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# Reserve Bank of New Zealand

## *Statement of Intent*

*For the period 1 July 2008 to 30 June 2011*

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## Introduction

Under section 162A of the Reserve Bank of New Zealand Act 1989 (the Act), the Reserve Bank is required, prior to each financial year, to provide the Minister of Finance with a *Statement of Intent (SOI)* traversing the following three years.

Section 162B of the Act states that the Reserve Bank's *SOI* must contain:

- key background information about the Bank and its operating environment;
- the nature and scope of the Bank's functions and its principal areas of operation;
- the nature of the Bank's specific objectives;
- the proposed strategies for achieving objectives and carrying out operations;
- the proposed strategies for managing the organisational health and capability of the Bank; and
- a statement of the projected income and expenditure for the first financial year in the period to which the *SOI* relates.

## What we do

The Reserve Bank of New Zealand is the nation's central bank, established by Act of Parliament. The Bank has three main functions which are designed to promote a sound and dynamic monetary and financial system aimed at meeting the goal of improving New Zealand's economic performance. These functions are: (1) the management of monetary policy to maintain overall price stability; (2) the maintenance of a sound and efficient financial system; and (3) the supply of legal tender to meet the currency needs of the public.

The functions and operations that the Bank performs to achieve these objectives are described in the following pages. In performing them the Bank ensures that it works effectively with Ministers, The Treasury, other relevant government departments and the private sector on all matters where there is a shared interest.

## Vision

**We promote a sound and dynamic monetary and financial system.**

## Values

**Integrity** – Being professional and exercising sound judgement

**Innovation** – Actively improving what we do

**Inclusion** – Working together for a more effective Bank

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## Foreword

For the first time in a decade, there are signs of a marked slowdown in growth in New Zealand, and the outlook is clouded with considerable uncertainty.

Over the last six months or so, the housing market, household consumption, and employment growth have softened markedly, while inflationary pressures, especially in fuel and food prices, have continued to strengthen. This change in conditions comes after a decade of uninterrupted growth in New Zealand, unprecedented in the post-War era. Strong net migration, ready access to cheap finance, a buoyant housing sector and higher terms of trade driven by dairy prices have underpinned domestic demand. Annual growth has averaged 3.1 percent over this period.

Growth has not come without challenges for an inflation-targeting central bank. Inflation has averaged 2.2 percent over this time – well within the Bank's target of 1 to 3 percent on average over the medium term. But inflation pressures, associated with a tight labour market and overstretched capacity, have necessitated a rise in the Bank's official cash rate (OCR) over the latter stages of this cycle. Large and sustained price increases for fuel, food and other commodities have added to these headline inflation pressures.

Since August 2007, our financial system has withstood a severe test of global financial markets, triggered initially by losses in the US sub-prime mortgage market. A range of financial institutions, including some of the world's largest banks, have incurred substantial losses. Most have had to deal in markets where liquidity has become more scarce and, as a consequence have encountered significant liquidity pressures. Bank funding costs have lifted across the developed world, including Australia and New Zealand.

The IMF has described unfolding events as the largest financial shock since the Great Depression. The adjustment process might prove to be protracted. Further volatility in world equity markets, exchange rates, and debt markets is likely. The outlook for global growth has deteriorated, and the New Zealand economy is entering a period of slower growth, particularly evident in the housing sector.

At the same time, difficulties experienced over the past two years in parts of New Zealand's non-bank financial sector have continued, with additional finance companies being placed into receivership.

What does all this mean for the Bank's planning?

We have set as our first strategic priority (see page 5) to "Develop and implement a prudential liquidity policy for registered banks." While New Zealand's banks appear to have sufficient capital buffers to absorb the range of credit losses that can reasonably be expected over the course of the economic cycle, they are less favourably positioned if funding becomes more difficult to access in global markets. The banking system is reliant on overseas funding. It is important that banks diversify their funding sources and lengthen the maturity structure of their debt. In early May, we announced further changes to our liquidity management arrangements to ensure adequate liquidity for institutions if global market disruptions intensify.

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Our second priority will see us implement the new regulatory arrangements for non-bank deposit-takers that emerged from the government's review of the prudential overview of this sector last year. We will also develop a prudential regime for the insurance sector.

This expansion of our prudential role will require an increase in suitably qualified staff to provide policy advice and regulatory oversight. As a result, the Bank and the Minister have signed a variation to the Bank's five-year funding agreement for 2008/09 and 2009/10 financial years to cover these establishment costs.

It is essential that our management and technical systems provide good support for our monetary and financial stability policy roles. A new model is being introduced into the monetary policy and forecasting process and an integrated computer application is being built for collecting financial sector statistics.

Across the organisation we will be developing our management competencies, further ensuring that our core values are fully integrated. For the first time, this *SOI* includes published 'Key Performance Indicators' (KPIs) for the Bank. The KPIs reflect a new requirement to demonstrate accountability by identifying the main non-financial measures and standards by which the performance of the Bank can be judged. These indicators will evolve as we gain experience in their usefulness.

Finally, this *SOI* notes a change to legislation we are seeking to enable new arrangements agreed with the Minister to provide a more holistic approach to our capital base and the way in which our annual distribution to the Crown is calculated.

Overall, this *SOI* reflects a strategic approach to ensure the Bank's ability to maintain stability in an uncertain environment.



Alan Bollard  
Governor



Grant Spencer  
Deputy Governor

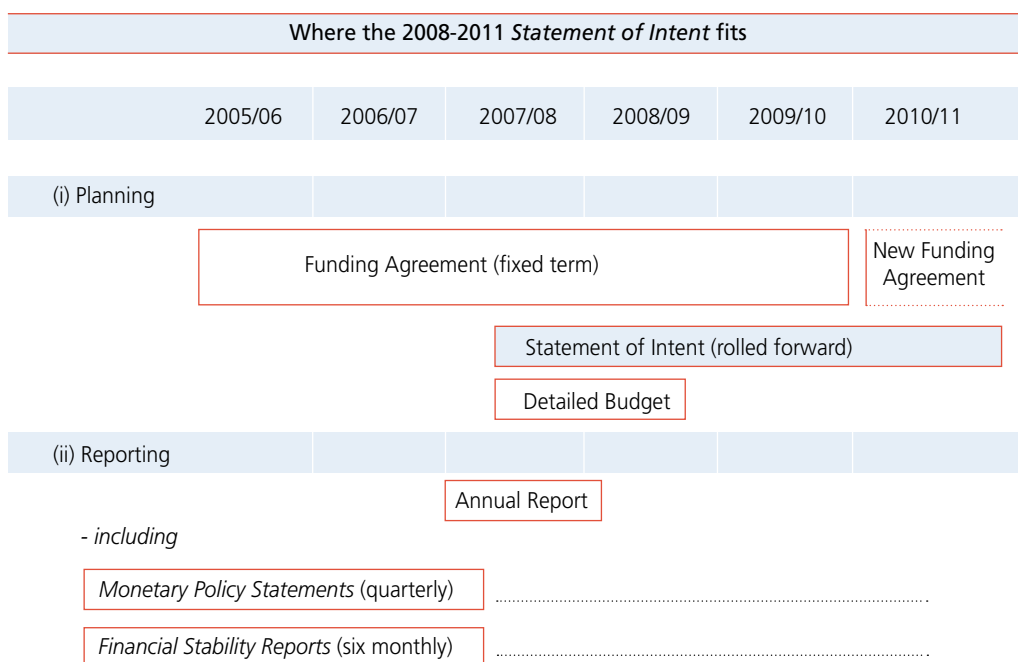
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## Reserve Bank Strategic Priorities for 2008/09

