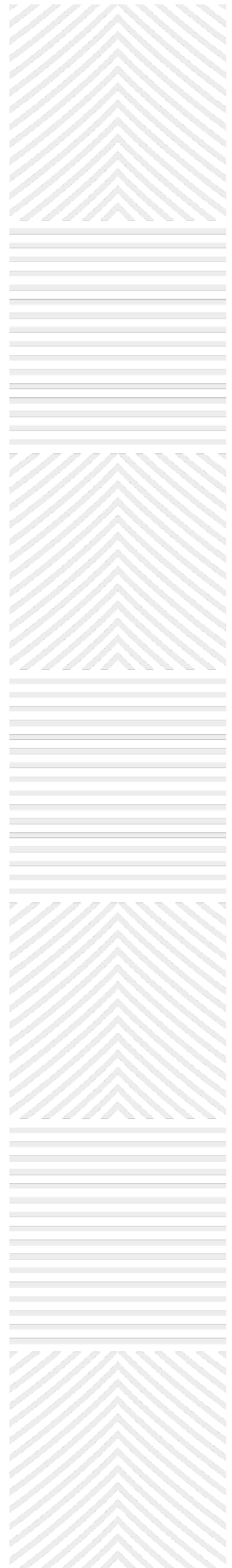


Statement of policy-making approach.

October 2020



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Introduction

Purpose

This document sets out an accessible, up-to-date summary of our (the Reserve Bank of New Zealand's) regulatory policy-making processes, including consultation, regulatory impact analysis, timelines and the principles that inform our approach.

Our role

We are the prudential regulator and supervisor for New Zealand's banking, insurance and non-bank deposit taker (NBDT) sectors.¹ Prudential regulation is about promoting the maintenance of a sound and efficient financial system.² This objective is specifically set out in the Reserve Bank of New Zealand Act 1989 (the Act) as 1 of our 3 key mandates.³ This mandate is also found in the other 2 Acts we administer, namely the Insurance (Prudential Supervision) Act 2010 (IPSA) and the Non-bank Deposit Takers Act 2013 (NBDT Act).⁴

We also monitor financial markets infrastructures (FMIs), specifically the payments sector, and jointly regulate settlement systems with the Financial Markets Authority (FMA).⁵ The FMI Act, which received Royal Assent in May 2021, establishes a new regulatory regime for FMIs. The Act provides certain FMIs with legal protections relating to settlement finality, netting and the enforceability of their rules. We are the joint regulator alongside the FMA.

In the New Zealand context, traditional prudential regulation focuses on the soundness and efficiency of the financial system by imposing proportionate regulatory requirements at the level of individual institutions.⁶ Macroprudential regulation aims to achieve the same objective, by reducing the risk that the financial system amplifies a severe downturn in the real economy. Focusing on these objectives reduces the risk that the financial system amplifies a severe downturn in the real economy as financial institution resilience remains strengthened. This is important because financial instability can have significant and lasting economic and social costs.

We are also 1 of 3 agencies in New Zealand tasked with ensuring firms meet obligations designed to deter and detect money laundering and terrorism financing.⁷ Specifically, under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 (AML/CFT Act), we are responsible for supervising, monitoring and enforcing the AML/CFT obligations of banks, NBDTs and life insurers.

Unlike in the prudential space, where we undertake a full range of policy development and operational actions for AML/CFT, policy we develop is largely restricted to providing guidance to help banks, NBDTs and life insurers understand their obligations and demonstrate their compliance with the regime.

¹ Although in the case of NBDTs, frontline supervision is carried out by trustees.

² As a result of phase 2 of the Reserve Bank Act Review, we will be responsible for protecting and promoting the stability of New Zealand's financial system.

³ See section 1A of the Act.

⁴ For the purpose of regulating the insurance sector, our mandates differ slightly compared to those for the banking and NBDT sector. We regulate the insurance sector to promote a sound and efficient insurance sector (rather than the entire financial system) and to promote confidence within the sector.

⁵ Our mandate to oversee payment systems aims to promote the maintenance of a sound and efficient financial system. For the regulation of settlement systems, we have the additional mandate to avoid significant damage to the financial system that could arise from a participant's failure in a settlement system. The FMA has its own purposes for the regulation of settlement systems.

