

The Reserve Bank of New Zealand Act 1989 Review

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Current status

As at 10 December 2021, the Reserve Bank of New Zealand (RBNZ) review is nearing completion of Phase 2.

On 11 August 2021, the Reserve Bank of New Zealand Bill passed the third reading of Parliament with commencement of the Reserve Bank of New Zealand Act 2021 expected to occur in July 2022 following a transition period. Following this, the Deposit Takers Bill was published in draft form for consultation on 6 December 2021. The consultation period closes on 21 February 2021.

If you would like assistance in understanding how these changes might impact you, please [contact a member of our financial services regulation team](#).

Background

On 7 November 2017, the Government [announced](#) that it would undertake a review of the Reserve Bank of New Zealand Act 1989 (Reserve Bank Act) to modernise and improve the efficiency of New Zealand's monetary policy framework.

The review was split into two phases:

- **Phase 1 was completed in 2018.** As a result, "supporting maximum sustainable employment" has been added to the economic objectives for the RBNZ and a Monetary Policy Committee (MPC) has been created with responsibility for formulating monetary policy.
- **Phase 2 is underway.** This review is being carried out by a joint team comprising of members of the Treasury and RBNZ. It is anticipated that the phase will result in the creation of two new acts – a Reserve Bank Act and a Deposit Takers Act. The Reserve Bank of New Zealand Bill has been granted royal assent (creating the Reserve Bank of New Zealand Act 2021). A draft version of the Deposit Takers Bill is currently open for consultation. If granted royal assent, it would create the Deposit Takers Act.

Phase 1

Consultation with stakeholders

On 7 November 2017, the Government released a Terms of Reference document for Phase 1 of the Reserve Bank Act review (Phase 1 Review) and began a process of consultation, publishing a [summary of stakeholder engagement](#) on 22 February 2018. An Independent Expert Advisory Panel (the Panel) was also established to provide advice on the changes to the Reserve Bank Act and published its [final report](#) on the Phase 1 Review on 31 January 2018.

The Reserve Bank [released documents](#) that were produced during the process of the Phase 1 Review in stages, with the final release of documents released in March 2019.

Reserve Bank of New Zealand (Monetary Policy) Amendment Act 2018 (Monetary Policy Act)

On 23 July 2018, as a result of the Phase 1 Review, the Reserve Bank of New Zealand (Monetary Policy) Amendment Bill was introduced to Parliament.

The [RBNZ Monetary Policy Amendment Act](#) received royal assent on 20 December 2018, following which the Minister of Finance [appointed the members](#) of the MPC. The full provisions of the RBNZ Monetary Policy Amendment Act came into force on 1 April 2019.

The RBNZ Monetary Policy Amendment Act implemented two key changes to New Zealand's monetary policy framework:

- Amended the objective of monetary policy to require consideration of maximum sustainable employment alongside price

stability in monetary policy decision making

- Created the MPC to formulate monetary policy.

The RBNZ Monetary Policy Amendment Act also introduced three new instruments to support the monetary policy framework:

- **Remit:** sets the operational objectives of monetary policy (for example, specifying a numerical inflation target)
- **Charter:** sets the decision-making process and transparency requirements for the MPC
- **Code of conduct:** sets out the minimum standards of ethical and professional conduct that must be adhered to by members of the MPC.

Scoping Phase 2

The Government sought written submissions and hosted stakeholder meetings to inform on the scope of the Phase 2 of the Reserve Bank Act review (Phase 2 Review), publishing a [summary of stakeholder engagement](#) on 21 March 2018. The Panel met on 2 March 2018 and 16 March 2018 on the scope of the Phase 2 Review, publishing [panel papers](#) on its recommendations.

On 5 April 2018, the RBNZ and the Treasury published a [joint report](#) to the Minister of Finance on the proposed scope of the Phase 2 Review that informed the [Minister's paper](#) to cabinet seeking agreement to the scope of the Phase 2 Review.

Phase 2

On 7 June 2018, the Government announced the commencement of the Phase 2 Review and released a [Terms of Reference document](#) setting out the scope of the Phase 2 Review.