	Department	Priority
1	Prudential Supervision	<b>Prudential liquidity policy</b> Develop and implement a prudential liquidity policy for registered banks.
2	Prudential Supervision	<b>Extended prudential regulatory regime</b> Implement new regulatory arrangements for non-bank deposit-takers and develop a prudential regime for the insurance sector.
3	Bank-wide	<b>Management development</b> Support management in further developing their values-based leadership competencies.
4	Economics	<b>Economic model construction and implementation</b> Introduce a state-of-the-art model into the policy and forecasting process.
5	Knowledge Services/ Economics	<b>Financial Sector Information System (FSIS) development</b> Design and build an integrated computer application to improve the collection and analysis of financial sector statistics.

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## Planning and reporting framework



Our *Statement of Intent* is set in the context of our longer-term planning funded through a five-year Funding Agreement.

The funding agreement, signed in April 2005 and subsequently ratified by Parliament, covers the five years to 30 June 2010. This *SOI* covers the last two years of the current funding agreement and the first year of the next scheduled funding agreement.

While key performance indicators cover the three-year term of the *SOI*, priorities, initiatives and strategies, and budget are defined for the first year only, ie, 2008/09.

Funding in the funding agreement signed in April 2005 was projected to rise from \$39 million in the first year (2005/06) to \$43 million in 2009/10. This is an increase in spending compared with the previous five-year period and reflects various factors, including the need to:

- invest in the replacement and upgrading of our treasury and document management systems, our economic forecasting and data systems, and our core financial reporting system;
- strengthen our supervisory capability; and
- ensure that robust business continuity arrangements remain in place.

The Bank and the Minister have signed a variation to the funding agreement for the 2008/09 and 2009/10 financial years to cover the costs of additional advice and establishment of new prudential responsibilities. The variation would increase funding for 2008/09 from \$41.0 million to \$43.3 million, and for 2009/10 from \$43.0 million to \$46.9 million. At the time of writing, the variation to the funding agreement is still to be ratified by Parliament.

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## *Governance and structure*

### **Board of Directors**

The Reserve Bank has a Board of Directors whose primary function is to review the performance of the Governor and the Bank. The Board holds regular meetings at which it receives extensive briefings on the Bank's activities, decisions, and policies. At these meetings, the Board also provides advice to the Governor on a range of Bank functions.

The Board, through an Audit Committee, reviews the Bank's financial statements and internal 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*.

When required, the Board makes recommendations to the Minister on the appointment or reappointment of the Governor. The Minister can only appoint a Governor recommended by the Board. The Board can recommend to the Minister that the Governor be dismissed if the Board believes that the Governor's performance has been 'inadequate' in various respects. The Board appoints the Deputy Governor on the Governor's recommendation.

The Board typically meets formally nine times a year. The current Board members are Dr Arthur Grimes (Chair); Mr Paul Baines; Mr Hugh Fletcher; Mr John Goulter, DCNZM, JP; Mrs Alison Paterson, QSO (Deputy Chair, and Chair of the Board's Audit Committee); Dr Marilyn Waring; and Dr Alan Bollard (Governor). Board members are appointed for five-year terms and are eligible for reappointment. At the time of writing, one Board position is vacant.

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## Management structure

Under the Act, the Governor – who is also the Bank’s Chief Executive – is accountable for the Bank’s actions. In monetary policy, and in many other matters, decision-making authority resides with the Governor alone, although in practice he receives widespread advice, and takes monetary policy decisions on the formal advice of the Official Cash Rate Advisory Group<sup>1</sup>. The Governor is appointed for a five-year term and can also be reappointed for further terms of up to five years. The Act sets specific procedures for the appointment, reappointment, and dismissal of the Governor.

The Reserve Bank’s senior management team is made up of the Governor, a Deputy Governor, two Assistant Governors, and the heads of the Bank’s various departments, as outlined on page 9. The roles of Governor and Deputy Governor are required by statute. Currently, the Deputy Governor is also the Head of Financial Stability. The two current Assistant Governors are the Head of Operations and the Head of Economics.

The Governor receives advice from a number of internal committees within the Bank.

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<sup>1</sup> This group includes key economic advisers within the Bank and two external monetary policy advisers.



## Reserve Bank organisational structure

Governors	Department/Heads	Functions	Internal services	
Assistant Governor/ Head of Economics <i>John McDermott</i>	Economics	Monetary policy formulation		
	Deputy Governor/ Head of Financial Stability <i>Grant Spencer</i>	Financial Markets <i>Simon Tyler</i>	Domestic market operations Foreign reserves management Macro-financial stability	
		Prudential Supervision <i>Toby Fiennes</i>	Financial system surveillance and policy	
Governor <i>Alan Bollard</i>	Currency and Building services <i>Alan Boaden</i>	Currency operations	Property management Security	
	Financial services <i>Mike Wolyncewicz</i>	Settlement services Registry and depository services	Accounting services Treasury services	
	Knowledge services <i>Tanya Harris</i>		Library services Technology services Project management Web publishing	
	Assistant Governor/ Head of Operations <i>Don Abel</i>	Human Resources <i>Lindsay Jenkin</i>		Human resources strategy and services
	Communications/ Board secretary <i>Mike Hannah</i>		Communications strategy and services Reputation management Board secretary services	
	Risk assessment and assurance <i>Steve Anderson</i>		Risk assessment and assurance Audit services Legal services	

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## *Functions and operations*

### Monetary policy formulation

#### Outcome

Stability in the general level of prices.

