any legal issues associated with or arising during this engagement;
 - The terms of this engagement and the scope of the work RBNZ asked us to undertake is different from an audit or a review engagement, and the assurances associated with these reviews are not given. Our investigation relies on the evidence assembled. We have not always independently verified the evidence assembled;
 - Where the volume of evidence is significant, we have relied on our experience, judgment, analytical review and document filtering techniques to determine which areas to focus on. Accordingly, there is therefore, an unavoidable risk that some issues may remain undiscovered.
 - We are not responsible for ensuring RBNZ comply with any law including compliance with the Privacy Act 1993 in you providing any information to us.
 - We were not asked to carry out any detailed testing to verify that the controls (such as document management folder access etc.) have actually been deployed and were operating effectively, and this was not within the scope of this engagement. We were also not engaged to determine whether RBNZ’s policies or procedures were followed or were operating effectively regarding the handling of confidential or sensitive information.

General distribution disclaimer

- 1.6 This report is provided solely for the exclusive use of RBNZ and its legal advisers for the purpose of determining the facts leading up to the alleged leak of confidential information.
- 1.7 At RBNZ's request, we have provided written permission to RBNZ to make this report publicly available. However we accept or assume no duty, responsibility or liability to any party other than RBNZ in connection with the report or this engagement, including without limitation, liability for negligence in relation to the factual findings expressed or implied in this report.

Important message to any person who has access to this report (other than RBNZ)

- 1.8. Any person, other than RBNZ, who obtains access to and reads this report, accepts and agrees, by reading this report the following terms:
- The reader of this report understands that the work performed by Deloitte was performed in accordance with instructions provided by our addressee client, RBNZ, and was performed exclusively for our addressee client's sole benefit and use.
 - The reader of this report acknowledges that this report was prepared at the direction of RBNZ and may not include all procedures deemed necessary for the purposes of the reader.
 - The reader agrees that Deloitte, its partners, principals, employees and agents neither owe nor accept any duty or responsibility to it, whether in contract or in tort (including without limitation, negligence and breach of statutory duty), and shall not be liable in respect of any loss, damage or expense of whatsoever nature which is caused by this report, or any use the reader may choose to make of it, or which is otherwise consequent upon the gaining of access to the report by the reader. Further, the reader agrees that this report is not to be referred to or quoted, in whole or in part, in any prospectus, registration statement, offering circular, public filing, loan, other agreement or document and not to distribute the report without Deloitte's prior written consent.
 - This report should also be read in conjunction with the statement of responsibility and the limitations set out in this report.

Statement of responsibility

- 1.9 This engagement was performed in accordance with the terms contained in our engagement letter, dated 11 March 2016.
- 1.10 As a member of Chartered Accountants Australia and New Zealand, all work performed by Deloitte is subject to the Accounting Professional and Ethical Standards, which include requirements in the areas of ethics, independence, documenting the terms of the engagement, and quality control.
- 1.11 Our work was designed to provide a report on the specific objectives and scope of the engagement letter. It was not designed to provide an assurance engagement in accordance with New Zealand Standards for Assurance Engagements, such as ISAE3000. Nor did it represent any form of audit under New Zealand Standards on Auditing. Consequently, no *assurance conclusion* or *audit opinion* has been provided.
- 1.12 The terms of this engagement and the scope of the work RBNZ asked us to undertake is different from an audit or a review engagement, and the assurances associated with these reviews are not given. Our assessment is based on representations made to us by RBNZ personnel, journalists and the exercise of judgement.
- 1.13 The matters detailed in our report are only those which came to our attention during the course of performing our investigation and do not necessarily constitute a comprehensive statement of all of the weaknesses or issues that exist or actions that might be taken. Accordingly, RBNZ management should not rely on our report to identify all weaknesses and issues that may exist in the systems and procedures discussed. The report should be read in the context of the scope of our work.

