

15 October 2019

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Island Bay
Wellington 6023

The Board
Reserve Bank of New Zealand
WELLINGTON
c/- Neil Quigley as Chair (neil.quigley@waikato.ac.nz)

Dear Board Members

I am writing to raise with you concerns about the conduct and stewardship of Adrian Orr as Governor of the Reserve Bank.

As you will be aware, one of the primary mandates Parliament has given you is the responsibility to “keep under constant review the performance of the Governor in discharging the responsibilities of that office”. The Governor’s statutory powers are extensive and perhaps particularly when such discretionary policy and operational powers are being exercised by an unelected official it is vital that the monitoring and accountability mechanisms are taken seriously, and are seen by the public and other interested parties to have been taken seriously. There is now a fairly widespread view among informed parties that the Board has done poorly its part in the monitoring and accountability regime over many years. Evidence for that includes, without limitation, your Annual Reports - including the way you bury them deep within the Bank’s own report - and your inaction and passivity (or, at times, even cheering the Governor on) around past gubernatorial failures, such as the then-Governor’s response to the OCR leak in 2016 or his attempt to silence Stephen Toplis’s criticisms.

Most often, fairly or not, the Board has been seen as more interested in providing cover and defence for whoever is serving as Governor - perhaps serving your own interests, as those responsible for the appointment, rather more than the public interest and your ongoing statutory responsibilities. You have no statutory responsibilities towards the Governor. All your responsibilities are supposed to orient outwards, to the Minister of Finance and to the public.

Adrian Orr has now been in office a little more than 18 months. Since most of you were closely involved in his selection and appointment, it is perhaps natural for you to tend to put the most favourable interpretation on his stewardship to date. All your eggs were put in one basket, and humans - all of us - want to believe that the decisions that we made were appropriate. In doing so, we tend to focus on confirming evidence and to discount, excuse, or completely ignore material, perspectives, or evidence raising doubts about an appointee’s conduct and stewardship. But having once made the Orr appointment, you need to be sure - and to be able to reassure the public and the Minister - that you are willing to ask hard questions, take seriously critical perspectives, and call the Governor to account when that is required. Such feedback can be difficult, but it matters greatly - for the Governor’s own hopes of a successful tenure, for the Bank (including its standing at home and abroad), and for the wider public who have, via Parliament entrusted so much in a single individual,

expecting robust standards of policymaking, policy process, operations to be maintained, and exemplary personal conduct to be on display.

You will, no doubt, be aware of the recent series of articles by the Stuff journalist Kate MacNamara. One does not have to be persuaded by all her arguments, or those of the individuals she quotes, to be seriously disconcerted by the perspectives on the Governor's conduct that she reports. Some of the questionable conduct - the Governor's treatment of Jenny Ruth at a recent press conference - was visible to all. Others weren't. Perhaps all those other stories are false, perhaps all are grossly exaggerated. You would surely want to know whether or not that was so - MacNamara clearly having talked to people who are at least somewhat well-informed and the claims having been run prominently in a major mainstream media outlet - but you cannot have that assurance yourselves, or offer it to the public or Minister, without a serious review of the allegations, and of the wider "culture and conduct" that are claimed to have characterise the Governor increasingly in recent months. And yet your chair, when approached for comment, simply fell back on the line of "we haven't received a formal complaint" (clearly suggesting you'd heard the informal unease many are feeling) as if that meant there was thus no need to do anything more. Frankly you owe it to the Governor, almost as much as to the public, to treat these issues seriously. If there is nothing to the stories - bullying, intimidation, bad-mouthing critics in public fora etc - surely the Governor's name deserves to be cleared? If there is much to the stories, you need to act, and - having let things drift to this point - to be known to have acted.

I have other substantial concerns around the Governor's conduct in office. The fact that such a powerful public figure, single decisionmaker on many banking regulatory matters, has given not a single substantive speech on any of his main areas of policy responsibility is extraordinary; not only is it out of step with practice in almost central bank or financial regulatory agency in the world, but it is simply inconsistent with the Governor's own rhetoric, endorsed by the Board, about being more open and doing public communications better. Cartoons to accompany the MPS and FSRs are no substitute for serious, thoughtful, rigorous and judicious speeches every so often, which help give us insight on the individual's ability to conduct the affairs with which he is charged. Such speeches would also help you to benchmark the Governor's performance against that of his peers.

As regards the current bank capital consultation, one could list a long series of concerns. Process has been poor from the start, including the lack of serious supporting material when the proposals were first released in December, the absence of any evidence of serious consultation with APRA (despite a substantially trans-Tasman banking system), the absence (even now) of a serious cost-benefit analysis. Or one could list the failure to engage in serious working level dialogue and debate last year before the Governor - prosecutor, judge, and jury in his own case - declared his hand, or the ongoing absence of any evidence of the Governor or senior management being willing to openly engage with the questions, criticisms and alternative perspectives that have been offered. All too often the implied message, whether from the Governor or his surrogates, has been that anyone disagreeing with the Governor is simply self-interested (or serving the interests of "Australian banks"). That is no way to run a disciplined policy process about perhaps the most significant policy proposal to emerge from the Bank this century, one which the Bank itself says will lower GDP by perhaps \$750 million each and every year.

Most recently, there was the statement released late last week by the Bank's senior management - but clearly under the Governor's aegis and in the Governor's personal style. Anyone I know who has read it - and fortunately perhaps it hasn't had much coverage - has been incredulous. How could the Governor of the central bank - the most powerful

unelected person in New Zealand - be reduced to so much bluster, and attempts at distraction, trying to suggest that critics were raising unfair issues about Bank staff, when almost all concerns I've seen or heard have been about the Governor himself and, to a lesser extent, his senior management? The fact that his handpicked senior management went along with that statement, and were fully party to it, should itself raise further concerns for the Board (including because you also have statutory responsibility for keeping under constant review the performance of the Deputy Governor).

I could go on, but won't. But there are ample prima facie reasons why the Board should be concerned about how the Governor is conducting himself and how he is conducting public affairs, and why that concern needs now to result in some open-minded but searching investigation and some serious accountability.

We should have a right to expect a Governor who is temperate, who displays gravitas, who demonstrates rigour, who recognises that every one of us has blindspots and is prone to making mistakes, who is open to genuine debate and challenge, who exercises a judicious authority, and models this sort of behaviour to the staff in the organisation he leads. You were responsible for Adrian Orr's appointment. You need to act to ensure he operates in a manner consistent with those reasonable expectations. If you don't, the Bank will be diminished - substantively, and in the eyes of domestic and foreign observers - the conduct of policy will be impaired, whatever potential Adrian has to be good Governor will never be realised, and your own standing as guardians of the public interests in the Bank will rightly - and perhaps irretrievably - be stained.

I refer you also to various posts on this issue I have run over the last few weeks at www.croakingcassandra.com.

<https://croakingcassandra.com/2019/10/02/reserve-bank-annual-reports-2/>

<https://croakingcassandra.com/2019/10/07/portrait-of-a-strongman/>

<https://croakingcassandra.com/2019/10/12/unfit-to-govern-2/>

<https://croakingcassandra.com/2019/10/14/culture-and-conduct-in-question/>

I expect to publish this letter within the next day or so.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Michael Reddell', is written over a light blue horizontal line. The signature is fluid and cursive, with a large loop at the end.

Michael Reddell

Michael Reddell