#### Objective statement

To achieve and maintain stability in the general level of prices. The current Policy Targets Agreement (PTA) requires that the Bank “keep future CPI inflation outcomes between 1 and 3 percent on average over the medium term”. It also requires that: “In pursuing its price stability objective, the Bank shall ... seek to avoid unnecessary instability in output, interest rates and the exchange rate.”

#### Environment

- Developments in economic modeling techniques, new data compilation methods, and increasing computing power have helped the Bank meet expectations that it be independent, accountable for its actions, and transparent and forward-looking in its deliberations. Continued investments in these areas will be needed.
- Increased risks and uncertainties over the outlook for inflation will be generated by ongoing events such as the recent upheavals in global financial markets and fluctuations in domestic economic activity.

#### Scope of operations

- Setting an Official Cash Rate (OCR) eight times a year with the aim of keeping inflation low and stable.
- Publishing, at the same time as four of the OCR decisions, the Bank’s quarterly *Monetary Policy Statements* (MPSs), which set out the Bank’s views on the economy and inflationary pressures, and the basis for the OCR decision.
- Publishing the other four OCR decisions approximately halfway between each MPS.
- Intervening in the foreign exchange market to influence the level of the exchange rate, consistent with the objectives of the PTA.

#### Issues

- Volatile international credit markets.
- Ensuring that best-practice modelling and analytical methods and an appropriately wide range of data are used in generating monetary policy advice.
- Meeting challenges associated with core inflation being near the top of the target band, an exchange rate that has been extreme and unjustified based on fundamentals, house prices that are beginning to correct from an unprecedented boom, and real interest rates that seem persistently and uncomfortably higher than those in other comparable countries.
- Ensuring that statistics prepared by the Bank are of high quality and meet user needs.
- Monitoring the potential impact on inflationary pressures from financial market volatility.
- Addressing the report of the Finance and Expenditure Committee Inquiry into the Future Monetary Policy Framework.

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## Initiatives and strategies

- Maintain a range of best-practice structural and statistical models for use in forecasting and policy analysis.
- Deepen the Bank's understanding of the inflation process in New Zealand, including price and wage formation; expectation formation and learning; the impact of commodity markets and prices, resource pressures and the international economy; and options for alternative instruments.
- Improve the quality, accessibility, relevance, and reliability of Reserve Bank statistics.

## Key performance indicators

- RBNZ forecasts of CPI inflation – expected to be comfortably within the target range in the second half of the three-year forecast horizon.
- Measures of underlying inflation should generally lie within the target range.
- Unnecessary instability in output, interest rates and the exchange rate should be avoided.

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## Domestic market operations

### Foreign reserves management

#### Outcomes

- Adequate liquidity in the New Zealand banking system to facilitate payments.
- Confidence in the efficient functioning of New Zealand financial markets.
- Short-term interest rates consistent with the Bank's monetary policy stance.
- Foreign reserves readily available for foreign exchange intervention and crisis management.
- Any foreign exchange market intervention conducted efficiently.

#### Objective statement

To support the effective implementation of monetary policy; to assist in the efficient functioning of the New Zealand financial system; to manage official foreign reserves; to provide effective support and execution for the Bank's foreign exchange market intervention policy; to manage the Crown's financial liquidity; and to maintain an effective crisis intervention capability.

#### Environment

- Changes to the financing and management of New Zealand's foreign currency reserves and the new liquidity management regime have increased the focus of the Bank's market operations towards foreign exchange and swaps markets.
- Increased turbulence in credit markets has made investment of foreign reserves more challenging as liquidity and credit spreads have changed rapidly.

#### Scope of operations

- Providing advice to the Governor on financial market developments and issues for the formulation of monetary policy.
- Ensuring the effective implementation of monetary policy through the Governor's decision on the level of the OCR.
- Managing official foreign reserves for use in times of financial distress or when foreign exchange intervention is needed for monetary policy purposes.
- Managing liquidity in the banking system.
- Providing and managing the Crown Settlement Account.
- Acting as lender of last resort to the financial system if necessary, as well as assisting in the resolution of any financial market or banking crisis.

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## Issues

- Maintaining and continuing to develop the Bank's foreign exchange intervention capability to enhance the effectiveness of monetary policy implementation and the maintenance of orderly foreign exchange markets.
- Managing the new liquidity management regime so that the payments system continues to operate, the banking system has adequate liquidity, and risks (both to the Bank and the market) are balanced appropriately.
- Promote the development of capital markets in areas where the Bank has powers and responsibilities (ie, in money, bond and foreign exchange markets).

## Initiatives and strategies

- Assist in the formulation and implementation of bank liquidity policies and ensure that they are operational.
- Complete the review of the Bank's balance sheet and continue to implement the changes in the Bank's balance sheet so that it can best meet the statutory requirements of the Bank (including monetary policy, currency, bank liquidity, and foreign reserves).<sup>2</sup>

## Key performance indicators

- Short-term wholesale interest rates should be relatively stable and maintained at levels consistent with the OCR.
- No evidence of payment failures due to shortage of cash in the banking system.
- Stabilising market operations are expected over the medium term to generate a positive return for the Domestic Markets function.
- Foreign reserves are held at the level agreed with the Minister.
- Foreign reserves are held in a liquid and secure form, suitable for foreign exchange market intervention.
- The net return from foreign reserves management meets or exceeds the agreed benchmark.

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<sup>2</sup> A joint project with Financial Services Group.

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## Financial system surveillance and policy

### Outcomes

- A sound and efficient financial system in New Zealand.
- International and local confidence in New Zealand's financial system.

### Objective statement

To register and supervise banks so as to maintain a sound and efficient financial system, and to limit damage to the financial system that could result from a bank failure – in a manner that delivers a cost-effective balance between regulatory requirements and self- and market-discipline.

### Environment

- The Bank will become the prudential regulator of non-bank deposit-takers and of insurers through legislation expected to be passed in 2008 and 2009.
- The new Basel II capital adequacy framework for locally-incorporated banks will be bedded down, and improvements made in capital modelling.
- The Bank continues to cooperate closely with Australian authorities through the Trans-Tasman Council on Banking Supervision<sup>3</sup> and through working level contacts. A key focus for this year will be crisis preparedness.
- There are two key risks: a more severe economic downturn that would impact on asset quality; and worsening funding and liquidity problems in global markets.

### Scope of operations

- Setting specific criteria for bank registration.
- Subjecting banks to a specific monitoring regime.
- Publishing regular *Financial Stability Reports (FSRs)* assessing the soundness and efficiency the New Zealand financial system.
- Having a capacity to respond if a bank gets into financial distress, including giving directions; recommending statutory management; and acting as lender of last resort to the financial system.
- Overseeing and setting specific criteria for designation of payment systems.
- Leading policy development of the framework around prudential regulation of banks, non-bank deposit-takers and insurers.