- 1.14 This report should not be relied upon as a substitute for actions that RBNZ should take to assure itself that the relevant controls are operating efficiently.

Summary

- 1.15 Our principal RBNZ contacts were Nick McBride, General Counsel and Richard Wong, Manager Audit Services. Both Nick and Richard provided oversight and assistance throughout the engagement.
- 1.16 We completed our investigation between 14 March and 7 April 2016. This involved contact with various RBNZ personnel, journalists and Mr Reddell.
- 1.17 We were provided with full access to RBNZ personnel. All RBNZ personnel involved were fully engaged and contributed to our investigation.
- 1.18 We approached all of the journalists who attended the media lockup prior to 8.20am on 10 March 2016.
- 1.19 We were preparing to speak with the external analysts. However we did not continue with this line of investigation because Mediaworks self-reported to us and RBNZ that one of its journalists was the source of the leak from the lockup. Mediaworks identified this as a result of our approach and their own internal investigation. Mediaworks has cooperated with the investigation.

2. Our investigation approach and findings

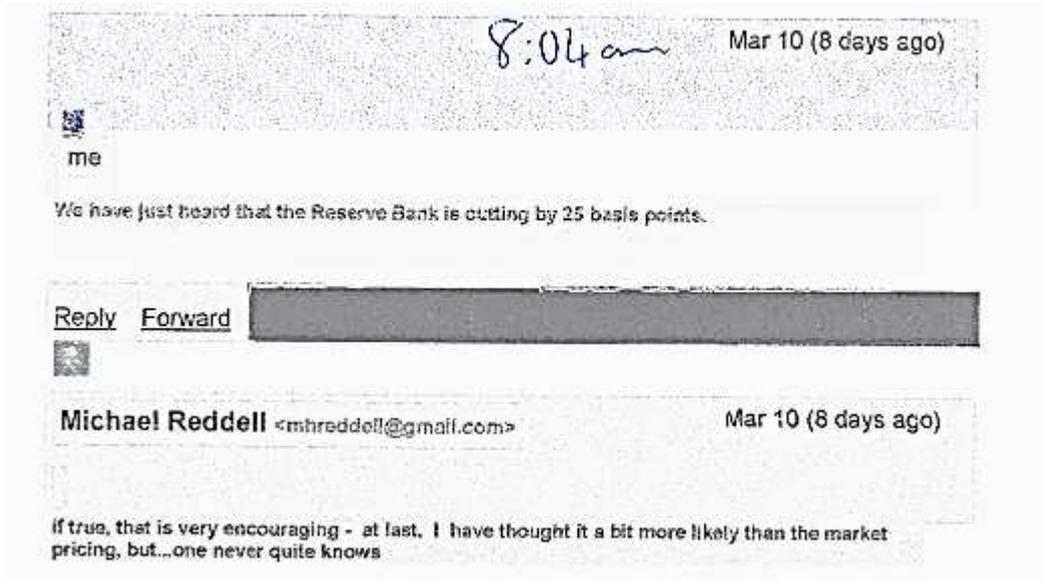
- 2.1. When planning our investigation into whether or not a leak had actually occurred, we initially took a broad investigation approach and considered that the alleged leak could have come from any number of sources: RBNZ personnel, the media lockup, the external analysts lockup or other third parties such as the Minister of Finance's office or anyone else that might have overheard any conversations.
- 2.2. However, as our investigation progressed and new information came to light, we were able to narrow down our investigation approach into more focussed areas.

RBNZ enquiries

- 2.3. We met with several RBNZ staff in areas relating to:
 - Financial Markets;
 - Information Technology;
 - Security;
 - Market Operations; and
 - The Governor's Office.
- 2.4. We spoke with RBNZ staff who attended the media and external analyst lockups.
- 2.5. We requested that RBNZ provide us with communication information for an agreed relevant period, leading up to and around the alleged leak. This information was extracted but was not reviewed or analysed because, as the investigation unfolded (in particular after we met with Mr Reddell), we decided to put this line of enquiry on hold and to focus on the media and the external analyst lockups first (see below).
- 2.6. RBNZ provided us with a range of information, relating to:
 - Production and distribution of the MPS;
 - Coordination and running of the media and external analysts lockups; and
 - Currency fluctuation and movement information.