⁶ Fiennes T and C O'Connor-Close (2012), 'The evolution of prudential supervision in New Zealand', *Reserve Bank of New Zealand Bulletin*, 75(1), March.

⁷ The other 2 agencies are the FMA and the Department of Internal Affairs.

Document outline

The remainder of this document sets out:

- the scope of policy covered by this document
- our formal decision-making structure
- the principles informing our policy-making
- our approach to consultation
- how we form a regulatory policy agenda
- our use of Regulatory Impact Analysis (RIA) to guide regulatory policy development, and
- our relationships with other regulatory agencies about regulatory policy-making.

Scope of policy covered

Within this document, the term 'regulatory policy' is defined to include the following:

- policy for the prudential regulation and supervision of banks and NBDTs (including macroprudential policy), insurers, and payment and settlement systems, and
- policy for banks, NBDTs and life insurers relating to AML/CFT.

All other areas of policy development relevant to us such as monetary policy or policies around market operations are not captured by the term 'regulatory policy'. The term also does not capture our approach to supervision or our internal policies and administrative processes.

We have responsibility for administering various legislation that applies to banks, insurers, NBDTs and FMIs. This role includes creating, amending and repealing primary and some forms of secondary legislation. We may also provide guidance to these regulated entities.⁸

Policy-making process: formal decision-making structure

With respect to regulatory policy, the Act currently provides for a single decision-maker model at the Reserve Bank. This means that the Governor is responsible for all our regulatory policy decisions. This is set to change when the new RBNZ Act comes into force. The new Act will establish a governance board in place of a single decision-maker model. The Governor is also responsible for all advice provided to the Government when a regulatory policy decision rests with Cabinet.

In practice, we employ a committee-based decision-making process for all regulatory policy decisions (whether this is in areas where we can make a final decision or where the decision is

⁸ Guidance is advice made by a government agency as to how regulated entities should interpret or comply with a higher-level policy (eg, a condition of registration). Deciding what guidance to provide can be a policy decision in that it can narrow the ways a requirement on regulated entities can be interpreted or implicitly create 'safe harbours' (specifying when certain actions will not be considered a violation of a regulatory requirement).

based on advice we provide to the Government). However, the Governor remains accountable for all decisions. This process provides for quality assurance of policy proposals and for a range of different views to be considered.

The initial peer-review and critique of work occurs within our policy teams, project-specific working groups, department round-tables or at formal steering groups. Policy work is presented to the relevant steering group based on the work's policy area.⁹ An example of such a steering group is the Banking Steering Group (BSG). BSG's purpose is to exchange information on banking or deposit-taker issues. Members of this group include the heads of FSPA, Supervision, Data and Statistics, and Financial Markets, as well as the Senior Manager of Supervision, the General Counsel (or nominee), and relevant managers in the Financial Stability Group (FSG). However, this group is an open forum to all FSG staff.

Steering groups are not decision-making committees, although a decision-maker may make a decision on a matter within their delegated authority following discussion at the committee. Following review by team members, department round-tables and working/steering groups, work may also be formally peer-reviewed by a technical expert who is otherwise removed from the work-stream in question.¹⁰

Where the work introduces or reviews a material policy decision, the work is elevated further up our regulatory decision-making structure. The next stage is the policy committee level, where staff members present their regulatory policy work to the Financial Stability Committee (FSC). This strategic committee is chaired by the Deputy Governor. The remaining Governors and heads of Supervision, Financial Markets, and Financial System Policy and Analysis (FSPA) also sit on the FSC. Relevant managers and technical experts are often invited to attend the FSC and there is an open invitation to the other members of the Senior Leadership Team (SLT).

Usually regulatory policy decisions are taken at the FSC, but major and complex decisions may be referred to the SLT. This committee is chaired by the Governor, and its other members are the five Assistant Governors and the Deputy Governor. The Governor remains accountable for the decisions of all committees.

Prior to the policy document reaching the final decision-maker, Legal Services will perform a legal risk assessment. This is done, in part, by Legal Services' involvement in steering groups and senior committees to provide legal input and perspectives on policy proposals. Legal Services also has the opportunity to review public consultation documents and exposure drafts of our policies.