### Issues

- Mitigating risks in bank funding and liquidity in the event of a more severe economic downturn.
- Implementing the non-bank deposit-taker regulatory regime in accordance with Cabinet decisions and legislative timetable.
- Developing a supervisory framework for the insurance sector and introducing legislation in 2009.
- Implementing the Bank's outsourcing policy.

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<sup>3</sup> The Council was formed in 2005 and consists of the chief executives of the respective Reserve Banks and Treasuries, and the Australian Prudential Regulatory Authority. Its role is to monitor and coordinate trans-Tasman home-host regulatory issues where sensible, so as to best minimise compliance costs.

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- Implementing the Basel II capital adequacy regime for banks.
  - Ensuring the Bank's capability to manage a bank failure or wider crisis.
  - Ensuring appropriate mutual recognition, harmonisation, coordination, and cooperation with relevant domestic and foreign regulators.
  - Accommodating updates in global regulatory standards.

### **Initiatives and strategies**

- Develop and implement a prudential liquidity policy for banks.
- Provide advice on legislation related to the regulation of non-bank deposit-takers and insurers.
- Produce and consult on regulations relating to non-bank deposit-taker regulation.
- Complete the implementation of the Bank's policy on outsourcing.
- Continue to work with banks to improve their capital modelling under Basel II.
- Complete the formulation and implementation of the Bank's crisis management capabilities, assessing their robustness through failure management scenarios.
- Contribute to the preparations for the Financial Action Task Force (FATF) mutual evaluation of New Zealand.

### **Key performance indicators**

- Banks comply with Conditions of Registration and maintain the required minimum capital ratios.
- Measures included in the Financial Stability Review provide a basis for assessment of the New Zealand financial system's stability and the performance of the surveillance function.
- Regular crisis exercises demonstrate the Bank's capability to respond effectively to a crisis situation.
- Frequent communication, collaboration and information-sharing are undertaken with the Australian Prudential Regulation Authority, the Securities Commission and other domestic and international regulators.
- The Minister is satisfied with the quality of policy advice.

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## Currency operations

### Outcomes

Legal tender that meets the currency needs of the public.

### Objective statement

To meet the currency needs of the public, as the sole issuer of currency, by ensuring the supply and integrity of bank notes and coins.

### Environment

The demand for notes and coins continues to grow steadily each year. Cash remains an important means of making payments in New Zealand.

### Scope of operations

- Procuring, storing, processing and issuing bank notes and coins to the banking system.
- Maintaining the quality, and verifying the authenticity of, currency in circulation.
- Issuing legal tender collectors' currency through an outsourcing arrangement.

### Issues

- Optimising the use of new note-processing machinery to maintain the quality and authenticity of notes in circulation.
- Upgrading currency operations software, processes and documentation to improve the efficiency and integrity of currency processing operations.
- The security features on New Zealand's bank notes are due for review.

### Initiatives and strategies

- Develop a new information system for the management of currency operations.
- Investigate possible enhanced security features for bank notes.
- Finalise cash distribution arrangements in the event of a pandemic or similar crisis.

### Key performance indicators

- All orders for notes and coins from banks that meet the Reserve Bank's guidelines are supplied within agreed times.
- Notes and coins in general circulation are of a good quality as indicated by planned biennial surveys of the condition of currency in circulation.
- The number of counterfeit notes in circulation should be fewer than 10 per million notes in circulation for each denomination.



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## Depository and settlement services

### Outcomes

An efficient, reliable and secure payments system that supports the smooth functioning of the economy.

### Objective statement

To ensure that payments system infrastructure services are provided efficiently and meet international standards.

### Environment

- Competition for depository services in New Zealand is emerging.
- The upgraded Exchange Settlement Account System (ESAS)/Austraclear system is allowing the Bank to deliver a stream of functional enhancements to users.
- Standards for system performance and resilience are being lifted.
- The Bank is leading improvements in the governance of payment systems in New Zealand.

### Scope of operations

Operating the ESAS and Austraclear systems, including the infrastructure required for settlement of foreign exchange transactions through Continuous Linked Settlement (CLS) Bank.

### Issues

- Enhancing ESAS and Austraclear system functionality.
- Emergence of new payment and settlement systems by other providers.
- Improving business continuity planning and disaster recovery capabilities, and responding to higher international operating standards.
- Meeting changing industry requirements for settlement times.

### Initiatives and strategies

- Continue to make enhancements to ESAS/Austraclear and ESAS as agreed with industry representatives.
- Establish interfaces that will facilitate inter-operability between ESAS/Austraclear and other providers' payment and settlement systems, to increase efficiency and meet user needs.
- Continue to develop new governance arrangements for ESAS/Austraclear through reporting and consultation on plans.
- Improve business continuity planning and disaster recovery capability by arranging for out-of-Wellington business support for payment systems.

### Key performance indicators

- Availability of ESAS/Austraclear during core hours is at least 99.5 percent.
- Customer satisfaction with operations and with system development is demonstrated through an annual customer survey.
- All risks are well managed.
- International standards for payment and settlement systems (CPSS and IOSCO<sup>4</sup>) are complied with.

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<sup>4</sup> Committee on Payment and Settlement Systems, and the International Organisation of Securities Commissions.

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## *Organisational health and capabilities*

### Human resources

#### Objective statement

To provide strategic human resource advice and support services.

#### Environment

The current labour market conditions put increasing pressure on recruitment and retention of staff. The Bank's priorities reflect the need to manage key-person risk and to continue to provide management and leadership development opportunities. The Bank will also be recruiting additional staff to carry out its expanded prudential regulation functions.

#### Scope of operations

- Assisting departments with recruitment, contract negotiation, employment relations, legislative advice, and terminations.
- Organising specific bank-wide training and development programmes, key-person risk planning, and secondment and study arrangements.
- Facilitating the annual remuneration review and performance management programmes.

#### Issues

- Ensuring high-quality staff for the Bank through training and recruitment.
- Identifying areas where skills can be enhanced and developed to meet future business requirements.

#### Initiatives and strategies

- Support management in further developing their values-based leadership competencies.
- Continue a formal review of key-person risk within the Bank and how it can be mitigated.
- Review the Bank's staff appraisal and personal development programme.

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## Knowledge services

### Objective statement

To provide knowledge management and information technology services, direction and support.

### Environment

The technology platforms must provide a high level of uninterrupted service, functionality and security, while the Knowledge Centre must provide easy access to a broad range of information sources.