Michael Reddell

- 2.7. We met with Mr Reddell on 18 March 2016.
- 2.8. He provided us with a redacted version of the email communication that he received on 10 March 2016 that informed him that RBNZ was reducing the OCR by 25 basis points. The email stated “*we have just heard that the Reserve Bank is cutting by 25 basis points.*” There was no time stamp on the email that Mr Reddell provided to us, but it was annotated with a handwritten “8.04am”. Mr Reddell explained that this was the time stamp from his computer that he received the email. An image of the email communication Mr Reddell provided to us appears below:



- 2.9. Mr Reddell would not provide us with the name of his source and this information was redacted from the email he provided to us. Mr Reddell advised us that the source was a member of a media organisation “*that was not normally in the media lockup.*” Mr Reddell advised us that he inferred from this communication that a journalist in the media lockup communicated with the office of their media organisation; and that another person who was not in the media lockup on 10 March 2016 provided Mr Reddell with that information.
- 2.10. Mr Reddell received the email communication at 8.04am on 10 March 2016, but he did not notify RBNZ that he had received the communication until 9.08am on the same morning. Mr Reddell explained to us that he did not immediately notify RBNZ because:
- He did not see the email until approximately 15 minutes after it was sent to him (i.e. at about 8.20am that morning);
 - It did not occur to him to tell RBNZ straight away;
 - He checked the markets and saw that they had not moved and therefore he did not think that the leak was malicious;
 - He did not see any activity or chatter about the decision and therefore concluded that it was not widely known; and
 - He knew that the key people he needed to tell at RBNZ were in the lockups and therefore were not contactable.

Minister of Finance

- 2.11. There has been a long established protocol that the Minister of Finance is informed of the decision by the Governor of RBNZ on the morning of the release.
- 2.12. We spoke with the Minister of Finance on 24 March 2016 to ascertain where he was when the Governor phoned him on 10 March 2016. We were satisfied from this conversation that the Minister of Finance was, at the time of the call, in a private area and that it was very unlikely that the OCR decision was overheard by any third party. Therefore, we did not progress this further.

Journalists

- 2.13. Following our meeting with Mr Reddell, we approached the journalists who were in the media lockup prior to 8.20am on 10 March 2016. We ascertained who these journalists were from our review of the CCTV footage and from input by RBNZ Comms personnel.
- 2.14. We spoke with all but three of the journalists who attended the media lockup prior to 8.20am on 10 March 2016.
- 2.15. The source of the leak (a Mediaworks employee) was identified following the communication that we initiated with the journalists.
- 2.16. As a result of Mediaworks' own internal investigation, it identified that one of its journalists was the source of the leak. The journalist in the lockup, emailed a draft story (without RBNZ approval) from within the lockup room to their Mediaworks colleagues shortly before 8am on 10 March 2016 using a data card and a laptop computer. Subsequently, Mediaworks self-reported this information to RBNZ and to us on 5 April 2016.
- 2.17. We worked with Mediaworks and it decided to widen its examination of the Mediaworks' outbound emails that occurred early on the morning of 10 March 2016. Mediaworks located the email that had been sent to Mr Reddell stating the RBNZ was "*cutting the rate was by 25 basis points*".
- 2.18. The email was sent to Mr Reddell by another Mediaworks' employee who was not one of the original recipients of the journalist's story sent from the lockup. Mediaworks established from the individual that they had allegedly overheard the discussion taking place between Mediaworks' colleagues about the rate drop and then the employee sent the email to Mr Reddell at 8:04am.

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