



Institute of Finance Professionals New Zealand Inc.

8 February 2019

Phase 2 of the Reserve Bank Act Review
The Treasury
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By Email

INFINZ Submission on the Reserve Bank's Consultation Document: Safeguarding the future of our financial system (the Phase 2 Review)

About INFINZ

The Institute of Finance Professionals in New Zealand Inc (INFINZ) is the pre-eminent industry body for finance and capital markets professionals in New Zealand. INFINZ has a membership of more than 1,600 individuals drawn from right across the sector, including treasury professionals, investment analysts, fund managers, bankers, lawyers, academics and students. One of the objectives of INFINZ is “to promote the proper control and regulation of the New Zealand finance and capital markets.”

Introductory comments

The importance of central banks and prudential authorities has grown in the modern economy, particularly since the global financial crisis. Changes have included new global prudential and liquidity standards, extraordinary monetary policy, cross-border crisis resolution, macroprudential policy, OTC derivatives reforms, and new thinking about financial stability.

The global response to the crisis has also ushered in array of new and sometimes unprecedented laws, bank resolution frameworks and capital measures – including bail-in capital (TLAC/OBR), countercyclical buffers, and funding and liquidity reforms (CFR, LCR and NSFR). Other matters, such as shadow banking, have been subject to considerable study and attention, but less tangible resolution.

This has taken place against a backdrop of debate locally and internationally about the causes of the crisis and the appropriate steps to ensure it won't be repeated. There is a huge literature attached to this, and to the dimensions of an optimal prudential regime – but, despite a decade having passed since the crisis, in a number of key areas a consensus is yet to emerge.

While a number of these matters have already been incorporated or reflected in our laws and prudential regime, it is timely for the system as a whole to be reviewed. New Zealand has many unique features both in its macroeconomic conditions and in the structure of its financial system. Our regulatory settings should be informed by overseas thinking and experience, but must be carefully designed and calibrated for our own

economy, institutional settings, vulnerabilities and opportunities. The process of formulating our own Living Standards Framework by reference to the UN's Sustainable Development Goals provides a useful reference point from another context.

There are both positive and negative features to reflect on when thinking about what solutions are best adapted to our circumstances. New Zealand is recognised by international bodies and credit rating agencies as having high quality institutions and a strong and stable banking system. Equally, New Zealand has vulnerabilities in being heavily indebted, having a poor record of productivity growth, and suffering from a number of macroeconomic imbalances.

The Phase 2 review involves hugely important and complex questions. We are grateful for the opportunity to engage with the review team on them and would like to commend that team for the high quality of the material that has been put together to help guide and inform the debate.

INFINZ would welcome further discussion

INFINZ has no objection to any publication of this submission.

INFINZ has welcomed our ongoing and constructive dialogue with the Phase 2 Review team. We would be happy answer any questions you may have about our submission or to discuss further any aspect of the review.

Regards

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[Responses to Questions for Submissions separately attached]