Legal Services will be asked to provide an assessment to the decision-maker at the time that they make a final decision on a policy. This assessment will have standardised wording that confirms the recommendations meet the relevant statute and administrative law duties, meet all statutory prerequisites, and account for material legal risks. Where Legal Services is unable to provide these assurances, or there are legal risks that cannot be mitigated, they must explain why.

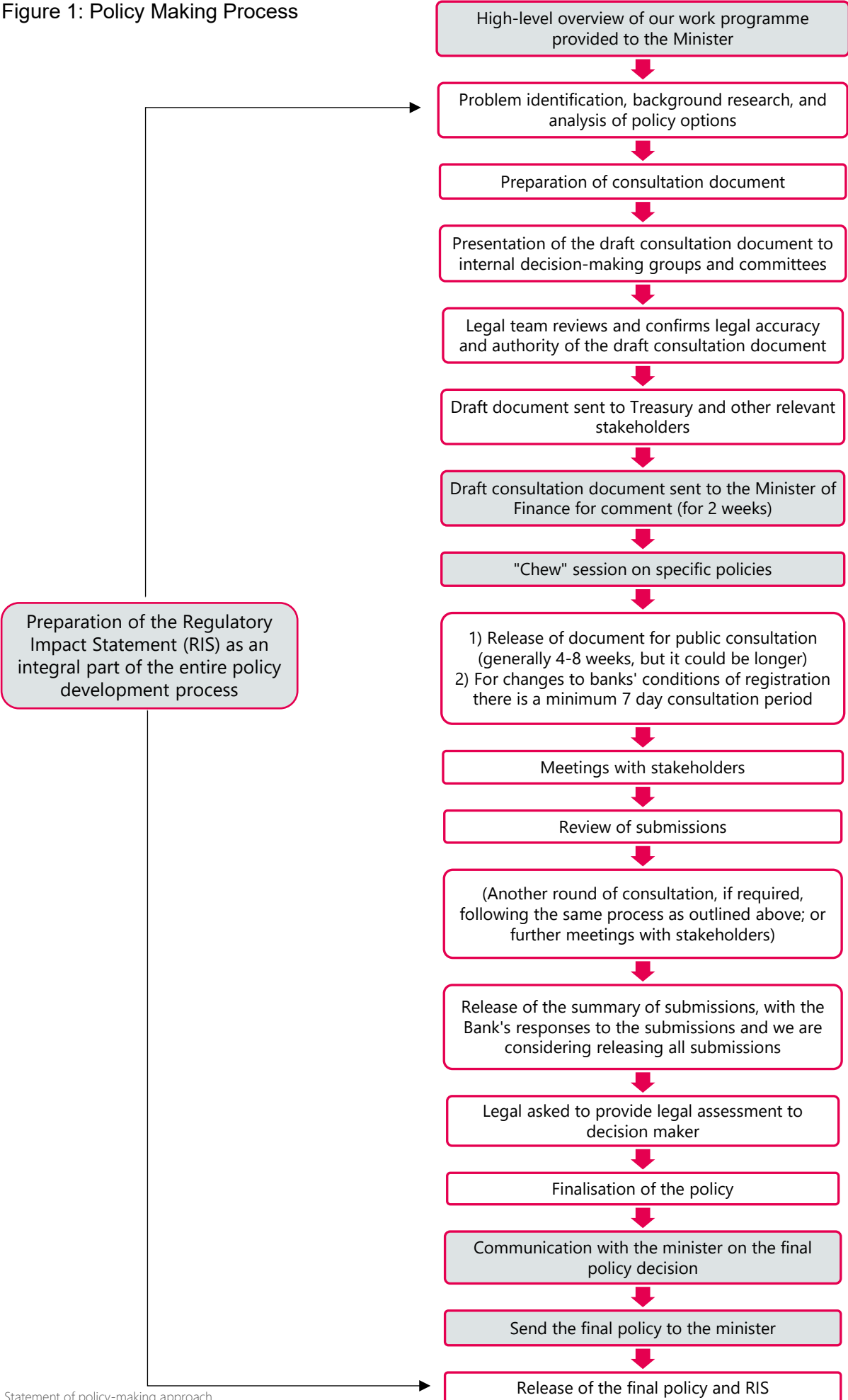
Figure 1 outlines the policy-making process in more detail. It covers the process between the work-stream's initial high-level overview to the Minister and the final policy's release.

