RESERVE BANK
OF AUSTRALIA

Reserve Bank

RESERVE BANK OF AUSTRALIA ANNUAL REPORT

2016

RESERVE BANK OF AUSTRALIA

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Glenn Stevens AC
GOVERNOR

16 September 2016

The Hon Scott Morrison MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

RESERVE BANK OF AUSTRALIA ANNUAL REPORT 2016

In accordance with section 46 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), I am pleased to submit the Reserve Bank's Annual Report for 2016 for presentation to the Parliament. The annual report has been prepared in accordance with the rules under s46(3) of the PGPA Act.

Yours sincerely

Reserve Bank of Australia

Annual Report 2016

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This report is available electronically in PDF and HTML formats on the Reserve Bank's website:
www.rba.gov.au/publications/annual-reports/rba/index.html.

The Reserve Bank welcomes comments on this report. Feedback and enquiries about any aspects of this report may be directed to:

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Governor's Foreword

The 2015/16 financial year saw moderate growth in the global economy, lower than normal inflation and, once again, periods of anxiety in financial markets. It also saw the continuation of extremely low interest rates. This has included negative policy rates in a handful of jurisdictions, including two of the most important – the euro area and Japan – and only the smallest of increases in the policy rate in the United States. It seems as though very low interest rates are likely to persist for some time yet. At the time of writing, a significant share of the sovereign bonds on issue in the world are trading with negative yields. The full implications of this are yet to be seen.

To be sure, these conditions reflect the long shadow of the global financial crisis of 2007–08 and its aftermath, although it is not clear whether this fully explains the situation. Even countries that did not suffer a banking crisis eight years ago are finding strong growth more elusive than they had hoped. If, as some argue, other, longer-term, factors are also at work – such as less favourable demographics, slower productivity growth and reduced entrepreneurial dynamism – these are influences that monetary policy cannot overcome.

In Australia, growth over the past year at around 3¼ per cent was higher than expected at the time of the 2015 annual report. Yet inflation declined and was lower than expected. This was an unusual combination and not unrelated to what is happening around the world.

Stepping back, it can be seen that, overall, the economy's adjustment to the lower terms of trade and the unwinding of the mining investment boom has been proceeding reasonably well in the circumstances. As those regions and sectors that had been leading growth fell back, other regions and sectors saw faster growth.

A year from now, the fall in mining capital spending will probably largely be completed. As that headwind diminishes, present indications are that there are reasonable prospects for ongoing growth in the economy, still with quite low inflation. While the growth outlook is reasonable, the economy could sustain faster growth than forecast at present. But the challenge of securing faster growth on a durable basis, without a further step-up in private sector leverage, is one that will not be met by monetary policy alone.

During 2015/16, the Reserve Bank Board adjusted the cash rate only once, in May 2016, in response to the shift in the inflation outlook. This change was made consistent with the flexible inflation targeting framework that has been in place since the early 1990s, which seeks an average inflation rate of between 2 and 3 per cent over time. The objective has been delivered: over the past 20 years, the average CPI increase has been 2.5 per cent per annum and variability in the real economy has been quite contained, particularly in the face of very substantial shocks since the mid 2000s. For the future, inflation targeting remains, in the view of this writer, the best monetary policy framework available. However, it may need to be operated with considerable flexibility so as to allow what may be a reasonably protracted return to 2–3 per cent inflation.

The Bank's earnings for the year were $2.9 billion. Underlying earnings were $1.2 billion, an increase from the preceding year reflecting a rise in net interest income and the full annual effect of the fees from the Committed Liquidity Facility. Earnings available for distribution to the Commonwealth, which include underlying earnings and valuation gains that have been realised, amounted to $4.6 billion, about $1.2 billion more than the previous year. With the Treasurer's agreement, some of the earnings are being retained so as to augment the Bank's capital in line with growth in the size of the balance sheet. With this, the balance sheet remains very strong.

As measured, the cost of running the Reserve Bank's routine operations in 2015/16 rose by 7.4 per cent. But the previous year's costs had been held down by the delay in finalising the new Workplace Agreement, which meant that pay rises for 2014 were not paid until August 2015. Abstracting from this and the rise in depreciation, costs of 'business as usual' activities rose by 3.6 per cent.

As foreshadowed in previous annual reports, the large portfolio of projects continued to ramp up in 2015/16. This has seen staff numbers increase further, with a number of specialist roles, particularly IT professionals, on short-term contracts required to meet project requirements. At the time of writing, the build-up in staff numbers is largely complete and, if projects run according to their schedules, project costs will peak in 2016/17. Thereafter, capital expenditure for these projects and associated staffing will start to decline, but depreciation charges against the larger asset base will be a greater share of ongoing operating costs for the foreseeable future.

Among the major projects is the Next Generation Banknote program to upgrade Australia's banknotes. As described in the chapter on 'Banknotes', this is a large and very complex project, the aim of which is to maintain a supply of banknotes with innovative security features that are more secure against counterfeiting. While counterfeiting rates remain low by international standards, they are rising and so an upgrade of the banknotes' security features is a timely investment. The design of the new

$5 banknote was released in April 2016 and the new banknote is scheduled to enter circulation on 1 September. It is planned that the new $10 banknote will be launched in late 2017.

Among other projects, the Reserve Bank's investment as part of the New Payments Platform has continued and it is expected that it will be completed in time for the industry's scheduled go-live date in late 2017. Overhauling the technology that supports government banking continues. The system that provides comprehensive information on the assets that the Bank would accept when providing liquidity support to banks moved close to completion during 2015/16. The project to outsource the administration of the Officers' Superannuation Fund is scheduled for completion by mid 2017. When fully implemented, this will permanently reduce operating costs by about 1 per cent.

For the first time, this annual report contains a chapter devoted to reporting on the Reserve Bank's performance in 2015/16 against the performance objectives set out in the corporate plan for 2015/16. That chapter, which is a new reporting requirement for Commonwealth entities, summarises outcomes during the year across the Bank's areas of responsibility, namely monetary policy, financial stability, financial market operations, payments, banking, currency and financial position and capital.

The management and staff of the Bank reached their customary high standards in carrying out their duties, and the Reserve Bank Board joins me in thanking them. The Board itself has seen some change, with Roger Corbett AO and John Edwards retiring from the Board at the end of their respective terms, having served with distinction. The Board warmly welcomed Allan Moss AO and Ian Harper as new members, who bring valuable acumen and experience to the Board's deliberations. It was particularly pleasing that Philip Lowe was appointed to be the Bank's eighth Governor.

As I approach the end of my term, I express my personal thanks to the staff, my senior colleagues and members of the Reserve Bank Board, past and present, for their support and for their great contribution to the economic prosperity and welfare of the people of Australia.

Glenn Stevens AC
Governor and Chair, Reserve Bank Board
18 August 2016

Part 1:
About the Reserve Bank

Our Charter, Core Functions and Values

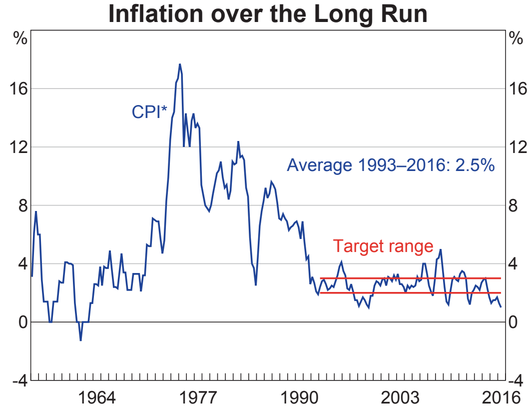
In its role as Australia's central bank, the Reserve Bank of Australia determines and implements monetary policy, fosters financial stability, undertakes a range of associated activities in financial markets and banking, issues Australia's banknotes and has policy, supervisory and operational roles in the payments system. The Bank's values are promotion of the public interest, integrity, excellence, intelligent inquiry and respect.

The Reserve Bank of Australia is established by statute as Australia's central bank. Its enabling legislation is the *Reserve Bank Act 1959*. The Bank pursues national economic policy objectives. Its responsibility for monetary policy is set out in section 10(2) of the Reserve Bank Act, which states:

> It is the duty of the Reserve Bank Board, within the limits of its powers, to ensure that the monetary and banking policy of the Bank is directed to the greatest advantage of the people of Australia and that the powers of the Bank … are exercised in such a manner as, in the opinion of the Reserve Bank Board, will best contribute to:
>
> (a) the stability of the currency of Australia;
>
> (b) the maintenance of full employment in Australia; and
>
> (c) the economic prosperity and welfare of the people of Australia.

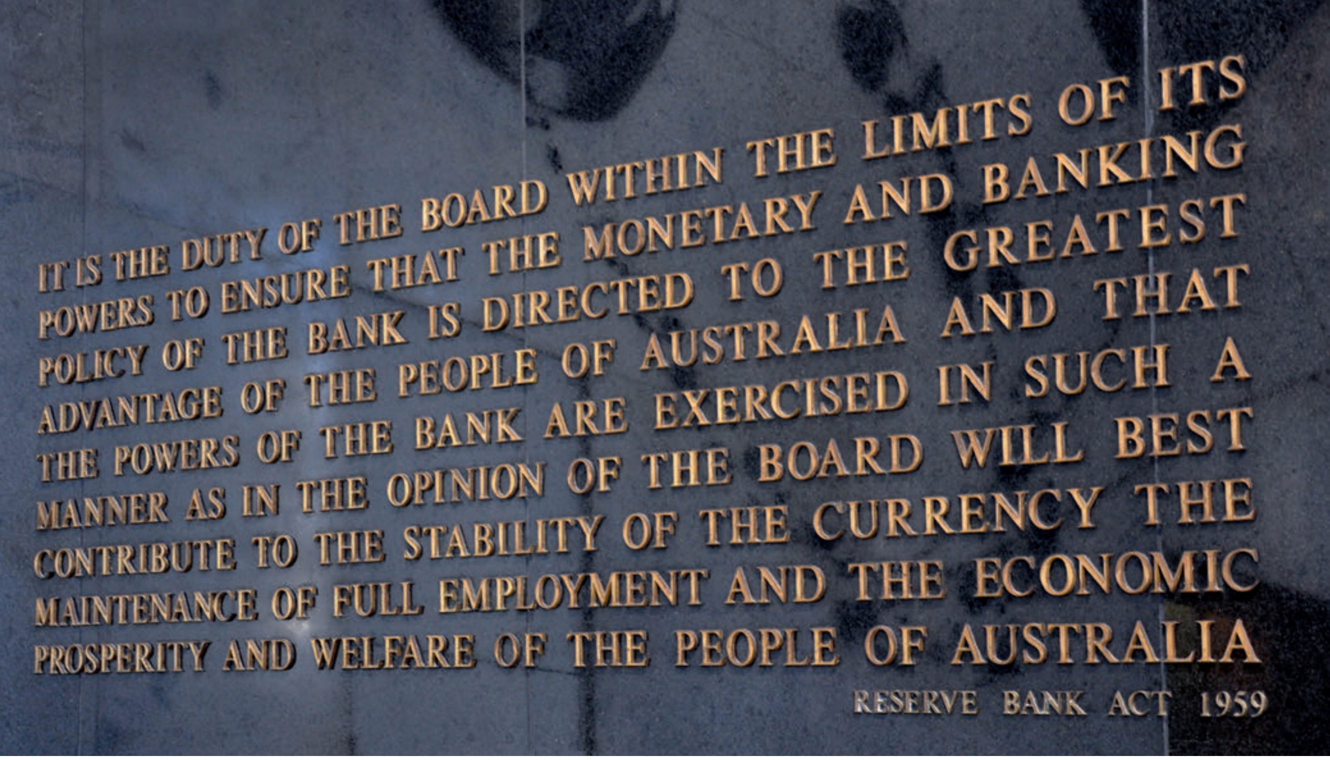
Policies in pursuit of these objectives have found practical expression in a flexible, medium-term inflation target, which has formed the basis of Australia's monetary policy framework since the early 1990s. The policy objective is to keep consumer price inflation between 2 and 3 per cent, on average, over the cycle. Monetary policy aims to achieve this over the medium term as a precondition for the promotion of sustainable economic growth and employment. The sixth *Statement on the Conduct of Monetary Policy*, signed by the Treasurer and the Governor in October 2013, records the common understanding of the government and the Reserve Bank on key aspects of the monetary policy framework.

Inflation over the Long Run



* Excludes interest charges prior to September quarter 1998 and adjusted for the tax changes of 1999–2000

Sources: ABS; RBA



Part of the *Reserve Bank Act 1959*, as seen in the Reserve Bank Head Office foyer, Sydney

The Reserve Bank also has a responsibility to foster overall financial stability, as an important underpinning of a stable macroeconomic environment. This is also recognised in the *Statement on the Conduct of Monetary Policy*. The Bank works with other regulatory bodies in Australia to foster financial stability. The Governor chairs the Council of Financial Regulators (CFR) – comprising the Bank, Australian Prudential Regulation Authority (APRA), Australian Securities and Investments Commission (ASIC) and Australian Treasury – whose role is to contribute to the efficiency and effectiveness of regulation and the stability of the financial system. While APRA has responsibility for the prudential supervision of financial institutions, in the event of a financial system disturbance the Bank and relevant agencies work to mitigate the risk of systemic consequences. The Bank's responsibility to promote financial stability does not, however, equate to a guarantee of solvency for financial institutions, nor is its balance sheet available to support insolvent institutions. Nevertheless, the Bank's central position in the financial system – and its position as the ultimate provider of liquidity to the system – gives it a key role in financial crisis management, in conjunction with the other members of the CFR.

The Reserve Bank conducts operations in domestic and international financial markets and undertakes analysis of markets and institutional developments in support of the Bank's policy objectives. The Bank has a sizeable balance sheet, part of which is used to ensure there is sufficient liquidity in the domestic money market on a daily basis, in support of the Bank's monetary policy and financial system stability objectives. The Bank holds and manages Australia's foreign currency reserves. It operates in the foreign exchange market to meet the foreign exchange needs of its clients and to assist with domestic liquidity management.

The Reserve Bank has responsibility for ensuring the stability, efficiency and competitiveness of the payments system through the Payments System Board, which was established in 1998. The

Bank's powers in relation to the payments system are set out in a number of statutes, including the *Payment Systems (Regulation) Act 1998* and the *Payment Systems and Netting Act 1998*. Under the *Corporations Act 2001*, the Bank, through the Payments System Board, has responsibility for determining financial stability standards for licensed clearing and settlement facilities and assessing facilities' compliance with those standards. The Corporations Act additionally establishes a regime for the regulation of over-the-counter (OTC) derivatives markets, which includes an advisory role for the Bank on a range of matters.

The Bank also has an operational role in the payments system, as owner and manager of Australia's high-value payments system – the Reserve Bank Information and Transfer System (RITS). A separate area of the Bank independently assesses RITS against international standards for such infrastructure on an annual basis.

The Bank provides specialised banking services to government and foreign official institutions, including payments and collections as well as general account maintenance and reporting.

The Reserve Bank works with its wholly owned subsidiary, Note Printing Australia Limited (NPA), to design Australia's banknotes, arranges for their production through NPA and issues banknotes with the objective of ensuring public confidence in them as an effective payment mechanism and a secure store of wealth.

The Reserve Bank's Values

Staff and others who are involved in the activities of the Reserve Bank have a critical role to play in achieving its objectives, directly or in a supporting role. They are required to conduct themselves in accordance with the Bank's values, which are set out in the Code of Conduct for Bank staff. The Code of Conduct also sets out the Bank's requirements of its employees and others who are involved in its activities to ensure that their behaviour aligns with the Bank's values, which are as follows.

1. Promotion of the public interest

We serve the public interest. We ensure that our efforts are directed to this objective, and not to serving our own interests or the interests of any other person or group.

2. Integrity

We are honest in our dealings with others within and outside the Bank. We are open and clear in our dealings with our colleagues. We take appropriate action if we are aware of others who are not acting properly.

3. Excellence

We strive for technical and professional excellence.

4. Intelligent inquiry

We think carefully about the work we do and how we undertake it. We encourage debate, ask questions and speak up when we have concerns.

5. Respect

We treat one another with respect and courtesy. We value one another's views and contributions.

Governance

The Reserve Bank's activities are overseen by the Reserve Bank Board, Payments System Board and several board and management committees. The Reserve Bank Board has responsibility for monetary policy, banking policy and other policy matters, except those relating to the payments system, which are overseen by the Payments System Board.

The Reserve Bank is governed in accordance with the *Reserve Bank Act 1959*. The activities undertaken by the Bank in fulfilment of its responsibilities are overseen by two policy boards and several board and high-level management committees. The Governor is responsible for managing the Bank and is the accountable authority of the Bank for the purposes of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

Reserve Bank Board

The Reserve Bank Board has responsibility for monetary and banking policy and the Reserve Bank's policy on all other matters except payments system policy. The Board comprises the Governor (Chair), Deputy Governor (Deputy Chair), Secretary to the Treasury and six non-executive members appointed by the Treasurer, a total of nine. Members of the Board during 2015/16 are shown below and details of their qualifications and experience are provided on pages 17–25.

The Board meets 11 times a year, on the first Tuesday of each month except in January. Five members form a quorum for a meeting of the Board. In terms of the Reserve Bank Act, the Board makes decisions by a majority of the votes of the members present and voting, with the Chair having a casting vote, if necessary, in addition to a deliberative vote.

Board Meetings – 2015/16
Attendance by Members

	No. of meetings attended	No. of meetings eligible to attend
Glenn Stevens (Governor)	11	11
Philip Lowe (Deputy Governor)	10	11
John Fraser (Secretary to the Treasury)	10[a]	11
John Akehurst	10	11
Roger Corbett[b]	6	6
John Edwards[c]	11	11
Kathryn Fagg	10	11
Allan Moss[d]	5	5
Heather Ridout	10	11
Catherine Tanna	10	11

(a) Nigel Ray (Executive Director (Domestic), Macroeconomic Group) attended the September 2015 meeting in place of John Fraser, in terms of section 22 of the Reserve Bank Act
(b) Roger Corbett's term on the Board ended on 1 December 2015
(c) John Edwards' term on the Board ended on 30 July 2016
(d) Allan Moss's term on the Board commenced on 2 December 2015

Most meetings are held at the Head Office in Sydney. A meeting is held in Melbourne at least every second year. In addition, a meeting is held in another Australian city each year. In 2015/16, the Board met in Perth in December 2015 and in Hobart in April 2016.

The Board has an Audit Committee and a Remuneration Committee, whose activities are described below.

Payments System Board

The responsibilities of the Payments System Board are set out in the Reserve Bank Act. In particular, the Act requires the Board to ensure, within the limits of its powers, that the Reserve Bank's payments system policy is directed to the greatest advantage of the people of Australia and that its related powers are exercised in such a way that, in the Board's opinion, will best contribute to:

(i) controlling risk in the financial system; and

(ii) promoting the efficiency of the payments system; and

(iii) promoting competition in the market for payment services, consistent with the overall stability of the financial system.

The Payments System Board also has responsibility to ensure that the powers and functions of the Bank under Part 7.3 of the *Corporations Act 2001* (dealing with licensing of clearing and settlement facilities) are exercised in a way that will best contribute to the overall stability of the financial system.

The Reserve Bank's boardroom in the Sydney Head Office building

The Payments System Board is distinct from the Reserve Bank Board and issues a separate annual report.

Conduct of Reserve Bank Board Members

On appointment to the Reserve Bank Board, each member is required under the Reserve Bank Act to sign a declaration to maintain confidentiality in relation to the affairs of the Board and the Reserve Bank.

Members must comply with their statutory obligations as directors of the Bank, including those set out in the PGPA Act. Members' obligations under the PGPA Act include, but are not limited to, obligations to exercise their powers and discharge their duties with care and diligence, honestly, in good faith and for a proper purpose. Members must not use their position, or any information obtained by virtue of their position, to benefit themselves or any other person, or to cause detriment to the Reserve Bank or any other person.

In order for members to discuss and decide monetary and financial system stability policies, notwithstanding any material personal interest in the outcome, the Reserve Bank Act requires them to furnish a confidential statement of material personal interests to the Treasurer annually and, during the year, to notify any substantial change since their most recent annual statement. Members must declare to the other members of the Board any material personal interest they have in a matter relating to the affairs of the Board other than monetary and financial stability policies. Members may give standing notice to other members outlining the nature and extent of a material personal interest in such matters.

Over and above these statutory requirements, members recognise their responsibility for maintaining a reputation for integrity and propriety on the part of the Board and the Reserve Bank in all respects. Members have therefore adopted a Code of Conduct that provides a number of general principles as a guide for their conduct in fulfilling their duties and responsibilities as members of the Board, including restrictions on members undertaking financial transactions for their own account or participating in decisions regarding financial transactions in relation to their business or other interests at particular times. A copy of the Code of Conduct is on the Bank's website.

Audit Committee

The Audit Committee is constituted as a subcommittee of the Reserve Bank Board. Its primary objective is to assist the Governor and the Board in fulfilling certain obligations in terms of the Reserve Bank Act and the PGPA Act. In particular, the Audit Committee assists the Governor and the Board in relation to:

- preparing the annual report, including a report of operations, a performance statement and the financial statements
- establishing and maintaining appropriate systems of internal control
- establishing and maintaining appropriate systems of risk oversight and management.

John Akehurst, a member of the Reserve Bank Board, chairs the Audit Committee. Other members of the committee are Kathryn Fagg, a member of the Reserve Bank Board, and Sandra Birkensleigh and Michael Coleman, both of whom are company directors and former senior audit partners of major accounting firms who have extensive experience in the finance sector.

In September 2015, Terry Williamson, a company director and former senior audit partner of a major accounting firm, retired from the Audit

Audit Committee Meetings – 2015/16

Attendance by Members

	No. of meetings attended	No. of meetings eligible to attend
John Akehurst*	4	4
Sandra Birkensleigh[(a)]	3	3
Michael Coleman	3	4
Roger Corbett*[(b)]	2	2
Kathryn Fagg*[(c)]	2	2
Terry Williamson[(d)]	1	1

* Member of the Reserve Bank Board
(a) Sandra Birkensleigh's term commenced on 9 September 2015
(b) Roger Corbett's term ended on 1 December 2015
(c) Kathryn Fagg's term commenced on 2 December 2015
(d) Terry Williamson's term ended on 8 September 2015

Committee after completing a five-year term. At the final meeting attended by Mr Williamson in July 2015, the Chair, on behalf of all committee members, paid tribute to the contribution Mr Williamson had made to the work of the committee, drawing on his background and experience in the finance sector.

Consistent with contemporary governance standards, no Reserve Bank executive is a member of the Audit Committee. Representatives of the Bank's internal and external auditors participate in meetings as appropriate at the invitation of the Chair. The Deputy Governor attends meetings of the committee on a regular basis as the chief representative of the Bank's management. Other senior Bank executives attend meetings of the committee by invitation on a regular basis or as required.

During 2015/16, the Audit Committee met on four occasions. At its July 2016 meeting, the committee considered the draft consolidated financial statements for the Reserve Bank for the year ended 30 June 2016 and agreed that the statements be presented to the Governor and the Reserve Bank Board with its endorsement. The committee meets at least annually with the external auditors without management present; in respect of 2015/16, this occurred immediately following the July 2016 meeting.

Remuneration Committee

The Remuneration Committee of the Reserve Bank Board was established in terms of section 24A of the Reserve Bank Act to recommend to the Board 'terms and conditions relating to the remuneration and allowances' for the Governor and Deputy Governor. Membership of the committee is drawn from the non-executive members of the Board and comprises Catherine Tanna (Chair), Ian Harper (following John Edwards' retirement from the Board on 30 July 2016) and Allan Moss. During 2015/16, the committee met on three occasions.

The offices of Governor and Deputy Governor are Principal Executive Offices in terms of the *Remuneration Tribunal Act 1973*, which provides for the Remuneration Tribunal to determine the applicable remuneration reference rate for these offices. The Remuneration Committee reviews the terms and conditions (including remuneration) applying to the Governor and Deputy Governor annually and recommends adjustments to the Board for approval, providing that such terms and conditions are consistent with the framework for Principal Executive Offices determined by the Remuneration Tribunal. The Remuneration Committee is also kept informed of the general remuneration arrangements for Reserve Bank staff. The Governor attends meetings of the Remuneration Committee at the invitation of the Chair to discuss remuneration matters in the Bank, but not those relating to his own remuneration. The committee communicates with the Remuneration Tribunal as required.

In accordance with section 21A of the Reserve Bank Act, neither the Governor nor the Deputy Governor takes part in decisions of the Board

Remuneration Committee Meetings – 2015/16
Attendance by Members

	No. of meetings attended	No. of meetings eligible to attend
Roger Corbett[(a)]	1	1
John Edwards[(b)]	3	3
Allan Moss[(c)]	2	2
Catherine Tanna	3	3

(a) Roger Corbett's term ended on 1 December 2015
(b) John Edwards' term ended on 30 July 2016
(c) Allan Moss's term commenced on 2 December 2015

relating to the determination or application of any terms or conditions on which either of them holds office.

Remuneration and Allowances

Remuneration and travel allowances for the non-executive members of the Reserve Bank Board are set by the Remuneration Tribunal. Remuneration of Board members for their membership of the Audit Committee is determined by the Remuneration Tribunal. The longstanding practice of the Bank has been to provide the same level of remuneration to members of the Audit Committee who are not also members of the Reserve Bank Board. Membership of the Remuneration Committee is not remunerated.

Induction of Board Members

The induction program assists newly appointed Board members to understand their role and responsibilities, and provides them with an overview of the Reserve Bank's policy framework and operations. Separate briefing sessions are tailored to meet particular needs or interests.

Policy Risk Management Framework and Board Review

Towards the end of 2015, the Reserve Bank Board reviewed the monetary policy risk register and endorsed a process whereby some risks and controls would be more fully articulated. At the same time, the Board conducted a review of its own operation and processes. This concluded that Board processes were functioning effectively and led to some enhancements whereby members spend more time on medium-term issues relevant to monetary policy at a number of meetings each year.

Executive Committee

The Executive Committee is the key decision-making committee of the Reserve Bank for matters of a management and/or administrative nature. It is a management committee, whose role is to assist and support the Governor in fulfilling his responsibilities to manage the Bank (in particular under the Reserve Bank Act and as the accountable authority under the PGPA Act). The committee, which is chaired by the Governor and comprises the Bank's most senior executives, generally meets weekly. The heads of the Audit, Information and Risk and Compliance departments and the General Counsel attend meetings of the Executive Committee in an advisory capacity.

Risk Management Committee

The Risk Management Committee has responsibility for ensuring that operational and financial risks are identified, assessed and properly managed across the Reserve Bank in accordance with its Risk Management Policy.

It is a management committee chaired by the Deputy Governor and comprises senior executives drawn mainly from the operational areas of the Bank. During 2015/16, the committee met on six occasions and kept the Executive Committee and Reserve Bank Board Audit Committee informed of its activities.

Risks associated with the formulation of monetary and payments policies are the direct responsibility of the Reserve Bank Board and the Payments System Board, respectively. The boards review management of these risks periodically as part of their decision-making processes. Details of the Bank's risk management framework are provided in the chapter on 'Risk Management'.

Indemnities for Members of Boards and Senior Staff

During 2015/16, members of the Reserve Bank Board and the Payments System Board continued to be indemnified against liabilities incurred by reason of their appointment to the relevant Board or by virtue of holding and discharging such office. Indemnities given prior to 1 July 2014, the date of repeal of the *Commonwealth Authorities and Companies Act 1997* (CAC Act), were in accordance with section 27M of the CAC Act. New members of each Board whose term of office commenced during 2015/16 were indemnified in substantially similar terms.

Certain other indemnities continue, being indemnities in accordance with section 27M of the CAC Act provided by the Reserve Bank to other officers of the Bank in relation to liabilities they may incur in the conduct of their duties at the Bank, and to current senior staff and Reserve Bank Board members who, at the request of the Bank, are serving on the board of Note Printing Australia Limited or formerly served on that board or the board of Innovia Security Pty Ltd (formerly Securency International Pty Ltd).

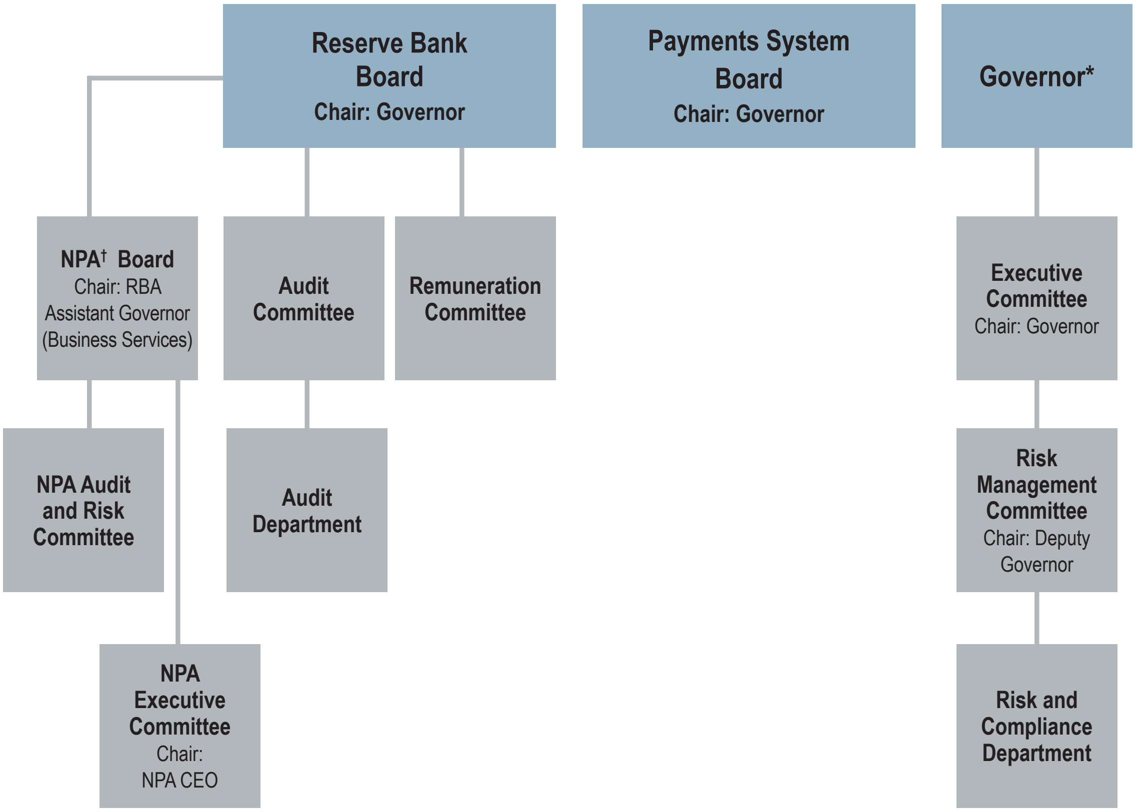
As the Reserve Bank does not take out directors' and officers' insurance in relation to its Board members or other officers, no premiums were paid for any such insurance in 2015/16.

