

House of Representatives

# Supplementary Order Paper

Tuesday, 29 June 2021

## Reserve Bank of New Zealand Bill

### *Proposed amendments*

Andrew Bayly, in Committee, to move the following amendments:

#### *Clause 22*

Replace the subheading “Minimum level of capital and financial risk management” (page 24, line 17) with “Capital and financial risk management framework”.

Replace *clause 22(1)(da)* (page 24, line 18) with:

- (da) to agree a capital and financial risk management framework with the Bank (*see* **section 205A**)

#### *Subpart 1A heading*

Replace the Subpart 1A heading (page 84, line 30) with:

Subpart 1A—Capital and financial risk management  
framework

#### *Clause 205A*

Replace *clause 205A* (page 84, line 32) with:

#### **205A Bank must manage financial affairs in accordance with framework**

The Bank must—

- (a) maintain levels of capital and direct or contingent assets and liabilities in accordance with a financial risk management framework; and

- (b) comply with all other obligations relating to capital and financial risk management that are specified in the financial risk management framework.

*New clauses 205B to 205E*

After *clause 205A* (page 85, after line 7), insert:

**205B Purposes of capital and financial risk management framework**

- (1) The purposes of the financial risk management framework are to—
  - (a) recognise the potential for Reserve Bank activities to have a significant impact on the Crown’s financial position; and
  - (b) balance the Bank’s operational independence to achieve its main objectives with the ability for the Minister to manage the potential impact of the Bank’s activities on the Crown’s financial position.
- (2) The Minister and the Bank must ensure that the capital and financial risk management framework is consistent with these purposes.

**205C Minister and Bank must agree on framework**

- (1) The Minister and the Bank must agree on the capital and financial risk management framework.
- (2) The capital and financial risk management framework may include—
  - (a) minimum, optimum, and ceiling levels of capital that the Bank shall maintain
  - (b) the definition of capital for the purposes of the framework
  - (c) the level of direct or contingent liabilities the Bank can incur
  - (d) other matters relating to instruments or securities that the Bank may acquire or hold and which may pose a risk for the Crown’s financial position
  - (e) any other matters that the Minister and the Bank think fit.
- (3) The Bank must ensure that the MPC has been consulted on a proposed framework before it is agreed to.

**205D Form and publication of framework**

- (1) The capital and financial risk management framework must be in writing, be dated, and be signed by the Minister and by 2 members on behalf of the board.
- (2) The Bank must publish a copy of the framework or a variation of the framework on an Internet site maintained by, or on behalf of, the Bank as soon as practicable after the framework or variation is signed.

**205E Minister and Bank must ensure framework is in force**

- (1) The Minister and the Bank must take all reasonable steps to ensure that a capital and financial risk management framework is in force at all times.
- (2) This section applies only after the first framework is agreed and signed (see **clause 12A** of **Schedule 1**).

*New clause 12A*

In **Schedule 1** after *clause 12* (page 129, after line 10) insert:

**12A First capital and financial risk management framework**

The Minister and Bank must take all reasonable steps to ensure that the first capital and financial risk management framework is agreed and signed under sections **205A** to **205D** within 6 months from the commencement date of this provision.

**Explanatory note**

This amendment seeks to provide a more effective mechanism for the Minister of Finance to manage the risk of Reserve Bank activities negatively impacting the Crown's financial position. Certain activities of the Reserve Bank can create significant fiscal risks for the Crown. The Minister of Finance has a legitimate role in managing such risks. The existing clause 205A, focusing on setting a minimum level of capital, is not adequate in respect of parameters for the level of direct or contingent liabilities that the Bank can incur. The ability of the Minister to direct the Bank to "have regard" to the Minister's expectations as to the Bank's financial risk management is similarly not an adequate means to address the potential impact that direct or contingent liabilities can have for the Crown. This amendment's 'framework' approach is modelled on the framework for foreign reserves management and co-ordination between the Minister and the Bank provided under clauses 138 – 145. As such, this amendment similarly seeks to strike a balance between the Bank's operational independence to achieve its main objectives and the ability for the Minister to manage the potential impact of the Bank's activities on the Crown's financial position. In that regard, it is important to note that the provisions for the capital and financial risk management framework are enabling rather than prescriptive as to content. This amendment also borrows elements from the approach taken in the United Kingdom, where a statutory Memorandum of Understanding between HM Treasury and the Bank of England sets out, among other things, a target level for the Bank's loss-absorbing capital as well as the principles for determining which monetary policy or financial stability operations should be undertaken on the Bank's balance sheet and which operations should be indemnified by the Treasury. This approach is seen as reinforcing the Bank of England's independence and resilience, providing greater transparency concerning the Bank's finances, and reinforcing the stability of the UK financial system.

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