⁹ These steering groups include banking, insurance, FMs, Escalated Supervision and Resolution, and FinTech.

¹⁰ Formal peer-review is often employed when a Regulatory Impact Statement is being prepared. There is a formal set of criteria for such review provided within the Treasury's RIA guidance note.

<https://treasury.govt.nz/sites/default/files/2018-03/ia-bestprac-guidance-note.pdf>

Figure 1: Policy Making Process



Principles informing our regulatory policy-making

The current overarching objective for our regulatory policy decision-making is to promote the soundness and efficiency of the financial system. In some of our governing legislation, there are secondary principles setting out how we should exercise our powers, including making regulatory policy.¹¹

To ensure that this overarching objective and any other principles set out in legislation are met, we apply, wherever possible, the Treasury's model for 'Best Practice Regulation'.¹² We also develop sets of principles specific to major pieces of policy work.

Our regulatory policy agenda

There are a number of ways in which regulatory policy issues may be brought to our attention. The main ones are:

- changes in international standards and best practice
- gaps in, or problems with, existing regulatory policy identified by our staff
- through engagement with industry and other stakeholders
- identified emerging risks or trends
- planned policy reviews, and
- Government requests (for work where Cabinet would be making a decision).

We try to prioritise work based on its importance, time-criticality and the availability of resources. Key regulatory policy issues are communicated in our Statement of Intent (SOI), which sets out the objectives for the next 3 years and the budget for the first year of that period.¹³ The SOI is influenced by the Letter of Expectations, a formal but not legislative annual tool that the Minister of Finance uses to set out expectations of the Reserve Bank over the coming year. Following the conclusion of each financial year, an annual accountability report is issued. The Annual Report outlines our key activities and presents our financial statements.

We are also a member and alternating chair of the Council of Financial Regulators (CoFR). This council consists of government financial regulators who seek to maximise New Zealand's sustainable economic wellbeing through responsive and coordinated financial system regulation. Cross-agency strategic policies are developed within this group and can influence our regulatory policy agenda.

Our approach to consultation

Consultation and wide-ranging industry engagement is an essential part of our approach to policy-making.

¹¹ See section 8 of the NBDT Act and section 4 of IPSA.

¹² <https://treasury.govt.nz/information-and-services/regulation/regulatory-stewardship/keeping-regulation-fit-purpose/best-practice-regulation>

¹³ <http://www.rbnz.govt.nz/about-us/statements-of-intent>

Wider industry engagement

We provide information about our upcoming consultations to industry as early as possible. This is achieved:

- via dedicated sections of our website¹⁴
- through direct communication with regulated entities, and
- through communication with the whole industry through FSRs, speeches, banking forums and the insurance council.

Feedback from regulated entities is relayed back to our regulatory policy-making departments. We also hold meetings with regulated entities outside of formal consultation periods to clarify policy positions, discuss industry concerns or discuss implementation of new regulatory policy. This is one of the avenues where we become aware of emerging risks or regulatory policy issues.

We have regular engagement with industry groups representing the sectors we regulate, such as the New Zealand Bankers Association, the Insurance Council of New Zealand, and Payments NZ. Our engagement includes discussion with these groups about our work relevant to the respective industries and opportunities to provide submissions on consultation papers of interest.

As part of our Te Ao Māori strategy, strategic relationships are being broadened to include iwi, rūnanga, Māori-owned businesses, government agencies, central banks and other Māori organisations. Engagement with these entities informs our policy-making decisions and the long-term effects the decisions will have.

In exceptional cases, we are unable to communicate some aspects of our work plan because doing so might create market distortions. Sometimes issues emerge suddenly, such as during the Covid-19 pandemic, and cannot be communicated with much advance notice. Our policy-related work plans must remain somewhat dynamic in nature, responding to changes in the market or in international practice.