Other Policy Matters

The Governor reports annually to the Reserve Bank Board on the process of review and implementation of key Reserve Bank policies, including compliance arrangements. An annual report covering matters relating to work health and safety in the Bank is also presented to the Board. The report for 2015/16 was provided to the Board at its August 2016 meeting.

Governance Structure

August 2016



† Note Printing Australia Limited

* Under section 12 of the *Reserve Bank Act 1959*, the Governor is responsible for managing the Bank and under section 7A of the Reserve Bank Act, the Governor is the accountable authority of the Bank for the purposes of the *Public Governance, Performance and Accountability Act 2013*.

Reserve Bank Board

The Board comprises nine members: the Governor (Chair), Deputy Governor (Deputy Chair), Secretary to the Treasury (ex officio member) and six other non-executive members appointed by the Treasurer. Further to the legislative requirements, and in recognition of their responsibility to uphold the integrity of the Board and the Reserve Bank, members have adopted a Code of Conduct.

August 2016

Glenn Stevens AC

BEc (Hons) (Sydney), MA (Western)

Governor and Chair

Governor since 18 September 2006
Reappointed from 18 September 2013 until 17 September 2016

Glenn Stevens has held various senior positions at the Reserve Bank, including Head of Economic Analysis and International departments and Assistant Governor (Economic), where he was responsible for overseeing economic and policy advice to the then Governor and Reserve Bank Board. He was Deputy Governor from 2001 to 2006. In June 2014, Mr Stevens was awarded a Doctor of Laws, *honoris causa* (LLD) by Western University in Ontario, Canada. In the 2016 Queen's Birthday Honours, Mr Stevens was appointed a Companion in the Order of Australia for eminent service to the financial and central bank sectors and to the community.

Other Roles

Chair – Payments System Board

Chair – Council of Financial Regulators

Chair – Financial Stability Board Standing Committee for Assessment of Vulnerabilities

Chair – Financial Markets Foundation for Children

Member – Financial Stability Board

Director – The Anika Foundation

Philip Lowe

BCom (Hons) (UNSW), PhD (MIT)

Deputy Governor and Deputy Chair
Appointed Governor-designate on 5 May 2016

Deputy Governor since 14 February 2012
Present term ends 17 September 2016

Philip Lowe has held various senior positions at the Reserve Bank, including Assistant Governor (Economic) and Assistant Governor (Financial System), where he was responsible for overseeing economic and policy advice to the Governor and Reserve Bank Board. He spent two years with the Bank for International Settlements working on financial stability issues. Dr Lowe has authored numerous papers, including on the linkages between monetary policy and financial stability. He chairs the Risk Management Committee.

John Akehurst

MA (Oxon)

Non-executive Member

Member since 31 August 2007
Present term ends 30 August 2017

John Akehurst has had extensive experience in the oil and gas industry. He held a number of engineering and management positions with Royal Dutch Shell (1976–1996) and as CEO of Woodside Petroleum Ltd (1996–2003). Mr Akehurst is a Fellow of the Institution of Mechanical Engineers.

Directorships

Chairman – National Centre for Asbestos Related Diseases

Chairman – Transform Exploration Pty Ltd

Director – CSL Limited

Director – Origin Energy Limited

Reserve Bank Board Committee membership

Chair – Audit Committee

Kathryn Fagg

BE (Hons) (Queensland), MCom (Hons) (UNSW)

Non-executive Member

Member since 7 May 2013
Present term ends 6 May 2018

Kathryn Fagg has broad and diverse experience across a range of industries, including logistics, manufacturing, resources, banking and professional services, having worked in senior executive roles at Linfox, BlueScope Steel and the ANZ Banking Group. Earlier, she worked at McKinsey & Co after commencing her career as a petroleum engineer with Esso Australia. She has led businesses in Australia, New Zealand and Asia. Ms Fagg is a Fellow of the Australian Academy of Technology and Engineering and a member of Chief Executive Women. In November 2015, she was awarded a Doctor of Business, *honoris causa* by the University of New South Wales Business School.

Directorships

Chair – Breast Cancer Network Australia

Chair – Melbourne Recital Centre

Director – Boral Limited

Director – Djerriwarrh Investments Limited

Director – Incitec Pivot Limited

Reserve Bank Board Committee membership

Member – Audit Committee

John Fraser

BEc (Hons) (Monash)

Ex Officio Member

Secretary to the Treasury

Member since 15 January 2015

John Fraser was appointed Secretary to the Treasury in 2015. He was Chairman and CEO of UBS Global Asset Management from late 2001 to 2013, based in London. During this time, he was also a member of the UBS Group Executive Board and Chairman of UBS Saudi Arabia. In 2014, Mr Fraser remained as Chairman of UBS Global Asset Management, Chairman of UBS Saudi Arabia and Chairman of UBS Grocon Real Estate. Prior to joining UBS and its predecessor organisations in 1993, he served for over 20 years with the Australian Treasury, including as Deputy Secretary (Economic) from 1990 and postings at the International Monetary Fund and as Minister (Economic) at the Australian Embassy in Washington, DC. He was Chairman of Victorian Funds Management Corporation from 2009 to early 2015. In 2013, Mr Fraser was awarded an honorary Doctor of Laws by Monash University, Melbourne.

Other Roles

Chair – Advisory Board of the Australian Office of Financial Management

Chair – Global Infrastructure Hub

Ex Officio Member – Board of Taxation

Member – Council of Financial Regulators

Member – Sir Roland Wilson Foundation

Member – Trans-Tasman Council on Banking Supervision

Ian Harper

BEc (Hons) (Queensland), MEc, PhD (ANU)

Non-executive Member

Member since 31 July 2016
Present term ends 30 July 2021

Ian Harper has extensive experience in public policy development, academia and economic consulting. Professor Harper chaired the Competition Policy Review (Harper Review), served as a member of the Financial System Inquiry (the Wallis Inquiry), and was the inaugural Chairman of the Australian Fair Pay Commission. He spent two decades as a Professor at the University of Melbourne – first as the NAB Professor of Monetary and Financial Economics (1988–92), then as the Ian Potter Professor of International Finance (1992–2002) and the Sidney Myer Professor of Commerce & Business Administration (2002–08) at Melbourne Business School. He spent eight years as a full-time economic consultant – first as a director of Access Economics Pty Ltd (2008–11) and then as a partner of Deloitte Touche Tohmatsu (2011–16).

Directorships/Other Roles

Senior Advisor – Deloitte Access Economics Pty Ltd

Director – Ridley College Limited

Reserve Bank Board Committee membership

Member – Remuneration Committee

Allan Moss AO
BA, LLB (Hons) (Sydney), MBA (Harvard)

Non-executive Member

Member since 2 December 2015
Present term ends 1 December 2020

Allan Moss has extensive experience in financial markets. He held various positions at Macquarie Bank before becoming Managing Director and Chief Executive Officer of Macquarie Bank Limited and subsequently Macquarie Group Limited from 1993 to 2008. Prior to this, Mr Moss was a director of Hill Samuel Australia and led the team responsible for preparing the submission to the Australian Government to form Macquarie Bank in 1983.

Directorships

Principal – Allan Moss Investments Pty Ltd

Adviser – Anchorage Capital Partners

Advisory Board Member – Eight Investment Partners Pty Ltd

Advisory Board Member – Evans and Partners

Reserve Bank Board Committee membership

Member – Remuneration Committee

Heather Ridout AO
BEc (Hons) (Sydney)

Non-executive Member

Member since 14 February 2012
Present term ends 13 February 2017

Heather Ridout has a strong understanding of public policy and the manufacturing sector, having previously been Chief Executive of the Australian Industry Group. Her previous appointments include key national policy-setting and consultative groups, including as a member of the Henry Tax Review panel, board member of Infrastructure Australia, member of the Prime Minister's Taskforce on Manufacturing and member of the Australian Workforce and Productivity Agency. Ms Ridout is a member of Chief Executive Women.

Directorships

Chair – AustralianSuper Pty Ltd

Director – Australian Chamber Orchestra

Director – Australian Securities Exchange Limited

Director – Image Networks Holdings Pty Ltd

Director – Note Printing Australia Limited

Director – Sims Metal Management Limited

Catherine Tanna

LLB (Queensland)

Non-executive Member

Member since 30 March 2011
Present term ends 29 March 2021

Catherine Tanna has extensive experience in the resources sector with BG Group, Royal Dutch Shell and BHP Billiton. She held senior executive roles with responsibility for liquefied natural gas, gas transmission and power-generation businesses across Africa, North Asia, Russia, North America, Latin America and Australia. From April 2012 to the end of June 2014, Ms Tanna was Chairman of BG Australia. She is a member of Chief Executive Women.

Executive Role

Managing Director – EnergyAustralia

Directorships

Board Member – Business Council of Australia

Reserve Bank Board Committee membership

Chair – Remuneration Committee

Retirements from the Board

Roger Corbett AO retired from the Board on 1 December 2015.

John Edwards retired from the Board on 30 July 2016.

Roger Corbett AO
BCom (UNSW)

Non-executive Member

Member since 2 December 2005
Term ended 1 December 2015

Roger Corbett has had extensive experience in the retailing industry, both within Australia and overseas. He served as the CEO of Woolworths Limited (1999–2006) and has held numerous board positions. Mr Corbett is a Fellow of the Australian Institute of Management and the Risk Management Institution of Australasia.

Directorships (as at 1 December 2015)

Chairman – Mayne Pharma Group Limited

Director – Wal-Mart Stores Inc

Advisor to the Board – Woolworths Limited

Reserve Bank Board Committee membership

Chair – Remuneration Committee

Member – Audit Committee

Resolution Passed by the Reserve Bank Board – 1 December 2015

Members noted that this was the final meeting for Roger Corbett, who had served two terms on the Board, spanning a period of 10 years, with great professionalism and dedication. The Governor paid tribute to his contribution to the deliberations of the Board, both on monetary policy and other matters. The Governor noted the important role Mr Corbett had played in strengthening the Bank's broader governance framework, in particular in relation to internal and external audit, drawing on his extensive business experience. Mr Corbett had been an active member of the Audit Committee for six and a half years and had also chaired the Remuneration Committee over most of the past five years. Members thanked him for his service to the Bank and the nation and wished him well in the future.

John Edwards

BA (Sydney), MPhil, PhD (George Washington)

Non-executive Member

Member since 31 July 2011
Term ended 30 July 2016

John Edwards has had extensive business, academic and professional economic experience. He was Chief Economist for Australia and New Zealand for HSBC Bank for over a decade prior to taking the appointment of Executive Director of Economic Planning and Development for the Bahrain Economic Development Board (2009–11).

Other Roles (as at 30 July 2016)

Adjunct Professor – John Curtin Institute of Public Policy, Curtin Business School, Curtin University

Visiting Fellow – Lowy Institute for International Policy

Director – Committee for Economic Development of Australia

Reserve Bank Board Committee membership

Member – Remuneration Committee

Resolution Passed by the Reserve Bank Board – 5 July 2016

Members noted that this was the final meeting for John Edwards, who had served on the Board over the past five years with great professionalism and dedication. The Governor paid tribute to Dr Edwards' contribution to the deliberations of the Board across the range of its responsibilities, as well as to his constructive approach. The Governor noted the perspectives brought to the discussions by the quality of Dr Edwards' original insights and balanced judgement, based on his experience over many years as a professional economist both in and outside government. Dr Edwards had also been an active member of the Remuneration Committee over the past three years. Members thanked him for his service to the Bank and the nation and wished him well in the future.

Accountability and Communication

The Reserve Bank is an independent central bank, accountable to the Parliament of Australia for its actions. The Bank is required by legislation to consult with, and report to, the Australian Government. The Bank seeks to enhance the community's understanding of its responsibilities, policies and actions through a broad communication program.

Relationship with Government

The Reserve Bank is a body corporate distinct from the Commonwealth of Australia. This body corporate, established under the *Commonwealth Bank Act 1911* and continued in existence under the *Commonwealth Bank Act 1945*, was preserved and continued in existence with the name Reserve Bank of Australia under the *Reserve Bank Act 1959*. The Governor, Deputy Governor and members of the Reserve Bank Board are appointed by the Treasurer. The Board is afforded substantial operational independence under the Reserve Bank Act to determine and implement the policies of the Bank, as will best contribute to the objectives set out in the Act. *The Statement on the Conduct of Monetary Policy*, as updated from time to time, has recorded the common understanding of the Governor, as Chair of the Reserve Bank Board, and the government on key aspects of Australia's monetary and central banking policy framework since 1996. *The Statement on the Conduct of Monetary Policy*, which seeks to foster a sound understanding of the nature of the relationship between the Reserve Bank and the government, records that the government recognises and continues to respect the Reserve Bank's operational independence.

The Reserve Bank's operational independence is accompanied by an obligation to inform the government of its monetary and banking policy 'from time to time'. This obligation is discharged mainly by regular contact between the Governor and the Treasurer, who is the Bank's responsible Minister (at the date of signing, The Hon Scott Morrison MP, who succeeded The Hon Joe Hockey on 21 September 2015), usually by way of a discussion following Board meetings. The Reserve Bank Act sets out a clear process for managing differences of opinion between the Board and the government on policy matters.

Reporting Obligations

The Reserve Bank is a corporate Commonwealth entity under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), of which the Governor is the 'accountable authority'. Under section 46 of the PGPA Act, the Governor is responsible for the preparation of this annual report and for giving it to the Treasurer for presentation to parliament, following approval by the Reserve Bank Board of the Bank's annual financial statements. That approval was given by the Board at its meeting on 2 August 2016.

Assistant Governor (Economic) Christopher Kent (left), Governor Glenn Stevens (centre) and Deputy Governor Philip Lowe (right), at a regular hearing of the House of Representatives Standing Committee on Economics, February 2016

The House of Representatives Economics Committee has, in its Standing Orders, an obligation to review the annual report of the Reserve Bank and the annual report of the Payments System Board. The committee holds twice-yearly public hearings, at which the Bank presents its views on the economy and financial markets and other matters pertaining to the Bank's operations, and responds to questions from committee members. In 2015/16, the Governor and senior Bank officers attended hearings of this committee for this purpose in September 2015 in Canberra and in February 2016 in Sydney. The committee issued its reports on these hearings on 23 November 2015, *Review of the Reserve Bank of Australia Annual Report 2014* (Second Report), which covered the September 2015 hearing, and on 13 April 2016, *Review of the Reserve Bank of Australia Annual Report 2015* (First Report), which covered the February 2016 hearing.

The regular twice-yearly appearances before the House of Representatives Economics Committee and the quarterly *Statement on Monetary Policy* (see below) are important elements of the arrangements embodied in the understanding between the Governor and the Treasurer (outlined in the sixth *Statement on the Conduct of Monetary Policy*, which was issued in October 2013).

In addition to these appearances, the Reserve Bank made two public submissions to parliamentary inquiries during the year:

- in July 2016, an opening statement, in support of the June 2015 submission to the Inquiry into Home Ownership, at a hearing of the House of Representatives Standing

Committee on Economics Inquiry into Home Ownership

- in August 2015, to the Senate Economics References Committee Inquiry into Matters relating to Credit Card Interest Rates.

In 2015/16, no report on the Reserve Bank was issued by the Commonwealth Ombudsman, the Office of the Australian Information Commissioner or the Auditor-General, apart from that dealing with the audit of the Bank's annual financial statements.

Communication

The Reserve Bank seeks to ensure a high degree of transparency about its activities, goals, decision-making processes and the basis of its policy decisions. Transparency facilitates the Bank's accountability, to accompany its operational independence. Importantly, it also increases the effectiveness of policy decisions by promoting a better understanding of those decisions across the wider community.

Minutes are released after each Reserve Bank Board meeting on monetary policy.

Deputy Governor Philip Lowe (centre) during the panel session at the third Australia-Hong Kong Renminbi Trade and Investment Dialogue, July 2015

Tasmanian Premier Will Hodgman (left) and Governor Glenn Stevens (right) following a meeting of the Reserve Bank Board in Hobart, April 2016

Announcements about monetary policy decisions are also made immediately after each Reserve Bank Board meeting, and announcements are made about Payments System Board decisions as required. In addition, since November 2015 the Bank has published a media release immediately following Payments System Board meetings outlining issues discussed at the meeting and foreshadowing any forthcoming documents to be released by the Bank.

Feedback from stakeholder consultation is an important input to decision-making by the Reserve Bank. The Bank's consultation activities range from formal consultation processes associated with particular policy or operational decisions to ongoing engagement with a wide variety of groups, as described in the chapter on 'Community Engagement'.

During the year in review, the Reserve Bank announced changes to the standards for card payment systems as determined by the Payments System Board. These changes were made on the basis of a wide-ranging review of card payments regulation, involving extensive consultation, conducted by the Bank following from some recommendations of the Financial System Inquiry. Further detail is provided in the 2016 *Payments System Board Annual Report*.

The Bank's broader communication program is outlined below.

Bank publications

The quarterly *Statement on Monetary Policy* provides information to the general public, financial markets and media about the Reserve Bank's views on monetary policy. It also provides a basis for the questioning of the Bank by the House of Representative Standing Committee on Economics. The *Statement* contains a detailed analysis of conditions in the economy and financial markets and describes the outlook for inflation and the economy more generally.

The *Financial Stability Review*, published semi-annually, provides a detailed assessment of the condition of Australia's financial system, along with analysis of financial system issues of special interest. In the year in review, these issues included discussion of Chinese demand for Australian property, developments in the financial system architecture, effects of low yields on life insurers and pension funds, and growth in banks' commercial property exposure. More generally, the *Review* reports on international regulatory developments and the Reserve Bank's involvement. In addition, the *Review* reports on domestic regulatory issues, including through the Bank's work with the Council of Financial Regulators (CFR), which is the coordinating body for Australia's main financial regulatory agencies.

The CFR is a non-statutory body whose role is to contribute to the efficiency and effectiveness of financial regulation and to promote stability of the Australian financial system. Its members – the Reserve Bank, Australian Prudential Regulation Authority (APRA), Australian Securities and Investments Commission (ASIC) and the Treasury – share information, discuss regulatory issues and, if the need arises, coordinate responses to potential threats to financial stability. The CFR also advises the Australian Government on Australia's financial regulatory arrangements.

Australia's financial stability policy framework includes mandates for financial stability for both APRA and the Reserve Bank. APRA is responsible for prudential supervision and the Bank is responsible for promoting overall financial system stability.

The Reserve Bank's quarterly *Bulletin* contains analysis of a broad range of economic and financial issues as well as aspects of the Bank's operations. During the year in review, *Bulletin* contained regular articles on the housing market, including changing trends and growth in apartment construction. Commodity prices and trends in emerging markets were examined, as was the Chinese economy, with articles on capital flows, trade data and demographic changes. In the lead-up to the issuance of the new $5 banknote, articles looked at the life of Australian banknotes and the Bank's stakeholder engagement activities. Articles also covered developments in banks' funding costs and banking fees, and developments in the labour market.

Speeches

During 2015/16, the Governor, Deputy Governor and other senior officers gave 54 public speeches on various topics. Questions were taken after almost all speeches. Senior staff also participated in a number of public panel discussions. In addition to explaining current economic and financial conditions, speeches addressed the economic transition in China, developments in the foreign exchange markets and the development of a global code of conduct for the foreign exchange markets. There were also speeches on the evolution of the Australian payments system and continued analysis of the transition from the resources 'boom'. Audio files of these speeches, the associated question and answer sessions and panel discussions were published on the Reserve Bank's website to improve accountability and communication.

The Governor, Deputy Governor and senior executives gave 54 speeches

Photo: UWA Business School/Matthew Galligan

(Left) Governor Glenn Stevens at the Australian Business Economists Annual Dinner, November 2015; (right) Deputy Governor Philip Lowe speaking at the Shann Memorial Lecture at the UWA Business School, August 2015

Research

The Reserve Bank disseminates the results of longer-term research conducted by staff in the form of Research Discussion Papers (RDPs). The purpose of the RDP series is to encourage discussion and comment on policy-relevant issues. The views expressed in RDPs are those of the authors and do not necessarily represent those of the Bank. During 2015/16, 13 RDPs were published on a range of topics in the Bank's areas of interest, including housing wealth effects, measuring economic uncertainty and its effects, changes in the terms of trade and inflation expectations. Reserve Bank staff also published their research in various external journals, including the *International Journal of Central Banking*, *The Australian Economic Review*, the *Australian Journal of Labour Economics*, the *Journal of Financial Stability*, the *Journal of Housing Economics*, *The Economic Journal* and *Oxford Economic Papers*.

Research undertaken at the Reserve Bank is frequently presented at external conferences and seminars. In 2015/16, Bank staff presented at a number of conferences and institutions in Australia and overseas, including in the Chinese cities of Shenzhen and Xiamen.

During 2015/16, 13 Research Discussion Papers were published

(Image top) Assistant Governor (Financial Markets) Guy Debelle at the fourth Australian Regulatory Summit, June 2016; (Image above) Alexandra Heath (Head of Economic Analysis Department) speaking at CEDA's NSW Energy Series 2016

The Reserve Bank hosts regular conferences, which foster interaction between academics, central bankers and other economic practitioners on topical policy issues. The Bank's annual conference for 2016 was held in March and focused on structural change in China and the implications for Australia. A volume containing the conference papers and discussions will be published in the second half of 2016. The next annual conference is scheduled for March 2017.

The Reserve Bank also hosted visits in 2015/16 from a number of policymakers from domestic and overseas institutions, including the Bank for International Settlements, Federal Reserve Bank of New York, People's Bank of China

The number of followers on Twitter has grown to around 31 000

The Web Team was responsible for the upgrade of the Reserve Bank website (back, from left) Ivan Jimenez, Sally Lloyd, Marat Yeshtukov, Belinda Chung, Bhuvnesh Chaudhry (Manager), Jens Korff, Oscar Cao (front, from left) Matt Bretag, Raj Kannori and Karthik Poobalu, January 2016

and Reserve Bank of New Zealand, as well as academics from a range of institutions, including Bruegel, Colombia University, Harvard University, Hitotsubashi University, Nuffield College, University of Michigan and University of Tokyo. During their visits, these visitors presented seminars, taught short courses and participated in research activities at the Bank.

Online communication

The Reserve Bank publishes information in both electronic and hard-copy formats, though most access to information is now online. The Bank's website is heavily visited, with over 96 million page views and downloads during 2015/16, and large spikes in visitation at the time of release of market-related information. The number of followers on Twitter has grown to around 31 000, while the number of subscribers to the website's conventional email alert service has continued to fall (to less than 10 500 at the end of June 2016). Visitors to the website also made use of the RSS feeds, which allowed them to receive alerts about updates to selected data, media

The Bank's **website** is heavily visited, with over **96 million** page views and downloads

releases, speeches, research papers and other documents (including those related to Freedom of Information requests).

Efforts to assist with public understanding of the Reserve Bank's role included the publication of videos on the Bank's main website and its YouTube channel. These videos address each of the Bank's roles and functions, along with activities related to the upcoming new banknote series, the Bank's Museum and recruitment.

In December 2015, a substantial upgrade of the Reserve Bank's main website was released. Apart from a more contemporary presentation and better navigation, a key feature of the upgraded website was its responsive functionality, in which the content is automatically resized for different mobile devices. The Banknotes microsite (www.banknotes.rba.gov.au), which focuses on explaining the design, production and security features of Australia's banknotes, was further developed as an education resource during the year in review to provide information to the public and key stakeholders about the new banknote series. (More detail is provided in the chapter on 'Banknotes'.) In July 2016, the Banknotes microsite was also made responsive for ease of access to the content on a range of mobile devices.

Operational Structure

The Reserve Bank has the following operational structure: Business Services Group, Corporate Services Group, Economic Group, Financial Markets Group, Financial System Group and five supporting departments.

The Reserve Bank is organised along the following operational lines, under the leadership of the Governor, Glenn Stevens*, and Deputy Governor, Philip Lowe*†.

Business Services Group

Assistant Governor: Michele Bullock*†

Business Services Group comprises Banking Department, Note Issue Department and Payments Settlements Department. The Assistant Governor (Business Services) became responsible for executive-level oversight of the Reserve Bank's activities in relation to banking, banknotes and payments settlements in late 2015. Prior to that, since the late 2000s, separate Assistant Governors had been responsible for the banknote activities and for the banking and payments settlements activities.

The Assistant Governor (Business Services) is Chair of Note Printing Australia Limited (NPA), a separately incorporated, wholly owned subsidiary of the Reserve Bank. It is responsible for printing banknotes, passports and other security documents for Australia and for export. More detail on NPA's governance and structure is provided below.

Banking Department

Head: Lindsay Boulton

Deputy Heads: Stephanie Connors, Paul Phibbs

Banking Department provides a range of banking services to Australian Government departments and agencies as well as a number of overseas central banks and official institutions. The services broadly comprise two activities – management of the government's core accounts and transactional banking. Sydney-based staff are responsible for the direction, administration and development of the department's work, while the day-to-day interaction with customers is largely managed by staff in the Canberra Branch.

Note Issue Department

Head: Michael Andersen

Deputy Heads: Keith Drayton, James Holloway

Note Issue Department is responsible for research into and development of new banknote designs and security features, and the supply of high-quality banknotes to meet the community's demand. The department manages laboratories to assess new and used banknotes, develop new security features and assess counterfeits detected in circulation. It has an extensive public engagement program with commercial banks, retailers, cash-in-transit companies, law enforcement agencies and banknote equipment manufacturers. Staff actively participate in a number of international groups with the objective of minimising the threat posed by counterfeiters.

Payments Settlements Department

Head: Greg Johnston

Deputy Heads: David Brown, Peter Gallagher

Payments Settlements Department is responsible for the settlement of high-value payments and interbank obligations arising from the conduct of Exchange Settlement Accounts and the Reserve Bank's own trading activities, as well as operation of the Reserve Bank Information and Transfer System (RITS), Australia's real-time gross settlement system. Services are also provided for the clearing and settlement of low-value payments, such as those arising from cheque and direct entry transactions.

Corporate Services Group

Assistant Governor: Frank Campbell*†

Corporate Services Group comprises three departments, which provide services to other parts of the Reserve Bank.

Facilities Management Department

Head: Grant Baldwin

Deputy Head: Matt Nolan

Facilities Management Department is responsible for the Reserve Bank's properties, security management and a range of facility services.

Finance Department

Chief Financial Officer: Robert Middleton-Jones†

Financial Controller: Colleen Andersen

Chief Manager, Superannuation Fund: Michael Davies

Finance Department prepares the Reserve Bank's financial and management accounts and is responsible for a range of staff services, including payroll, superannuation and travel. Finance also manages the Bank's Enterprise Portfolio Management Office.

Information Technology Department

Chief Information Officer: Sarv Girn†

Deputy Head, Infrastructure and Operations: Peter Speranza

Deputy Head, Technology Services: Gayan Benedict

Information Technology Department is responsible for developing and maintaining the information technology functions that support the Reserve Bank's policy, operational and corporate objectives.

Economic Group

Assistant Governor: Christopher Kent*

Economic Group is responsible for analysis of economic trends, both domestic and overseas, forecasting and research relevant to the framing of monetary policy. It consists of Economic Analysis Department and Economic Research Department.

Economic Analysis Department

Head: Alexandra Heath

Deputy Heads: Lynne Cockerell, Merylin Coombs, Michael Plumb

Economic Analysis Department monitors and forecasts trends in the international and domestic economies, provides regular advice on these developments and monetary policy to the Governors and the Reserve Bank Board, contributes to various external bodies, maintains contacts with relevant external analysts, undertakes applied research and prepares reports for publication.

The Reserve Bank maintains four State Offices, to conduct economic liaison in Queensland, South Australia and the Northern Territory, Victoria and Tasmania, and Western Australia. New South Wales and the Australian Capital Territory are covered by Head Office. These offices analyse economic conditions in regions throughout

Australia and conduct liaison with individual firms and agencies in both the private and public sectors. They also provide a vehicle for communicating the operation of monetary policy to the wider community and for improving access to the Reserve Bank.

The Reserve Bank has an office in Beijing, China, which is responsible for monitoring Chinese economic and financial developments as well as maintaining relationships with government and private entities in China.

