

2015-2020 Funding Agreement

Between

The Minister of Finance

And

The Governor of the Reserve Bank of New Zealand

1. This Agreement is between the Minister of Finance and the Governor of the Reserve Bank pursuant to section 159 of the Reserve Bank of New Zealand Act 1989 ("the Act") and supersedes the Agreement signed on 8 June 2010.
2. The Agreement takes effect from the date that it is ratified by Parliament.

It is agreed that:

3. The amount of the Bank's income to be applied in meeting the operating expenses incurred in carrying out the functions and exercising the powers specified in section 159(1) of the Act, excluding the direct net currency issue expenses incurred in carrying out the functions and exercising the powers specified in section 25 and section 26 of the Act, is the sum of :

(a)

\$49,600,000 for the year commencing 1 July 2015
\$49,300,000 for the year commencing 1 July 2016
\$50,300,000 for the year commencing 1 July 2017
\$50,800,000 for the year commencing 1 July 2018
\$52,100,000 for the year commencing 1 July 2019

and

(b)

the amount of income earned by the Bank in the applicable year in respect of the following activities:

- i. Provision of settlement account services (ESAS);
- ii. Property rental;
- iii. Financial products settlement and depository services;
- iv. Application fees received from persons applying for registration as a bank and operators of settlement systems applying for designation of those systems under the Act, and any other fees payable to the Bank in the course of its exercise of its regulatory functions; and
- v. Hedging of operating expenses.

4. The amount of the Bank's income to be applied in meeting the direct net currency issue expenses incurred in carrying out the functions and exercising the powers specified in section 25 and section 26 of the Act is :

(a)

\$14,400,000 for the year commencing 1 July 2015
\$20,200,000 for the year commencing 1 July 2016
\$16,000,000 for the year commencing 1 July 2017
\$10,500,000 for the year commencing 1 July 2018
\$11,100,000 for the year commencing 1 July 2019

and

(b)

the amount of income earned by the Bank in the applicable year in respect of the following activities:

- i. Collectors' currency; and
- ii. Scrapping obsolete coins (including related hedging activities).

5. For the purposes of this agreement, as provided for in section 2 of the Act, it is agreed that operating expenses exclude actuarial losses and actuarial gains on the Reserve Bank Staff Superannuation and Provident Fund. Such losses and gains shall be separately disclosed in the Bank's financial statements.

6. Pursuant to section 160(d) of the Act, the activities specified in paragraph 3(b) are included within the amounts specified in paragraph 3(a) on the basis of operating expenses less income.

7. Pursuant to section 160(d) of the Act, the activities specified in paragraph 4(b) are included within the amounts specified in paragraph 4(a) on the basis of operating expenses less income.

8. Pursuant to section 159(1)(f) of the Act, operating expenses incurred under this agreement shall include operating expenses incurred in dealing in foreign exchange and in providing settlement banking, government banking and securities registry services as defined in sections 16, 32, 34, 35 and 39 of the Act.

9. Pursuant to section 159 (1)(f) of the Act, in the event that the Bank discontinues providing financial products settlement and depository services, the amount of the Bank's income specified in paragraph 3 (a) above shall be increased by \$2,500,000 per annum for each of the years that the Bank does not provide this service. In the event that the Bank discontinues this service part way through a financial year, the increase applied for that year shall be prorated according to the proportion of the year that the Bank does not provide the service.

10. Pursuant to section 160(d) of the Act, the Bank shall include in its annual report a comparison of expenditure against the specified amount of net operating expenses for each year in respect of each of paragraphs 3 and 4 above, together with a comparison of cumulative expenditure against the cumulative specified amount of net operating expenses for the term of the agreement.

11. Funding for optimising facilities management and logistics of currency is not provided in this Agreement. The Minister and the Governor, pursuant to section 159 (1)(f) of the Act, agree to negotiate additional funding once the review of the currency operating model and supporting infrastructure is completed and a business case is made available.



Signed by:

Hon Bill English
Minister of Finance

26 May 2015



Graeme Wheeler
Governor, Reserve Bank of New Zealand

26 May 2015