Formal consultation

Consultation is an essential part of all RIA (described below) and in particular supports the transparent, accountable attribute of Best Practice Regulation. The level of consultation will typically be proportional to the size of the problem we are seeking to address. For all significant policy proposals there will be at least one round of formal public consultation. For major policy proposals or regulatory reviews, consultation papers may be preceded by an issues paper that elicits broad feedback. The consultation papers, which seek more targeted feedback on specific options or proposals, will follow. For each round of consultation we allow at least 8 weeks for formal submissions. Depending on the significance of a proposal and pressure on industry, more time may be given. There may be rare cases where

¹⁴ For bank related consultations see:

<http://www.rbnz.govt.nz/regulation-and-supervision/banks/consultations-and-policy-initiatives>

For insurance related consultations see:

<https://www.rbnz.govt.nz/regulation-and-supervision/insurers/consultations-and-policy-development-for-insurers>

For NBDT related consultations see:

<https://www.rbnz.govt.nz/regulation-and-supervision/non-bank-deposit-takers/consultations-and-policy-development-for-nbdts/active-policy-development>

For FMI consultations see:

<http://www.rbnz.govt.nz/regulation-and-supervision/financial-market-infrastructure-oversight/regulatory-developments>

circumstances require a shorter consultation period. In those cases, we will set out clearly why a longer timeframe is not feasible.

Our consultation papers set out the status quo, problem definition, objectives and options being considered. Following the formal consultation, a paper summarises the feedback received and our responses will often be released alongside any final policy decisions. We also publish individual submissions we receive when consent to do so is given.¹⁵ We give proper consideration to all viewpoints, with stakeholder feedback often having a real influence on policy outcomes.

For complex or significant initiatives, we may also hold targeted workshops with affected firms to elaborate or solicit more detailed feedback on specific matters. If direct engagement with industry and other stakeholders reveals a need for further discussion or consultation, we will adapt the timeframes and processes accordingly. This may mean a further formal consultation paper is released before decisions are made.

In all consultations, we seek to be transparent about our assumptions and our goals, stating clearly what options may or may not be feasible and why.

If a proposal is of a minor and technical nature, or only affects a small number of firms and is a matter of limited public interest, a more targeted consultation with the affected firms may take place.

Policy-making process: Regulatory Impact Analysis

Overview and use

We apply the RIA framework, as summarised in figure 2, for all our regulatory policy work. This framework is a systemic approach for critically assessing the positive and negative effects of proposed or existing interventions. Its central purpose is to ensure that interventions are welfare-enhancing from society's viewpoint – that is, total benefits to society exceed total costs. Applying the framework enhances the evidence base that informs decisions and maintains transparency. An RIA is generally conducted in a comparative context with different options for achieving the policy-maker's objective(s) being analysed and compared. Such comparisons may be made using cost-benefit analysis (CBA), cost-effectiveness analysis, incentive analysis or a purely qualitative set of criteria (where a CBA may be impractical or unwarranted).¹⁶ Applying an RIA also allows all feasible options to be properly considered and for meaningful consultation with stakeholders to take place.

Although figure 2 shows the regulatory policy-making process as linear, it is often not. For example, feedback from stakeholder consultation may lead to the problem definition and objectives being reformulated. Alternatively, the RIA process may be applied several times on a single policy issue. An example of this is the Regulatory Stocktake, which started in late 2015.¹⁷ The stocktake's initial objective was to identify ways to improve the efficiency, clarity and consistency of the regulatory requirements in participating sectors. A second consultation was subsequently needed when the Dashboard was created as an outgrowth of

¹⁵ <http://www.rbnz.govt.nz/-/media/ReserveBank/Files/regulation-and-supervision/banks/consultations/Final-policy-decision-Review-of-Default-Option-for-Publication-of-Submissions-Sept16.pdf>

¹⁶ CBA involves estimating, where possible, the monetary value of all the costs and benefits of a decision to allow for an expected net impact of the decision in today's dollars to be determined. Cost-effectiveness analysis considers only the monetary values of the costs of a decision. It may be used when the benefits cannot be monetised to determine the lowest cost option for meeting some objective.

¹⁷ <https://www.rbnz.govt.nz/regulation-and-supervision/non-bank-deposit-takers/consultations-and-policy-development-for-nbdt/active-policy-development/regulatory-stocktake>

this stocktake. The objective of that consultation was to seek feedback on the Dashboard’s approach to quarterly disclosure.