Economic Research Department

Head: John Simon

Deputy Head: Adam Cagliarini

Economic Research Department undertakes longer-term research into issues relevant to the Reserve Bank's responsibilities, including research on the Australian economy, monetary policy, financial stability, the payments system and the operation of financial markets. Results of this research are published in the Research Discussion Paper series. The department organises a major annual conference and an annual Research Workshop. In addition, it organises a program of internal seminars, hosts a number of invited visitors each year and is responsible for administering a comprehensive library service for the Bank.

Financial Markets Group

Assistant Governor: Guy Debelle*†

Financial Markets Group is responsible for implementing the Reserve Bank's operations in domestic and foreign exchange markets, monitoring developments in financial markets and coordinating the Bank's relationships with international institutions. The group consists of Domestic Markets Department and International Department.

Domestic Markets Department

Head: Chris Aylmer

Deputy Head: Ellis Connolly

Domestic Markets Department is responsible for the Reserve Bank's operations in the domestic money and bond markets. The department analyses developments in domestic financial markets, including the cost and availability of finance through financial intermediaries and capital markets, and provides regular advice to the Governors and the Reserve Bank Board on these issues.

International Department

Head: Chris Ryan

Deputy Heads: Matthew Boge, Marion Kohler

International Department is responsible for the Reserve Bank's foreign exchange operations, the investment of international reserve holdings of gold and foreign exchange, and the provision of regular advice on developments in international financial markets to the Governors and the Reserve Bank Board. The department is also responsible for maintaining the Bank's relations with major international institutions.

The Representative Offices in London and New York come under the umbrella of the Financial Markets Group. The European Representative Office in London maintains liaison with central banks and other institutions and authorities in Europe, including the Bank for International Settlements and the Organisation for Economic Co-operation and Development. The New York Representative Office performs similar functions in North America. Both of these offices monitor economic and financial developments in the local markets, and are responsible for foreign exchange operations and investment of international reserves.

The Reserve Bank's investment and trading operations are supported by the Business Support Services area.

Financial System Group

Assistant Governor: Malcolm Edey*

Financial System Group supports the Reserve Bank's role in payments system regulation and its broad responsibilities for financial system stability. The group consists of Financial Stability Department and Payments Policy Department.

Financial Stability Department

Head: Luci Ellis

Deputy Heads: David Orsmond, Carl Schwartz

Financial Stability Department analyses the implications for financial system stability of developments in the macroeconomy, financial markets and the financial sector more generally, including areas such as patterns of financial intermediation, financial products and risk management techniques. The department provides advice on these issues to the Governors and the Reserve Bank Board and supports the Bank's representation on bodies such as the Council of Financial Regulators, the Financial Stability Board and the Basel Committee on Banking Supervision. It is responsible for producing the Bank's semi-annual *Financial Stability Review*.

Payments Policy Department

Head: Tony Richards

Deputy Heads: Darren Flood, Sarah Harris

Payments Policy Department is responsible for developing and implementing the Reserve Bank's payments system policy. It provides analysis and advice to the Payments System Board on improving the safety and efficiency of the payments system. The department is also responsible for oversight of Australia's clearing and settlement facilities and represents the Bank on the Committee on Payments and Market Infrastructures of the Bank for International Settlements.

Audit Department

Head: Darryl Ross†‡

Audit Department is responsible for conducting independent appraisals of the Reserve Bank's activities, functions and operations to ensure that an adequate framework of internal control has been established and is operating effectively. The Head of Audit Department reports to the Deputy Governor and the Chair of the Reserve Bank Board Audit Committee.

Human Resources Department

Head: Melissa Hope*†

Deputy Head: Bruce Harries

Human Resources Department provides a range of people-related services to support the Reserve Bank in maintaining a productive and engaged workforce. This includes sourcing high-quality staff as well as implementing policies and programs that cover employment conditions, reward, development, diversity and workplace health and safety.

Information Department

Head: Jacqui Dwyer†‡

Information Department is responsible for the Reserve Bank's records management system, information governance, the archives and facilitating public access to Bank records. It also manages the Reserve Bank of Australia Museum and a program of public education.

Risk and Compliance Department

Head: Michelle McPhee†‡

Risk and Compliance Department supports the consistent and effective application of the Reserve Bank's framework for managing risk, both at the enterprise level and for individual business units across the Bank. It assists departments to identify, understand and manage their compliance obligations. It also monitors and reports on portfolio risks and compliance with respect to the Bank's operations in financial markets. The Head of Risk and Compliance Department reports to the Deputy Governor and the Risk Management Committee. The department is responsible for secretariat services for the Risk Management Committee.

Secretary's Department

Secretary: Anthony Dickman*

Deputy Secretary: Andrea Brischetto

General Counsel: Catherine Parr†‡

Deputy General Counsel: Peter Jones

As a custodian of governance in the Reserve Bank, Secretary's Department provides secretariat and coordination services for the Governors, the Reserve Bank Board and its Audit and Remuneration Committees, the Payments System Board and the Executive Committee. Secretary's Department is responsible for preparing and publishing Reserve Bank information and maintaining the Bank's websites. The department handles enquiries from the public and media. In addition, it provides legal services to the Bank through the General Counsel, who reports directly to the Deputy Governor, and coordinates a range of contacts with government, parliament and other central banks and international organisations, and arranges programs for visitors.

Wholly owned subsidiary: Note Printing Australia Limited (NPA)

NPA is a wholly owned subsidiary of the Reserve Bank that produces banknotes and operates the National Note Processing and Distribution Centre (NNPDC) on behalf of the Bank. NPA operates under a charter reviewed and approved annually by the Reserve Bank Board.

Specifically, NPA's prime function is the efficient and cost-effective production of high-quality and secure Australian banknotes, in accordance with the specifications and requirements of the Reserve Bank. The charter also permits NPA to undertake other activities, including developing and producing passports for the Department of Foreign Affairs and Trade, producing banknotes for other issuing authorities and producing some other security products. In 2015/16, these activities included the production of banknotes for Brunei and Singapore. In each case, NPA dealt directly with the relevant central bank.

NPA is governed by a Board of Directors appointed by the Reserve Bank. As at 30 June 2016, the Board comprised three Reserve Bank executives, one former Reserve Bank executive and a member of the Reserve Bank Board: Michele Bullock, Assistant Governor (Business Services) as Chair; Keith Hall, former Assistant Governor (Banking and Payments); Lindsay Boulton, Head of Banking Department; Michelle McPhee, Head of Risk and Compliance Department; and Heather Ridout AO, a member of the Reserve Bank Board. The NPA Board has an Audit and Risk Committee, whose membership comprises Lindsay Boulton (Chair), Michelle McPhee and an external member, Alan Beckett, a company director and former senior audit partner of a major accounting firm with extensive experience in the corporate sector, including manufacturing.

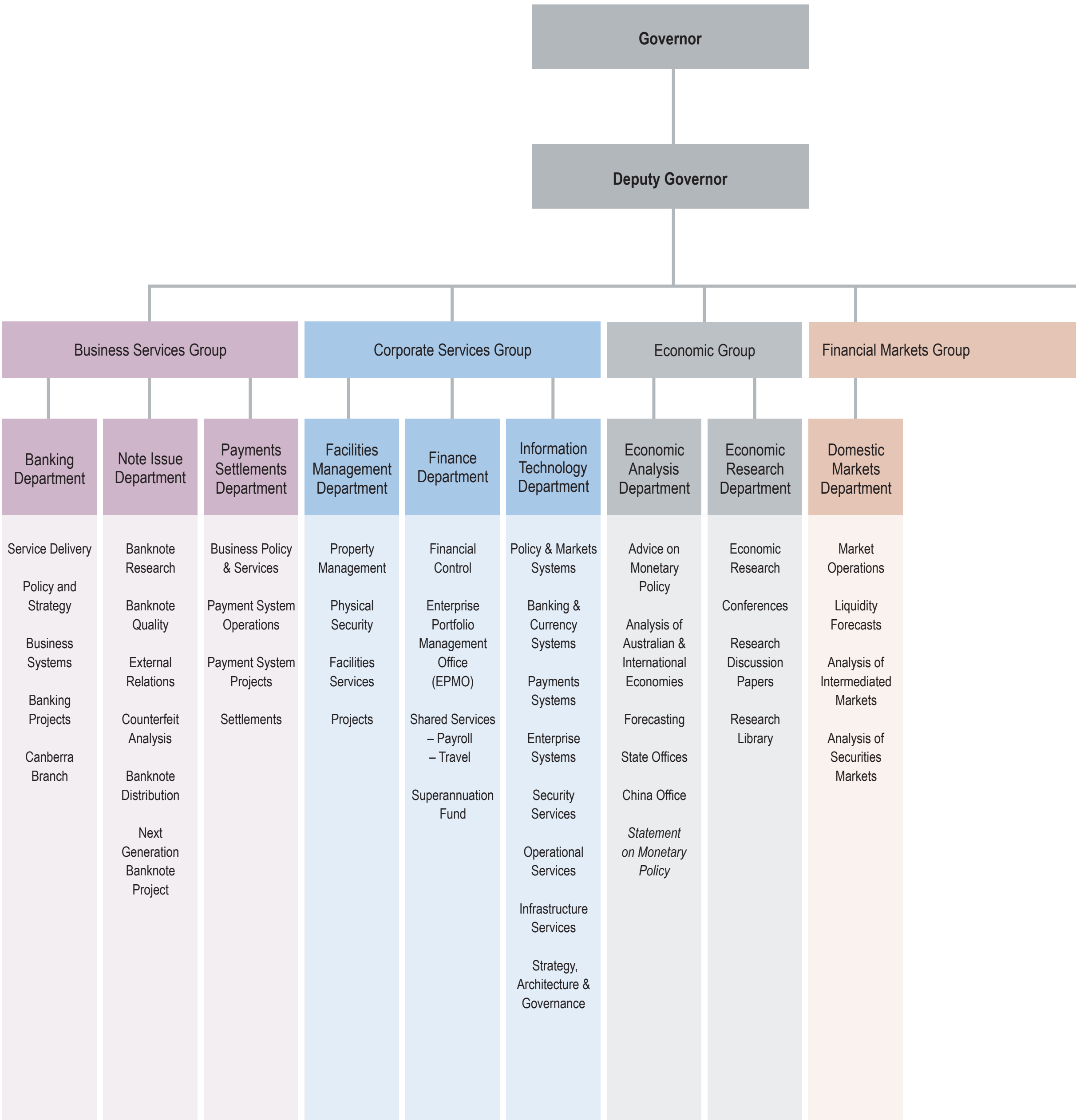
NPA's Executive Committee, comprising its Chief Executive Officer and the heads of NPA's eight business areas, is responsible for the operational and administrative management of NPA. As at the end of June 2016, NPA employed 244 permanent staff.

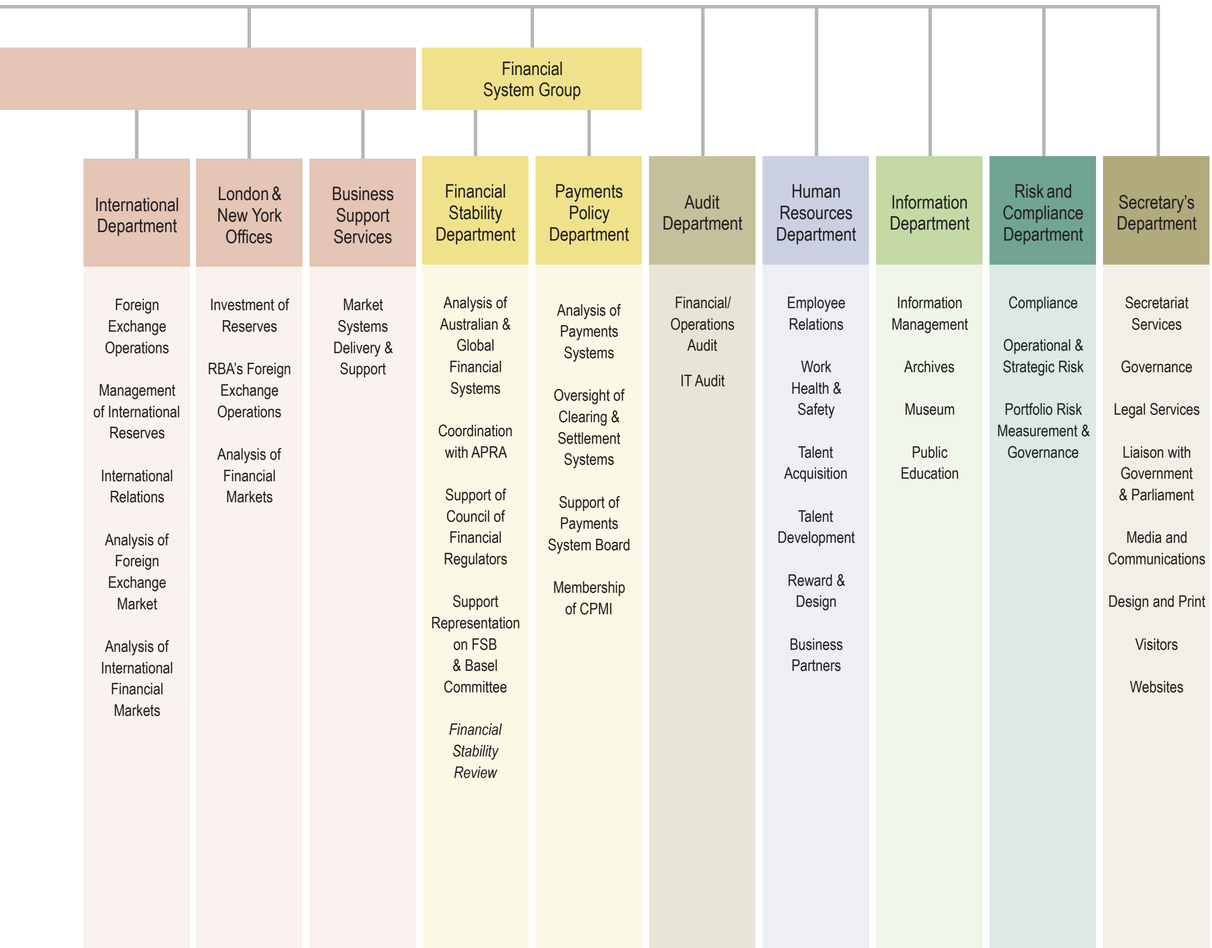
The financial accounts of NPA are consolidated with those of the Reserve Bank.

* Member of Executive Committee
† Member of Risk Management Committee
‡ Advisor to Executive Committee

Operational Structure

August 2016





Financial System Group
International Department
Foreign Exchange Operations
Management of International Reserves
International Relations
Analysis of Foreign Exchange Market
Analysis of International Financial Markets
London & New York Offices
Investment of Reserves
RBA's Foreign Exchange Operations
Analysis of Financial Markets
Business Support Services
Market Systems Delivery & Support
Financial Stability Department
Analysis of Australian & Global Financial Systems
Coordination with APRA
Support of Council of Financial Regulators
Support Representation on FSB & Basel Committee
Financial Stability Review
Payments Policy Department
Analysis of Payments Systems
Oversight of Clearing & Settlement Systems
Support of Payments System Board
Membership of CPMI
Audit Department
Financial/ Operations Audit
IT Audit
Human Resources Department
Employee Relations
Work Health & Safety
Talent Acquisition
Talent Development
Reward & Design
Business Partners
Information Department
Information Management
Archives
Museum
Public Education
Risk and Compliance Department
Compliance
Operational & Strategic Risk
Portfolio Risk Measurement & Governance
Secretary's Department
Secretariat Services
Governance
Legal Services
Liaison with Government & Parliament
Media and Communications
Design and Print
Visitors
Websites

Part 2:

Our Operations in 2015/16

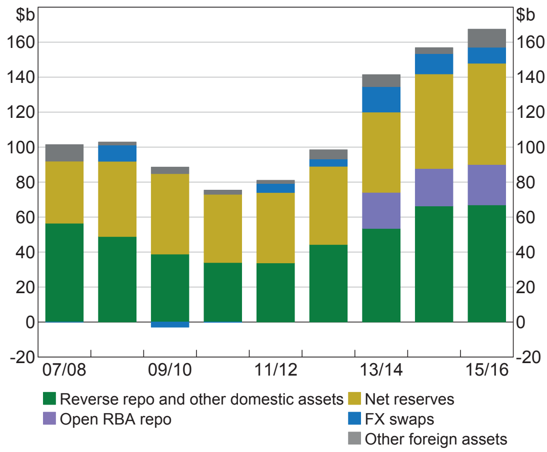
Operations in Financial Markets

The Reserve Bank transacts in domestic and international financial markets in order to meet the Bank's policy objectives. These transactions include implementing the monetary policy decisions of the Reserve Bank Board, facilitating the smooth functioning of the payments system, managing the nation's foreign reserve assets and providing banking services to clients (mainly the Australian Government and its agencies and foreign central banks).

Balance Sheet

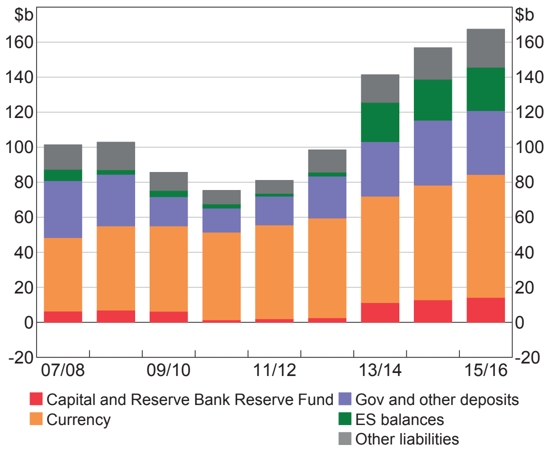
The Reserve Bank's balance sheet was around $167 billion as at 30 June 2016, an increase of around $10 billion over the financial year. On the liabilities side, the increase mainly reflected a $5 billion increase in issuance of banknotes. The increase in liabilities was accommodated on the assets side of the balance sheet by an increase in net foreign exchange reserves, primarily owing to valuation effects from the depreciation of the Australian dollar.

Reserve Bank Assets



Source: RBA

Reserve Bank Liabilities



Source: RBA

The Reserve Bank's balance sheet increased by around $10 billion to be $167 billion at 30 June 2016

Domestic Market Operations

Management of system liquidity

The Reserve Bank Board's operational target for monetary policy is the cash rate – the rate at which banks borrow and lend to each other on an overnight, unsecured basis. The Board adjusted the cash rate target once during 2015/16, from 2 per cent to 1.75 per cent in May 2016. The cash rate was reduced by a further 25 basis points to 1.5 per cent in August 2016. During 2015/16, the cash rate was equal to the Board's target on all days.

To implement the cash rate target, the Reserve Bank operates in financial markets each day to maintain an appropriate level of Exchange Settlement (ES) balances. These balances are used by around 90 financial institutions to settle their payment obligations – including transactions undertaken between each other on an overnight, unsecured basis – and are liabilities of the central bank. The level of ES balances is altered by transactions between customers of the Reserve Bank (principally the Australian Government) and ES Account (ESA) holders (mainly financial institutions). Separately, the Reserve Bank is able to affect the level of ES balances by buying or selling government securities on an outright basis, undertaking transactions in the repurchase agreement (repo) market or using foreign exchange swaps against the Australian dollar. These transactions are undertaken with a view to ensuring that the demand for ES balances is equal to the supply of ES balances at the cash rate target.

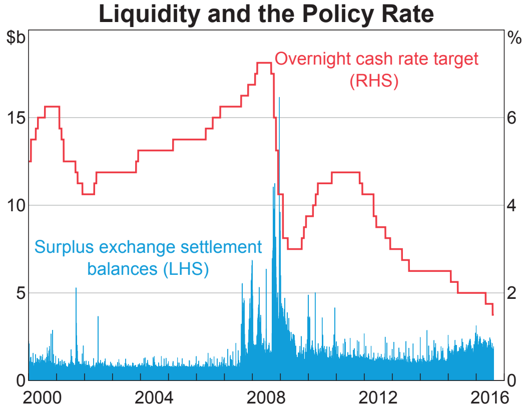
Most of the Reserve Bank's transactions occur as part of its main round of open market operations. The Bank publishes its dealing intentions for these operations each business day at 9.30 am. The dealing intentions typically include the total amount of the operation and the Bank's preferred terms for transacting repos. These terms are generally chosen with a view to smoothing the effect on ES balances of expected future transactions between clients of the Bank, such as the Australian Government, and ESA holders. The terms dealt in 2015/16 had an average of 40 days, with a maximum of 172 days. Entities wishing to participate in open market operations have a 15-minute window in which to submit their approaches for the auction that determines the liquidity injection. The results of the main round of open market operations are announced shortly after 9.45 am.

To ensure that unforeseen payments during the day do not adversely affect the implementation of monetary policy, the Reserve Bank has the option of undertaking additional rounds of market operations late in the afternoon. Every business day at 5.10 pm, the Bank announces its intention to deal (or not to deal) for a second time that day. Such additional dealing rounds averaged four per month during the past financial year, with around two-thirds of these operations intended to drain liquidity. In the event of unforeseen liquidity developments later than this, further additional rounds can be announced if the need arises, though no such operations were required in 2015/16.

Total ES balances in 2015/16 were typically around $24 billion. Around $22 billion of this was required to be maintained as contracted open repo positions to meet liquidity needs arising from payment obligations outside normal banking hours. These are remunerated at the cash rate target. In addition to these balances, ESA holders typically hold aggregate surplus balances of around $2 billion. As these surplus balances are remunerated at a level that is 25 basis points below the cash rate target, institutions operating ESAs typically aim to maintain their accounts with a small positive balance. Where an ESA holder faces a shortage in ES balances and funds cannot be borrowed from another financial institution, the Reserve Bank is willing to advance funds overnight against eligible securities at an interest rate 25 basis points above the cash rate target. This corridor system is designed to incentivise account holders to actively manage their liquidity position around the midpoint, which is the target cash rate. During 2015/16, ESA holders accessed overnight funding from the Bank on only one occasion.

Over the past couple of years, the level of surplus ES balances has increased from around $1 billion to around $2 billion, with large variations in daily balances. The increase has partly reflected

Liquidity and the Policy Rate



Source: RBA

Overnight Funding from the Reserve Bank Sought by ESA Holders[(a)]

	Number of occasions funding sought	Average value of funding provided $ million
2009/10	5	207
2010/11	2	182
2011/12	5	221
2012/13	2	94
2013/14	6	226
2014/15	3	142
2015/16	1	115

(a) Includes overnight repos and ESA balance shortfalls relative to open RBA repo positions

Source: RBA

an increase in demand from banks to hold ES balances to comply with the Liquidity Coverage Ratio (LCR), which was introduced in 2015 as part of the Basel III liquidity framework – balances held at a central bank by financial institutions are deemed to be high-quality liquid assets (HQLA). This demand has been quite variable, as has been the seasonal demand for surplus liquidity around the end of each calendar quarter. This variability in the demand for ES balances requires the Reserve Bank to adjust the quantity of ES balances it supplies in open market operations. The amount of ES balances provided by the Bank ensured that sufficient funds were available in the cash market for all institutions to meet their payment obligations and the cash market cleared at the Board's target on all days in 2015/16.

Administration of the cash rate

The Reserve Bank is the administrator of the cash rate, which is the operational target for monetary policy. The cash rate is also a significant financial benchmark referenced in overnight indexed swaps and the ASX's 30-day interbank futures contract. Prior to May 2016, the Bank received submissions each day from ESA holders on their gross unsecured borrowing and lending in the overnight interbank market. From May 2016, the Bank has calculated the cash rate directly

During 2015/16, the cash rate was equal to the Board's target on all days from market transactions, sourcing individual transaction data directly from the Reserve Bank Information and Transfer System (RITS). The new process involves the Bank accessing a considerably more detailed dataset, which includes the individual amounts and interest rates at which ESA holders transact in the cash market (back-testing verified that the two methodologies delivered the same outcome). Calculating the cash rate from individual transaction data makes the benchmark more robust and reduces the compliance burden for banks, since they no longer need to make submissions. Using the additional data available, the Bank has also commenced publishing the number of cash market transactions. From May 2016, there were around 30 cash market transactions each day, with aggregate daily activity in the cash market in 2015/16 averaging around $4.5 billion.

The Reserve Bank implemented the new cash rate methodology to better align its processes with the best practice standards set out by the International Organization of Securities Commissions (IOSCO) in its report on *Principles for Financial Benchmarks* (the IOSCO Principles).[1] The Bank published the Cash Rate Procedures Manual, which sets out in more detail the Bank's governance arrangements for administering the cash rate and the procedures for handling errors and complaints.[2] The Bank also published a self-assessment of the compliance of the new methodology with the IOSCO Principles.[3]

In conjunction with these changes, the Reserve Bank also commenced publishing a Cash Rate Total Return Index (TRI). The TRI measures the performance of an investment earning the cash rate and can be used by members of the public as a risk-free reference rate. This initiative followed consultation with market participants, and is consistent with a recommendation by the Financial Stability Board for the development of risk-free interest rate benchmarks, which are more a reflection of bank funding costs, as alternatives to existing benchmarks.[4]

Committed Liquidity Facility

Banks subject to the LCR under the Basel III liquidity standard are required to hold sufficient HQLA to meet outflows during a 30-day period of stress. Given the relatively low levels of government debt in Australia there is a shortage of HQLA securities, which are Australian Government Securities (AGS) and semi-government securities (semis). To address this, the Reserve Bank provides the Committed Liquidity Facility (CLF), which is a contractual commitment to funding under repo with the Reserve Bank, subject to certain conditions. These include that banks pay a fee of 15 basis points per annum on the amount committed and that any bank seeking to utilise the CLF must have positive net worth in the opinion of the Reserve Bank, having consulted with the Australian Prudential Regulation Authority (APRA). The banks are able to contract these repos using securities eligible in the Reserve Bank's domestic market operations. The full terms and conditions of the facility are available on the Bank's website.[5]

The Reserve Bank administers the CLF, while APRA determines which banks have access

1 See International Organization of Securities Commissions (2013), *Principles for Financial Benchmarks*, Final Report, July. Available at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD415.pdf>.

2 See <http://www.rba.gov.au/mkt-operations/resources/cash-rate-methodology/cash-rate-procedures-manual.html>.

3 See <http://www.rba.gov.au/mkt-operations/resources/cash-rate-methodology/compliance.html>.

4 See Financial Stability Board (2014), 'Reforming Major Interest Rate Benchmarks', July. Available at <http://www.financialstabilityboard.org/wp-content/uploads/r_140722.pdf>.

5 The CLF legal documentation is available at <http://www.rba.gov.au/mkt-operations/resources/tech-notes/pdf/clf-terms-and-conditions.pdf> and <http://www.rba.gov.au/mkt-operations/resources/tech-notes/clf-operational-notes.html>.

and the amount available. Over 2015/16, 13 banks were permitted to access the CLF. The aggregate size of the CLF is the difference between APRA's assessment of banks' overall LCR requirements and the Reserve Bank's assessment of the amount of HQLA securities that could reasonably be held by banks without unduly affecting market functioning. For 2016, APRA assessed banks' overall LCR requirements to be $440 billion and the Reserve Bank assessed the banks' reasonable holdings of HQLA securities to be $195 billion, such that the total size of the CLF was $245 billion. This was $30 billion lower than the total size of the CLF in 2015, reflecting a number of changes made by banks on the liabilities side of their balance sheets to reduce their net cash outflows, along with an increase in the stock of HQLA securities that banks could reasonably hold. For 2017, the Reserve Bank has assessed that banks' reasonable holdings of HQLA securities can rise to $220 billion.

Holdings of domestic assets

The size of the Reserve Bank's asset holdings is generally determined by changes in its liabilities.

Total size of the CLF was $245 billion

Over 2015/16, holdings of domestic assets increased by around $2 billion. The domestic assets are either purchased outright or held under repo.

Most of the Reserve Bank's transactions in the domestic market are contracted as repos as part of regular open market operations. A reverse repo involves an agreement to buy and then later sell securities; this is economically similar to a secured loan, with the difference between the purchase and sale prices representing the interest earned on the transaction. To protect against a decline in the value of the collateral securities should the Bank's counterparty not be able to meet its repurchase obligation, the Bank requires the value of the security to exceed the cash lent by a certain margin. These margins, which are listed on the Bank's website, are

Australian Dollar Securities Held under Repurchase Agreements[(a)]

	June 2014		June 2015		June 2016	
	$ billion	Per cent of total	$ billion	Per cent of total	$ billion	Per cent of total
AGS	17.6	25	21.3	28	29.2	33
Semis	15.5	22	9.8	13	6.7	8
Supranational	3.3	5	3.8	5	3.5	4
Government guaranteed	0.0	0	0.0	0	0.0	0
ADI issued	8.8	12	15.9	21	16.6	19
Asset-backed securities	25.1	35	25.3	33	31.7	36
Of which for open repo	24.3	34	24.1	32	27.2	31
Other	0.6	1	0.0	0	0.0	0
Total	70.9	100	76.2	100	87.7	100
Of which for open repo	25.2	36	25.6	34	29.3	33

(a) Market value of securities before the application of margins
Source: RBA

considerably higher for securities that are not issued by governments.[6]

The size of the Reserve Bank's repo book ranged between $40 billion and $60 billion over the past financial year. With the stock of repos outstanding in the whole domestic market around $120 billion, the Bank's operations are a significant portion of the market, particularly for repos for longer terms. Participants in the Bank's market operations tend to be the fixed-income trading desks of banks and securities firms seeking to finance their inventories of AGS and semis, as well as bank treasuries. Reflecting this, over half of the securities held by the Bank (excluding those under open repo) are government-related obligations, with the remainder being bank-issued debt securities and residential mortgage-backed securities (RMBS). The average residual maturity of reverse repos contracted via open market operations in 2015/16 remained around one month.

