

Information release

Briefing to Minister

The below document has been proactively released by the Reserve Bank of New Zealand on the Reserve Bank website at: www.rbnz.govt.nz/research-and-publications/publications/information-releases:

- 26 May 2025 RBNZ Chair Letter to MOF
- #6300 - RBNZ Governance Framework Response to TSY Proposals

Information withheld

Some parts of this information release have been withheld under the Official Information Act 1982 (the Act).

Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Sections of the Act under which information has been withheld

[1] 9(2)(a) – to protect the privacy of natural persons, including deceased people.

Numbering system for withheld information

Where information has been withheld, a numbered reference to the applicable section of the Act has been made, as listed above.

Relevant Release:

The Treasury has also released advice relevant to #6300, at: www.treasury.govt.nz/publications/information-release/treasury-report-t2025-1832-rbnzs-governance-framework

26 May 2025

Hon Nicola Willis
Minister of Finance

By email:

Dear Minister

Reserve Bank of New Zealand

I refer to our phone call on Tuesday 13 May where you informed me that you had reviewed advice provided to the previous Minister and requested that the Treasury urgently provide you with advice about a number of matters relating to the Reserve Bank of New Zealand (RBNZ). RBNZ staff have some opportunity to work with Treasury and have input into the advice that you will receive, but given that we are working with tight timeframes, I am providing this preliminary thinking at the RBNZ on some of the relevant issues.

Firstly, a number of different institutional arrangements can support the effective operation of a modern central bank, including appropriate input from you as Minister, appropriate independence in the use of agreed instruments, appropriate oversight of the RBNZ's operations and its Governor from non-executive directors of the RBNZ and appropriate input from other stakeholders.

Secondly, the Board and the senior staff of the RBNZ are very open to considering alternative institutional arrangements. However, the RBNZ is a complex institution, with policy, regulatory, infrastructure and operational responsibilities that are critical to the wellbeing of our economy and our people. Institutional arrangements need to reflect that complexity. This was one reason why the Reserve Bank Act was based on Crown entities legislation in part, but departed from it in important ways.

Third, your Government has had the challenging task of dealing with the economic legacy of New Zealand's pandemic response. As you are aware, the RBNZ Board existed solely in an advisory capacity at the time that responses such as LSAP and FLP were introduced by RBNZ, and as a practical matter had no input into the decisions made by the Monetary Policy Committee (MPC) and the Minister of Finance. The situation today is entirely different, with the RBNZ Board having almost three years of experience operating with the residual decision rights vested in it under the Reserve Bank of New Zealand Act 2021 (the **Act**). I hope that you will agree that the current Board has been responsive to your requests that we review policies of concern to you, seriously consider the priorities that you have articulated, and demonstrated the ability to act independently of the Governor and senior RBNZ staff where necessary.

Under current institutional arrangements you have decision rights on the appointment of the Governor, Board members, Chair and Deputy Chair of the Board; issue remits on monetary policy and financial policy; may direct the RBNZ as to minimum capital and financial risk management; may direct it to trade foreign exchange; approve the funding for RBNZ through the five-year funding agreement; and comment on the SOI and SPE. You also have extensive regulation making powers and a direction power under the Deposit Takers Act. Thus, consideration may be given to whether there are at present effective channels for your policy priorities to be communicated to and adopted by the Bank.

Relevance of the Crown Entity model to the RBNZ

RBNZ's legislation and governance structure is uniquely complex but works well given RBNZ's own unique features. It is notable how different we are from the Crown entity model, i.e.:

1. RBNZ has multiple functions; Crown entities are more specialised.
2. The MPC is a statutory independent decision-making authority within the structure of the RBNZ. The board must ensure MPC decisions are implemented, but only up to financial limits set by the board. Such an arrangement is unique.
3. The special status of the Governor and the unique nature of their relation to the board. This arises because the Governor is appointed and removed through the Minister of Finance and the position is not covered by employment law. Under the Crown entity model boards appoint and may dismiss CEOs within the context of an employment relationship.

Governor's role on the board

Under the current legislation, the Governor is Chair of MPC and a full a member of the Board. This provides for the independence of the MPC while giving the Board a tangible link to it, helping to ensure a natural chain of command with the Board at the top. As a Board member, the Governor has the same statutory duties that apply to other members, which may be important in some circumstances given that the Governor does not have duties under employment law (e.g. good faith). I have come to view the role of the Governor on the Board as critical to the relationship between the Board and the MPC, and of particular relevance should the Board need to decide whether to support MPC recommendation to use the Bank's balance sheet in implementing monetary policy (which could have very considerable costs to the Crown).

From an international perspective I also believe that it is important that the Governor has sufficient standing. It is usual that the Governor of a central bank is a member of the Board and in some cases they are chair of the board (e.g. at the Reserve Bank of Australia, Bank of Canada, Chair of the Federal Reserve; at the Bank of England the Governor chairs the four statutory committees and is a member of the Court). A Governor who was "mere" CEO would be exceptional, and internationally this could be seen as a diminished role by comparison with the peers they engage with at international meetings.