### Scope of operations

- Developing and maintaining the Bank's core technology infrastructure.
- Providing business analysis and applications development.
- Delivering help desk and web support.
- Maintaining library, information and records management.
- Providing project and programme management services.

### Issues

Managing capital expenditure to: maintain and upgrade information technology and applications; provide efficient payments systems services; enhance data management and reporting systems; improve business continuity; and proactively replace legacy business solutions.

### Initiatives and strategies

- Design and build an integrated computer application (Financial Sector Information System) that will meet the Bank's statistical data processing, storage and access needs.
- Consolidate, modernise, and automate systems and infrastructure in a more integrated way to better support the Bank's business functions.
- Upgrade internally-developed computer applications over the next two years to ensure the software versions used are fully supported and, where possible, standardised.
- Continue to enhance the Bank's business continuity infrastructure, through planning an out-of-Wellington business support centre for critical functions and other backup computing arrangements.
- Extend the Bank's knowledge management strategy by automating frequently used processes and implementing tools that allow easy sharing of information and documents across teams; and continue digital capture of archive records and physical documents.
- Continue to enhance the Bank's web services.
- Develop the Bank's information, records and data management capability to provide more flexible and user-friendly solutions.

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## Internal financial services

### Objective statement

To provide support services for the Bank's key financial operations, including financial reporting and management reporting; compliance with corporate governance and accountability responsibilities; settlement operations; and treasury accounting and compliance reporting.

### Environment

A very large and complex balance sheet with associated accounting responsibilities must be managed.

### Scope of operations

- Settling transactions and treasury accounting and compliance reporting in support of the Bank's domestic market operations and foreign reserves functions.
- Preparing financial statements, and monthly management and Board reporting.
- Facilitating the Bank's strategic planning and annual budgeting processes.
- Delivering financial support services and balance sheet management advice.
- Liaising with external auditors.

### Issues

- Improving the regime for the calculation of the amount available for distribution by the Bank to the Crown.
- Maximising efficiency through process improvement and systems changes, including replacement of the Bank's own accounting systems before 2011.
- Development of the new Funding Agreement for the period 2010/11 – 2014/15.

### Initiatives and strategies

- Improve the calculation of amounts available for distribution by the Bank, as a dividend to the Crown, from a formula-based approach to a principles-based approach, and effect this through the relevant sections of the Act.
- Continue to enhance workflows, reports, and processes for financial operations and securities transaction activities.
- Review options for replacement of the Bank's own accounting systems.
- Initiate preparation of the Bank's Five-Year Strategic Plan and Funding Agreement for the period 2010/11 – 2014/15.

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## Communications

### Objective statement

To provide strategic advice and management for the Bank's external and internal communications and for the maintenance of its reputation and credibility.

### Environment

- The global economic and financial environment is more uncertain and volatile.
- The Bank will become the prudential regulator for non-bank deposit-takers and insurers.
- To enhance economic efficiency, the Bank will support programmes to improve financial literacy.
- Internally, the Bank predominantly comprises high-skilled, enquiring knowledge workers.

### Scope of operations

- Managing communication and relationship strategies for key audiences.
- Editing and publishing Bank statements and documents.
- Sponsoring education initiatives.
- Coordinating responses to Official Information Act requests, ministerial correspondence, parliamentary questions, and public inquiries.
- Supporting the Board by providing Board Secretary and administrative services.

### Issues

- Ensuring the Bank's messages are informed, well constructed, timely, and delivered to target audiences through the most appropriate channels.
- Maintaining preparedness in a volatile environment by coordinating with New Zealand and Australian agencies.
- Improving New Zealanders' financial literacy.
- Further enhancing internal communications.

### Initiatives and strategies

- Deliver the Bank's key messages in light of an uncertain environment, and the new regulatory regimes for non-bank financial institutions.
- Provide the Bank with timely information, and with advice on reputational risks and opportunities, with strategies for their mitigation or utilisation.
- Further develop the Bank's communication capability in a volatile environment, including participating in a trans-Tasman crisis exercise.
- Enhance financial literacy, through promotion of the Bank's role as prudential regulator, and support for inter-agency financial literacy programmes.

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## Risk assessment and assurance

### Objective statement

To assist in the maintenance of effective and efficient risk management; to audit operations and internal control systems; and to provide legal advice.

### Environment

The Bank's financial exposure from changes in its balance sheet structure and regulatory exposure from changes in its regulatory responsibilities increase overall risks faced by the Bank. This is particularly relevant in this period of transition.

### Scope of operations

- Assisting management to identify and analyse sources of risk.
- Assisting management to design risk management systems and processes.
- Monitoring risk management implementation and providing risk management advice to Governors and the Board.
- Providing ongoing internal audit review and evaluation of the Bank's operations and control systems.
- Providing legal advice and services.

### Issues

- Ensuring risks are being managed by management in a proactive, coordinated, prioritised, and cost-effective manner.

### Initiatives and strategies

- Monitor the Bank's approach to risk management, and develop an enterprise-wide risk map.
- Continue a comprehensive internal audit programme to provide assurance on the Bank's control environment.
- Continue to provide quality legal advice.

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## Property management Security

### Objective statement

To provide appropriate accommodation for the Bank to ensure that all functions, including cash operations, can be conducted unimpeded in a secure environment.

### Environment

The expansion of regulatory functions will require the Bank to take over additional floor space at 2 The Terrace. An additional business continuity site is planned to be opened in Auckland. The 'carbon footprint' of the Bank will be reduced by the implementation of energy efficiency measures.

### Scope of operations

- Maintaining the Bank-owned building at 2 The Terrace, Wellington, and managing leases on eight of the 14 floors.
- Maintaining a secure working environment.
- Maintaining the Wellington business continuity site.

### Issues

- Ensuring the Bank's building meets current and future needs for accommodation.
- Establishing and maintaining off-site accommodation for business continuity purposes.
- Completing the implementation of an integrated access control and closed-circuit television monitoring system.
- Maintaining and extending energy-saving and recycling programmes.

### Initiatives and strategies

- Plan and refurbish the building to meet current and future Bank needs for accommodation.
- Maintain the building at the required standard, with fully-let tenanted areas.
- Assist in the establishment and maintenance of off-site accommodation for business continuity planning purposes.
- Upgrade the civil defence capability of the Bank and provide support to tenants.
- Implement cost-effective measures to further enhance energy efficiency.

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## 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, settlement cash held by financial institutions, foreign currency loans from The Treasury and by the Government's equity contribution to the Bank.

The nature and extent of the Bank's principal activities impacting on its balance sheet are described in the 2006/07 Annual Report (pages 68-70). Foreign reserves management, New Zealand dollar liquidity management and currency operations materially impact the size and structure of the Bank's balance sheet.