Securities that are eligible in the Reserve Bank's open market operations are also eligible for open repo positions. Open repos are provided under the Reserve Bank's standing facilities for banks that have to settle payment obligations outside normal business hours, such as 'direct-entry' payments. As at the end of June 2016, 15 banks had open repo positions with the Reserve Bank, representing around $23 billion. To collateralise these open repos, the Bank has permitted the use of certain related-party assets issued by bankruptcy remote vehicles, such as self-securitised RMBS. Around 90 per cent of the outstanding amount of open repos is backed by these self-securitised assets. Self-securitised RMBS used in open repos do not have directly observable market prices, as they are retained in full by the bankruptcy remote trusts of originating institutions and are therefore not traded. As a result, the Bank uses an externally reviewed internal valuation model for self-securitised RMBS based on observed market prices of similarly structured RMBS.

Asset-backed securities form a significant share of the collateral securities the Reserve Bank purchases under open repo and they would be the major asset – particularly self-securitised RMBS – provided as collateral for the CLF. Given this, the Bank introduced mandatory reporting requirements for securitisations to remain eligible for use in its operations, which took effect on 30 June 2015. In 2015/16, the Bank received around 3 250 monthly data submissions on around 300 asset-backed transactions from issuers or their appointed information providers. For eligible RMBS, this covers around two million underlying individual housing loans with a balance of around $400 billion, which is over a quarter of the total value of housing loans. The required data include key information on the structure of the RMBS and the relationships that counterparties have within the RMBS structure; the required data also include information on the residential mortgage loans and the underlying collateral backing the RMBS structure.

Reflecting the Reserve Bank's interest in promoting increased transparency for investors in asset-backed securities, issuers are also required to make the information available to investors and other permitted users. The data provided to these users are broadly similar to the data provided to the Bank; however, issuers may redact some particular fields where the information poses a potential risk to privacy and provide aggregated data instead.

The mandatory reporting requirements allow the Reserve Bank (and potentially other investors in RMBS) to undertake a richer analysis of

6 See <http://www.rba.gov.au/mkt-operations/resources/tech-notes/eligible-securities.html>.

underlying risks in asset-backed securities and to price and manage risk for such securities more accurately.[7]

Domestic securities purchased by the Reserve Bank are held for safe custody in an account that the Bank maintains in Austraclear, the securities depository of the Australian Securities Exchange (ASX). Securities transactions conducted between the Bank and its counterparties are settled in the Austraclear system, mostly on a bilateral basis. The Bank also settles repo transactions contracted in its open market operations within ASX Collateral, a collateral management service. During the past financial year, between 5 and 15 per cent of the total amount of securities the Bank purchased under repo was settled within ASX Collateral.

The Reserve Bank continues to operate a Securities Lending Facility on behalf of the Australian Office of Financial Management (AOFM). The securities available through the facility comprise all Treasury Bonds and Treasury Indexed Bonds currently on issue. The Bank sells these securities either for intraday or overnight repurchase agreements to RITS members eligible to participate in the Bank's domestic market operations.

In addition to the securities held under repo, the Reserve Bank holds a smaller amount of both AGS and semis on an outright basis in its domestic portfolio. These are used for the Bank's management of system liquidity and are also available to be sold as collateral for repos.

An important influence on the composition of the Reserve Bank's holdings of AGS is the management of the impact of large AGS maturities on system liquidity. This reflects the Bank's need to mitigate the liquidity impact of the large volume of funds that are paid out of the Australian Government's account at the Bank into ESAs (for the credit of the security holder) on the maturity date. In addition to using reverse repos and foreign exchange swaps – both contracted to unwind and therefore withdraw liquidity on the same day as the AGS maturity – the Bank makes purchases of AGS ahead of their maturity date. Reflecting these operations, the Bank's holdings of AGS are concentrated in those issues with a short term to maturity, with these holdings increasing ahead of their maturity date. On occasion, the securities may be sold to the AOFM ahead of their maturity date.

Over the course of 2015/16, the Reserve Bank offset the liquidity effects of two large AGS maturities – the $13.9 billion maturity of the October 2015 bond and the $21.9 billion maturity of the June 2016 bond. To do this, the Bank purchased $6.9 billion of the October 2015 bond and $11.6 billion of the June 2016 bond prior to their maturity. In preparation for the large AGS maturities scheduled for 2016/17, the Bank had purchased $9.3 billion of the February 2017 bond (all of which was sold back to the AOFM) and $2.5 billion of the July 2017 bond by the end of 2015/16. The Bank's outright holdings of AGS are published monthly on the Bank's website.[8]

At the end of the financial year, the Reserve Bank held around $2.5 billion of semis on an outright basis. These securities are generally purchased as part of the Bank's daily open market operations or separately through outright purchase operations. The latter, which are conducted over the Yieldbroker DEBTS trading platform, occurred four times in 2015/16.

7 Some preliminary analysis of the securitisations data was included in a speech by Guy Debelle, Assistant Governor (Financial Markets), in December 2015. See <http://www.rba.gov.au/speeches/2015/sp-ag-2015-12-16.html>.

8 See <http://www.rba.gov.au/mkt-operations/dom-mkt-oper.html>.

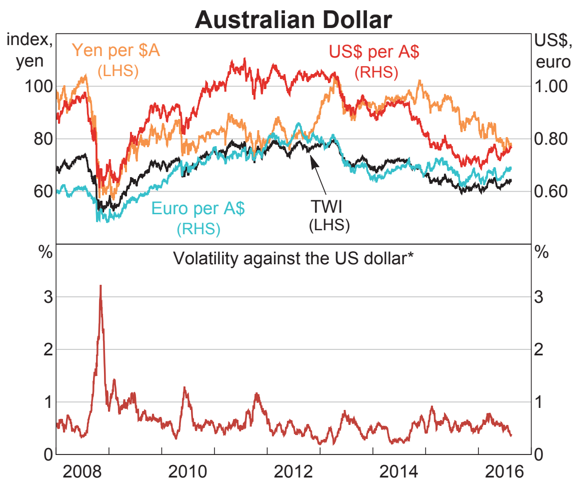
Foreign Exchange Operations

The Reserve Bank transacts in the foreign exchange market on almost all business days. The majority of these transactions are associated with providing foreign exchange services to its clients, the most significant of which is the Australian Government. During 2015/16, the Bank sold $10 billion of foreign currency to the government (not including sales related to International Monetary Fund (IMF) financing).

The Reserve Bank sources foreign currency for its customers through purchases in the spot market, only deviating from this strategy during periods where the market for Australian dollars is under significant strain. At those times, the Bank may use its existing stock of foreign currency reserves to fund its customer business, subsequently replenishing those reserves when market conditions have stabilised. Using foreign currency reserves in this manner has not been considered necessary since 2008, when global financial markets were significantly impaired. Similarly, the Bank has not 'intervened' in the foreign exchange market since 2008. Over the past year, the Bank's assessment was that trading conditions in the market were sufficiently orderly such that it was not necessary for the Bank to support liquidity in the market through its own transactions. The Bank nevertheless retains the discretion to intervene in the market for Australian dollars to address any apparent dysfunction and/or a significant misalignment in the value of the currency. Intervention data are published, with a lag, on the Bank's website.

The Reserve Bank also transacts in the foreign exchange market when managing its foreign currency reserves. As discussed below, the relative weightings of foreign currencies in the Bank's portfolio are managed against a benchmark. To maintain the portfolio at these benchmark weights, or to accommodate discrete changes in the weights, the Bank will transact in spot foreign exchange. The final settlement of these rebalancing flows may be deferred through the use of foreign exchange swaps, whereby one currency is exchanged for another, with a commitment to unwind the exchange at a subsequent date at an agreed (forward) rate. Swaps can also be an efficient way to manage the shorter-term investments included within the reserves portfolio. During 2015/16, swaps transacted for these purposes totalled around $83 billion.

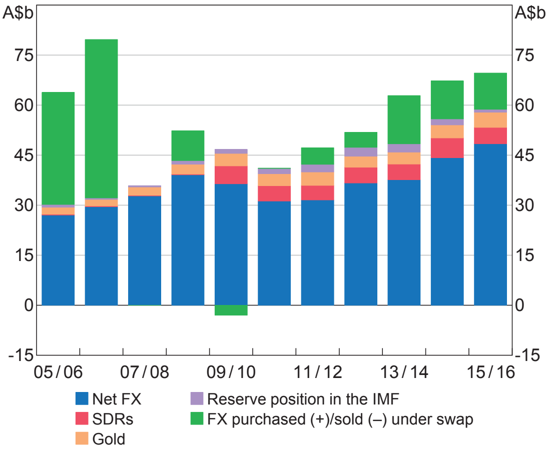
As mentioned above, the Reserve Bank also makes use of foreign exchange swaps in its domestic market operations. Swapping Australian dollars for foreign currencies does not affect the exchange rate, but alters the supply of ES balances in the same way as the Bank's repurchase transactions. As there is limited depth in the domestic repo market, the Bank is better able to manage the impact of large projected changes in ES balances (such as those associated with government bond maturities) by using swaps as a complement to repurchase transactions. In 2015/16, $81 billion of foreign exchange swaps were undertaken for domestic liquidity management.



* Daily absolute percentage change, 22-day rolling average

Sources: RBA; Thomson Reuters

Official Reserve Assets



Source: RBA

Foreign currency swaps executed by the Reserve Bank are generally for no more than three months' duration. The resulting forward foreign exchange positions with each of the Bank's counterparties are revalued daily and collateral is held against positions with net positive value. The terms under which collateral is exchanged are defined in two-way credit support annexes to the International Swaps and Derivatives Association (ISDA) Master Agreements, which the Bank has executed with each of its counterparties (see the chapter on 'Risk Management').

During the past year, the Reserve Bank applied for and was granted membership of the Chinese Interbank FX Market by the Chinese Foreign Exchange Trade System (CFETS). As a result, the Bank will be eligible to transact in the onshore market for Chinese renminbi with commercial counterparties. Previously, the Bank's foreign exchange transactions involving onshore renminbi were restricted to being with the People's Bank of China, the Chinese central bank.

Reserves Management

Australia's official reserve assets include foreign currency assets, gold, Special Drawing Rights (SDRs – a liability of the IMF) and Australia's reserve position in the IMF. Reserve assets are held primarily to facilitate the policy operations in the foreign exchange market described above. The Reserve Bank's capacity to undertake such operations is best measured by 'net' reserve assets, with the amount of foreign currency subject to forward commitments (such as foreign currency that the Bank has obtained from short-term swaps against Australian dollars) excluded. As at 30 June 2016, Australia's net reserve assets totalled $58.8 billion, an increase of $2.9 billion since 30 June 2015, which largely reflects valuation effects.

Australia's reserve position in the IMF is an asset of the Australian Government. All other components of Australia's official reserve assets are held on the Reserve Bank's balance sheet and the Bank is responsible for managing the level and composition of those reserves. As these assets can expose the Bank to various risks, including market, liquidity and credit risk (see the chapter on 'Risk Management' for more detail), the level held represents the amount assessed as necessary to meet potential policy requirements. Within that, the Bank seeks to mitigate risks where

Benchmark Foreign Currency Portfolio

30 June 2016

	US dollar	Euro	Japanese yen	Canadian dollar	Chinese renminbi	UK pound sterling	South Korean won
Currency allocation (per cent of total)	55	20	5	5	5	5	5
Duration (months)	6	6	6	6	30	3	18

Source: RBA

possible, such as by holding a diversified portfolio of assets and investing in assets of high credit quality and appropriate liquidity only.

The composition of the Reserve Bank's foreign currency asset portfolio is guided by an internally constructed benchmark. This benchmark is assessed to be the combination of foreign currencies and foreign currency assets that will maximise the Bank's expected returns over the long run, subject to the Bank's risk tolerance. The structure of the benchmark is periodically reviewed to take account of significant changes in market conditions.

During 2015/16, an allocation of 5 per cent of the benchmark was made to the Korean won, which further diversified the portfolio and is expected to enhance returns over the long run. Offsetting this was a reduction in the allocation to euro from 25 per cent to 20 per cent. The Korean won's share in the benchmark portfolio is in line with the shares for the Japanese yen, Canadian dollar, UK pound sterling and Chinese renminbi. The allocation to the US dollar was unchanged at 55 per cent, with the large weight partly reflecting the greater liquidity of that currency market.

An allocation of 5 per cent of the foreign currency benchmark was made to the Korean won

Foreign Currency Assets[(a)]
A$ million, 30 June 2016

Currency	Securities held outright	Securities held under reverse repurchase agreements	Deposits at official institutions[(b)]	Total	Forward FX commitments[(c)]		Net
					Against AUD	Against other currencies	
US dollar	12 370	988	787	14 145	–538	12 841	26 448
Euro	3 903	–	28	3 931	–1	5 668	9 598
Japanese yen	26 460	393	7 211	34 064	–8 896	–22 838	2 330
Canadian dollar	1 417	–	8	1 425	–	975	2 400
Chinese renminbi	2 289	–	1	2 290	–	–	2 290
Pound sterling	310	–	–	310	–	1 897	2 207
South Korean won	2 465	–	37	2 502	–	–	2 502
Total	**49 214**	**1 381**	**8 072**	**58 667**	**–9 435**	**–1 456**	**47 775**

(a) Excludes investments in the Asian bond funds
(b) Includes deposits at foreign central banks and the Bank for International Settlements
(c) In accordance with IMF guidelines, 'forward FX commitments' reflect notional values of unsettled spot and forward transactions, converted to Australian dollars at the prevailing forward exchange rate
Source: RBA

Reflecting the generally low level of global interest rates, duration targets have remained short for most of the foreign currency portfolios. Short duration targets mitigate the risk of capital losses should yields on bonds in these currencies return to more normal levels.

Investments in the benchmark currencies are limited to deposits at official institutions (such as central banks) and debt instruments issued or guaranteed by sovereigns, central banks, supranational agencies and (under reverse repurchase agreement only) quasi sovereigns. Sovereign credit exposures are currently limited to the United States, Germany, France, the Netherlands, Canada, Japan, China, the United Kingdom and South Korea.

At the end of June 2016, the Reserve Bank's foreign currency reserves included $9.4 billion of foreign currency sourced from swaps against Australian dollars. Foreign currency obtained in this manner does not comprise part of the benchmark portfolio, but is invested to ensure that the Bank's forward commitments to sell foreign currency are hedged against currency and interest rate risk.

As has been the case for some years, when the costs of hedging currency risk are taken into account, yields on short-dated Japanese investments have generally exceeded those available in the other currencies in the Reserve Bank's portfolio. Reflecting this, the bulk of the foreign currency the Bank obtains from swaps against Australian dollars is Japanese yen. For the same reason, the Bank also swaps other currencies in its reserves portfolio against the yen to enhance returns. As a consequence, while the Bank's exposure to changes in the value of the yen remains small (consistent with the yen's 5 per cent allocation in the Bank's benchmark), around 58 per cent of the Bank's foreign exchange reserves were invested in yen-denominated assets at the end of June 2016.

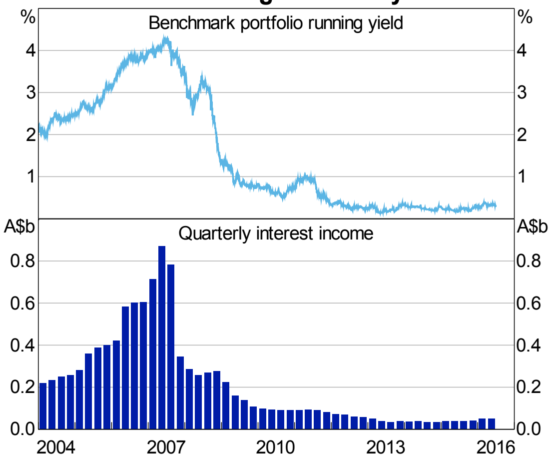
A small component of the Reserve Bank's net foreign currency reserves sits outside the benchmark framework. This encompasses investments in a number of Asian debt markets through participation in the Executives' Meeting of East Asia and Pacific Central Banks (EMEAP) Asian Bond Fund Initiative. This initiative was established in the wake of the Asian currency crisis in the late 1990s to assist in the development of bond markets in the region. At the end of June 2016, the total allocation of the Bank's reserves to these funds was $621 million and the return on these investments in 2015/16 was 3.4 per cent when measured in SDR terms. On 1 July 2016, following agreement among member central banks that the US dollar denominated fund (ABF1) had served its original purpose, EMEAP announced the closure of this fund.[9] The funds of member central banks (including the Reserve Bank) in ABF1 were transferred to Asian Bond Fund 2 (ABF2), which invests in local currency-denominated securities.

Measured in SDRs, the overall return on the Reserve Bank's foreign currency assets over 2015/16 was 1.9 per cent, lower than the previous year but broadly in line with the period between 2010/11 and 2013/14. This outcome reflected small contributions from interest income and capital gains on bond holdings, as well as exchange rate valuation effects. The running yield on the benchmark portfolio remained very low at around 0.3 per cent, reflecting low or negative bond yields across a number of the major economies.

The Reserve Bank's holdings of SDRs at 30 June 2016 amounted to $4.9 billion, $1.0 billion lower than the previous year, as net sales of SDRs over the year more than offset the impact of the depreciation of the Australian dollar against

9 For more detail, see <http://www.emeap.org/wp-content/uploads/2016/06/EMEAP_Asian_Bond_Fund_-_1_July_2016-1.pdf>.

Returns on Foreign Currency Assets



Source: RBA

the SDR. Under voluntary arrangements with the IMF, the Bank is willing to transact in SDRs upon request from other countries or prescribed holders. In these transactions, the Bank will generally either buy or sell SDRs in exchange for foreign currencies (such as euros or US dollars). While such transactions do not alter the level of Australia's reserve assets (only the respective proportions held in SDRs and foreign currency), the Bank occasionally chooses to replenish foreign currency sold in exchange for SDRs by purchasing additional foreign currency against Australian dollars in the spot market.

Australia's reserve position in the IMF comprises that part of Australia's quota in the IMF that is paid in foreign currency as well as other credit that Australia has extended to the IMF in support of its lending programs. At the end of June 2016, Australia's reserve position in the IMF was $867 million (SDR461 million), which is $937 million (SDR526 million) lower than the previous year and its lowest level since 2009. The decline in the reserve position in the past year was due almost entirely to flows associated with the implementation of the IMF's 14th General Review of Quotas in early 2016 (see the 'International Financial Cooperation' chapter for more detail). Specifically, in order to give effect to the increase in the IMF's quota resources, the Australian Government paid US$1 165 million (SDR834 million) in foreign currency to the IMF, which increased Australia's reserve position. This foreign currency payment was subsequently more than offset by the receipt of a US$1 876 million (SDR1 340 million) currency reallocation flow from the IMF, which reduced Australia's reserve position. The currency reallocation flow was the result of a process undertaken by the IMF to redistribute the foreign currency quota payments received from other IMF members (predominantly in US dollars) across the currencies of a much broader of list of 51 IMF creditor countries, including Australia.

As noted above, Australia's reserve position in the IMF is not held on the Reserve Bank's balance sheet. However, the Bank will sell to (or purchase from) the Australian Treasury the foreign currency the Treasury needs to complete its transactions with the IMF. In contrast to other foreign exchange transactions with the Australian Government, the Bank will typically draw on (or add to) its foreign currency reserves when providing (or receiving) foreign currency

The running yield on the benchmark portfolio remained very low at 0.3 per cent for IMF-related purposes. This is because any change to the Bank's holdings of foreign currency assets will be offset by an equivalent change in Australia's reserve position in the IMF, leaving total official reserve assets unchanged. Nevertheless, as with SDR transactions, on certain occasions the Bank may decide to offset the impact on foreign currency asset holdings of these IMF transactions by buying or selling foreign currency in exchange for Australian dollars in the spot market. In the case of the IMF quota transactions in 2015/16 described above, the net increase in the Bank's foreign currency reserves was offset by an equivalent reduction in Australia's reserve position in the IMF, leaving total official reserve assets unchanged.

Gold holdings at the end of June 2016 were around 80 tonnes, unchanged from the previous year. Gold prices rose by 17 per cent in Australian dollar terms in 2015/16, increasing the value of the Reserve Bank's holdings of gold by around $0.65 billion to $4.6 billion. At $0.45 million, income from gold loans was slightly higher than in recent years, as the Bank increased its lending activity.

Bilateral Currency Swaps

In December 2015, the Reserve Bank signed a bilateral local currency swap agreement with Bank Indonesia. The agreement allows for the exchange of local currencies between the two central banks of up to A$10 billion or IDR 100 trillion. In March 2016, the Reserve Bank signed a bilateral local currency swap agreement with the Bank of Japan. This agreement allows for the exchange of local currencies between the two central banks of up to A$20 billion or JPY 1.6 trillion. The period of each of these agreements is three years and could be extended by mutual consent. The Reserve Bank has similar agreements with the People's Bank of China and the Bank of Korea. The purpose of these agreements is to allow each central bank to support trade settlement in local currencies, particularly in times of market stress, or to support financial stability.

Banking and Payment Services

The Reserve Bank provides important banking and payment services that underpin the efficient and stable functioning of the Australian financial system. The Bank is currently developing new banking and settlement capabilities and new infrastructure to support real-time settlement of payments by Australian households and businesses. This will ensure that the Bank continues to meet the needs of its government and agency customers and, in turn, the public.

Banking

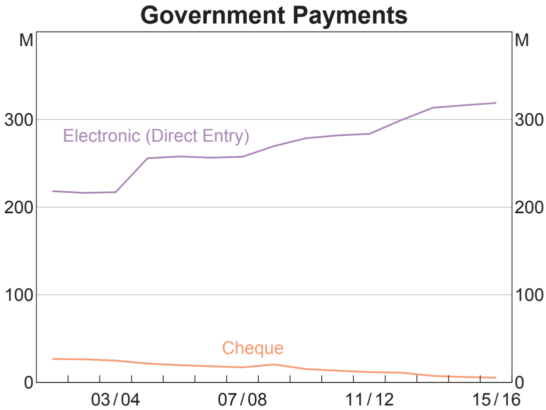
The Reserve Bank's banking services comprise two broad components: core and transactional banking services. Both are provided with the objective of delivering secure and efficient arrangements to meet the banking and payment needs of the Australian Government and its agencies. In addition, the Bank provides banking and registry services to a number of overseas central banks and official institutions.

Core banking services are provided to the Department of Finance and the Australian Office of Financial Management (AOFM). These services derive directly from the Reserve Bank's role as Australia's central bank and require the Bank to manage the consolidation of Australian Government agency account balances – irrespective of which financial institution each agency banks with – into the government's Official Public Accounts (OPA) at the Bank on a daily basis. Balances from agencies' accounts at transactional banks are 'swept' to the OPA at the end of each business day, with balances required to meet agencies' day-to-day payment obligations returned the following morning. The average daily sweep to and from the OPA was around $3 billion in 2015/16.

The Reserve Bank also provides the government with a term deposit facility for investment of its excess cash reserves, as well as a limited short-term overdraft facility to cater for occasions when there is unexpected demand on government cash balances. The overdraft facility was not accessed during the past financial year.

While the Reserve Bank manages the consolidation of the government's accounts, the AOFM has day-to-day responsibility for ensuring there are sufficient cash balances in the OPA to meet the government's day-to-day spending commitments and for investing excess funds in approved investments, including term deposits with the Bank.

The Reserve Bank's transactional banking services are associated with more traditional banking activities. Principal among these are services for making payments from government agencies to recipients' accounts. The Bank processed some 326 million payments, totalling $511 billion, for government agencies in 2015/16. Most of



Source: RBA

these were made via direct entry. The Australian Government also makes payments by eftpos, the real-time gross settlement (RTGS) system and cheque, though its use of cheques has fallen significantly in recent years. Cheques now make up less than 2 per cent of agency payments, compared with around 10 per cent 15 years ago. The decline reflects concerted action by agencies to reduce their use of paper-based transactions for which processing costs are higher and have steadily increased. In addition to payments, the Bank provides its government agency customers with access to a number of services through which they can collect funds, including Electronic Funds Transfer, BPAY, eftpos and card-based services via phone and online. The Bank processed 31 million collections-related transactions for the Australian Government in 2015/16, amounting to $467 billion.

326 million payments, totalling $511 billion, were processed for government agencies in 2015/16

Transactional banking services have been a longstanding part of the Reserve Bank's responsibilities under the *Reserve Bank Act 1959*, which requires the Bank to provide these services to the Australian Government if so required. These services are offered in line with the Australian Government's competitive neutrality guidelines. To deliver the services, the Bank competes with commercial financial institutions, in many instances bidding for business at tenders conducted by the agencies themselves. The Bank must also cost and price the services separately from its other activities, including core banking services, and meet a prescribed minimum rate of return. Some 90 government agencies are transactional banking customers of the Bank. Pro forma business accounts for transactional banking are provided in this report, on page 127.

The Reserve Bank works closely with its transactional banking customers and with the Australian Government more generally to ensure that they have access to services that meet their needs and those of the public. In 2015/16, the Bank introduced a 'tokenisation' feature to enhance security for users of its online payments service, Government EasyPay. The feature allows the Bank's agency customers to offer a broader range of card payment services to entities using Government EasyPay without the need for agencies to store card-related information. For some services, the Bank combines its specialist knowledge of the government sector with specific services and products from commercial providers to meet the government's banking needs. The Bank will continue to make use of combined service arrangements with commercial providers as the government's banking needs evolve.

Registry services are also provided by the Reserve Bank to supranational organisations issuing Australian dollar-denominated securities. Nine organisations currently use these services. The number has remained relatively steady over the past few years.

In common with other financial institutions, the Reserve Bank relies heavily on information and communications technology systems to deliver banking services to its customers. The Bank needs to upgrade and improve its systems over time to ensure that they continue to provide the highest levels of service, reliability and efficiency. Annual reports for the past few years have noted that the Bank is undertaking a significant program of work to upgrade its banking systems, moving them to a more user-friendly programming language and architecture and re-engineering a number of related business processes. Further milestones in the program were achieved during 2015/16. In particular, an upgrade of the system by which the Bank processes the government's international payments was completed in October 2015, while the second of three services by which the Bank processes payments to its agency customers was completed in May 2016. Work also began in late 2015 to select a third-party provider to replace the Bank's system for maintaining customers' accounts. Initial stages of this work are expected to be completed during 2016/17, with the new account maintenance system scheduled to be fully operational by late 2018.

During 2015/16, the Reserve Bank also continued its contribution to developing the payments industry's New Payments Platform (NPP), which will enable payments to be exchanged on a 24/7 basis in near real time together with more complete remittance information. Also, as part of this contribution, work is under way within the Bank to implement a system to process government-related transactions across the new platform. The Bank expects to make an NPP service available to its agency customers from the payments industry's scheduled go-live date in the second half of 2017. In common with the program to upgrade the Bank's banking systems, the work in the Bank is being overseen by a Steering Committee comprising senior staff. Further information on the NPP is available below in the section on Settlement Services.

The New Payments Platform will enable payments to be exchanged on a 24/7 basis in near real time

After-tax earnings from the Reserve Bank's transactional banking services were $6 million in 2015/16, $0.5 million higher than in the previous year. The increase was largely due to increased transactions through the Bank's online collection services. This was tempered slightly by higher costs associated with systems development and service improvements.

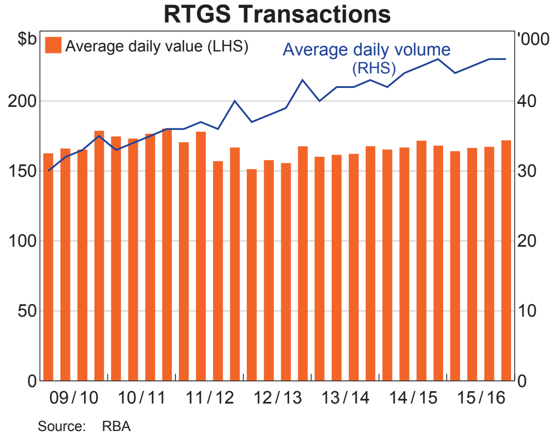
Settlement Services

The Reserve Bank Information and Transfer System (RITS) is Australia's high-value payments system, which settles payment obligations across Exchange Settlement Accounts (ESAs) held at the Bank. RITS provides the irrevocable settlement of transactions in real time using central bank money and constitutes a critical part of Australia's financial system. At the end of June 2016, there were 170 RITS members, of which 60 were directly operating an ESA for settling payment obligations. It is mandatory for all Australian banks to hold an ESA. ESAs must also be operated by institutions that reach certain transaction thresholds. Certain financial market infrastructure entities deemed systemically important are also required to hold an ESA.

Most RITS transactions are settled individually on a RTGS basis, removing the settlement risk inherent with deferred settlement. Transactions settled in real time include high-value customer, corporate and institutional payments, wholesale debt securities transactions and foreign exchange transactions. On average, 45 000 RTGS transactions, worth $167 billion, were settled each day in 2015/16 using the system. RTGS volumes have been trending upwards over the past several years, but growth slowed somewhat in 2015/16. During the same time period there was little change in RTGS values.

RITS also settles some payments on a net deferred basis. This allows for more efficient use of liquidity because transactions between ESA holders can be netted, but it can also introduce some degree of settlement risk. Payment obligations arising from cheques and some retail cards are settled on a multilateral net basis at around 9.00 am on the day following clearing. Most obligations arising from direct entry payments settle shortly after official industry clearing exchange times, in five multilaterally netted batches each day. During 2015/16, the average daily value of all net retail obligations settled in these six multilateral batches was $7.7 billion, corresponding to gross underlying transactions worth more than $23 billion.

