

Submission by



to the

**FINANCE AND EXPENDITURE COMMITTEE**

on the

**RESERVE BANK OF NEW ZEALAND BILL**

4 February 2021

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# NZTECH SUBMISSION ON THE RESERVE BANK OF NEW ZEALAND BILL – 4 February 2021

**NZTech wishes to appear before the Select Committee**

## INTRODUCTION

The New Zealand Technology Industry Association (NZTech) welcomes the opportunity to make a submission to the Finance and Expenditure Committee on the Reserve Bank of New Zealand Bill.

## BACKGROUND

NZTech is the peak body for New Zealand’s technology ecosystem and is a not-for-profit membership-based organisation.

Members are drawn from the private and public sector where we connect technology ecosystems, organisations and people to create a coordinated national voice for technology. NZTech also supports the New Zealand Tech Alliance, which comprises not-for-profit organisations representing 20 technology associations across the public and private sectors. Collectively, this represents over 1,500 organisations employing more than 100,000 New Zealanders.

Our unifying goal is to stimulate an environment whereby technology contributes to the economic, social, cultural and environmental wellbeing of New Zealanders.

## DISCUSSION

NZTech supports the Bill with amendment.

The Bill is the second part of the most significant overhaul of the Reserve Bank’s legislative settings in 31-years. For this reason, NZTech’s submission centres upon Central Bank Digital Currency (CBDC) and a lack of legislative enablement for one. CBDC’s are generally “an electronic fiat liability of a central bank that can be used to settle payments, or as a store of value<sup>1</sup>.”

Financial technology (fintech) like cryptocurrencies will positively disrupt financial services and reshape central and retail banking. Just as there is a transition to a low carbon economy, we are in a transition to a cashless society. Cheques, first used in New Zealand in the 1800s,<sup>2</sup> are being phased out in 2021. Despite this transition, Part 3 Subpart 4, reflects the traditional role of the Reserve Bank of New Zealand (RBNZ) as the sole issuer of *physical* bank notes and *physical* coinage. The word “digital” appears only once in the Bill at Section 154 and only in relation to imitation currency.

Given the weight placed upon financial stability as foundational for this Bill, a legal framework for a Central Bank Digital Currency (CBDC) is needed so that it sits alongside physical notes and coinage. The Bank for International Settlements (BIS 2015, pp13-15), noted that cryptocurrencies potentially “impact on other areas of responsibility for central banks, such as

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<sup>1</sup> J. Meaning, B. Dyson, J. Barker and E. Clayton (2018). [Broadening Narrow Money: Monetary Policy with a Central Bank Digital Currency](https://doi.org/10.2139/ssrn.3180720), Bank of England Working Papers 724, Bank of England (https://doi.org/10.2139/ssrn.3180720).

<sup>2</sup> BNZ Heritage. [Cheques](#).

payment system oversight and regulation, financial stability and monetary policy<sup>3</sup>.” This is being telegraphed by Facebook’s planned launch of the Libra digital currency.

Just as the Reserve Bank’s operational independence in the 1980s was the vanguard for a global central banking revolution, NZTech believes enabling a CBDC in this Bill, would become this generation’s equivalent. It makes RBNZ a potential first mover. Without legislative enablement, there also exists the risk that rapid developments external to New Zealand may result in rapid legislative solutions domestically. This may be harmful to fintech in New Zealand and the benefits therein to the wider economy, consumers and society.

While the RBNZ has no immediate plans for a digital currency (Hawkesby, October 2020<sup>4</sup>) it is closely monitoring developments. A lack of short-term intention must not prevent this Committee from putting in place the legal authority for a CBDC. NZTech believes this is best achieved by incorporating CBDC enablement within the Bill by way of amendment.

## RECOMENDATION

1. Interpretation (Part 1, Section 5) amended using the BIS definition<sup>5</sup>:  
**cbdc** means a digital form of money issued by the Bank that is different from balances in traditional reserve or settlement accounts.
2. Part 3, Subpart 1 (Section 113, Subclause C):  
NZTech recommends amendment to this Subpart so that issuance of a CBDC is a RBNZ function. This ensures a CBDC meets the needs of the public alongside bank notes and coinage. This approach also aligns with BIS (October 2020 p.11)<sup>6</sup>, which along with the Federal Reserve, European Central Bank, Bank of Japan, Sveriges Riksbank, Bank of Canada, Bank of England and the Swiss National Bank, summarised the three key principles of a CBDC as being:
  - coexistence with cash and other types of money in a flexible and innovative payment system;
  - supporting wider policy objectives and do no harm to monetary and financial stability; and
  - offering features which promote innovation and efficiency.
3. Part 4, Section 5 (Sections 146-155):  
NZTech recommends amendment to this Subpart so that a CBDC is aligned with bank notes and coins. BIS et al (October 2020 p.16) found that “a CBDC must be convertible, convenient, accessible and low cost. The underlying system should be resilient, available 24/7, flexible, interoperable, private and secure for the public. At the same time, the payment system upon which a CBDC exists and is transferred must involve the private sector to benefit from innovation and competition and support adoption and use.”

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<sup>3</sup> Committee on Payments and Market Infrastructures (2015). [Digital Currencies](#), Bank for International Settlements, Basel.

<sup>4</sup> Christian Hawkesby (19 October 2020). [Working together to be ‘on the money \(Speech\)](#), Reserve Bank of New Zealand, Wellington.

<sup>5</sup> BIS (2018). Committee on Payments and Market Infrastructures, Markets Committee (CPMI-MC).

<sup>6</sup> BIS, Federal Reserve, European Central Bank, Bank of Japan, Sveriges Riksbank, Bank of Canada, Bank of England and Swiss National Bank (October, 2020). [Central bank digital currencies: foundational principles and core features](#), Bank for International Settlements, Basel.

4. New Subpart 5A—Regulating CBDC (with amendment to Part 6 and Schedules):  
The Bank of Japan (BoJ, October 2020<sup>7</sup>) published its approach towards a "general purpose" CBDC. Like the RBNZ, the BoJ has no plans to issue a CBDC in the short term, however, it wishes to ensure a stable and efficient payment and settlement system overall by thoroughly preparing for one. The Reserve Bank of New Zealand Bill is a genuine opportunity for New Zealand and the RBNZ. It would likely need a new Subpart 5A with resulting amendment to Part 6 and the Schedules.

The BoJ approach (2020, pp 11-13) following these principles:

- **A two-tiered payment and settlement system**  
NZTech recommends a two-tiered payment and settlement system of a central bank and the private sector. This means that a CBDC would be issued indirectly through intermediaries allowing for fintech innovation.
- **Universal access to be assured**  
This avoids excluding some individuals, devices or cards used for transfers and payments and provides ease of use and portability in design. It furthermore enables an innovative fintech sector to emerge.
- **Security is vital**  
For secure CBDC payments, it is necessary to incorporate counterfeit deterrence technology and enhance security to prevent various illicit activities mirrored in the treatment of bank notes and coinage.
- **Resilience**  
A CBDC must be available 24/7 and 365-days a year to end users. Design should enable offline use in times of system and network failures and those arising from adverse events.
- **Instant payment capability**  
A CBDC should offer settlement finality of transactions and instant payment like cash. A CBDC also needs sufficient processing capability and scalability in preparation for future and potentially rapid increases in the use of a CBDC.
- **Interoperability**  
The CBDC system architecture must ensure interoperability with other payment and settlement systems and be flexible to evolve, including advances in fintech.

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<sup>7</sup> BoJ (9 October 2020). [The Bank of Japan's Approach to Central Bank Digital Currency](#), Bank of Japan, Tokyo.