Under the Act, the Minister and the Governor are required to enter into a funding agreement to specify the amount of the Bank's income that may be used to meet expenses in each financial year. The funding agreement comes into force only after it is ratified by Parliament.

The Act provides for each funding agreement to apply for a period of five consecutive financial years. This contrasts with the arrangements for government departments, which are funded on an annual basis. The Bank's funding arrangements are designed to strike an appropriate balance between providing a high degree of operational independence, and providing strong incentives for effective management of operating expenditure, while ensuring accountability for use of resources. Capital expenditure is funded by the Bank, with depreciation of fixed assets included in annual operating expenses.

If operating expenses (net of specified revenue) in any year exceed the amount provided in the funding agreement, the Bank is required to fund that excess from equity. Where actual net expenditure is less than the amount provided in the funding agreement, the amount of that underspending is retained by the Bank and added to equity.

The current funding agreement, ratified by Parliament on 23 June 2005, covers the five years ending 30 June 2010, but does not account for the new prudential responsibilities to be assumed by the Bank.

Cabinet has agreed that legislation should be enacted for the Bank to undertake prudential regulation of non-bank deposit-takers and insurance companies. The Bank and the Minister have signed a variation to the funding agreement for the 2008/09 and 2009/10 financial years to cover the costs of additional advice and establishment of new prudential responsibilities. The variation would increase funding for 2008/09 from \$41.0 million to \$43.3 million, and for 2009/10 from \$43.0 million to \$46.9 million. At the time of writing, the variation to the funding agreement is still to be ratified by Parliament.



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### *Annual distributions paid by the Bank*

The Act requires the Bank to calculate the amount of income that is available for distribution to the Crown, known as 'notional surplus income'. The Minister, after consulting the Bank's Board, decides whether the notional surplus income should be added to the Bank's reserves or paid to the Government. The calculation of notional surplus income excludes all foreign exchange gains and losses. It also excludes unrealised gains and allows a timing deduction for net unrealised losses (if any).

The amount of surplus available to be paid as dividend (or credited to the Bank's reserves) can be volatile, even where the balance sheet structure is unchanged. During 2007/08, we explored different dividend policy options in order to achieve a more consistent level of distribution, and sufficient flexibility, while retaining accountability. As a result, we have proposed changing the Bank's dividend policy from a formula-based approach (ie, notional surplus income) to a principles-based approach by removing from the Act the sections that provide for and refer to notional surplus income, and instead require the Bank to include in its *Statement of Intent* a 'statement of dividend principles' that the Bank will apply in determining the amount it recommends to the Minister it pays as a dividend. The process required for Parliament to amend the relevant sections of the Act to give effect to the change is under way.

## **Drivers of the Bank's financial performance and changes in financial structure**

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

- the size of the Bank's open foreign exchange position and related changes in foreign exchange rates and interest rates;
- the value of currency in circulation;
- 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; and
- the dividend paid by the Bank, which impacts the level of equity available for investment.

In recent years, each of these drivers of financial performance has undergone significant change and further changes can be anticipated as the economy and financial markets evolve and the Bank's financial management practices develop. Significant changes in the recent past include:

- Receipt of additional equity of \$1 billion on 1 July 2004 to enable the Bank to absorb the risks from any foreign exchange intervention undertaken at its discretion. At the time of writing, Parliament has still to approve a further capital injection of \$600 million scheduled to be received on 1 July 2008, which provides the Bank's equity with a buffer to achieve greater operational flexibility, and to absorb changes in the market value of the Bank's assets and liabilities, in particular the Bank's holdings of New Zealand Government Securities which from 1 July 2007 are classified as available-for-sale securities and measured at their market value.
- In June 2007, the Bank announced that it had intervened in the New Zealand dollar market for the first time since the New Zealand dollar was floated in March 1985.

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- During 2007/08, the Bank changed its exposure to foreign exchange risk in order to better meet its statutory responsibilities, after concluding that it would be appropriate to hold a portion of the Bank's foreign currency reserves on an unhedged basis. At 30 April 2008, the Bank had an open foreign currency position of \$3.7 billion.
  - Steady growth in currency in circulation from \$2.5 billion in 2001 to \$3.6 billion as at 30 April 2008.
  - An increase in the Bank's holdings of foreign reserves that can be liquidated at short notice to support the functions of the Bank, including monetary policy objectives and the maintenance of orderly markets.
  - The change in 2006/07 to partially fund foreign reserve assets using some of the Bank's equity, proceeds from issuing currency in New Zealand, and part of settlement account balances held at the Bank by financial institutions, as well as by long-term foreign currency loans from The Treasury.
  - During 2006/07, the Bank changed the way it manages its New Zealand dollar liquidity management operations by significantly increasing the level of settlement cash held by financial institutions. This change added around \$8 billion to assets and liabilities reported on the Bank's and Crown's balance sheets.<sup>5</sup>
  - The level of operating expenditure has increased, reflecting significant capital expenditure in renewing or replacing existing systems; improvement of business continuity capabilities; and additional staff to respond to financial stability policy issues.

## International Financial Reporting Standards

The Bank adopted New Zealand International Financial Reporting Standards from 1 July 2007. The principal accounting policy changes arising from the adoption of New Zealand equivalents to International Financial Reporting Standards are:

### *Accounting changes directly impacting the Bank's equity:*

- valuation of holdings of New Zealand government securities at market value, with unrealised gains and losses on those holdings booked to equity.

### *Accounting changes impacting the Bank's statement of income:*

- recognition of the replacement cost of repatriated notes and coins in the value of inventory;
- recognition of an asset in respect of the surplus in the Bank's defined benefit superannuation scheme, with an annual expense for changes in the value of that asset;
- use of bid and offer prices to value assets and liabilities rather than market mid-rates; and
- recognition of the face value of collectors' currency issued as a liability rather than income together with a contingent liability.

## Principal financial risk management considerations

As a financial institution with more than \$20 billion in assets, the Bank faces a wide range of financial risks. These arise mainly because of the Bank's operations in the domestic financial system and because of the Bank's holdings of foreign exchange reserves. The risks include:

- credit risks and market risks associated with day-to-day dealings with financial institutions in the process of managing liquidity in the financial system;

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<sup>5</sup> The rationale for this change is explained in the document 'Reform of the Reserve Bank of New Zealand's Liquidity Management Operations', June 2006, which is available on the Bank's website [www.rbnz.govt.nz](http://www.rbnz.govt.nz).

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- risks associated with the Bank's holdings of foreign currency reserves, including credit risk, liquidity risk, interest rate risk, and exchange rate risk; and
  - operational risks in all of the transactions and processing areas of the Bank.

