



## Office of Hon Bill English

Deputy Prime Minister  
Minister of Finance  
Minister Responsible for HNZC

23 NOV 2015

Dr Rod Carr  
Chair  
Reserve Bank of New Zealand  
PO Box 2498  
WELLINGTON 6140

Dear Rod

I am writing this letter to set out my expectations for the Board of the Reserve Bank of New Zealand ("the Bank"). The Board has a critical role in the accountability arrangements that support strong performance by the Bank. I wish to extend my appreciation for the work of the Board.

As you know, the Board's role is different from that of other statutory entities. The board of a crown entity under the Crown Entities Act 2004 is the 'governing body', with authority to 'exercise the powers and perform the functions of the entity'. In contrast, a key ongoing function of the Board under the Reserve Bank of New Zealand Act 1989 ("the Act") is to act on my behalf in monitoring the Bank – by keeping the performance of the Bank and the Governor under constant review.

The purpose of this letter is to provide greater clarity about my specific expectations and interests as Minister of Finance with respect to the Board's activities. It is intended to help inform the Board's focus and future engagements with me. It is not intended in any way to proscribe or limit the Board's duties, as set out in Sections 53 and 53A of the Act.

Fundamentally, I rely on the Board to advise me whether the Bank has been successful in meeting its responsibilities under the Reserve Bank Act. My specific interests for this monitoring role are:

- **Monitoring the performance of monetary policy with respect to the Policy Targets Agreement (PTA).** I expect the Board to provide me with a clear sense of its judgements and the basis for them in assessing performance in meeting the PTA, recognising that the policy targets have evolved to be flexible and forward looking.
- **Assessing the performance of the Bank in promoting the maintenance of a sound and efficient financial system.** I expect the Board to articulate how it judges performance with respect to this statutory objective. I am particularly interested in how the objectives of soundness and efficiency are promoted and balanced.

- **Monitoring the Bank's regulatory policy processes.** The Bank has important regulatory responsibilities. I expect the Board to take a close interest in the robustness of regulatory policy development and to articulate how it judges performance with respect to this function. In particular, the Board should:
  - Keep under review how the Bank's regulatory policy is developed in light of the Government's response to the Productivity Commission's report on regulatory institutions and practices, and how these changes improve regulatory practice.
  - Test the Bank's thinking on regulatory policy developments and be satisfied that the Bank has reasonably addressed any alternative perspectives from other relevant parties (eg, the Government, the Treasury, the Council of Financial Regulators, Australian stakeholders, the financial sector and the wider public through consultation).
- **Monitoring the Bank's relationships.** The Bank has a number of important stakeholder relationships – with me, with the Treasury, with regulated entities and with other agencies. I would expect the Board to keep under review how these relationships are operating in practice.
- **Monitoring of operational functions.** The Bank has a range of operational functions, including those related to payment systems and currency. I expect the Board to monitor the Bank's operational performance and risk, particularly with regard to the use of the Crown's resources and wider economic efficiency.
- **Organisational strategy and financial management.** The Bank is a complex organisation with a large balance sheet. I expect the Board to take a strong interest in the Bank's strategy and financial management. The Board should closely monitor the Bank's performance against the Statement of Intent (SOI).

The duties of the Board include keeping under review the performance of the Governor. I would expect to discuss your assessment of the Governor's performance from time to time. I would not expect you to limit your communications on the performance of the Governor or the Bank to the narrow criteria set out in section 53(3), as I hope those circumstances would apply rarely if ever.

The annual Board report, as required under the Act, is the formal document that sets out the Board's assessment of performance. I expect this to provide enough detail to enable me and the wider public to understand how the Board has undertaken its review role.

Greater visibility of the Board's activities throughout the year would also be welcome and I would be interested in any suggestions you have to facilitate that. In addition, I will ask my office to establish six-monthly meetings with me. In advance of those meetings, I invite you to share any other documents regarding the Bank's performance which would support the discussion.

Yours sincerely



Hon Bill English  
Minister of Finance