The recent resignation of Governor Adrian Orr demonstrated the ability of the non-executive members of the Board to communicate, act cohesively and in accord with their legislative responsibilities. The Governor's membership of the Board creates no problems for a competent Chair who takes the Board into non-executive committee discussion when it is appropriate to do so.

Financial Policy Committee

I share your desire that appropriate expertise and experience be applied to financial policy decisions. This was the key reason that the Board established a Financial Stability Oversight Committee (FSOC) soon after the Act came into force. If there was a desire to do so, there are ways to bolster the expertise available to this committee without the need for legislative change.

One mechanism would be for the Board to appoint credible external experts to FSOC and provide the subcommittee with a formal delegation. Currently our policy is that statutory powers and functions are retained by the board or delegated to employees. But a formal delegation to FSOC on some matters would give voting rights on the subcommittee to external members. In contrast, a legislated FPC would add new legal complexity to our governance structure because legislation would need to define the relationship to the Board, the MPC and the Governor including the extent of responsibility of each of these parties and how they coordinate with each other. It would compound what is already a complex organisation and would likely slow decision-making.

I hope that you will find these preliminary views helpful as you engage with the ongoing discussions between Treasury and RBNZ officials and the draft advice that you will soon be receiving.

Yours sincerely



Neil Quigley
Chair

REFERENCE: #6300

DATE: 6 July 2025

TO: Hon Nicola Willis, Minister of Finance

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Aide Memoire: RBNZ Governance Framework: response to Treasury proposals

Purpose

1. The purpose of this Aide Memoire is to provide you with the Reserve Bank's perspective on changes proposed to the Reserve Bank of New Zealand Act 2021 (the **Act**) by Treasury. This updates and expands on my letter to you sent on 27 May 2025, reflecting the fact that Treasury have recently provided the RBNZ with a copy of its proposed advice to you.

Executive Summary

2. Treasury proposes changing the Act to remove the Governor's status as a board member of RBNZ and to establish an independent committee of the RBNZ to make prudential decisions.
3. The timing for developing and implementing such changes is problematic, in part because the complexity of the changes that Treasury propose is materially understated.
4. A non-executive board and statutory FPC were considered during the development of the Act. The institutional arrangements in the current Act were judged to better support coherent decision-making and accountability.
5. The Treasury has not investigated RBNZ's decision-making processes under the current Act and does not provide any data or even anecdotes to support its case. Additionally, Treasury's advice does not have a clear conception for the role of the board in its preferred structure.
6. Removal of the Governor from the board introduces material complexity given that financial market infrastructure, prudential regulation, monetary policy and the balance sheet of the Reserve Bank are interrelated (especially in a financial crisis).
7. Removal of the Governor from the Board is inconsistent with international practice, and hence diminishes the international standing of the RBNZ. It will weaken board oversight of both the Governor and management, not strengthen it as Treasury proposes.
8. Non-legislative options are available to address some of Treasury's concerns, particularly in prudential decision-making where more formal recognition of and external participation on the Financial Stability Oversight Committee could be considered before legislative change.

Analysis

The reasons for the change

9. The RBNZ Act commenced on 1 July 2022 after a ten-month transition. The Act's predecessor had been in effect for 30 years.
10. Significant legislative change would normally be based on evidence of problems that justify a legislative fix, or sufficient passage of time during which an Act has become outmoded. These situations do not apply here. There is no obvious driver for change. Treasury has not investigated or reviewed the operation of the Act, has not commissioned a detailed analysis of RBNZ decision-making under the current Act and has not presented any data to support its proposals. The case Treasury makes for changed can be summed up as saying that in its view it thinks perhaps better institutional arrangements might be available.

Treasury has significantly understated the complexity of its proposals

11. At the outset of the review of the 1989 RBNZ Act, Treasury's governance structure for RBNZ was based on the following features:
 - An independent Crown entity model.
 - Appointment and dismissal of the Governor through the Minister and Governor-General.
 - An independent MPC.
 - An independent FPC.
12. Treasury's current proposals revert to its 2019 position. What we found when working through these features at that time was that they were incompatible with creating a coherent and workable institutional structure for the Bank. Experience has validated those concerns.
13. Essential to the Crown entity model is an empowered and accountable board. A Crown entity board selects and can dismiss its CEO in accordance with employment law. Management authority, including policy making, vests in the board. Board members have legal duties to the responsible Minister for the performance of the organisation.
14. Under the Treasury model, the board does not appoint or dismiss the CEO, despite being dependent on the CEO for the organisation's performance. Key monetary, financial and prudential policy decisions would be made by independent committees of staff and external members, which the board would have to implement.
15. A Governor appointed by the Minister is not an employee because it is a statutory appointment. If the Governor is neither an employee nor board member they do not have statutory or employment law duties such as good faith and financial responsibility.
16. These contradictions are reconciled under the Act, including by making the Governor a board member. The Act establishes a set of procedures to balance the roles of the MPC, Governor and Board within a normal corporate hierarchy. Despite being relatively complex, we believe it works.
17. Treasury's advice barely acknowledges these complexities (claiming they can be resolved by "design choices"). However, when the proposals are examined in more detail the issues identified in 2019 come into focus. They may be resolved in different ways compared to the

current Act, but this will introduce new and different complexity and will take time to work through.