There are three additional arrangements for settling batches of payments netted outside RITS. One of these arrangements is the daily CHESS batch, managed by ASX Settlement



Pty Limited, which provides for the settlement of obligations arising from equity market transactions. In 2015/16, the average daily CHESS batch settlement value was $1.0 billion. A second arrangement provides for the settlement of obligations arising from domestic MasterCard transactions. MasterCard International has been a Batch Administrator since late 2014, with the daily value of its multilaterally netted batches averaging $488 million in 2015/16.

The third batch feeder arrangement in RITS is operated by Property Exchange Australia Limited (PEXA). Commencing in late 2014, this arrangement is part of a national electronic conveyancing system and provides for settlement of interbank cash payments related to some property transactions. Since going live in November 2014, gross settlement value in the PEXA batch has recorded a 26 per cent compound monthly growth rate, with average daily values tripling during 2015/16. More than $33 billion of transactions have now been settled through this facility, with the average daily value of transactions increasing to $197 million in June 2016.

The program to develop the NPP is a significant collaborative undertaking by payments service

The foyer of the Head Office building in Sydney, viewed from the banking chamber, with Bim Hilder's 'wall enrichment' sculpture on the right

providers, which is expected to be completed towards the end of 2017. The NPP will allow authorised deposit-taking institutions to send real-time, data-rich payments on a 24/7 basis for households, businesses and government agencies. It will also provide more user-friendly ways to address payments, for example through the use of mobile phone numbers and email addresses. The Reserve Bank is actively participating in the broader NPP program and is also building the RITS Fast Settlement Service (FSS), which will settle NPP payments individually in real time. The FSS has been designed for high performance and high availability. Payments settled through the FSS will be final and irrevocable, enabling financial institutions to provide for immediate funds availability to customers without incurring credit risk.

RITS is a systemically important part of the Australian financial system and as such is designed to be a highly resilient system, with critical infrastructure duplicated in two geographically separate sites. RITS is benchmarked against internationally agreed standards and the resilience of its infrastructure is assessed annually against the *Principles for Financial Market Infrastructures* (PFMI) developed by the Committee on Payments and Market Infrastructures (CPMI) and the Technical Committee of the International Organization of Securities Commissions (IOSCO). The 2015 PFMI assessment by the Reserve Bank concluded that RITS adhered to all relevant principles and noted the Bank's ongoing program of work to strengthen further the security and resilience of RITS.[1] This work program includes reviews of existing security controls, recovery options and the payments contingency arrangements that could be used if RITS was unavailable for an extended period. The Bank will continue its work

1 For further detail, see Reserve Bank of Australia (2015), '2015 Assessment of the Reserve Bank Information and Transfer System', November.

to ensure its infrastructure is resilient against cyber attack and to enhance its ability to resume critical settlement operations safely in the event of an operational incident.

RITS is run on a cost-recovery basis, with the Reserve Bank charging members a combination of annual and transaction-based fees. Over the past several years costs have increased, mainly because of rising technology costs. The fee structure of RITS is assessed regularly and adjusted to ensure an equitable and representative distribution of fees among members.

The Reserve Bank provides accounts to around 60 central banks and international official institutions to allow for settlement of their Australian dollar transactions. Around half of these overseas official sector agencies also make use of safe custody services offered by the Bank. At the end of 2015/16, the face value of securities held in custody by the Bank in this capacity exceeded $72 billion. The Bank also provides settlement services for banknote lodgements and withdrawals by commercial banks.

The Reserve Bank provides accounts to around 60 central banks and international official institutions

Banknotes

The Reserve Bank is responsible for producing and issuing Australia's banknotes. The Bank seeks to ensure there are sufficient high-quality banknotes in circulation to maintain confidence in banknotes as a payment mechanism and store of wealth. The Bank also conducts research and development to ensure that Australian banknotes remain secure against counterfeiting. To this end, the Bank is issuing an upgraded series of banknotes, with the first denomination, the $5, to be issued from 1 September 2016. At the end of June 2016 there were 1.4 billion banknotes, worth $70.2 billion, in circulation.

The Reserve Bank is responsible for producing and issuing Australia's banknotes. Public demand for banknotes stems from the role of banknotes as both a payment mechanism and a store of wealth. To preserve public confidence in the capacity of banknotes to perform these roles, the Bank:

- works with its wholly owned subsidiary, Note Printing Australia Limited (NPA), to design Australia's banknotes; arranges for their production through NPA; and issues the banknotes to meet public demand
- maintains the quality of banknotes in circulation by withdrawing old, worn banknotes and replacing them with new banknotes
- conducts research and development to ensure that Australian banknotes remain secure against counterfeiting.

Next Generation Banknote Program

The Next Generation Banknote program was established in 2007 to ensure Australia's banknotes would continue to be secure against counterfeiting. This program will culminate in an upgraded series of banknotes with a range of innovative new security features that have not previously been used on Australian banknotes. Issuance of the upgraded series will occur over a number of years, with the first denomination, the $5, entering circulation from 1 September 2016 and the $10 planned for late 2017.

The new banknotes will retain many of the key design elements of the current banknote series, including the people portrayed, size, colour palette and denominational structure. There will, however, be design changes to accommodate

The upgraded series of banknotes has a range of innovative new security features

(Image top) Head of Note Issue Department Michael Andersen with sheets of the new $5 banknote, April 2016; (image above left) there are multiple security features in the top-to-bottom clear window; (image above right) an NPA printer inspects the new banknotes

The new $5 banknote will be issued from 1 September 2016

the new security features. Each denomination will include a top-to-bottom clear window and feature a different species of Australian wattle and native bird within a number of the elements. On the $5 banknote, these are the Prickly Moses wattle (*Acacia verticillata* subsp. *ovoidea*) and the Eastern Spinebill (*Acanthorhynchus tenuirostris*).

An integral element of this program has been the Reserve Bank's extensive consultation to ensure that the new banknotes continue to meet the needs of the community. Advice was sought through a number of channels during the development process, including an external advisory panel comprising experts across a range of fields covering design, Australian art and history, and banknote development and production; subject-matter experts; and focus groups comprising members of the public. There was also extensive engagement with key users of banknotes, such as retail organisations, financial institutions and the vision-impaired community. This engagement has also included the provision of production banknotes to equipment manufacturers for testing.

The new $5 banknote has one raised bump on each long edge of the banknote

Ahead of the issuance of the new banknotes, the Reserve Bank developed a communication strategy to ensure the public would be well informed about the new banknotes. The strategy encompasses an ongoing multi-channel public awareness campaign providing information to many groups in the community, including the vision-impaired community, older generations and people from culturally and linguistically diverse backgrounds.

The time and cost involved in the Next Generation Banknote program is substantial. To date, $23 million of a total planned $37 million has been spent on the process of designing and testing the new banknote series, as well as the extensive community consultation, communication and education that is required.

Banknote Accessibility

The Reserve Bank is committed to ensuring that Australia's banknotes are accessible for people who have impaired vision. From the outset of the current program to upgrade the banknotes, it was decided that the existing accessibility characteristics of Australia's banknotes – their size differentials, vibrant colours and bold, contrasting numerals – would be retained. The Bank will also continue to fund the production of a banknote measurement device. Following consultation with the vision-impaired community, the Bank and NPA examined the possibility of adding a tactile feature to the new banknote series. After examining a range of such features, a new embossed feature was chosen to be incorporated into the design as the most effective method of achieving greater accessibility.

Community Liaison

The Reserve Bank actively engages with a range of stakeholders, including users and manufacturers of banknote equipment, law enforcement agencies, retail organisations, schools and financial institutions, with the aim of increasing community knowledge about banknotes. More than 140 presentations were given during 2015/16, twice as many as in

Attendees at the new banknotes' tactile feature preview event learn about the development process and tour the NPA print hall, June 2016

Attendees at the tactile feature preview event learn about the development of the tactile feature from Note Issue Department staff, June 2016

Members of the vision-impaired community learn about the tactile feature on the new $5 banknote at the preview event, June 2016

2014/15. The majority of these presentations were delivered to visitors to the Reserve Bank of Australia Museum.

In June 2016, the Reserve Bank and NPA hosted representatives from organisations that support the vision-impaired community to preview the tactile feature that will be included on the next generation of Australian banknotes. The guests were taken on an accessible tour of NPA's production hall, where they learnt about the multiple layers and processes involved in producing the new $5 banknote.

Banknote Infrastructure Modernisation Program

In preparation for the logistical demands arising from the introduction of the new banknote series, the Reserve Bank has initiated a program to upgrade its existing banknote infrastructure. The main objectives of the upgrade are to increase banknote storage and processing capacity, and to introduce new technologies and systems to improve banknote logistics processes and simplify distribution arrangements with cash-in-transit companies.

The upgrade includes construction of the National Banknote Site (NBS) on the Reserve Bank's existing site in Craigieburn, Victoria. Construction of the new two-storey building began in June 2015 and it is scheduled to be fully operational by the end of 2017.

In addition, the Banknote Infrastructure Modernisation program will improve manual processes in the Reserve Bank's existing sites

Information Department's Kaja Troa presents to Navitas English's Sydney college, February 2016

More than 140 presentations on banknotes were given during 2015/16

and introduce automated processes at the NBS. This will allow for more efficient workflows, a reduction in work health and safety risks and further improvements in the security associated with banknote handling. The first phase of the program was implemented in January 2016, with the introduction of new containers for storing and distributing banknotes. The next phase, involving an upgrade of the existing banknote management system, is scheduled to be operational in the second half of 2016. In parallel, the Bank will increase its capacity to process unfit banknotes with the commissioning of additional high-speed banknote processing machines.

Banknote Research and Development

The Reserve Bank's research and development program is designed to ensure that Australian banknotes remain both secure against counterfeiting and functional for a wide variety of users. A core function of this work is the development of innovative technologies that are incorporated into new security features and detection equipment for banknotes. This is achieved in collaboration with experts from various external organisations, including universities, public and private companies, research institutes and other central banks. An integral part of this program is an assessment of the vulnerability of banknotes to different forms of counterfeiting.

In addition to these activities, the Reserve Bank contributes to several international forums associated with banknote security, including the Central Bank Counterfeit Deterrence Group, which examines emerging threats in counterfeiting technologies, and the Reproduction Research Centre, which provides facilities to test new security features. The Bank also works closely with its partners and suppliers to introduce new technologies and features into the banknote production process.

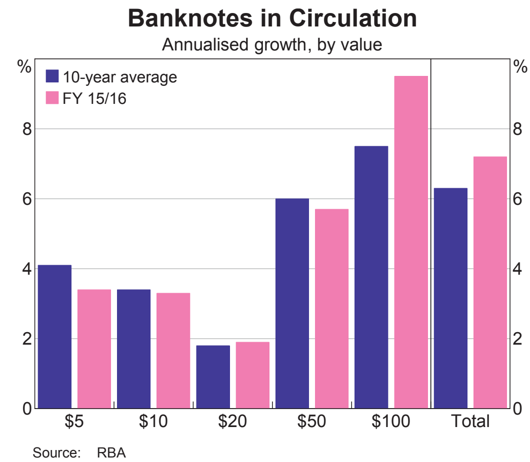
In 2015/16, the research program focused heavily on providing technical expertise for the development of the next generation of Australian banknotes by conducting extensive trials, assessing new technologies and strategies to ensure the durability of the new security features, and developing novel instrumentation for banknote examination. This was done in conjunction with the development of new testing methodologies that will form part of the quality assurance program.

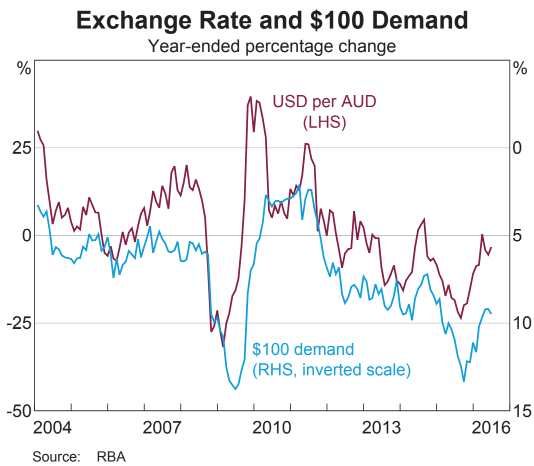
Banknotes on Issue

At the end of June 2016, there were 1.4 billion banknotes, worth $70.2 billion, in circulation. The value of banknotes in circulation increased by 7 per cent in 2015/16, slightly above its long-term growth rate of 6 per cent.

Demand for banknotes continued to increase across all denominations, and was strongest for high-denomination banknotes, with the value of $100 banknotes increasing by 9 per cent and the value of $50 banknotes increasing by 6 per cent in 2015/16. This growth in high-denomination banknotes is well above recent growth in

At the end of June 2016, there were 1.4 billion banknotes, worth $70.2 billion, in circulation





nominal income for the economy and reflects a range of factors, such as overseas demand, which is heavily influenced by movements in the exchange rate, and the fact that high-denomination banknotes are also used as a store of wealth, especially in times of financial uncertainty and low interest rates. Changing payment patterns in the economy, including the increased prevalence of card payments, also continued to influence growth of banknotes in circulation, and are likely to have placed some downward pressure on demand for the lower denomination banknotes.

New Banknote Purchases

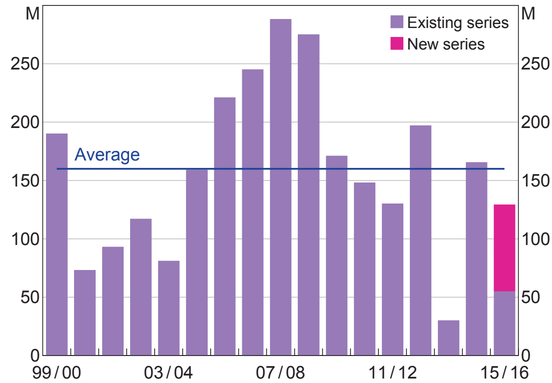
The Reserve Bank purchased 129 million Australian banknotes from NPA in 2015/16. These comprised 8 million \$5 banknotes, 22 million \$10 banknotes and 25 million \$50 banknotes of the existing series, and 74 million \$5 banknotes of the new series.

Distribution

The Reserve Bank maintains banknote holdings to accommodate growth in the number of banknotes in circulation, for seasonal fluctuations in demand and for contingency purposes in the event of systemic shocks and production disruptions. The Bank has established distribution agreements with a number of commercial banks, which provide them with access to banknotes. The Bank issued banknotes worth \$10.4 billion in 2015/16, of which \$3.2 billion had previously been in circulation and \$7.2 billion were new.

The Reserve Bank aims to maintain a high quality of banknotes in circulation to ensure public confidence in their capacity to perform their role as a payment mechanism and store of wealth. High-quality banknotes are more readily handled by machines and make it more difficult for counterfeits to be passed. For this reason, the Bank has arrangements that encourage

Banknote Purchases



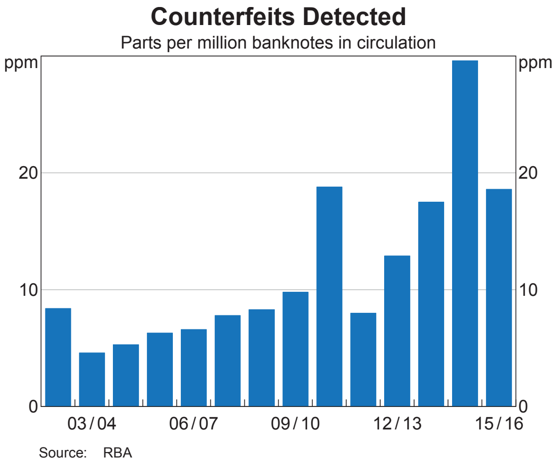
Source: RBA

the commercial banks and the cash-in-transit companies to continue to use banknotes that remain fit for circulation and return those that are unfit to the National Note Processing and Distribution Centre (NNPDC), operated by NPA. These unfit banknotes are assessed using high-speed processing machines to confirm their authenticity and quality. In 2015/16, the NNPDC received \$1.8 billion in banknotes deemed unfit for recirculation.

The Reserve Bank also provides an additional service to members of the public through its Damaged Banknotes Facility. Through this facility, members of the public who have come into possession of damaged banknotes or whose banknotes are accidentally damaged can ask the Bank to examine and verify their damaged or contaminated banknotes. Subject to the claim meeting the requirements set out in the Damaged Banknotes Policy, payment is made based on the assessed value of each claim. The Bank processed 18 281 claims and made \$7.5 million in payments in 2015/16.

Counterfeiting in Australia

Australia's level of counterfeiting remains low by international standards. In 2015/16, around 26 000 counterfeits, with a nominal value of nearly \$1.5 million, were detected in circulation. This



corresponds to around 19 counterfeits detected per million genuine banknotes in circulation. This represents a 37 per cent decline in counterfeiting compared with 2014/15, in part reflecting a number of successful law enforcement investigations. Nevertheless, over the medium term the trend in counterfeiting has been upwards.

To combat counterfeiting in Australia, the Reserve Bank works closely with law enforcement agencies in Australia and overseas to monitor trends and identify emerging threats. As part of this arrangement, the Bank provides analytical and counterfeit examination services and prepares expert witness statements and court testimonies to assist the agencies with their investigations.

Numismatic Banknote Sales

During 2015/16, the Reserve Bank assessed possible commemorative options to coincide with the issuance of the new banknote series. As a result, two collectors' products will be made available through selected retailers in conjunction with the issuance of the new $5 banknote.

Note Printing Australia Limited (NPA)

NPA is a wholly owned subsidiary of the Reserve Bank that produces banknotes and supplies other related services to the Bank and some other entities. As noted above, in 2015/16 NPA delivered 129 million Australian banknotes to the Bank. NPA also provided banknote distribution and banknote processing services to the Bank. The aggregate amount paid by the Bank to NPA in 2015/16 for the supply of banknotes and related services was $53.9 million.

In addition, NPA delivered 199 million banknotes under contract to Singapore and Brunei in 2015/16, dealing directly with the respective central banks in those countries. NPA also produced 2.3 million P-series passports for Australia's Department of Foreign Affairs and Trade.

NPA produced
2.3 million
passports

Counterfeit Banknotes in Australia[(a)]
2015/16

	$5	$10	$20	$50	$100	Total
Number	29	51	448	22 063	3 656	26 247
Nominal value ($)	145	510	8 960	1 103 150	365 600	1 478 365
Parts per million	0.2	0.4	2.8	34.5	11.4	18.6

(a) Figures are preliminary and subject to upward revision due to lags in counterfeit submissions to the Reserve Bank
Source: RBA

In 2015/16
NPA delivered
129 million
Australian banknotes
and 199 million
foreign banknotes

(Image top) Visitors to the Reserve Bank of Australia Museum on Australia Day, January 2016; (image above) Note Issue Department's Kristin Langwasser assists a young visitor with a banknote puzzle, January 2016

International Financial Cooperation

The Reserve Bank continues to participate actively in initiatives that seek to address the challenges facing the global economy and improve the global financial architecture. It does so through its membership of global and regional forums and its close bilateral relationships with other central banks.

Group of Twenty (G20)

Purpose

The G20 facilitates international cooperation on economic and financial policy issues.

Reserve Bank Involvement

The Reserve Bank participates in meetings of the G20 at the Governor and Deputy Governor level, covering a range of issues such as developments in the global economy and financial regulation. Senior staff participate in G20 working groups and contribute to the G20's financial regulation reform agenda.

The G20 presidency was held by Turkey from December 2014 to November 2015. In December 2015, the G20 presidency rotated to China. The key aims of China's presidency in 2016 are working 'towards an innovative, invigorated, interconnected and inclusive world economy'. The figure below provides an overview of the Bank's involvement in the G20, which occurs principally through the meetings of central bank and finance ministry officials within the 'Finance Track'.

G20 members have continued to update their comprehensive growth strategies, with this work being conducted by the G20 Framework Working Group. These strategies outline the policies that G20 members are undertaking in order to achieve

The Reserve Bank's Involvement in the G20

the growth 'ambition' endorsed by leaders in November 2014, namely lifting the collective level of G20 GDP by at least 2 per cent by the end of 2018 relative to the International Monetary Fund's (IMF) forecast in October 2013. In 2015 and 2016, the focus has been on implementing the policies set out in the growth strategies. To complement this effort, the Chinese G20 presidency has also strengthened the structural reform agenda, including by commissioning the development of a structural reform indicator system.

In 2015, members of the Investment and Infrastructure Working Group developed strategies to support investment in infrastructure as well as to facilitate increased investment by small- and medium-sized enterprises. In 2016, the group has aimed to encourage greater lending for infrastructure by multilateral development banks, promote cross-border collaboration on infrastructure issues and foster private sector investment.

The G20 remains committed to strengthening the international monetary system, with the Chinese presidency having reconvened the International Financial Architecture Working Group in 2016. In line with this objective, the G20 has reiterated its support for maintaining a strong and adequately resourced IMF and urged that any further realignment of IMF quota shares should increase the representation of dynamic emerging market and developing countries. Members of the G20 have also discussed a range of other ways to increase the resilience of the international monetary system, including by enhancing the monitoring of capital flows, developing improved processes to restructure sovereign debt and strengthening the global financial safety net.

A G20 Green Finance Study Group was established under the Chinese presidency in 2016. The aim of the group is to identify potential market and institutional barriers that may be discouraging capital from flowing into green projects and to analyse ways to attract private capital for green investment. The key findings of the study group will be published in a report.

Financial regulation reform continued to be an important element of the G20's agenda during the year in review, both to address the problems revealed by the financial crisis as well as potentially to mitigate new and emerging risks. The G20 and the Financial Stability Board (FSB) have an ongoing focus on several core reform areas: (i) building resilient financial institutions; (ii) ending 'too big to fail'; (iii) addressing 'shadow banking' risks; and (iv) making derivatives markets safer. G20 efforts continue to emphasise implementing agreed reforms in these core areas and assessing their effects. In this role, the FSB coordinates the post-crisis response across the key international regulatory standard-setting bodies and acts as a key conduit between these bodies and the G20.

Financial Stability Board (FSB)

Purpose

The FSB promotes international financial stability by coordinating national financial sector authorities and international standard-setting bodies as they work towards developing strong regulatory, supervisory and other financial sector policies.

FSB members include representatives from 24 economies as well as the main international financial institutions – including the Bank for International Settlements and the International Monetary Fund – and standard-setting bodies, such as the Basel Committee on Banking Supervision.

Reserve Bank Involvement

The Governor is a member of the FSB Plenary (the main decision-making body of the FSB), Steering Committee and Standing Committee on Assessment of Vulnerabilities (SCAV). He was the chair of the latter throughout the 2015/16 financial year.

The Head of Financial Stability Department is a member of the Analytical Group on Vulnerabilities, while a senior staff member from Financial Stability Department participates in the FSB's Financial Innovation Network.

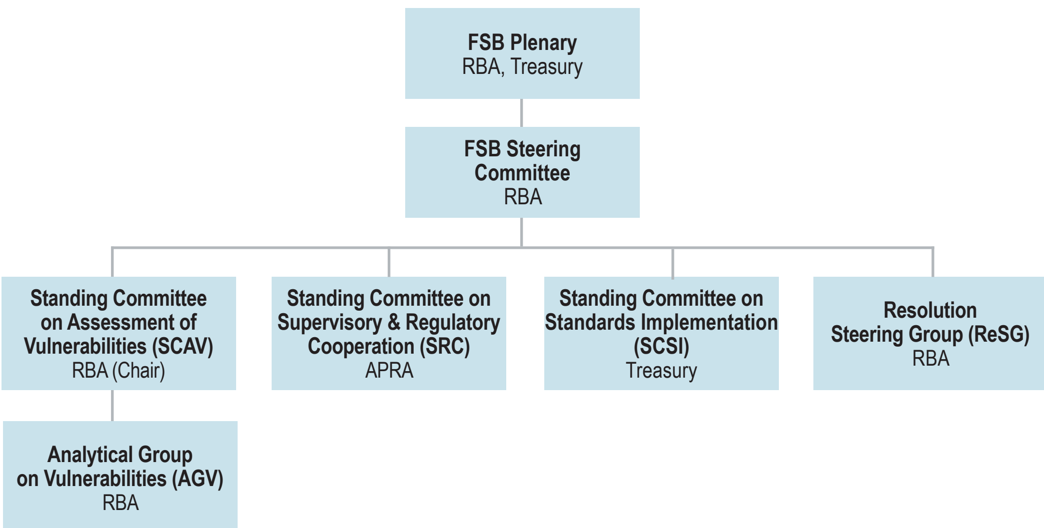
A senior staff member from Financial Stability Department attends meetings of the FSB Regional Consultative Group (RCG) for Asia and the Resolution Steering Group (ReSG).

A number of other staff members have participated, or continue to participate, in several FSB working groups.

As has been the case since the financial crisis, the FSB has continued to play an important role in developing and overseeing the global financial regulatory reform agenda over the past year.[1] The FSB conducts this work mainly through several committees, with overall direction provided by the FSB Plenary. The Governor and senior executives from the Reserve Bank and other Council of Financial Regulators (CFR) agencies are members of the main FSB bodies.

The FSB's agenda includes ongoing work on identifying global risks and vulnerabilities, overseeing the core post-crisis reform areas noted above, as well as considering potential reform responses to new and evolving risks. The SCAV is the main FSB body for identifying and assessing risks in the global financial system and, with the Reserve Bank Governor as chair, the Bank was heavily involved in the SCAV's activities. Supporting the SCAV is the Analytical Group on Vulnerabilities (AGV), with the FSB's Financial Innovation Network also providing input to the AGV by monitoring financial innovation in order to assess the potential for future sources of systemic risk. The possible financial stability risks posed by the asset management industry remained a focus of the SCAV and AGV early in the past financial year, with the results handed

The Reserve Bank and CFR Involvement in Key FSB Committees



1 Further detail on FSB activities is reported in the RBA's semiannual *Financial Stability Review*.

to a separate FSB group, working under the Standing Committee on Supervisory and Regulatory Cooperation, to consider policies in this area. Policy recommendations were released for consultation in June 2016. More recent areas of focus for the SCAV include developing frameworks to consider potential systemic risk implications arising from developments in financial technology ('fintech') and from operational risks.

The work on asset management is linked to ongoing efforts by the FSB to address the risks posed by 'shadow banking' – defined by the FSB as credit intermediation involving entities and activities outside the regular banking system. Reserve Bank staff have been involved in the FSB's work on shadow banking in several ways. Staff participated in two FSB working groups: one examining potential responses to the risks posed by some shadow banking entities and securities financing transactions; and another collecting shadow banking data and assessing shadow banking risks. A senior staff member was also on the FSB peer review team that released its report on the implementation of the FSB's policy framework for other shadow banking entities in May 2016.

In addition, Reserve Bank staff members have been involved in other key FSB work areas over the past year, including:

- participation in the FSB's ReSG, which is progressing the FSB's work on resolution in line with its *Key Attributes of Effective Resolution Regimes for Financial Institutions* (the *Key Attributes*). The ReSG has worked on several specific areas during the year in review, including the total loss-absorbing capacity standard, enhancing central counterparty (CCP) resolvability (see below), cross-border effects of resolution actions, and insurer resolution and resolvability
- membership of a ReSG subgroup, the Cross-border Crisis Management Group for Financial Market Infrastructures (fmiCBCM), which is working on the resolution of CCPs. In October 2014, the FSB re-issued the *Key Attributes* with annexes providing sector-specific guidance on resolution, including for financial market infrastructures (FMIs). The fmiCBCM has been charged with reporting on the need and, as appropriate, developing proposals for further guidance to support CCP resolvability and resolution planning
- cooperation with the other CFR agencies to implement G20/FSB commitments to reform over-the-counter (OTC) derivatives markets and to advance international work to reduce the scope for contagion in these markets. Implementation in this area is monitored by the FSB on an ongoing basis. The Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) are the lead domestic regulators involved in this work, closely cooperating with the Reserve Bank on issues of common interest. The Bank and ASIC participate in the OTC Derivatives Regulators' Forum, an international group that facilitates cooperation and information sharing between regulators on OTC derivatives data held in trade repositories
- participation in meetings of the RCG for Asia, one of six regional groups established to expand the FSB's outreach activities with non-member economies and to discuss issues relevant for the region.

Bank for International Settlements (BIS)

Purpose

The BIS and its associated committees play an important role in supporting collaboration among central banks and other financial regulatory bodies. It does so by bringing together officials to exchange information and views about the global economy, vulnerabilities in the global financial system and other issues affecting the operations of central banks.

Reserve Bank Involvement

The Reserve Bank is one of 60 central banks holding shares in the BIS.

The Governor or Deputy Governor attends the bimonthly meetings of governors and participates in meetings of the Asian Consultative Council.

The Assistant Governor (Financial Markets) chairs both the Markets Committee (MC) and the BIS working group on foreign exchange market best practices and is also a member of the Committee on the Global Financial System (CGFS).

The Head of International Department is also a member of the MC and senior staff participate in various working groups of the MC and CGFS.

The MC considers how economic and other developments, including regulatory reform and technological change, may affect market functioning, particularly central bank operations. In the past year, topics of discussion have included: how some central banks have implemented negative policy interest rates and the implications for market functioning and the transmission of monetary policy; the changing execution structure of fixed income markets; developments in major financial markets, including in China; and approaches taken by central banks to gathering market intelligence. The CGFS also monitors developments in financial markets, but focuses on identifying and assessing potential sources of stress in the global financial system. In the past year, there continued to be extensive discussion in both the MC and the CGFS of the influence of unconventional monetary policies, and their eventual withdrawal, on capital flows to and from emerging market economies.