Figure 2: The RIA Process

- Describe the Status Quo**
 - Best case, forward-looking, ‘do nothing scenario’
 - Existing regulation
 - Relevant decisions already taken

- Define the Problem**
 - Identify market failures
 - Identify the extent of the problem
 - Distinguish between cause and effect

- Define the Objectives**
 - What is the desired outcome? (government and society)
 - Identify different levels of objectives
 - Develop performance criteria

- Identify Options**
 - 3 to 5 feasible options
 - Define concretely, quantify net benefit

- Analyse the Options**
 - Impacts – costs, benefits, incidence, magnitude
 - Risks

- Consultation**
 - Ongoing
 - Who – affected parties and government agencies
 - Set out views, especially when divergent

- Conclusion and Recommendations**
 - CBA, cost-effectiveness analysis or incentive analysis
 - Preferred option or evidence base for option

- Implementation**
 - Both stages – implementation and enforcement
 - Consider introduction and ongoing administration separately

- Monitoring, Evaluation and Review**
 - How agency will define success
 - Is intervention still required (consultation)



A Regulatory Impact Statement (RIS) is a public document summarising an RIA. We work to produce an RIS (or other document(s) summarising the substantive parts of the RIA undertaken when a full RIS is not required) throughout the policy development process.¹⁸ An

¹⁸ When a policy issue is not significant enough to require a separate RIS document, often the summary of the submissions and policy decisions document that we produce after considering consultation feedback will document the substantive parts of the RIA undertaken.

RIA should inform the policy development process and vice-versa. Therefore, RISs and the like provide transparency by presenting our justification for any policy decisions or advice. An RIS may also provide assurance that a robust policy-making process has been carried out and that it included consideration of the potential impacts on all stakeholder groups.

There are 2 categories of RIA:

1. one for situations when we are the Government's adviser on a regulatory policy decision, and
2. one for situations when we have been delegated the decision-making power.

On the first type, the requirements set out in Treasury's 2013 RIA Handbook apply to any policy initiative or review that considers options for creating, amending or repealing primary legislation or certain secondary legislation that is expected to result in a paper being submitted to Cabinet for approval. In that case, Treasury's Regulatory Impact Analysis Team may be involved in providing quality assurance of any RIA undertaken.

When the power to make a regulatory policy decision lies with us, there is a requirement under the Act that regulatory impacts are assessed unless the policy decision is of a minor and technical nature. There is also a requirement under the Act that the impacts of any regulatory policy we put in place are assessed at intervals appropriate to the nature of the policy.¹⁹ Furthermore, we are required to provide reports on these assessments to the Minister of Finance (MoF).²⁰ We may provide these reports as standalone documents or as part of an accountability document (eg, the Financial Stability Report, which we are legally required to produce every six months). We must publish all our regulatory assessment reports on our website.

In practice, we also follow the Treasury's guidance when undertaking an RIA for regulatory policy decision where we are the decision-maker. The only difference is that we generally undertake quality assurance internally, which may involve a technical expert who is otherwise removed from the work-stream in question and scrutiny by internal steering groups and high-level policy committees.

Readers who are interested in a more complete introduction to RIA should consult the Treasury's 2017 RIA guidance note.²¹

Status quo and problem definition

Problem definitions for proposed policy changes are often based on market failure grounds; ie, a problem or risk to our objective of promoting the maintenance of a sound and efficient financial system has been identified, and the problem or risk can be attributed to a market failure. Externalities and asymmetric information are the 2 most common market failures in the provision of financial services.²² In addition, there has to be a reasonable prospect of regulatory intervention improving on the market outcome; ie, the risk of regulatory failure should be low. Thus the central purpose of the RIA, namely that policy intervention is welfare-enhancing, is met.

¹⁹ Unless the policy is of a minor and technical nature.

²⁰ Section 162 AB of the Act.

²¹ <https://treasury.govt.nz/sites/default/files/2018-03/ia-bestprac-guidance-note.pdf>

²² An externality is a cost or benefit that affects a party who did not choose to take part in the transaction or activity giving rise to the cost or benefit. Asymmetric information describes a situation where one party to an activity or transaction has different information to another party to the same activity or transaction.

Problem definitions may also be based on failure of existing regulatory arrangements, the pros and cons of aligning New Zealand standards with international practice, or improving the efficiency of a current regime.