Consultation Round 1

On 1 November 2018, the Government announced the first round of public consultation and released the first consultation document, '[Safeguarding the future of our financial system: The role of the Reserve Bank and how it should be governed](#)'.

Round 1 was closed on 25 January 2019. In February 2019, the Treasury published the [summary of submissions](#) from the second round of public consultation along with other supporting documents.

Consultation Round 2

On 24 June 2019, the Government announced the second round of public consultation and released a number of supporting documents, most notably the second consultation document. The Government released this second consultation document in two parts:

- **Consultation Document 2A:** 'Safeguarding the future of our financial system: In-principle decisions and follow-up questions on: The role of the Reserve Bank and how it should be governed'
- **Consultation Document 2B:** 'Safeguarding the future of our financial system: The Reserve Bank's role in financial policy'.

Round 2 was closed on 16 August 2019.

On 17 December 2019, the Treasury published a document, '[Safeguarding the future of our financial system: Update on the Reserve Bank Act Review providing an update on Phase 2](#)'. This document set out Cabinet's key decisions on the governance and accountability framework as well as in-principle decisions on the regulation of deposit takers and the deposit insurance scheme.

On 2 March 2020, the Treasury proactively released the [summary of submissions](#) from the second round of public consultation along with [other supporting documents](#).

Consultation Round 3

On 13 March 2020, the Government announced the third round of public consultation and released a number of [supporting documents](#), most notably the consultation document, '[Safeguarding the future of our financial system: Further consultation on the prudential framework for deposit takers and depositor protection](#)'.

Round 3 was initially scheduled to close on 23 April 2020, however, due to disruptions caused by COVID-19, the deadline for submissions was extended to 23 October 2020.

Introduction of two new Bills - the Reserve Bank of New Zealand Bill and the Deposit Takers Bill

The Government decided that the current Reserve Bank Act would be replaced with two new pieces of legislation - a 'Reserve Bank Act' and a 'Deposit Takers Act'.

On 28 July 2020, the [Reserve Bank of New Zealand Bill](#) (Reserve Bank Bill) was [introduced](#) to Parliament. This was the first of two

bills resulting from the Phase 2 Review.

The Reserve Bank Bill passed its third reading in Parliament on 10 August 2021, with an anticipated commencement date of 1 July 2022 following a transition period.

The Reserve Bank of New Zealand Act 2021 (Reserve Bank Act 2021) repeals much of the existing Reserve Bank Act. Provisions relating to the regulatory requirements for banks, payment systems, and settlement systems have been retained in the existing Reserve Bank Act, which has been renamed the Banking (Prudential Supervision) Act 1989.

The new Reserve Bank Act 2021 focuses on reforming the overall institutional, governance, accountability, and funding arrangements of the RBNZ. Key provisions of the Reserve Bank Act 2021 include:

- Reframing of the overarching financial stability objective to “protecting and promoting the stability of New Zealand’s financial system”, to compliment the recently updated monetary policy objectives
- Moving from a ‘single decision maker’ model to a ‘board’ model of governance with the Governor as a member of this board
- Amending the RBNZ’s funding model to allow for recovery of costs through industry levies and fees
- Amending the RBNZ’s accountability and reporting frameworks (eg introducing a new framework for management of foreign reserves) and providing more ministerial guidance on matters the RBNZ must consider when setting and implementing its strategic approach.

On 6 December 2021, a draft version of the Deposit Takers Bill was released for consultation. The Deposit Takers Bill, if it were to be enacted, would:

- Establish a Depositor Compensation Scheme (a scheme which would allow certain deposits to be protected)
- Introduce a single regulatory regime for non-bank deposit takers and banks
- Strengthen the accountability for directors of their deposit takers
- Broaden the RBNZ’s supervision and enforcement tools
- Strengthen and clarify the crisis resolution framework (the framework which allows the RBNZ special powers to act in the event of a crisis).

A more detailed explanation of the Deposit Takers Bill can be found [here](#).

Next steps

The Reserve Bank of New Zealand Act 2021 was passed into law in August 2021. It will commence in July 2022.

A draft version of the Deposit Takers Bill, the second of the two bills resulting from the Phase 2 review, has been released for consultation. Consultation closes 21 February 2022. It is expected to be introduced to Parliament in early 2022.

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