The Foreign Exchange Working Group (FXWG), chaired by the Assistant Governor (Financial Markets), is tasked with developing a single global code of conduct for the foreign exchange market and promoting greater adherence to the code. The first phase of the code was published in May 2016, covering ethics, information sharing, trade confirmation and settlement, account reconciliation processes and certain aspects of execution. The final code, which will cover a broader range of aspects of execution as well as governance, risk management and compliance, is scheduled to be released in May 2017.[2] The FXWG has also laid out its overall approach to adherence to the code and will work closely with market participants in the coming year to develop market-based mechanisms to embed the code in firms' cultures and practices.

In the past year, Reserve Bank staff have participated in a number of other MC and CGFS working groups, including:

- an MC Study Group on electronic trading in fixed-income markets, which published its final report in January 2016
- a CGFS Study Group on fixed-income market liquidity, which published its final report in January 2016

2 The first phase of the code is available at <http://www.bis.org/mktc/fxwg/gc_may16.pdf>.

- a CGFS Study Group on the nexus between objective-setting and communication of monetary and macroprudential policies, which is due to report later in 2016
- a CGFS Working Group on liquidity assistance, where work is ongoing.

Basel Committee on Banking Supervision (BCBS)

Purpose

The BCBS is the international standard-setting body for the banking sector and consists of members from 28 jurisdictions. It provides a forum for regular cooperation on banking supervisory matters, which seeks to enhance understanding of key supervisory issues and improve the quality of banking supervision worldwide.

Reserve Bank Involvement

The Governor is a member of the Group of Governors and Heads of Supervision (GHOS), which is the oversight body for the BCBS.

The Assistant Governor (Financial System) is a member of the BCBS.

A senior staff member in Financial Stability Department is a member of the Macroprudential Supervision Group (MPG), which monitors and reports to the BCBS on systemic risk and global developments that relate to macroprudential and systemically important banks' supervision policy.

The Governor and Assistant Governor (Financial System) continued their participation in GHOS and the BCBS, respectively. An ongoing focus of the BCBS is monitoring the implementation of the Basel III capital and liquidity standards for banks. These standards were a key response to the global financial crisis, with the aim of increasing banks' resilience to financial and economic shocks. The BCBS regularly reports its implementation monitoring findings to both the FSB and the G20. In its November 2015 report to the G20 Leaders, the BCBS indicated that implementation of the Basel III risk-based capital and liquidity reforms has generally been timely and consistent across jurisdictions. Domestically, APRA continues to implement Basel III reforms, in line with the internationally agreed timetable.

Over the past year, the MPG has worked on the BCBS' methodology for identifying global systemically important banks (G-SIBs), including the three-year review of the G-SIB framework. It also continued discussions of practical issues as jurisdictions develop their countercyclical capital buffer policies and worked on the advantages and disadvantages of different macroprudential approaches to managing systemic risk in the banking sector.

Committee on Payments and Market Infrastructures (CPMI)

Purpose

The CPMI serves as a forum for central banks to monitor and analyse developments in payment, clearing and settlement infrastructures and sets standards for them. It has members from 24 jurisdictions.

Joint working groups of the CPMI and the International Organization of Securities Commissions (IOSCO) bring together members of these two bodies to advance policy work on the regulation and oversight of FMIs.

Reserve Bank Involvement

Senior staff from Payments Policy Department are members of the CPMI, the CPMI Working Group on Retail Payments and the CPMI Working Group on Digital Innovations.

Staff from Payments Policy Department are members of the:

- CPMI-IOSCO Steering Group
- CPMI-IOSCO Implementation Monitoring Standing Group (IMSG)
- CPMI-IOSCO Policy Standing Group (PSG)
- CPMI-IOSCO Working Group on Cyber Resilience.

A senior staff member from Payments Policy Department has served as co-chair of the CPMI-IOSCO IMSG, which monitors the international implementation of the *Principles for Financial Market Infrastructures* (PFMI). Other staff from Payments Policy Department have contributed as members of assessment teams in the IMSG's monitoring exercises. In November 2015, the IMSG published the findings of a peer review assessing the extent to which relevant authorities are observing the responsibilities associated with the PFMI in their regulation, supervision and oversight of FMIs. The Reserve Bank and ASIC were assessed as part of this exercise and were found to have observed the Responsibilities in the PFMI for all FMI types. In December 2015, the IMSG's assessment of the regulatory, supervisory and oversight frameworks for systemically important FMIs in Australia was published. The IMSG assessed Australia's regulatory and oversight frameworks for all FMI types to be consistent or broadly consistent with the principles in the PFMI.

The IMSG has also conducted a detailed review of the consistency of CCPs' implementation of the financial risk management standards in the PFMI; the findings from this fed into related work by the CPMI-IOSCO PSG, which recently published a consultation paper on CCP resilience and recovery. This work, to which a senior staff member of Payments Policy Department has contributed, seeks to provide additional guidance to the PFMI in several key areas, including stress testing and margining. This work is part of the CCP work plan developed in conjunction with the FSB and the BCBS.

Payments Policy Department staff have also contributed to a number of CPMI and IOSCO working groups during the past year, covering issues such as the management of cyber risk and the implications of digital currencies and distributed ledger technology.

Cooperative Oversight Arrangements

Purpose

To provide regulatory oversight of several FMIs that operate across borders.

Reserve Bank Involvement

Senior staff from Payments Policy Department have participated in:

- an arrangement led by the Federal Reserve Bank of New York to oversee CLS Bank International, which provides a settlement service for foreign exchange transactions
- a global oversight college for LCH.Clearnet Limited, chaired by the Bank of England
- the SWIFT Oversight Forum, chaired by the National Bank of Belgium.

The Reserve Bank is also a member of the Crisis Management Group for LCH.Clearnet Limited. This group, chaired by the Bank of England, will discuss and facilitate development of the resolution plan for LCH.Clearnet Limited, taking into account the cross-border nature of its business.

International Monetary Fund (IMF)

Purpose

The IMF is mandated by its members to oversee the stability of the international monetary system. The key ways it does this are through: bilateral and multilateral surveillance, which involves monitoring, analysing and providing advice on the economic and financial policies of its 189 members and the linkages between them; and the provision of financial assistance to member countries experiencing actual or potential balance of payments problems.

Reserve Bank Involvement

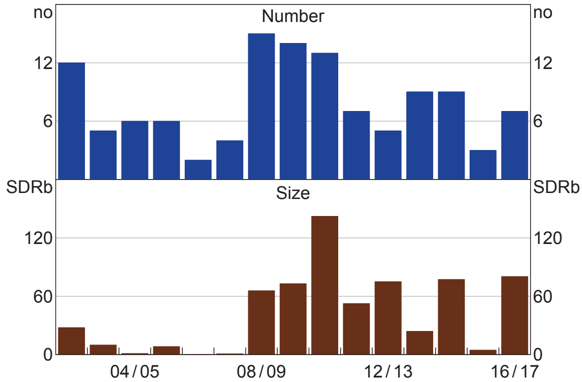
Australia holds a 1.39 per cent quota share in the IMF and is part of the Asia and the Pacific Constituency. This constituency was represented on the IMF's Executive Board by an Executive Director from Australia throughout the 2015/16 financial year.

The Reserve Bank supports the Constituency Office at the IMF by seconding an advisor with expertise in financial markets and financial sector issues. The Bank also works with the Australian Treasury to provide support to the Constituency Office on issues that are to be discussed by the IMF's Executive Board.

The IMF achieved a longstanding objective in January 2016 when quota and governance reforms agreed to in 2010 became effective following ratification by the United States Congress. Although these reforms had only a small effect on the overall size of the IMF's resources, they brought about a significant compositional shift by simultaneously doubling the IMF's permanent quota resources and reducing the IMF's reliance on borrowing from member countries. The reforms also granted higher quota shares to emerging market and developing countries and increased their representation on the IMF Executive Board. For a discussion of the implications of the IMF quota reform for the Reserve Bank's balance sheet, see the chapter on 'Operations in Financial Markets'.

New IMF Arrangements*

IMF financial years, non-concessional lending



* IMF financial year runs from May to April; excludes augmentations of existing arrangements; the observation for 16/17 is for the IMF financial year to 11 August 2016

Sources: IMF; RBA

The IMF has continued to provide financial assistance to member countries, although the total number and size of new lending arrangements (excluding concessional facilities) declined in the IMF's 2015/16 financial year (which runs from May to April) to their lowest levels since the onset of the global financial crisis. New lending has, however, picked up again in the 2016/17 IMF financial year to date.

The recent pick-up in new lending has been accompanied by an increase in IMF credit outstanding, following declines over the previous four consecutive IMF financial years. At the end of July 2016, IMF credit outstanding was SDR55 billion, around 60 per cent of which was accounted for by Greece, Portugal and Ukraine.

Executives' Meeting of East Asia-Pacific Central Banks (EMEAP)

Purpose

EMEAP brings together central banks from 11 economies in the east Asia-Pacific region – Australia, China, Hong Kong SAR, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore and Thailand – to discuss issues relevant to monetary policy, financial markets, financial stability and payments systems in the region.

Reserve Bank Involvement

The Reserve Bank participates in EMEAP at a number of levels, including at the Governor and Deputy Governor levels.

Senior staff also participate in the EMEAP Working Groups on Financial Markets, Banking Supervision, and Payment and Settlement Systems, and meetings of IT Directors.

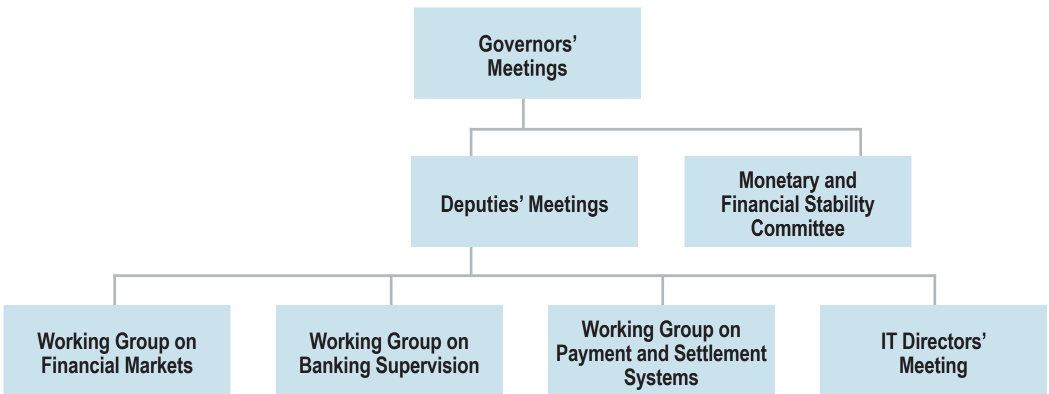
The EMEAP meetings consist of the Governors' and the Deputies' meetings, as well as the Monetary and Financial Stability Committee (MFSC) meeting. Support is provided by several working groups, which focus on a wide range of central banking issues.

The Reserve Bank hosted the 50th EMEAP Deputies' Meeting in Sydney in April 2016. At the Deputies' and MFSC meetings during the past year, members discussed a range of topics, including the impact of economic and financial market developments in China, the

Deputy Governor Philip Lowe (centre, front) with participants at the 50th EMEAP Deputies' Meeting, Sydney, April 2016

Deputy Governor Philip Lowe with participants at the 50th EMEAP Deputies' Meeting, Sydney, April 2016

The Reserve Bank's Involvement in EMEAP



risks associated with current monetary policy settings in the advanced economies, volatility in global financial markets and the broader growth outlook for the region. These groups also continued to maintain close relationships with international institutions such as the IMF and the BIS through regular dialogue on topical issues.

The Working Group on Financial Markets focuses on the analysis and development of foreign exchange, money and bond markets in the region. Every second meeting of this group is held in conjunction with the BIS Financial Markets Forum. In the past year, the group has continued to hold regular discussions on the impact of global policy developments and regulatory reform measures on regional financial markets, with a particular focus on assessing the impact of mandatory trading rules on OTC derivative markets and the impact of liquidity regulations on market functioning and central bank operations. The group has also continued its work on developing local currency-corporate bond markets, through the Asian Bond Fund (ABF) Initiative. On 1 July 2016, EMEAP announced the closure of ABF1, which invests in US dollar-denominated securities, with the funds of member central banks (including the Reserve Bank) being transferred to ABF2, which invests in local currency-denominated securities (see the chapter on 'Operations in Financial Markets' for further detail).

The Working Group on Banking Supervision (which also comprises representatives of EMEAP members' prudential regulators, including APRA) provides a regional forum for sharing experiences about best practices in banking supervision. The group discussed several issues over the past year, including banking stability in the region, the implementation of international reforms, such as Basel III and OTC derivatives market reforms, recovery and resolution planning, and differences in bank business models across regions.

The Working Group on Payment and Settlement Systems has focused on monitoring progress and sharing information on members' implementation of the G20 OTC derivatives market reforms and examining potential oversight issues arising from real-time retail payment systems.

The IT Directors' Meeting provides a forum for discussions on developments in information technology and their implications for central banks. Recent meetings have focused on enhancing cyber resilience and building information technology capabilities.

Organisation for Economic Co-operation and Development (OECD)

Purpose

The OECD comprises the governments of 35 countries and is committed to promoting policies that improve economic and social development globally.

Reserve Bank Involvement

The Reserve Bank's Chief Representative in Europe is a member of the OECD's Committee on Financial Markets.

The OECD Committee on Financial Markets is responsible for financial market issues and aims to promote efficient, open, stable and sound financial systems. In the past year, the Committee has discussed OECD work on financial sector guarantees, long-term investment financing, green financing and developments in the structure and efficiency of financial markets.

Technical Cooperation and Engagement in the Asia-Pacific Region

The Government Partnership Fund (GPF)

Purpose

The Australian Government's GPF program has supported an exchange of skills and knowledge between Australian public sector institutions and their Indonesian counterparts through a series of attachments and workshops since 2005/06.

Reserve Bank Involvement

In 2015/16, a total of eight Bank Indonesia staff members were attached to the Reserve Bank, covering the areas of economic analysis, financial markets, corporate services, communications, risk management and auditing. These visits brought the total number of individual attachments since the start of the program to 190.

The Reserve Bank fosters close ties with South Pacific countries through participation in Governor-level meetings, staff exchanges and the provision of technical assistance across a wide range of central banking issues. During the past year, the Bank's Brisbane Office hosted a visit of staff from the Reserve Bank of Fiji to discuss the Bank's operations and research program. This visit was part of a Griffith University program that seeks to strengthen relations between Australian institutions and the central banks of the South Pacific. Several staff members also participated in a conference organised by Griffith University as part of this program. The conference, which was also attended by representatives from a range of South Pacific central banks, discussed some of the opportunities and challenges for central banking in the region. A staff member also completed a term as a Visiting Research Economist to the South East Asian Central Banks (SEACEN) Special Expert Group on Capital Flows, producing a research report that was subsequently published.

In December 2015, the Deputy Governor participated in the annual meeting of South Pacific Central Bank Governors. In addition to discussing recent economic developments in the region, there was considerable discussion of developments in remittance flows in the region. The Governors also met with the major regional commercial banks to discuss banking issues.

The Reserve Bank continued to provide financial support to an officer of the Bank of Papua New Guinea undertaking postgraduate studies at an Australian university in the area of economics, finance or computing. The Reserve Bank of Australia Graduate Scholarship was first awarded in 1992. The Bank also hosted a short-term attachment of officers from the Central Bank of Solomon Islands.

Bilateral Relations and Cooperation

As in previous years, the Reserve Bank received a number of visitors from overseas, predominantly from foreign central banks. The visits covered the full range of the Bank's activities and included delegations from Cambodia, China, Ireland, Japan, New Zealand, Solomon Islands, South Africa and Tanzania. As noted in the chapter on 'Our People', the Bank also hosted a number of secondees from the Bank of England, Bank for International Settlements, People's Bank of China, Reserve Bank of New Zealand and Royal Canadian Mounted Police. A number of Reserve Bank staff have been seconded to other central banks and various international organisations, which facilitates a valuable exchange of skills and expertise between the Bank and the broader global economic and financial policymaking community.

Community Engagement

Community engagement is very important in ensuring that the Reserve Bank succeeds in promoting the public interest, which is a core value of the Bank. Staff across the Bank's Sydney Head Office and offices in other states work to ensure that the Bank's role and actions are well understood by the community and that the Bank in turn understands the community's perspectives. The Bank sponsors academic research and education, and further engages with the public and academic community through the Reserve Bank of Australia Museum.

Extensive time and effort is devoted in many ways by staff at all levels to ensure that the Reserve Bank's role and actions are clearly explained to the public, business and government, and that community perspectives, priorities and concerns in turn are well understood by Bank staff. In addition to the specific details of community engagement set out in this chapter, many more individual engagements of Bank staff – from the Governor through to staff from all parts of the Bank – occur each week with different individuals and groups throughout the community. These range from the many public speeches given by senior Bank staff, as discussed in the chapter on 'Accountability and Communication', to small private discussions.

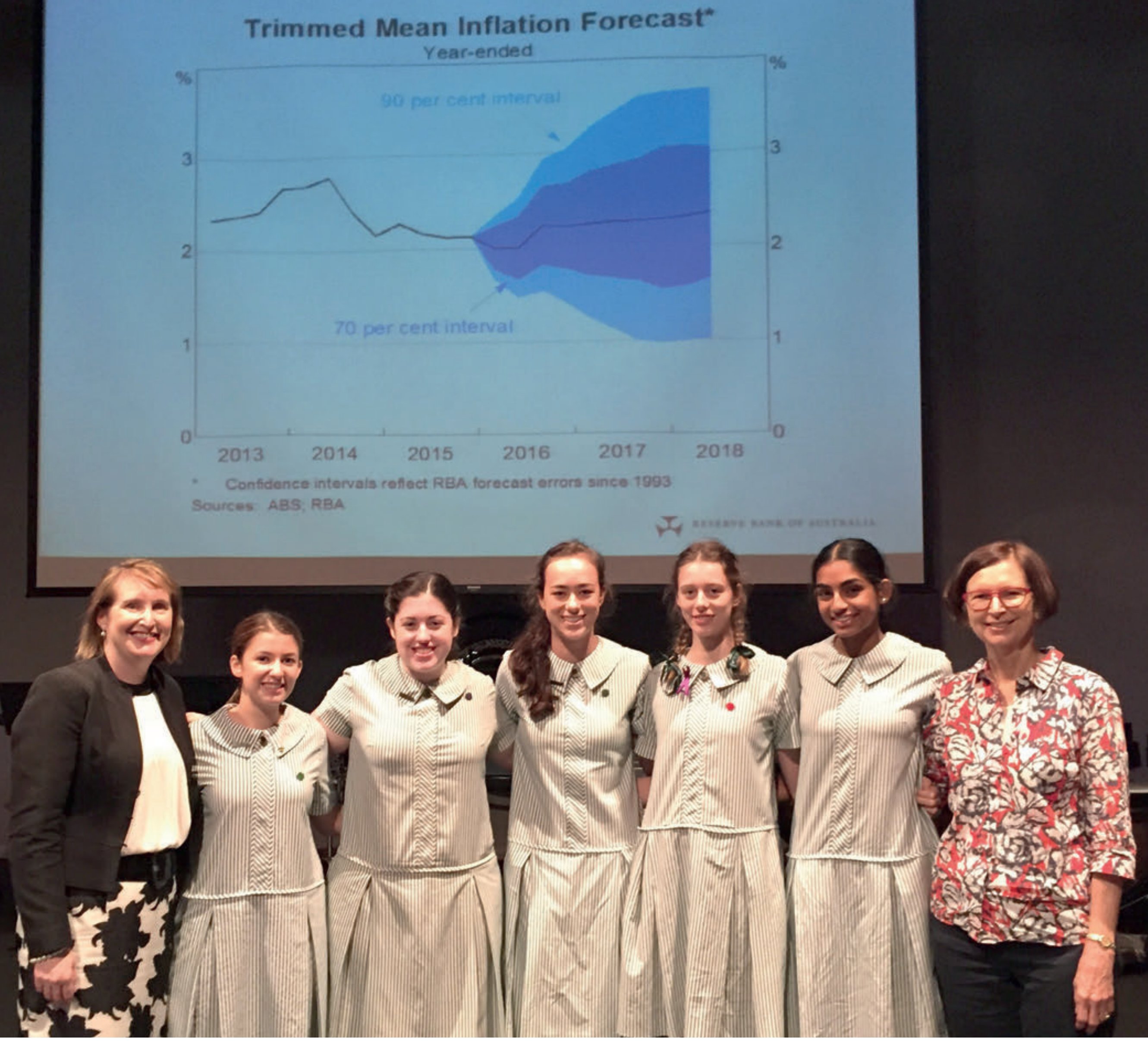
Activities of the State Offices

In addition to its Head Office located in Sydney, the Reserve Bank has offices in Adelaide, Brisbane, Melbourne and Perth, whose key purpose is to oversee the Bank's liaison program. These offices also form a key component of the Bank's communication with members of the public, business, government, community organisations and academia in their respective states.

The Reserve Bank meets regularly with businesses and associations in every state and across industries in the Australian economy. The information collected under the liaison program complements that available from official sources and helps the Bank to monitor cyclical and structural developments, as well as the effect of unusual events on the Australian economy. The broad messages gathered through liaison are incorporated into the Bank's policy discussions and public communication. While much of this information is used internally in helping shape the Bank's assessment of the Australian economy, a number of the topical articles that feature regularly in the Reserve Bank *Bulletin* draw on the broad themes and messages coming from the liaison program.[1]

As noted in the chapter on 'Governance', the Reserve Bank Board meets in state capitals on a regular basis, with the Board meeting usually held in the Bank's office in the particular city. A dinner with senior members of the local

1 For a comprehensive overview of the Business Liaison Program, see Reserve Bank of Australia (2014), 'The RBA's Business Liaison Program', *Bulletin*, September, pp 1–5. Available at <http://www.rba.gov.au/publications/bulletin/2014/sep/pdf/bu-0914-1.pdf>.



Senior Representative, Queensland Office, Karen Hooper (left) and Year 12 economics students with Ailsa Shield, Head of Social Science, Clayfield College, Brisbane, March 2016

community is usually held on the evening following the Board meeting. These dinners, which are attended by political, business and public sector leaders, as well as representatives of the education, not-for-profit and other sectors, provide an opportunity for relationships between local communities and the Bank to be strengthened. A dinner with senior members of the Sydney community is held every two to three years with the same objective. In 2015/16, dinners were held in Perth in December 2015 and in Hobart in April 2016, the first time the Reserve Bank Board had met in that city.

Staff in the State Offices also play a role in the Reserve Bank's efforts to keep the public informed of its evolving views on the economy. They hold discussions with a broad cross-section of the community, regularly giving presentations on economic developments to business groups, community organisations and educational institutions in state capitals and regional centres.

Alliance Aviation Services CEO Lee Schofield (left) with Senior Representative, Queensland Office, Karen Hooper, Alliance staff member Jonathan Evans and Alliance Managing Director Scott McMillan (right) in the company's maintenance hanger, February 2016

Staff from the State Offices also regularly visit Tasmania and the Northern Territory to gather information on economic conditions in those parts of Australia.

Liaison with Small Businesses

The Reserve Bank continues to convene its Small Business Finance Advisory Panel, which was established in 1993. It meets annually to discuss issues relating to the provision of finance and the broader economic environment for small businesses. Membership of the panel is drawn from a range of industries across the country. The panel provides a valuable source of information on financial and economic conditions faced by small businesses. The Bank's liaison program also involves Bank staff meeting with a number of small businesses and small business groups.

Reserve Bank of Australia Museum

The Reserve Bank's Museum houses a permanent collection of artefacts, hosts periodic exhibitions and offers regular talks and tours for visitors. The permanent collection portrays the story of Australia's banknotes against the background of the nation's broader social and economic history. Visitors can view a display of the types of money used before Federation – from an early colonial rum bottle through to Australia's first gold coins. They can then view various banknotes produced since the first Australian note series in 1913–15, progressing through each era of banknote production. Finally, the Museum focuses on Australia's polymer banknotes, describing their design, security features and production. When viewing the collection, visitors can observe the evolution of the nation's identity as expressed through its banknotes, learn about the influential women and men depicted on them and study the artwork used in banknote design.

(Image top) Reserve Bank Board community dinner, Hobart, April 2016; (image above) Reserve Bank Board community dinner, Perth, December 2015

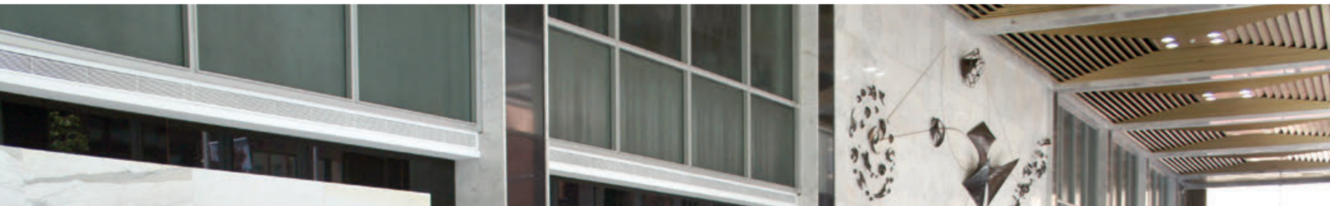
(Image top) Guy Warren AM with the portrait of Charles Kingsford Smith he rendered for Gordon Andrews' design of the first decimal $20 banknote; (image above, from left) Sophie Coombs, Janet Coombs AM and Jim Coombs, family of former Reserve Bank Governor Dr HC Coombs, standing alongside *The Decimal Revolution* exhibition, February 2016

Neil Davey AO, the eminent economist who was known as Mr Decimal, was among the distinguished guests at the function to mark the 50th anniversary of decimal currency in Australia, February 2016

To mark the 50th anniversary of the introduction of decimal currency on 14 February 1966, a special temporary exhibition entitled *The Decimal Revolution* was introduced in 2016. It complemented the permanent decimal banknotes series collection with artefacts related to the social context of this radical change to the way in which transactions were conducted. The exhibition highlighted the distinguishing aspects of the bold and innovative banknote designs by Gordon Andrews, showing how the imagery captured the nation's distinctive identity. It showed how Indigenous designs were given prominence for the first time in the nation's currency. The physical exhibition was also accompanied by an online exhibition that provided the public with a rich array of archival records in relation to decimal currency. It honoured the role of key contributors to the decimal currency enterprise who, with their descendants, attended an anniversary function at the Bank in mid February 2016.

As part of the ongoing commemoration of the centenary of Word War I, a temporary exhibition entitled *Before Sunset: The Bank & World War I* remains a feature of the Museum. It explains how the First World War saw the emergence of central banking in Australia. These functions were originally performed by a part of the Commonwealth Bank of Australia that later became the Reserve Bank of Australia. The exhibition showcases the Bank's fundraising efforts during the war and honours those staff who enlisted. It displays rare letters sent to the Governor of the day from the battlefields, including Gallipoli, along with a range of other artefacts related to the Bank's involvement in the war.

Around 16 700 people visited the Museum during 2015/16, with visitor numbers continuing to grow in recent years as the Museum's



(Image top) Pat Woolley, whose husband Ted Roberts wrote the lyrics to the conversion jingle, with Kevin Golsby, the voice of the animated character Dollar Bill, at the decimal currency event, February 2016; (image above) Head of Information Department Jacqui Dwyer (left) with visitors to the Reserve Bank of Australia Museum during Sydney Open, November 2015

Reserve Bank staff Tobias Beckmann and Josef Manalo hold $1 million during the annual Sydney Open, November 2015

Around 16 700 people visited the Museum during 2015/16

program for community engagement and public education expands. There were over 1 500 visitors on Australia Day 2016 alone. The Reserve Bank again participated in Sydney Open in November 2015, with over 1 400 visitors to the Museum and smaller groups enjoying access to selected parts of the Head Office building to learn about its unique architectural features and banknote production. A wide cross-section of the public visited the Museum, though educational groups accounted for the largest share of visitors, with school students accounting for over one-third of total visitors and university students accounting for another quarter. In addition to talks to senior high school and university students about the economy and the role of the Bank, there has been a significant increase in the number of talks about banknotes, highlighting their production process and security features. There has also been an increase in the number of talks to other groups, including new migrants, those with English as a second language and those from remote or disadvantaged communities. Most of the information in the Museum is depicted on the Museum's website.

Assistance for Research and Education

The Reserve Bank sponsors Australian and international economic research in areas that are closely aligned with its primary responsibilities. This sponsorship includes financial support for conferences, workshops, data gathering, journals and special research projects, and encompasses areas of study such as macroeconomics, econometrics and finance. In addition, the Bank provides financial support for the activities of the Centre for Independent Studies and the Sydney Institute. It is also a member organisation of the Committee for Economic Development of Australia (CEDA); membership includes an annual research contribution.

In 2015/16, the Reserve Bank continued its longstanding contribution towards the cost of a monthly survey of inflation expectations undertaken by the Melbourne Institute of Applied Economic and Social Research at the University of Melbourne. The Bank also maintained its contribution towards a quarterly survey of union inflation and wage expectations undertaken by the Australian Council of Trade Unions (which had previously been undertaken by the Workplace Research Centre at the University of Sydney).

The Reserve Bank continued to provide financial support for the *International Journal of Central Banking*, the primary objectives of which are to disseminate first-class, policy-relevant and applied research on central banking and to promote communication among researchers both inside and outside central banks. The Bank continued its longstanding practice of providing financial support for the Group of Thirty's program of research into issues of importance to global financial markets. The Governor is a member of the Bretton Woods Committee, whose programs and publications aim to promote economic growth, reduce poverty and maintain financial stability globally. The membership entails a modest annual financial contribution.