However, not all problems—whether they be market failures, failure of existing regulatory arrangements, or a misalignment of New Zealand and international practice—require intervention. Besides identifying a problem (the problem definition), it should be shown that an agency’s preferred solution will produce a higher net benefit than any other feasible option, including the status quo. This is what the remainder of the RIA process is intended to provide. Where possible, we use cost-benefit analysis to determine whether the preferred solution will indeed bring a net benefit. We will summarise the costs, benefits and net impacts of each option in relation to the status quo. The RIS will also state the key assumptions underlying calculations of costs and benefits. In some cases, not all costs and benefits of particular options can be meaningfully monetised. Additionally, there may be data limitations. In these cases, we may rely more on qualitative analysis but we will still aim to show that any preferred option is based on robust analysis and demonstrate that there is a net benefit.

Objectives

Objectives are typically linked to our overall statutory mandate for prudential supervision (eg, sections 1A (c) or 68 of the Act)²³ and how the identified problem is preventing this mandate from being met. There may be multiple objectives, in which case a framework for assessing trade-offs among them will be developed. Objectives may also be hierarchical; for example, achieving one or more lower-level objectives may be necessary to achieve a single higher-level objective that is more directly linked to section 1A (c) of the Act. Objectives are developed before specific policy options are considered to avoid pre-judging a solution. The objectives may evolve over the policy process if new information comes to light and the problem definition changes (in which case the options would also be revised).

Options and impact analysis

The next stage of an RIA is to identify the full range of feasible options that may fully or partially achieve the objectives. This will typically include both regulatory and non-regulatory options and include the status quo projected forward: what would happen if no further action was taken. The alternative policy options are then assessed against this projected baseline.

It may not always be possible to analyse every remotely feasible option or combination of policy tools—these could be infinite. It is important to keep the set of policy options realistic and manageable. Where a policy option is excluded upfront, the reasoning behind such a decision will be explained in the RIS.

An RIS will generally contain 3 to 5 alternative options. It is not always possible to have a minimum of 3 options and some RISs have more than 5 options or include a number of hybrid options. We are conscious of the need to avoid spurious analysis, and aim to ensure that all options considered in our RISs are realistic regulatory policy options.

Analysis of each option involves consideration of any impacts it may have, their likelihood and magnitude, and whether an option would be an improvement on the projected baseline

²³ Section 68 of the Act relates section 1A (c) (the responsibility of the Reserve Bank to promote the maintenance of a sound and efficient financial system) to its powers to register and supervise banks. Section 68 states that our powers to register and supervise banks must be used for the purposes of:

(a) promoting the maintenance of a sound and efficient financial system, or

(b) avoiding significant damage to the financial system that could result from the failure of a registered bank.

or status quo. The impacts considered may be the economic and welfare implications as well as the potential compliance costs.

The analysis undertaken in an RIS will be proportional to the impacts the proposed options are likely to produce. Generally speaking, and subject to the availability of information, the more severe the consequences, the more detailed its impact analysis will be. Where possible, we try to quantify and monetise costs and benefits. In practice, the ability to quantify impacts is often limited so that an RIS typically combines elements of quantitative and qualitative analysis. The options assess one-off as well as ongoing costs and benefits.

Consultation

Formal consultation (as described above) takes place to inform the problem definition and the options or policy proposals. In cases where the options or proposals are substantially changed after considering the responses from an initial round of consultation, we may further engage with industry and this may include a second round of consultation.

Implementation

Each consultation we undertake should address transitional arrangements and implementation timeframes for any potential policy options. We will consult industry on such timeframes and the reasons behind them. Time requirements will vary significantly depending on the nature of the policy. Wherever possible, we seek to implement policy changes in reasonable timeframes and are conscious of compliance costs for industry.

Monitoring, evaluation and review

We are committed to reviewing our existing policies on a regular basis, subject to available resources. In some cases, our governing legislation contains timelines for review. Changes in international best practice may also prompt a review. Our regular engagement with industry and stakeholders allows us to keep track of when reviews of other policies may be beneficial.

Our interaction with other regulatory agencies and government

We collaborate and consult with other regulators and government agencies in its policy work, domestically and internationally. Some of these relationships are formalised in memorandums of understanding (MoUs).

Domestic

At a domestic level, we cooperate with other government departments and agencies when our or another institution's policy decisions may (positively or negatively) affect the objectives of the other. An example is the conduct and culture reviews of life insurers and banks. These reviews were each completed jointly by the Reserve Bank and the Financial Markets Authority (FMA) as they related to both agencies' objectives. A second example is the Treasury's role in providing advice to the MoF on the effects of prudential regulation and supervision, where there are impacts on the wider economy or the Government's balance sheet.