More detailed information on the Bank's approach to managing these risks is outlined on pages 78–91 in the *2006/07 Annual Report*.

## Financial projections

- The following table outlines the Reserve Bank's budgeted income and expenditure for 2008/09. The budgeted income and expenditure have been prepared using the accounting policies used in the preparation of the Bank's financial statements for the year ended 30 June 2007, updated for the adoption of International Financial Reporting Standards.<sup>6</sup>

The key assumptions underlying the budget for the year ended 30 June 2009 are that:

- the Bank's current functions will continue, with the Bank undertaking preparatory work for the prudential supervision of non-bank financial institutions;
- the Bank will maintain an open foreign currency position during the year equal to \$3.7 billion, being the position at 30 April 2008;
- interest and exchange rates will be those prevailing as at 30 April 2008;
- there will be no material changes to the Bank's liquidity management operations; and
- additional capital of \$600 million is received on 1 July 2008.

The following table sets out projected income and expenditure for the Bank for the year ended 30 June 2009.

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<sup>6</sup> The Bank's accounting policies are disclosed in its *Annual Report* for 2006/07 on pages 62-67. A description of the material accounting policy changes arising upon adoption of New Zealand equivalents to International Financial Reporting Standards from July 2007 is set out on pages 100 to 103 of that document. The Bank has now concluded that all its land and buildings will be accounted for as property plant and equipment. Based on earlier analysis, the Bank had initially determined that tenanted floors in the Bank's building should be accounted for as investment property.

## Projected financial performance 2008 – 2009

<i>For the year ended 30 June</i>	Budget	Budget
	2008/09	2007/08
	\$m	\$m
<b>Operating income:</b>		
Net investment income	302.9	275.4
Other income	8.2	7.3
<b>Total operating income</b>	<b>311.1</b>	<b>282.7</b>
<b>Operating expenses:</b>		
Personnel	24.6	24.0
New currency issued	5.7	4.6
Asset management	7.7	6.9
Administration	1.6	1.6
Other	12.5	11.5
<b>Total operating expenses</b>	<b>52.1</b>	<b>48.6</b>
<b>Operating surplus</b>	<b>259.0</b>	<b>234.1</b>
<b>Net expenditure under the Funding Agreement</b>	<b>43.9</b>	<b>41.3</b>
<b>Funding Agreement Under-Expenditure (Over-Expenditure)</b>	<b>(0.6)</b>	<b>(0.3)</b>
<b>Funding Agreement</b>	<b>43.3</b>	<b>41.0</b>

The budget assumes no changes to interest rates or foreign exchange rates will occur during the financial year and the Bank retains for the full year its open foreign exchange position that it held at 30 April 2008. Actual financial results could differ materially from those budgeted.

One feature of the projected income and expenditure is that, as anticipated, the Bank forecasts that the net operating expenses will be \$43.9 million against a level of \$43.3 million provided for in the funding agreement.<sup>7</sup> The difference of \$0.6 million will be funded from the Bank's equity.

The additional \$0.6 million of expenditure in 2008/09 will be drawn from underspending in the previous three years of the funding agreement. At 30 June 2008, the cumulative underspending of the current funding agreement is forecast to be \$10.0 million.

<sup>7</sup> The variation to the funding agreement, which increased the funding level for 2008/09 from \$41 million to \$43.3 million, has been signed by both the Minister of Finance and the Governor. The variation has yet to be ratified by Parliament.

## Net expenditure by function

<i>For the year ended 30 June</i>	Net Expenditure*	
	Budget	Estimated Actual
	2008/09	2007/08
	\$000	\$000
<b>Functions:</b>		
Monetary Policy Formulation	9,450	9,895
Market Operations	5,461	6,270
Financial System Surveillance/Policy	11,628	8,824
Currency Operations	9,188	7,875
Foreign Reserves Management	7,587	8,240
Settlement Services	407	354
Registry and Depository Services	(344)	(841)
Other Outputs	478	735
<b>Net expenditure</b>	<b>43,855</b>	<b>41,352</b>

\* Net expenditure comprises operating expenses less income earned from certain Bank operations as specified in the Funding Agreement.

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## Monitoring the Bank's performance

The Reserve Bank has been, and will continue to strive to be, a world leader in the openness and transparency of its processes and policies. Transparency assists the Bank to achieve its policy and operational goals effectively and efficiently, while allowing others to scrutinise the Bank's performance and to provide feedback, so helping the Bank improve the way it works.

The principal mechanisms for externally communicating the Bank's views include:

- the six-weekly OCR decisions, four of them in the quarterly *MPSs*;
- the six-monthly *FSRs*;
- the Bank's *SOI*, *Annual Report* and financial statements;
- the quarterly *Bulletin*;
- the Bank's website ([www.rbnz.govt.nz](http://www.rbnz.govt.nz));
- occasional publications such as the *Briefing for the Incoming Minister*, and issue-specific books and brochures; and
- addresses given by the Governor and other senior Bank staff.

The Reserve Bank formally assesses its performance or is externally assessed in the following ways.

The Reserve Bank's Board reviews the Bank's performance and the discharge of its statutory obligations. In addition to providing the Governor with ongoing advice and feedback, the Board is also required to report annually on the Bank's performance. The Board's report is published in the Bank's *Annual Report*.<sup>8</sup>

The Audit Committee of the Board reviews the Bank's financial statements and provides advice to the Governor before the Governor and Deputy Governor sign the related management statement. It also monitors the Bank's internal audit function.

The Reserve Bank publishes its *SOI* at the commencement of each financial year. The *SOI* sets out the Bank's principal functions, objectives, strategies, and key performance indicators for the next three years; comments on strategies for managing organisational health and capability; and sets out initiatives and projected income and expenditure for the first year of that three-year period.

The Reserve Bank's *Annual Report* includes an assessment of the performance of the Bank's various functions, in terms of both the day-to-day responsibilities and progress against priorities published in the *SOI*.

Parliament's Finance and Expenditure Committee reviews the quarterly *MPS* and the Bank's *Annual Report*, and can ask the Bank to appear before it on request. The Committee has recently undertaken an Inquiry into the Future Monetary Policy Framework.

The *Annual Report*, which includes the financial statements, is tabled in Parliament.

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<sup>8</sup> For example, see pages 6–11 in the 2006-2007 *Annual Report*.

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Under section 167 of the Act, the Minister may, from time to time, initiate an assessment of the Bank's performance and how it has exercised its powers under the Act.

The Reserve Bank's financial statements are audited by an external auditor who is the agent of the Controller and Auditor-General. The critical payment systems operated by the Bank are subject to review by external auditors quarterly in respect of the Austraclear depository system, and annually in respect of ESAS. An annual report is presented to Austraclear members.