Financial assistance to Australian universities each year includes contributions towards the cost of conferences on economics and closely related fields. In 2015/16, these conferences included: the Economic Society of Australia's Conference of Economists, held jointly with Griffith University, Queensland University of Technology and the University of Queensland; the 21st Melbourne Money and Finance Conference; the University of New South Wales 28th Australasian Finance & Banking Conference; and the Paul Woolley Centre for the Study of Capital Market Dysfunctionality Conference 2015, held at the University of Technology, Sydney. The Reserve Bank also

The total value of support offered for research and education in 2015/16 was

$256 321

The Banking and Finance Oath 2016/17 Young Ambassadors program presented by Governor Glenn Stevens (centre) (from left) Treshan Fernando, Yaishvi Rooprarain, Amy Rodda, Tram Bui, Dominic Tran, April Buckley (absent) supports the discussion of economic issues in the community by providing a venue for the Economic Society of Australia's Lunchtime Seminar and the Emerging Economist Series.

The Reserve Bank sponsors an annual essay competition across Australia, which is designed to engage and support undergraduate students interested in economics. The competition is organised jointly with the University of New South Wales Economics Society and the Economic Society of Australia. In 2015, students were invited to discuss the implications of falling commodity prices and the transition of Australia's mining industry from the investment phase to the production phase. Scott Tilbury (University of New England) wrote the winning essay, the runner-up was Hugh Oliver (Monash University) and the best essay from a first-year student was written by Jim Yue Xu (University of New South Wales). The Governor presented these students with prizes at a ceremony at the Bank in October 2015. For the 2016 competition, the topic of the essay competition is economic policy options at low interest rates. Students are asked to explain the channels of monetary policy transmission and any impact low interest rates may have on

Glenn Stevens (left) presented the winners of the annual Reserve Bank of Australia and Economic Society of Australia essay competition with their prizes in October 2015 (from left) Jim Yue Xu (best first-year essay), Scott Tilbury (winner) and Hugh Oliver (runner-up) these channels, and to discuss other economic policies that could be used to support growth in economic activity and provide impetus to inflation.

In conjunction with the Australian Prudential Regulation Authority (APRA), the Reserve Bank has continued to sponsor the Brian Gray Scholarship Program, initiated in 2002 in memory of a former senior officer of the Bank and APRA. Four scholarships were awarded under this program in 2016 for: PhD studies in economics at the Australian National University; science honours in actuarial studies at Curtin University of Technology; mathematics and finance honours at the University of Technology Sydney; and commerce honours at the University of Western Australia. The cost to the Bank of these scholarships in 2015/16 was $30 000.

The total value of support offered for research and education in 2015/16 was $256 321.

Over the past year, the Reserve Bank hosted visits by numerous researchers (including academics, post-graduate students, authors, journalists, numismatists, heritage architects and designers) interested in accessing the Bank's archives. The archives contain a rich collection of records about the Bank's own activities as well as those of financial institutions in Australia that predate the creation of the central bank as a separate institution. Because the central bank was formerly the government printer for materials other than banknotes, the Bank's archives also include a historical collection of Australian stamps, posters and vouchers. There has been a substantial increase in the number of requests relating to historical episodes of financial crisis and the involvement of financial institutions in the two world wars, along with requests related to the 50th anniversary of the introduction of decimal currency. In addition, there were numerous requests relating to historical design images to be reproduced in publications. The program to digitise the Bank's most significant archival records continued during the year in review, with many thousands of records (including photographs and rare glass plate negatives) scanned and being made available electronically to researchers. The Bank's Historian, Professor Selwyn Cornish of the Australian National University, is at an advanced stage of his research for the next volume of the official history of the Reserve Bank, which covers the period 1975–2000.

Charitable Activities

During 2015/16, the Reserve Bank made its 14th annual contribution of $50 000 to the Financial Markets Foundation for Children, which is chaired by the Governor. For many years, the Bank has donated a signed uncut banknote sheet to the ASX Thomson Reuters Charity Foundation for auction, which usually raises over $30 000. The Foundation includes the Financial Markets Foundation for Children in the distribution of auction proceeds. In early

Reserve Bank staff volunteering at FoodBank, December 2015

The Bank's charitable contribution in 2015/16 totalled $152 714

August 2016, the Governor addressed the Anika Foundation's 11th public event to raise funds to support research into adolescent depression and suicide. This was Glenn Stevens' final address to the Anika Foundation and his last public speech as Governor.

The Reserve Bank's corporate philanthropy program involves several initiatives, key among which involves dollar-matching staff payroll deductions (totalling $90 000 in 2015/16) to the Reserve Bank Benevolent Fund. The Bank also made a small donation to the MS Society, which matched funds raised by Bank staff participating in the 'Sydney to the Gong' charity bike ride in November 2015.

Reserve Bank staff participated in a number of volunteering activities in 2015/16, including the Cancer Council's Biggest Morning Tea fundraiser, the Smith Family Skilled Volunteer Program and Foodbank.

The Reserve Bank's contributions under all these initiatives in 2015/16 totalled $152 714. In addition, the Bank facilitates staff salary sacrificing under a Workplace Giving Program.

Governor Glenn Stevens speaking at the Anika Foundation luncheon, August 2016

Part 3:

Management and Accountability

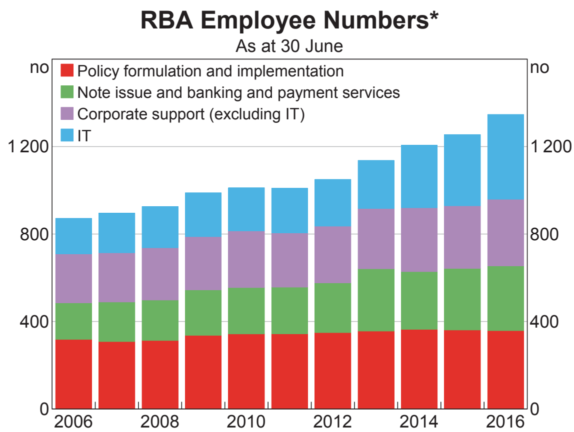
Our People

The total number of Reserve Bank employees increased by 7 per cent during 2015/16. Of the 263 staff members who joined the Reserve Bank during the year, most were recruited on a limited-duration basis, largely to handle project work. The Bank continues to attract diverse and talented new employees through its graduate and internship programs.

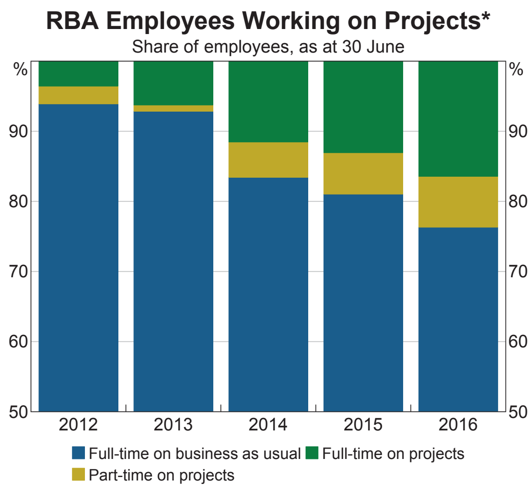
Staff Profile

In June 2016, the Reserve Bank (excluding Note Printing Australia Limited (NPA)) had 1 347 employees, which was 7 per cent more than a year earlier. This increase is attributed largely to the continuation of major, multi-year projects commenced over the past few years. These projects relate to the renovation of the Bank's banking systems and applications, the next generation of banknotes (and several related projects covering the banknotes themselves as well as associated physical and technological infrastructure in Victoria) and the new payments infrastructure for faster payments.

Of the 263 individuals who joined the Reserve Bank since July 2015, the vast majority have been recruited on a limited-duration basis to support the large volume of project work and will leave the Bank once the projects are complete. Many of these new recruits have been information technology professionals, as much of the project work is technology intensive. For the Bank's non-project-related work, its graduate and internship programs continue to be an important recruitment channel. In the year to June 2016, the Bank hired 21 graduates and 19 interns (students in their final year of study who undertake vacation work at the Bank). These employees work in the



* Excludes NPA
Source: RBA



* Excludes NPA
Source: RBA

As part of a team-building exercise, Reserve Bank graduate recruits participated in the behind-the-scenes Roar & Snore experience at Taronga Zoo, January 2016

Bank's policy, note issue, banking and payment services and corporate services areas and hold degrees in commerce, economics, engineering and other professional disciplines. The Bank's 2015/16 graduate intake was smaller than in previous years, owing to higher retention rates of employees in these professional disciplines beyond the Graduate Development Program than in recent years.

During 2015/16, around 13 per cent of staff left the Reserve Bank, with contract expiration accounting for one-fifth of these exits, consistent with the experience in 2014/15. Given the high level of project-related work the Bank is currently undertaking, it is expected that this trend will persist for the next few years.

People and Culture

The Reserve Bank needs high-quality people working productively together in order to fulfil its responsibilities. To support this, a multi-year strategy for people and culture was developed in 2013, which sought to:

- identify aspects of the Bank's culture and work environment that are strengths, as well as areas that need improvement, and measure progress in making improvements
- develop a deep and diverse pool of well-trained potential leaders
- fully utilise the talents of the Bank's people
- foster an inclusive and flexible work environment.

Steady progress in implementing the People and Culture Strategy continued to be made over the past year. To support the first objective, all employees were invited to participate in the Reserve Bank's second employee engagement survey. The survey showed that employees continue to report a high level of engagement and also highlighted some potential opportunities to enhance this engagement. Employees across the Bank have contributed to the development of departmental and enterprise-wide action plans. A follow-up survey will be conducted in around two years to assess progress and identify new opportunities.

Making progress in leadership development is another priority of the People and Culture Strategy. The Reserve Bank launched a new Executive Leadership Development Program during the year as a key investment in its most senior leaders. The program covers areas such as how to lead the Bank at an enterprise level and how to constructively shape the cultural context in which teams and individuals operate. The program also provides participants with an opportunity to develop their leadership capabilities further.

The People and Culture Strategy also places emphasis on ensuring that the talents of employees are being utilised. Accordingly, a range of development opportunities for employees are in place. While on-the-job training is an important component of this, it is supplemented by formal training programs, such as:

Women currently hold 31 per cent of management positions

- the two-year Graduate Development Program, consisting of a range of tailored training programs to develop effective business writing, critical thinking, presentation and communication and negotiation skills. A total of 60 graduates were in this program in 2015/16
- programs supporting technical and professional development, including training in project management and change management

Reserve Bank staff (from left) Morgan Spearritt, Frank Campbell (Assistant Governor, Corporate Services), Sarah Hepburn, Colleen Andersen, Jennifer Royle, Kylie Fuller, Bronwyn Nicholas, Governor Glenn Stevens and Dale Simpson at an International Women's Day Breakfast, March 2016

(Image top) Governor Glenn Stevens met with female undergraduates at the University of Sydney; the event took the form of an informal conversation with Camille Blackburn, Chair of the Women's College, August 2015; (image above left) Head of Financial Stability Department Luci Ellis with Chief Information Officer Sarv Girn at the MIT International Executive Forum hosted by the Reserve Bank, January 2016; (image above right) Sarv Girn with Professor Peter Weil, Chair of MIT's Center for Information Systems Research, January 2016

- training in management and leadership skills, as well as other general competencies, such as communication skills
- training in the Reserve Bank's compliance obligations, including in relation to work health and safety, fraud awareness and anti-money laundering and counter-terrorism financing.

Development opportunities are provided to employees by supporting secondments both internally between different areas of the Reserve Bank and externally to other policy institutions in Australia and overseas. The Bank also hosts secondees from other institutions. In 2015/16, secondees came from the Commonwealth

The objective of the People and Culture Strategy is to actively promote an inclusive and flexible work environment

Australian of the Year David Morrison AO speaks with Head of Human Resources Department Melissa Hope and Head of Information Department Jacqui Dwyer after his address to Bank staff, June 2016

(Image top) Australian of the Year David Morrison AO addresses Bank staff, June 2016; (Image above) (from left) Melissa Hope (Head of Human Resources Department), Tui Nolan (CareerTrackers' intern), Michele Bullock (Assistant Governor, Business Services Group), Kylie Fuller (Senior Consultant Talent Diversity, Human Resources Department), Michelle McPhee (Head of Risk and Compliance Department) and Gayan Benedict (Deputy Head, Information Technology Department) at the CareerTrackers Gala Dinner, February 2016

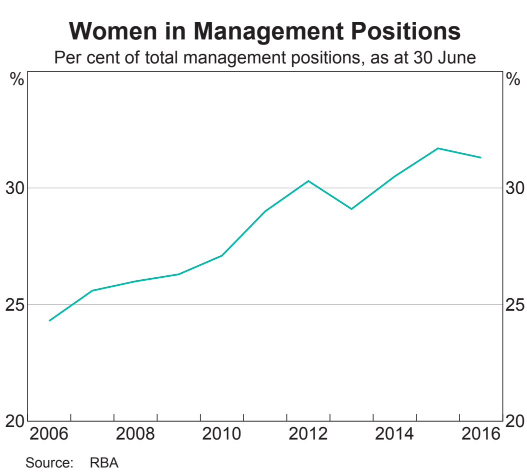
Reserve Bank Information Technology Department Security Analyst Bronwyn Mercer is awarded a New Colombo Plan scholarship from the Minister for Foreign Affairs, the Hon Julie Bishop MP, and the Governor-General, His Excellency General the Honourable Sir Peter Cosgrove AK MC (Retd), October 2015

Department of the Prime Minister and Cabinet, Bank of England, Bank for International Settlements, People's Bank of China, Reserve Bank of New Zealand and Royal Canadian Mounted Police.

Financial support is provided to current employees for part-time study in disciplines related to their work, with around 60 employees benefiting from this support during 2015/16. In addition, the Reserve Bank provides support for full-time postgraduate study at universities in Australia and overseas; in November 2015, five employees were awarded such assistance (two women and three men).

The final objective of the People and Culture Strategy is to actively promote an inclusive and flexible work environment, recognising the importance of flexible work in supporting employees to balance their working and personal lives. Accordingly, the Reserve Bank has clear guidelines and processes in place to support the submission and appropriate consideration of requests for such arrangements. A number of different flexible work arrangements are currently utilised by Bank employees, including working from home or another location, reducing working hours (that is, becoming part-time employees), working full-time hours but in a more flexible way (altering start or finish times, or working compressed work weeks), and entering into job-share arrangements.

The representation of women in management positions is an important priority at the Reserve Bank. A gender target was introduced in 2014/15, which is for 35 per cent of management positions to be filled by women by 2020, with a longer-term aim of 40 per cent. Women currently hold 31 per cent of management positions. This is down slightly from 2014/15, reflecting the relatively



high proportion of managerial appointments in male-dominated professions, such as information technology and facilities management, over the past year. In support of the gender target, there is a strong focus on talent management at the Bank, including succession and development planning for both women and men, and reviewing recruitment practices for graduates. Employee awareness and understanding of diversity and inclusion are also furthered by supporting Bank staff to participate in external diversity and inclusion events and hosting external speakers at the Bank to talk on diversity and inclusion-related topics, including gender.

Reserve Bank staff also actively work to promote economics, finance, mathematics and information technology as career options for women in the community more broadly by participating in student information sessions. In 2015/16, a NSW Premier's Teachers Scholarship was sponsored by the Bank. This scholarship provides a professional development grant to a teacher who will conduct research on the factors influencing the participation of students in advanced mathematics and economics at high school or TAFE and present recommendations on how to encourage greater gender equity in the study of these subjects.

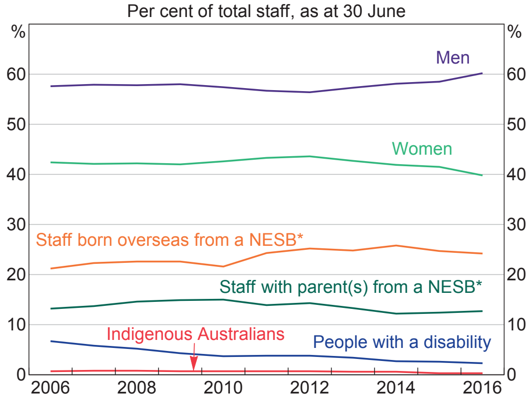
To promote the inclusion of Indigenous Australians in the workplace, a Reserve Bank-funded internship was provided for an Indigenous Australian in 2015/16. The internship was facilitated by CareerTrackers, a non-profit organisation that works with organisations to provide work experience, networking and professional development opportunities for Indigenous students who are studying for relevant degrees. The internship involved vacation work at the Bank as well as professional development training and access to a student advisor. An expansion of the Bank's support for the CareerTrackers program is planned over the coming year.

The Reserve Bank Diversity and Inclusion Plan 2016–19 was also launched during the reporting year. The plan establishes the key priorities at the Bank for diversity and inclusion, as well as the initiatives that will be pursued to support them. The priorities were determined through consultation with employees, workforce diversity profile analysis and recent developments in diversity and inclusion practices in the community more broadly.

Each year, the Reserve Bank's workforce diversity profile is reviewed and developments are reported in the *Equity & Diversity Annual Report*. Over the past decade, within a relatively stable diversity profile in the Bank overall, there has been an increase in the share of employees from non-English-speaking-backgrounds and a decline in the share of employees who report that they have a disability. The share of women in the Bank's workforce has also fallen slightly over this period, largely reflecting the relatively high proportion of employees recruited from male-dominated professions during this time. The redesign of administrative roles that were predominantly filled by females has also contributed to the decline in the share of female employees over the past few years.

Diversity Profile at the RBA

Per cent of total staff, as at 30 June



* Non-English-speaking background

Source: RBA

Remuneration

The total remuneration packages for Reserve Bank staff are designed to attract and engage high-calibre employees. The Bank's Workplace Agreement provided for a performance-based salary increase, distributed from a pool equivalent to 2 per cent of salaries in each of 2014/15 and 2015/16. As in the past, the new agreement made available a moderate additional lump-sum performance-based payment. The salary increases were smaller than in earlier agreements and there was no increase in the base of the salary bands for each level. The agreement included an increase of hours in the standard work week for all employees in late 2016, and also accommodates contemporary practice for shift and related allowances in anticipation of parts of the Bank beginning to move to 24/7 operations.

During 2015/16, the process of transferring the management and administration of the Reserve Bank superannuation fund, the Officers' Superannuation Fund (OSF), to an external provider commenced. The decision to do this was made to ensure that the OSF is best able to meet the increasing regulatory and governance requirements for superannuation funds more generally. A competitive selection process was undertaken and the process of transitioning to the selected multi-employer fund commenced in early 2016/17.

Management of the Reserve Bank

Much of the Reserve Bank's call on resources comes from activities associated with its key policy and operational responsibilities in financial markets, banking and payments. A number of ongoing major projects, designed to strengthen its operations, have added to the Bank's capital and operating costs in recent years. Several of these are expected to be brought to completion in 2016/17 and costs are expected to return to historical levels in later years.

The Reserve Bank's Costs

As has been foreshadowed in recent years, the Reserve Bank's costs rose noticeably in 2015/16 as the work on the portfolio of large projects, discussed in detail in other chapters of this annual report, entered a mature stage of delivery. The focus of these projects is to strengthen operations in relation to the Bank's charter obligations for monetary and financial policy, note issue and banking services, the latter including the systemically critical interbank payment systems. This work addresses risk, improves service levels or is necessary to meet industry requirements. Some, but not all, costs associated with this work will be recovered over time from higher user fees. Strengthening cyber security has also been a high priority over the past year.

A number of key projects were completed in the past year, while most others remain on track to be delivered within budget. Many of these projects are technology-intensive. While the rise in costs and headcount is expected to be temporary, both are expected to remain relatively high in the year ahead. With many projects in the portfolio expected to be brought to completion in 2016/17, costs, especially capital costs, are expected to return to around their historical levels in later years. New projects to be initiated in 2016/17 have been approved on the basis that they will not add, in net terms, to the Reserve Bank's staffing.

Projects delivered in 2015/16 include initiatives to upgrade the capacity to assess the quality of collateral presented to the Reserve Bank at various points in its market operations. Planned further work on related systems includes moving to the latest information technology platforms, as current platforms will no longer be supported, and developing better systems to prepare for the Bank's daily market operations in Australia. A contemporary platform for storing, accessing and analysing information, including key data collections, was completed early in 2016. This will reduce the cost of providing databases for policy-based projects that are under way or will take place in the future.

Significant work has been undertaken on projects related to the issue of the new generation of banknotes. Major components of this work include the design, printing and issue of the new banknote series itself, adopting contemporary processing and logistics technology and the building of new storage infrastructure. The processing, storage and distribution of the

(Image top) Frank Campbell (Assistant Governor, Corporate Services) with Grant Baldwin (Head of Facilities Management Department), Ed Jacka (Senior Manager, Facilities Management Department) and Michael Walker (Senior Manager, Facilities Management Department) at the National Banknote Site in June 2016; (image above) a progress photo of the external precast panel façade of the National Banknote Site, August 2016

new series of banknotes will be centred on the National Banknote Site (NBS), which is being constructed adjacent to the printing facilities operated by Note Printing Australia Limited (NPA) at Craigieburn, Victoria. The NBS was approved by the Parliamentary Public Works Committee in February 2014. Construction is proceeding consistent with this approval, with practical completion expected by the end of 2016. The project remains within the budget advised to the Parliamentary Public Works Committee.

Other major projects that are under way are designed to improve banking and payment services to customers and platforms provided to the finance sector. As well as starting the next stage of the work to update the Reserve Bank's own banking systems, the Bank is adapting these systems to participate in the industry-led initiative to develop the New Payments Platform, which will allow low-value payments to be cleared and settled in near 'real time'. Separately, the Bank is also making a major contribution to this system-wide infrastructure by developing platforms that will immediately clear and settle transactions by authorised deposit-taking institutions resulting from these 'low-value' payments. The infrastructure for the Reserve Bank Information and Transfer System (RITS), Australia's high-value payments system, is being strengthened as hardware is replaced within a more resilient and secure network structure, thereby further reducing risk to the interbank payments system. These banking and payment systems will, over time, recover their ongoing operating costs from user fees.

With many large projects heavily dependent on information technology systems and infrastructure, work has been undertaken to ensure information technology assets are appropriately mature, resilient and manage operational and other risk to acceptable levels. Significant resources have been applied to strengthening cyber security. The Reserve Bank has been certified as complying to a mature standard with the 'Top Four' strategies recommended by the Australian Signals Directorate (ASD) for containing cyber threats; significant progress has been made in adopting the remainder of the ASD's strategies, with the Bank being certified as fully compliant with an additional 16 and having compensating controls for a further five. The Bank intends to implement the remaining 10 ASD strategies and achieve certification by the end of 2016. Contemporary storage technology was introduced, the first major activity provided as a managed service, in an arrangement that aims to reduce both cost and risk. A number of administrative systems have also been automated, with some offsetting cost reduction from lower staff numbers working on relevant activities.

The Reserve Bank has a substantial program to maintain its physical assets, including buildings, to ensure that building services remain effective and resilient and that associated risks are managed appropriately. The mechanical systems that operate the passenger and bullion lifts in the Bank's Head Office, which date from the building's construction in the early 1960s, are currently being replaced. In 2015/16, a major project to strengthen perimeter security around the NPA site was completed, some Head Office accommodation was refurbished and work on upgrading the fire safety system was in train.

The project to transfer the Reserve Bank staff superannuation fund to an external master trust made good progress over 2015/16 and is expected to be completed in the year ahead, as the competitive process to make an appointment was completed and a provider appointed. This project will help manage to lower levels the risk associated with the continually changing regulatory landscape for superannuation and eliminate any potential for perceived conflicts of interest from the Bank undertaking such an activity. The transfer of this fund will also significantly reduce costs for the Bank and fund members, as well as provide better services to members. The trustees of the staff superannuation fund have endorsed this proposal. Administration of the fund had already been outsourced in 2013, with significant cost reductions at that time. The defined benefit component of the Bank's superannuation scheme was closed to new members in August 2014.

General operating expenses associated with running the Reserve Bank's routine operations and projects, as opposed to those associated with holding assets, making transactions or purchasing banknotes, rose by 9.1 per cent in 2015/16. This increase partly reflected additional

General Operating Costs[(a)]
$ million

	2011/12	2012/13	2013/14	2014/15	2015/16
Staff costs	156.7	169.0	184.6	195.3	212.8
Other costs	72.7	76.8	87.4	89.0	97.4
General operating costs	229.4	245.8	272.0	284.3	310.3
Of which:					
Cost of projects	9.1	11.8	18.4	28.0	34.9

(a) Excluding NPA and banknote management expenses, and costs directly linked with transaction-based revenue

staffing associated with work on the major projects that are under way, as discussed above. Excluding spending on projects, operating costs for ongoing activities increased by 7.4 per cent in 2015/16. However, the previous year's costs had been held down by the delay in finalising the new Workplace Agreement, which meant that pay rises for 2014 were not paid until August 2015. Abstracting from this and the rise in depreciation, costs of 'business as usual' activities rose by 3.6 per cent in 2015/16. As noted in the chapter on 'Our People', the Workplace Agreement, which was negotiated in the context of expenditure restraint in the broader public sector, provided for a performance-based salary increase, distributed from a pool equivalent to 2 per cent of salaries in each of 2014/15 and 2015/16, alongside an increase in standard work hours from September 2016. The rise in operating costs for ongoing activities is expected to moderate in 2016/17, although total costs are expected to rise by a bit more than in 2015/16, as activity on projects peaks in 2016/17 and depreciation costs rise appreciably, reflecting the substantially higher asset base. The start-up of some new 'business as usual' activities, such as operations at the NBS, will also add to ongoing costs.

The extent of the Reserve Bank's investment in its strategic initiatives is reflected by the significant level of capital expenditure incurred in 2015/16. This also reflects the progress that has been made in terms of delivering the portfolio of strategic projects in train across the Bank. Capital outlays, which rose by $51.6 million, were heavily concentrated on the major initiatives to develop technology and communication systems for banking, payments and settlements, though they also reflect the work undertaken to strengthen security at the NPA site and the construction of the new NBS facility at that location.

Facilities and Environmental Management

The Reserve Bank owns premises in locations where there is a business need to do so, namely its Head Office in Sydney; the HC Coombs Centre for Financial Studies in Kirribilli, Sydney; office buildings in Melbourne and Canberra; the note printing facility at Craigieburn, north of Melbourne; and the Business Resumption Site in north-west Sydney. In addition to the buildings it owns, the Bank leases accommodation for its State Offices in Adelaide, Brisbane and Perth – where its requirements for space are modest – and for its offices in London, New York and Beijing.

The value of the Reserve Bank's property assets increased by $35 million to about $390 million in 2015/16, primarily because of an increase in the value of the Sydney, Melbourne and Craigieburn facilities. Surplus accommodation in the Bank's properties is leased to external tenants. Net income from these leases amounted to $11.2 million in 2015/16, compared with $10.9 million in the previous year.

Capital Costs[a]

$ million

	2011/12	2012/13	2013/14	2014/15	2015/16
Capital costs	19.4	29.8	44.2	56.5	108.1
Of which:					
Cost of significant projects[b]	1.7	7.8	18.6	42.9	92.8

(a) Excluding NPA
(b) Projects on the Bank's Enterprise Master Schedule

The Reserve Bank is committed to improving the environmental performance of its operations. The Bank has developed policies that are in accordance with the principles of ecologically sustainable development as set out in the *Environment Protection and Biodiversity Conservation Act 1999*. These policies work to reduce the impact of the Bank's operations on the environment and include the following initiatives:

- reducing energy, water and paper consumption
- increasing the recycling of paper, co-mingled waste and printing cartridges
- adopting environmentally sustainable designs for office fit-outs
- use of 50/50 recycled paper
- greater use of fuel-efficient vehicles.

Compared with averages over the past five years, the key indicators are that electricity consumption declined by 2.3 per cent in 2015/16, with the largest reduction recorded at the Craigieburn facility, mainly associated with production scheduling.

Gas consumption was 13 per cent lower, following operational changes at the Craigieburn facility. Use of water was 5.4 per cent lower with improved water management systems in Head Office. The fuel consumption of the fleet of pool vehicles was 9 per cent more efficient than a year earlier.

Consultancies

The Reserve Bank employs outside contractors and professional service providers to carry out specific tasks where necessary and also, from time to time, uses consultants. Consultants are engaged where the Bank lacks specialist expertise or when independent research, review or assessment is required. Consultants are typically engaged to investigate or diagnose a defined issue or problem; carry out defined reviews or evaluations; or provide independent advice or information to assist in the Bank's decision-making. Prior to engaging consultants, the Bank takes into account the skills and resources required for the task, the skills available internally, and the cost-effectiveness of engaging external expertise. Spending on consultancies over the past eight years is shown below.

As in previous years, consultancies during 2015/16 covered a range of activities, with around three-quarters of spending related to the project to upgrade Australia's banknotes.

Spending on Consultancies[a]

$

2008/09	63 000
2009/10	61 000
2010/11	102 000
2011/12	535 000
2012/13	1 190 000
2013/14	387 000
2014/15	773 000
2015/16	622 520

(a) Sum of individual consultancies that cost $10 000 or more

Risk Management

The Reserve Bank seeks to carefully manage risks related to its role and responsibilities. The Risk Management Committee, which is chaired by the Deputy Governor, oversees the Bank's risk management processes and framework, key to which is maintaining the Bank's active risk management culture.