Examples of cooperation we have with other domestic authorities include:

- quarterly meetings with the FMA
- joint chair of the Council of Financial Regulators (CoFR),^{24,25} and
- chairing the Banking Forum (a sub-committee of CoFR).²⁶

Government

We keep the Government informed of its regulatory policy agenda via our regular engagement with the MoF, sharing consultation papers with the MoF's office prior to their release, and through our preparation of accountability documents such as the annual Statement of Intent.

We provide regulatory impact assessments to the MoF's office for regulatory policy decisions we have been delegated, as set out in section 162AB of the Act. These documents, which include RISs, semi-annual Financial Stability Reports and summary of submissions documents, are published on our website. In recent years, the MoF has issued annual letters of expectations²⁷ to us and there is an MoU²⁸ between the MoF and our Governor on macroprudential policy. Among other things, these documents formalise how we inform the MoF's office of our regulatory policy decisions.

When we provide advice to the Government on regulatory policy decisions, there may be additional interaction with the MoF's office.

Trans-Tasman

We regularly inform the Australian Prudential Regulation Authority (APRA) of our regulatory policy initiatives. Likewise, APRA regularly updates us on changes to their regulatory policies. This is important, as changes to Australian regulatory policy can have substantial effects in New Zealand (due to the prevalence of Australian-owned banks in the New Zealand banking system).

We are a member of the Trans-Tasman Banking Council, which meets quarterly.²⁹ One of the Council's primary objectives is to guide the development of policy advice to New Zealand and Australian governments, underpinned by the principles of policy harmonisation, mutual recognition and trans-Tasman coordination. We may also engage with Australian authorities, such as the Australian Treasury or the Australian Securities and Investments Commission (ASIC), on regulatory policy issues bilaterally from time to time.

International

We keep abreast of changes to regulatory policies implemented in overseas jurisdictions. The regulatory policies and experiences of other jurisdictions are often used to consider and develop options for similar initiatives in New Zealand.

²⁴ The other members are the FMA (joint chair), the Treasury and MBIE.

²⁵ For the regulatory charter for CoFR see: <https://www.rbnz.govt.nz/-/media/ReserveBank/Files/regulation-and-supervision/banks/relationships/cofr/regulatory-charter-financial-markets.pdf?la=en&revision=b4164403-8c42-4ec7-a598-ad35aae387e7>

²⁶ The permanent members of the Banking Forum are: the Reserve Bank, the Treasury, the FMA and MBIE. Associate members are: the Inland Revenue Department and the Ministry of Justice.

²⁷ <https://www.rbnz.govt.nz/about-us/letters-of-expectations>

²⁸ <https://www.rbnz.govt.nz/regulation-and-supervision/banks/macro-prudential-policy/mou-between-minister-of-finance-and-governor-of-rbnz>

²⁹ Other members are the Australian and New Zealand Treasuries, the Australian Securities and Investments Commission, the FMA, APRA and the Reserve Bank of Australia.

We keep up-to-date with international trends in regulatory policy through active participation in international standard-setting bodies. We actively contribute to the Basel Committee for Banking Supervision (BCBS), the International Association of Insurance Supervisors (IAIS), and the Executive's Meeting of East Asia Pacific Central Banks (EMEAP). We were appointed chair of the EMEAP Payment and Market Infrastructure Working Group in August 2020, a 2-year appointment. In the case of the BCBS, we are not a member but still participate in policy consultations and discussions.

When guidelines or standards are issued or changed by such international bodies, we will normally consider whether there is merit in New Zealand aligning with them; ie, we will undertake regulatory policy work where the problem definition is 'Would alignment with the relevant international standards be beneficial for New Zealand?' In other situations, material from international supervisory bodies is used in the same way policies and experiences of individual jurisdictions might be used in guiding design of regulatory policy options.

Conclusion

This document sets out our approach to making regulatory policy. We use and maintain rigorous and up-to-date frameworks for regulatory policy development and supervisory decisions. This is done by following best practice guidance based on theory and evidence. Additionally, we consult openly and engage regularly with our stakeholders. In doing so, we raise awareness of the objective, priorities and expectations we adhere to.

Please contact us at rbnz-info@rbnz.govt.nz for any questions or feedback.