Treasury does not have a clear conception for the role of the board

18. Treasury's proposals are not clear as to its expectations for the board. Under a Crown entity (and Companies Act) model the board is the governing body of an entity and holds the power of management. Beyond a certain scale, boards look to delegate this power (in whole or part).
19. A board's role is not limited to "accountability and oversight", rather the board has ultimate accountability – oversight of management is a means to that end – and decision rights to the extent that it chooses to exercise them. Some central banks are structured to have a body in place whose role is oversight and monitoring of a central bank, but not management. It is difficult to tell which model Treasury has in mind: a management board (as per the Crown entity model) or an oversight board (which would in part be a return to the role of the Board under the 1989 Act).
20. In a similar vein is Treasury's emphasis on expertise on the board. The detailed expertise on prudential policy properly belongs with the staff of the RBNZ, who need the professional skills to provide advice that supports board decisions, and the expertise to undertake detailed engagement with regulated entities. Those in a governance role have the responsibility of utilising their wider experience and engagement with private sector and public interest issues in assessing the work of the staff.

The Governor's status should be maintained

21. As outlined in my earlier letter, the Governor's status is important when they represent New Zealand in international central banking forums. Treasury's proposals significantly limit the status of the Governor when compared with their counterparts.
22. There are no relevant international examples of central banks whose governor is not on their board or which in anyway resemble Treasury's proposal. There is no basis for Treasury to say that the governance structure of a central bank, and the Governor's position within it, is irrelevant to their standing. Under Treasury's proposal the New Zealand Governor will not be a true counterpart to their international peers and will not even truly be a "Governor".
23. International standing may not matter to some New Zealand candidates for the role of Governor, but it is highly relevant to the potential interest of any senior members of the international central banking community who might be considered for appointment.

Oversight and accountability is enhanced if the Governor is a board member

24. Treasury claims that oversight of the Governor would be improved if the Governor was not on the Board. This is incorrect. The Chair has led an evaluation of the Governor's performance every six months since the 2021 Act came into force. The Governor's membership of the board did not constrain the board in dealing with the circumstances of his resignation in Feb/March 2025. Furthermore, the Governor's membership of the board and identification with fellow board members significantly limits potential capture by staff, requires a high level of engagement as a board member. and provides a bridge between staff and board.

25. The accountability of the Governor would be reduced if they were not a board member but were appointed and dismissed through the Minister. As noted, the Governor would not individual owe duties, such as good faith, or collective board duties. If the Governor's performance became sufficiently problematic the board would be constrained from removing them unless the strict dismissal criteria in the Act were met and the Minister agreed to act.

Non legislative options are available

26. Treasury's major concern is the lack of prudential policy expertise on the board. We have proposed the appointment of external members to the existing Financial System Oversight Committee and greater use of delegation. This would be significantly less costly and uncertain compared to legislating for an "independent" committee. The success of this option could be evaluated after it has been operational for a suitable period.

Next Steps

27. We understand your desire to make in-principle decisions before the appointment of a permanent Governor. We consider that agreement around non-legislative options could still be communicated to an incoming Governor to provide them with clarity. We note that Treasury plans a post-implementation review of the RBNZ Act in 2027 and would expect a more detailed review of our decision making and the RBNZ governance structure as part of that process.

Neil Quigley
Chair
Reserve Bank of New Zealand

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Appendix: overseas central bank comparison

The following is a sample of central banks, looking at the role of the Governor. It includes central banks NZ might expect to compare itself to (Commonwealth countries) and others more remote.

It is mainstream in central banks for the Governor to be chair of the board of directors (UK is an exception, but the Governor remains on the governing body) and for deputy governors to also be executive directors.

Some European central banks have a separate body responsible for monitoring.

Australia

The **Reserve Bank of Australia** has three boards: a governance board, a payment systems board and a monetary policy board.

The Governor is the chair of each board. The Deputy Chair is also an executive director of the governance board.

The **Australia Prudential Regulatory Authority** has a governing body of three executive members.

United Kingdom

The **Bank of England** has a Court of Directors (its board) and four policy committees: monetary policy, financial policy, prudential regulation and financial markets infrastructures.

The Governor is a member of the Court and chair of each policy committee.

Canada

The Governor is the head of the Board of Directors of the **Bank of Canada**. The Deputy Governor is an executive member.

Norway

The Governor heads the Executive Board of the **Norges Bank**. There are two other non-executive members.

The Governor also chairs the Monetary Policy and Financial Stability Committee.

Norway has a separate supervisory council.

Sweden

The Governor is the Chair of the Executive Board of the **Riksbank**.

The Riksbank has a General Council responsible for monitoring the Executive Board.

Korea

The Governor is the head of the Monetary Policy Board at the **Bank of Korea**. The Monetary Policy Board oversees monetary policy decisions and other operations of the Bank. Other-executive directors are also board members.

South Africa

The Governor is the chair of the board of directors of the **Reserve Bank of South Africa**. The Deputy Governors are also directors.

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