From time to time, the Reserve Bank engages experts to assess the Bank's processes, research, and technical performance. In the past, assessments have been provided in the fields of monetary policy development; financial system policy; forecasting processes; bank-failure management; computer systems and network security; management; and leadership assessment and development. The Bank funds a Professorial Fellowship in Monetary and Financial Economics at Victoria University of Wellington. Also, two external advisers assist in the provision of advice to the Governor regarding his interest rate decisions. Prior to the release of the *MPS*, these two advisers fully participate in the deliberations leading to the formulation of the *MPS*.

The Reserve Bank's performance is also subject to international scrutiny. Every 12–18 months, the International Monetary Fund (IMF) undertakes an 'Article IV' assessment of the New Zealand economy, which includes sections on monetary policy and financial system stability. The resultant report is made public. Likewise, every two years, the Organisation for Economic Co-operation and Development undertakes a similar assessment, which is also published. The IMF is expected to undertake a Financial Sector Assessment Programme investigation every six or seven years; the last was in 2003.

## Key document references

Title	Purpose	Location
Policy Targets Agreement	Agreement between the Governor and the Minister of Finance specifying the inflation target in detail	<a href="http://www.rbnz.govt.nz/monpol/pta">www.rbnz.govt.nz/monpol/pta</a>
<i>Monetary Policy Statement*</i>	Quarterly publication of the Bank's view of how the Bank proposes to meet its monetary policy targets, including extensive economic projections	<a href="http://www.rbnz.govt.nz/monpol/statements/index.html">www.rbnz.govt.nz/monpol/statements/index.html</a>
<i>Financial Stability Report*</i>	Six-monthly publication of the Bank's view on the soundness and efficiency of the New Zealand financial system	<a href="http://www.rbnz.govt.nz/publications/finstab/">www.rbnz.govt.nz/publications/finstab/</a>
<i>Annual Report*</i>	Key accountability document, plus presentation of financial statements	<a href="http://www.rbnz.govt.nz/about/whatwedo/0094054.html">www.rbnz.govt.nz/about/whatwedo/0094054.html</a>
Austraclear New Zealand System Report to Members	Accountability document, plus presentation of financial statements	<a href="http://www.rbnz.govt.nz/about/whatwedo/rbnz_2006ar_2.pdf">www.rbnz.govt.nz/about/whatwedo/rbnz_2006ar_2.pdf</a>
Board of Directors' <i>Annual Report</i>	Board of Directors' report on the Bank's performance	Reproduced in the Bank's <i>Annual Report</i> <a href="http://www.rbnz.govt.nz/about/Whatwedo/rbnz_2006ar_2.pdf">http://www.rbnz.govt.nz/about/Whatwedo/rbnz_2006ar_2.pdf</a>
Briefing on the Reserve Bank of New Zealand*	Description of the role and functions of the Reserve Bank, prepared for an incoming government	<a href="http://www.rbnz.govt.nz/about/whatwedo/0122541.html">www.rbnz.govt.nz/about/whatwedo/0122541.html</a>
Reserve Bank of New Zealand Act 1989	Reserve Bank's statutory authority	<a href="http://www.rbnz.govt.nz/about/ourlegislation/">www.rbnz.govt.nz/about/ourlegislation/</a>
Funding Agreement	Basis of Bank's funding, setting how much of the Bank's revenues can be retained by the Bank	<a href="http://www.rbnz.govt.nz/about/whatwedo/1846117.html">www.rbnz.govt.nz/about/whatwedo/1846117.html</a>
<i>Statement of Intent*</i>	A statement of what the Bank intends to achieve over the next three years, with forecast income and expenditure for one financial year	<a href="http://www.rbnz.govt.nz/about/whatwedo/1764296.html">www.rbnz.govt.nz/about/whatwedo/1764296.html</a>
Letter to Minister of Finance on foreign exchange market intervention policy	Description of how the Bank may intervene in the foreign exchange market under section 16 of the Reserve Bank Act to influence the exchange rate	<a href="http://www.rbnz.govt.nz/foreignreserves/intervention/index.html">www.rbnz.govt.nz/foreignreserves/intervention/index.html</a>
Letter from Minister of Finance to the Bank on foreign exchange intervention	Provision of delegated authority for the Bank to intervene in the foreign exchange market under section 17 of the Reserve Bank Act, should that market become dysfunctional	<a href="http://www.rbnz.govt.nz/foreignreserves/intervention/0148293.html">http://www.rbnz.govt.nz/foreignreserves/intervention/0148293.html</a>
Memorandum from the Minister of Finance to the bank on foreign exchange intervention	Provision of delegated authority for the Bank to intervene in the foreign exchange market under section 17 of the Reserve Bank Act, should that market become dysfunctional	<a href="http://www.rbnz.govt.nz/finmarkets/foreignreserves/intervention/0148214.html">www.rbnz.govt.nz/finmarkets/foreignreserves/intervention/0148214.html</a> <a href="http://www.rbnz.govt.nz/finmarkets/foreignreserves/intervention/index.html">www.rbnz.govt.nz/finmarkets/foreignreserves/intervention/index.html</a>
<i>Reserve Bank Bulletin*</i>	Quarterly publication of articles relevant to central banking in New Zealand	<a href="http://www.rbnz.govt.nz/research/bulletin">www.rbnz.govt.nz/research/bulletin</a>
Statement of Principles*	Explanation of the Reserve Bank's approach to bank registration and supervision	<a href="http://www.rbnz.govt.nz/finstab/banking/regulation/bs1.pdf">www.rbnz.govt.nz/finstab/banking/regulation/bs1.pdf</a>
<i>This is the Reserve Bank*</i>	Introductory brochure about the Reserve Bank	<a href="http://www.rbnz.govt.nz/about/whatwedo/0109157.html">www.rbnz.govt.nz/about/whatwedo/0109157.html</a>
<i>Central Banking in New Zealand*</i>	Brochure about the Reserve Bank and its governance arrangements	<a href="http://www.rbnz.govt.nz/publications/index.html">www.rbnz.govt.nz/publications/index.html</a>
Vision Statement and Values	Expression of the Bank's organisational aims and culture	Inside front cover of <i>Annual Report</i> and <i>SOI</i>

\* Also available in print from: the Knowledge Centre, Reserve Bank of New Zealand, PO Box 2498, Wellington, New Zealand. [knowledge@rbnz.govt.nz](mailto:knowledge@rbnz.govt.nz), [www.rbnz.govt.nz](http://www.rbnz.govt.nz)