Objectives and Governance Structure

Risk management is integral to all aspects of the Reserve Bank's activities and is the responsibility of all staff. Managers have a particular responsibility to evaluate their risk environment, put in place appropriate controls and ensure that these controls are well developed and implemented effectively. The Bank identifies, assesses and manages risk at both an enterprise ('top-down') and business ('bottom-up') level, a process that is subject to ongoing review. These risks are managed to a level that is consistent with the Bank's risk appetite through processes that emphasise the importance of integrity, intelligent inquiry, maintaining high-quality staff and public accountability. The development and maintenance of an active risk management culture that acknowledges the need for careful analysis and management of risk in all business processes is an important objective of this framework.

Oversight of the Reserve Bank's arrangements for risk management is undertaken by the Risk Management Committee. This committee is responsible for ensuring the proper assessment and effective management of all the risks the Bank faces, with the exception of those arising directly from its monetary and banking policy, financial stability and payments policy functions. These risks remain the responsibility of the Governor, the Reserve Bank Board and the Payments System Board. The risks associated with the Bank's shareholding in Note Printing Australia Limited (NPA) are not the responsibility of the Risk Management Committee. Instead, these risks are overseen by the Reserve Bank Board and covered by the NPA Charter, although responsibility for the day-to-day activities of NPA rests with the NPA Board and management. The Bank's risk management framework covers the relationships that it has with NPA other than its shareholding – for example, joint participation in projects and the relationships of supplier, customer, landlord and tenant.

The Risk Management Committee is chaired by the Deputy Governor and comprises the Assistant Governors for Business Services, Corporate Services and Financial Markets Groups; Chief Financial Officer; Chief Information Officer; Heads of the Audit, Human Resources, Information, and Risk and Compliance Departments; and the General Counsel. The Risk Management Committee meets six times a year, or more frequently if required, and keeps the Executive Committee and Reserve Bank Board Audit Committee informed about its activities.

The Risk Management Committee is assisted in its responsibilities by the Risk and Compliance

Risk management is integral to all aspects of the Reserve Bank's activities and is the responsibility of all staff

Department. The department's main role is to assist individual business areas to manage their risk environment effectively within a broadly consistent framework. It also monitors risk and performance associated with the Bank's activities in financial markets and provides support to the business areas by the implementation of Bank-wide control frameworks covering fraud control, anti-bribery and corruption measures, business continuity and compliance-related risks. The Head of Risk and Compliance Department reports directly to the Deputy Governor.

The Audit Department undertakes a risk-based audit program to provide assurance that risks are identified and key controls to mitigate these risks are well designed and working effectively. This includes periodic reviews of the Reserve Bank's risk management framework and testing key controls in business areas on a sample basis. The Head of Audit Department reports directly to the Deputy Governor and Chair of the Reserve Bank Board Audit Committee, which meets at least every three months.

Portfolio Risks

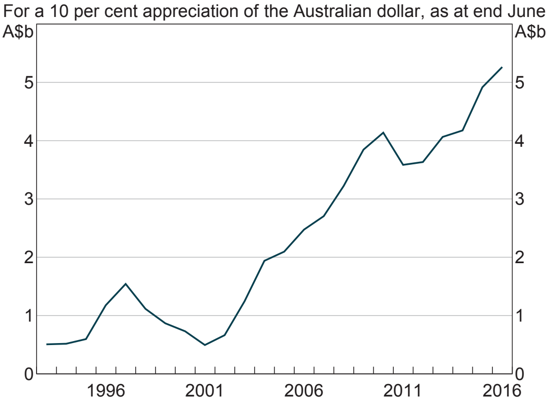
The Reserve Bank holds domestic and foreign currency-denominated financial instruments to support its operations in financial markets in pursuit of its policy objectives. These instruments account for the majority of the Bank's assets and expose its balance sheet to a number of financial risks, the largest of which is exchange rate risk. The primary responsibility for managing these risks rests with the Financial Markets Group. The role of the Risk and Compliance Department is to monitor these risks and report on compliance with approved authorities and limits. In that regard, the Assistant Governor (Financial Markets), Head of Risk and Compliance Department and other relevant senior staff are provided with timely reports on limits compliance, portfolio risks and performance.

Exchange rate risk

Holdings of foreign currency-denominated assets expose the Reserve Bank's balance sheet to fluctuations in exchange rates as the Bank's financial statements are reported in Australian dollars. As these assets serve a policy function, the Bank does not seek to eliminate this exchange rate exposure. Rather, the Bank mitigates it by diversifying foreign currency assets across several currencies. The diversification of foreign currency investments was expanded in 2015/16 to include assets denominated in Korean won, with a corresponding reduction in assets denominated in euro. This change shifted the benchmark portfolio composition to 55 per cent in US dollars, 20 per cent in euros and 5 per cent each in Japanese yen, Canadian dollars, UK pound sterling, Chinese renminbi and Korean won (see the chapter on 'Operations in Financial Markets' for details). This benchmark portfolio composition reflects the Bank's long-term risk and return preferences and requirements for liquidity and security. The portfolio is rebalanced to these benchmark shares daily, taking into account changes in market rates and transactions. The Bank's holdings of gold and Special Drawing Rights (SDRs – a liability of the International Monetary Fund) and its investments in Asian bond funds are not managed relative to an internal benchmark.

Exchange Rate Risk on RBA Foreign Currency Portfolio

For a 10 per cent appreciation of the Australian dollar, as at end June



Source: RBA

The rise in the Australian dollar value of the Reserve Bank's portfolio over 2015/16 was largely due to the depreciation of the Australian dollar, and resulted in an increase in exchange rate risk. Based on the level of reserves at 30 June 2016, a 10 per cent appreciation of the Australian dollar would result in a mark-to-market loss of $5.26 billion.

Interest rate risk

The value of the Reserve Bank's financial assets is also exposed to movements in market interest rates, as the bulk of the domestic and foreign portfolios comprise fixed-income securities.

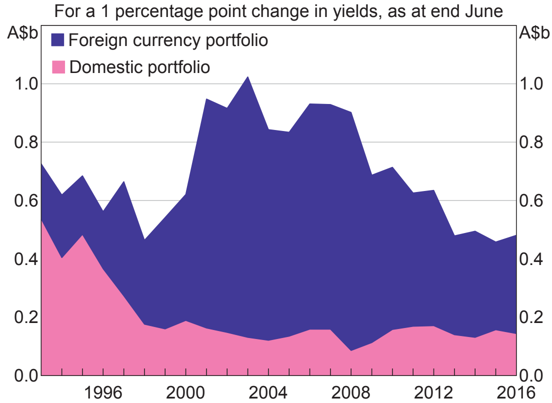
Total holdings of domestic securities increased by $2.1 billion over 2015/16 to around $88.4 billion. Most of these assets are held on a temporary basis under repurchase agreements (repos). The average term of the Bank's domestic repo book at the end of June 2016 was around three weeks. For domestic securities held outright, the sensitivity to movements in market yields decreased over 2015/16 because of a decrease in holdings of Australian Government Securities and semi-government securities.

The Reserve Bank is exposed to very little interest rate risk on its balance sheet liabilities. Banknotes on issue account for about 42 per cent of total liabilities and carry no interest cost to the Bank. The other sizeable obligations include deposits held by the Australian Government and government agencies, and Exchange Settlement Account balances held by authorised deposit-taking institutions (ADIs). These deposits have short maturities that broadly match the Bank's domestic assets held under repo. Interest paid on these deposits reflects domestic short-term interest rates, effectively hedging part of the interest rate exposure of the domestic asset portfolio.

In contrast to the domestic portfolio, the Reserve Bank's foreign currency assets are managed relative to benchmark duration targets that reflect the Bank's long-term appetite for risk and return, and are periodically reviewed. The duration target for the US, European, Canadian and Japanese portfolios is six months and for the UK portfolio it is three months. The Chinese and Korean portfolios have higher duration targets of 30 and 18 months, respectively. The weighted-average benchmark duration target for the Bank's foreign portfolios remains low by historical standards at around 7½ months, reflecting the generally low level of interest rates and risk of capital losses should bond yields return to more normal levels.

Interest Rate Risk on RBA Portfolio

For a 1 percentage point change in yields, as at end June



Source: RBA

The overall level of interest rate risk on the Reserve Bank's domestic and foreign financial assets increased over 2015/16, owing mainly to an increase in the Australian dollar value of the foreign portfolio. The Bank would incur a valuation loss of around $481 million if interest rates in Australia and overseas rose uniformly by 1 percentage point across the yield curve.

Credit risk

Credit risk is the potential for financial loss arising from the default of a debtor or issuer or from a decline in asset values following a deterioration in their credit quality. The Reserve Bank manages its credit exposure by applying a strict set of criteria to its holdings of financial assets and confining its dealings to highly creditworthy counterparties. In addition, the Bank's transactions are executed under internationally recognised legal agreements.

The Reserve Bank is exposed to very little issuer credit risk on its outright holdings in the domestic portfolio as it invests only in securities issued by the Australian Government or by state and territory government borrowing authorities. The Bank is exposed to a small amount of counterparty credit risk as a large portion of its domestic assets are held under repo. However, the credit risk on repos is inherently limited. The Bank would face a loss only if a counterparty failed to repurchase securities sold under repo and the market value of the securities fell below the agreed repurchase amount. The Bank manages this exposure by applying an appropriate margin ('haircut') to the securities and requiring that these securities meet certain eligibility criteria. The degree of over-collateralisation increases with the risk profile of the security (see the chapter on 'Operations in Financial Markets' for details).

Given its policy role, the Reserve Bank does not apply specific credit criteria to the counterparties with which it is willing to deal in its domestic market operations. However, counterparties must be subject to an appropriate level of regulation and be able to ensure efficient and timely settlement of transactions within the Austraclear system.

The Reserve Bank's investments in the foreign currency portfolio are also typically confined to highly rated and liquid securities, as well as deposits with foreign central banks. The majority of the Bank's outright holdings are securities issued by the national governments of the United States, Germany, France, the Netherlands, Japan, Canada, the United Kingdom, China and South Korea, with modest holdings of securities issued by select highly rated supranational institutions and government agencies.

The Reserve Bank also holds a portion of its foreign currency portfolio in short-term repos. This exposes the Bank to the small amount of residual credit risk that is inherent in repos, as noted above. The Bank manages this risk by requiring 2 per cent over-collateralisation and accepting only high-quality and liquid securities as collateral. Credit exposure on foreign repos is further managed by imposing limits on individual counterparty exposures and executing a Global Master Repurchase Agreement (or Master Repurchase Agreement where appropriate) with each counterparty. The Bank's framework for managing counterparty exposures utilises credit ratings and market-based credit measures.

The Reserve Bank undertakes foreign exchange swaps as part of its policy operations and as a means to enhance returns on the foreign currency portfolio. Credit risk on these instruments is managed to a low level by transacting only with counterparties that meet strict eligibility criteria, including the requirement to have executed with the Bank an International Swaps and Derivatives Association (ISDA) agreement with a credit support annex.

The Risk Management Committee at work

Exposures on foreign exchange swaps generated by movements in market exchange and interest rates are managed through two-way margining.

Operational Risk

There are a diverse range of operational risks associated with the day-to-day activities of the Reserve Bank. These risks range from the possibility that banking services might not be delivered to the required standard to the loss of access to key information technology (IT) infrastructure. Generally, the Bank has a low appetite for this type of risk, reflecting the view that satisfactory fulfilment of its important public policy responsibilities could be seriously undermined if its risk profile is poorly managed. That said, the Bank recognises that it cannot eliminate risk entirely from its operations. Acceptance of some risk is often necessary to foster innovation and efficiencies in business practices.

While all parts of the organisation are exposed to operational risk of varying degrees, the most significant risks are those associated with financial transactions undertaken by the Reserve Bank for its own activities and that of its clients. During 2015/16, Financial Markets Group executed around 91 000 transactions, generating an average daily settlement value of around $41 billion. The Bank is also the primary banker for a number of government entities, including the Australian Taxation Office and Department of Human Services, and it maintains the infrastructure to facilitate real-time interbank payment and settlement services through the Reserve Bank Information and Transfer System (RITS). Given the crucial role of these activities in the financial system, any operational failure could have widespread consequences. As a result, the Bank has a range of processes in place to facilitate ongoing and effective management of its operational risks in order to guarantee that the control environment is suitably robust.

The Reserve Bank continues to direct significant resources towards the delivery of a number of large and complex multi-year projects. These include the renovation of banking applications and systems, the development of infrastructure to facilitate real-time retail payments and the upgrade of Australia's banknotes. Successful completion of these projects will ensure high-quality services are maintained for the Bank's clients and the Australian public. The risks associated with project work are carefully managed so that adequate resources are available, nominated project deadlines are met and change management is effective.

The policy and business operations of the Reserve Bank are highly dependent on IT systems to carry out their activities. The Bank's risk management framework supports an ongoing focus on controlling the risks associated with complex IT systems. A key element of this framework is the operation of the Technology Committee, which is chaired by the Assistant Governor (Corporate Services). This committee collaborates with relevant business areas to facilitate the assessment, monitoring and management of IT-related risks and ensure IT-related initiatives are consistent with the Bank's IT strategy. This work is supported by the continuous evaluation of industry developments to confirm that the Bank's systems conform to current IT standards and remain robust. Assessment of appropriate staff resourcing, the adequacy of controls over IT processes and the level of security over information management are all incorporated into the Bank's risk management framework.

Mark Manning (Deputy Head of Payments Policy Department) at the Risk Australia 2015 Conference, August 2015

The continuity of critical business functions during and after a disruptive event such as a natural disaster or terrorist attack is a key area of focus for the Reserve Bank. Consequently, the Bank has developed considerable resilience in its operations, including the use of a dedicated Business Resumption Site (BRS) in north-west Sydney. Permanent staff from some of the Bank's most critical operational areas are located at the BRS to enable virtual continuity of operations if a disruption to the Bank's Head Office were to occur. All departments regularly participate in exercises to test back-up plans covering a range of scenarios, including loss of facilities, IT systems and staff. The Bank also participates in contingency event exercises with external organisations to ensure that its staff are well briefed in their roles during these types of events and that effective internal and external communication arrangements are in place. The Risk Management Committee is briefed on the results of these exercises.

The effective management of compliance risk is central to the Reserve Bank's activities. A small compliance unit within Risk and Compliance Department collaborates with all business areas to develop a broadly consistent approach to managing this risk and keeps the Risk Management Committee informed regarding the level of compliance in key areas.

The Reserve Bank has zero tolerance for fraud or other unethical behaviour. Several layers of fraud controls are in place, including having a clear decision-making hierarchy, separation of duties and controls over computer access at both the user and administrator levels. The Bank also has arrangements in place to enable fraud or unethical behaviour to be reported anonymously, either by a member of staff or the public, and fully investigated. Ongoing training and awareness programs are also conducted, covering appropriate standards for staff behaviour and ensuring awareness of specific risk areas such as fraud and foreign bribery. All staff involved in financial dealing have well-defined limits to their authority to take risks or otherwise commit the Bank. These arrangements are further enhanced by separate front-, back- and middle-office functions, where staff who initiate trades, those who settle them and those who monitor and report on exposures and compliance with trading and investment guidelines remain physically separate and have separate reporting lines. Over 2015/16, there were no reported instances of fraud against the Bank by current or former employees.

The Reserve Bank remains strongly committed to maintaining and strengthening a culture that encourages and supports the highest standards of behaviour. A Code of Conduct is in place that sets out requirements of the Bank's employees and others who are involved in its activities. The code articulates the values that staff are expected to demonstrate when pursuing the Bank's objectives. These values are promotion of the public interest, integrity, excellence, intelligent inquiry and respect. All staff attest annually that they have read and understood the code.

Despite controls put in place, operational failures can occur, which may adversely affect the Reserve Bank's reputation or lead to financial or other costs. The Risk Management Committee receives timely reports on any disruptions, which document and review the relevant circumstances and identify areas where new controls may be needed or where existing controls should be strengthened.

The Reserve Bank remains committed to a culture that encourages and supports the highest standards of behaviour

Government Guarantee Scheme

On behalf of the Australian Government, the Reserve Bank administered the Guarantee Scheme for Large Deposits and Wholesale Funding. The final fee payments were processed under this scheme in October 2015. The scheme was introduced during the financial crisis, formally commencing on 28 November 2008 and, at its peak in February 2010, covered guaranteed liabilities valued at around $170 billion. Over its life, ADIs covered under the scheme paid a total of $4.5 billion in guarantee fees. This included $4.3 billion for wholesale funding liabilities and $211 million in fees collected for large deposits.

The Reserve Bank continues to act as the administrator of the Guarantee of State and Territory Borrowing. Applications for new guaranteed liabilities under this scheme closed in 2010, although existing liabilities will continue to be guaranteed until maturity, at the latest in 2023. To date, a total of $395 million in fees has been collected for state and territory borrowing since the scheme commenced in 2009, with $18 million collected in 2015/16.

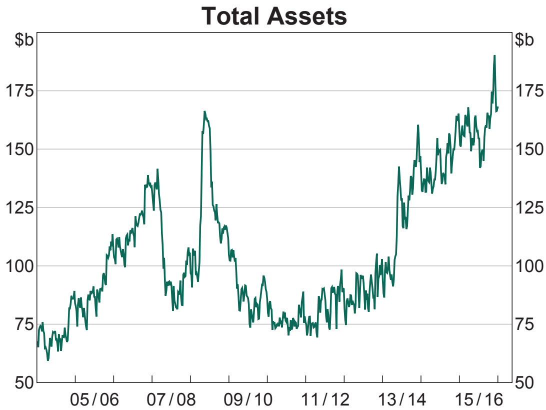
Earnings and Distribution

The Reserve Bank's balance sheet fluctuates in size according to operations in financial markets conducted to pursue its monetary policy objectives and support an efficient and orderly payments system in Australia. The Bank earns a profit in most years. It holds reserves that are sufficient to cover potential financial losses. In 2015/16, the Bank recorded a net profit of $2.9 billion, with earnings available for distribution of $4.6 billion.

The Reserve Bank's Balance Sheet

The Reserve Bank holds a range of financial assets to conduct operations in financial markets, to pursue monetary policy objectives and support an efficient and orderly payments system in Australia. Monetary policy is implemented by carrying out transactions in these assets to manage liquidity in the cash market in Australia. The Bank's assets include both Australia's foreign exchange reserves and domestic securities. The Bank's liabilities mainly comprise banknotes on issue, deposits of the Australian Government and other customers, and capital and reserves.

The Reserve Bank's balance sheet was $167 billion on 30 June 2016, compared with $157 billion a year earlier. Banknotes on issue, the Reserve Bank's largest liability, rose by about 7 per cent, to $70 billion. Management of the Bank's assets is discussed in the chapter on 'Operations in Financial Markets'; the associated risks are considered in the chapter on 'Risk Management'.



Source: RBA

The Reserve Bank's balance sheet was $167 billion … compared with $157 billion a year earlier

The Reserve Bank's Earnings

The Reserve Bank's earnings in most years arise from two sources: underlying earnings – comprising net interest and fee income, less operating costs – and valuation gains or losses. Net interest income arises because the Bank earns interest on almost all of its assets, albeit currently at very low rates, while it pays no interest on a large portion of its liabilities, such as banknotes on issue and capital and reserves. Fees paid by authorised deposit-taking institutions (ADIs) associated with the Committed Liquidity Facility (CLF) are also a material contributor to underlying earnings.

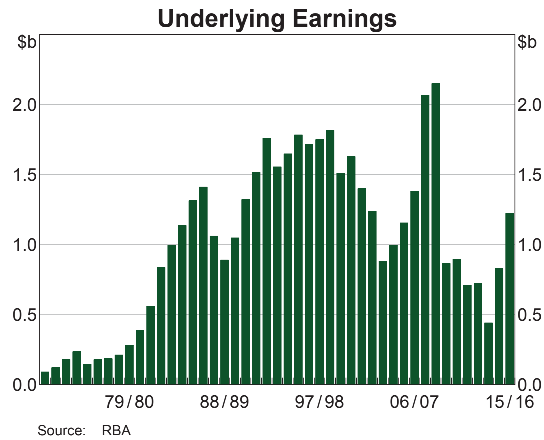
Valuation gains and losses result from fluctuations in the value of the Reserve Bank's assets, in response to movements in exchange rates or in yields on securities. A depreciation of the Australian dollar or a decline in interest rates results in valuation gains. Conversely, an appreciation of the Australian dollar or a rise in market yields leads to valuation losses. Valuation gains and losses are realised only when the underlying asset is sold or matures. Valuation gains and losses are volatile from year to year, as both exchange rates and market interest rates fluctuate in wide ranges over time. These market risks are managed by the Bank within strict parameters determined by its responsibility for monetary policy.

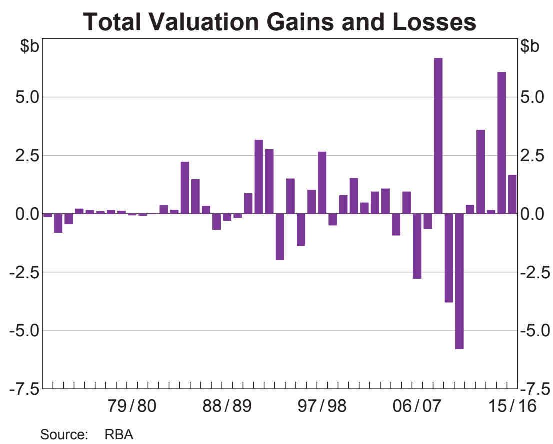
The Reserve Bank reports net profit as income from all sources in accordance with Australian Accounting Standards, while the distribution of profits is determined by section 30 of the *Reserve Bank Act 1959*. In terms of the Reserve Bank Act, net profit is distributed in the following way:

- Unrealised gains (or losses) are not available for distribution and are transferred to (absorbed by) the Unrealised profits reserve. The remaining net profit after this transfer is available for distribution.
- The Treasurer determines, after consultation with the Reserve Bank Board, any amounts to be placed from distributable earnings to the credit of the Reserve Bank Reserve Fund (RBRF), the Bank's permanent reserve.
- The remainder of distributable earnings after any transfer to the RBRF is payable as a dividend to the Commonwealth.

In 2015/16, the Reserve Bank recorded a net profit of $2 883 million, comprising:

- underlying earnings of $1 223 million, which were $391 million higher than the previous year because of higher net interest income resulting from a rise in interest-earning assets and a small increase in the interest margin, and the first full-year receipt of CLF fee income, following the introduction of the CLF on 1 January 2015. Excluding CLF fee income, underlying earnings nevertheless remained near a historically low level with interest rates around the world also remaining very low
- total net valuation gains of $1 660 million, mainly because of the depreciation of the Australian dollar during the year. Realised





gains amounted to $3 389 million, largely as a result of the sale of foreign currency in the normal course of managing the portfolio of foreign reserves and a re-allocation of foreign currency reserves. These transactions had no effect on the value of the Australian dollar. Realised gains exceeded total valuation gains as realised gains in 2015/16 included gains from sales of assets on which unrealised gains had been recorded in earlier years. As discussed below, the realisation of these gains is associated with a fall in the balance of the Unrealised profits reserve.

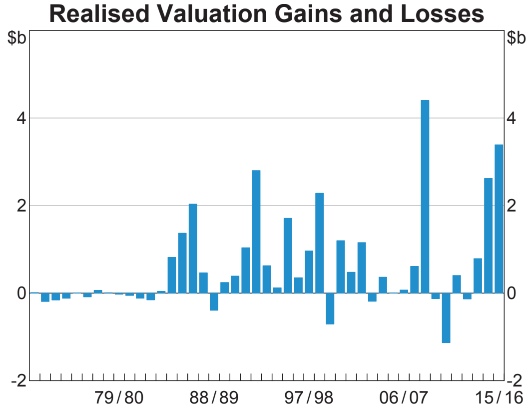
Earnings available for distribution in 2015/16 amounted to $4 612 million, compared with $3 454 million in the previous year. The pattern of net profit over the longer term is shown in the graph on net profits.

Capital, Reserves and Distribution

The RBRF is the Reserve Bank's general reserve and is essentially its capital. The RBRF is funded from transfers from earnings available for distribution. Its purpose is to provide the capacity to absorb losses when it is necessary to do so, as was the case in 2009/10 and 2010/11, when large valuation losses were recorded following the appreciation of the Australian dollar.

With the Reserve Bank's assets at risk rising further in 2015/16, the Treasurer determined, after consulting the Reserve Bank Board, that a sum of $1 390 million be transferred from earnings available for distribution to the RBRF, to maintain the balance of this reserve at a level consistent with the Board's policy. The balance of the RBRF now stands at $14 119 million. Following this transfer, a sum of $3 222 million was payable as a dividend to the Commonwealth. The Treasurer decided that the full amount of this dividend would be paid to the Commonwealth in 2016/17. During 2015/16, the Treasurer also requested that the second instalment of the dividend payable from 2014/15 profits, a sum of $942 million,

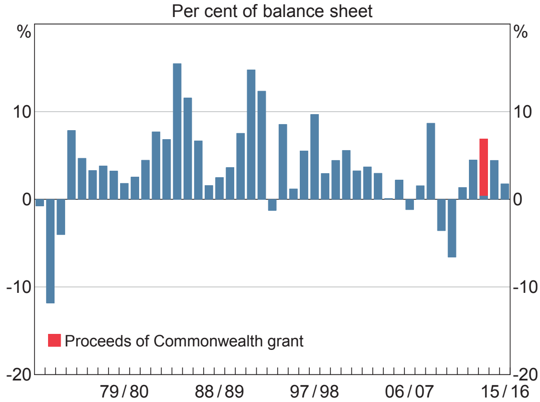
Realised Valuation Gains and Losses



Source: RBA

Net Profits*

Per cent of balance sheet

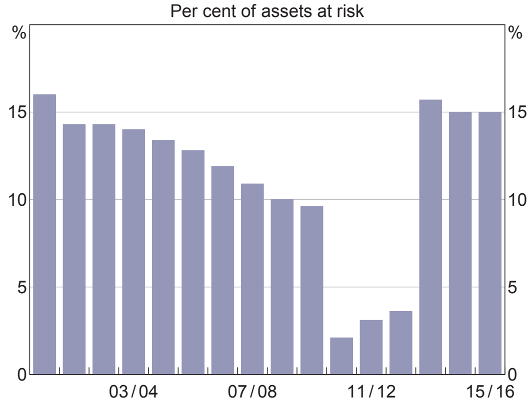


* Net profit is estimated prior to 1998

Source: RBA

Reserve Bank Reserve Fund

Per cent of assets at risk



Source: RBA

Signing of the Reserve Bank accounts for 2015/16: (from left) Jocelyn Ashford, Group Executive Director, Australian National Audit Office; Grant Hehir, Auditor-General for Australia; Governor Glenn Stevens; John Akehurst, Chair of the Reserve Bank Board Audit Committee; Assistant Governor (Corporate Services) Frank Campbell; and Secretary Anthony Dickman

which had initially been deferred for payment until the 2016/17 financial year, be paid to the Commonwealth in 2015/16.

The balance of the Unrealised profits reserve is $4 861 million, a decline of $1 729 million from 2014/15, the movement partly reflecting, as noted, the realisation of gains accumulated from earlier years. The remaining balance of the reserve is available to absorb future valuation losses or can be distributed over time as these accumulated gains are realised when relevant assets are sold, as occurred in 2015/16.

Asset revaluation reserves are held for non-traded assets, such as gold holdings and property, plant and equipment. Balances in these reserves represent the difference between the market value of these assets and the cost at which they were acquired. The total balance for these reserves stood at $5 074 million at 30 June 2016, $698 million higher than at the end of the previous financial year, largely reflecting the increase in the Australian dollar value of the Reserve Bank's holdings of gold.

The balance of the superannuation reserve was a debit of $182 million at 30 June 2016, compared with a credit of $134 million a year earlier.

Details on the composition and distribution of the Reserve Bank's profits are contained in the following table.

The Financial Statements (and accompanying Notes to the Financial Statements) for the 2015/16 financial year were prepared in accordance with Australian Accounting Standards, consistent with the Finance Reporting Rule issued under the *Public Governance, Performance and Accountability Act 2013*.

Composition and Distribution of Reserve Bank Profits

$ million

	Composition of profits[a]				Distribution of profits				Payments to government		
					Transfer to/from(–)						
	Underlying earnings	Realised gains and losses(–)[b]	Unrealised gains and losses(–)	Accounting profit or loss(–)	Unrealised profits reserve	Asset revaluation reserves	Reserve Bank Reserve Fund	Dividend payable	Payment from previous year's profit	Payment delayed from previous year	Total payment
1997/98	1 750	966	1 687	4 403	1 687	–558	548	2 726	1 700	–	1 700
1998/99	1 816	2 283	–2 773	1 326	–2 349	–1	–	3 676	2 726	–	2 726
1999/00	1 511	–708	1 489	2 292	1 489	–	–	803	3 000	–	3 000
2000/01	1 629	1 200	320	3 149	320	–5	–	2 834	803	676	1 479
2001/02	1 400	479	–11	1 868	–11	–10	–	1 889	2 834	–	2 834
2002/03	1 238	1 157	–222	2 173	–222	–2	133	2 264	1 889	–	1 889
2003/04	882	–188	1 261	1 955	1 261	–	–	694	1 300	–	1 300
2004/05	997	366	–1 289	74	–1 289	–	–	1 363	374	964	1 338
2005/06	1 156	4	933	2 093	933	–17	–	1 177	1 063	320	1 383
2006/07	1 381	72	–2 846	–1 393	–2 475	–3	–	1 085	1 177	300	1 477
2007/08	2 068	614	–1 252	1 430	27	–	–	1 403	1 085	–	1 085
2008/09	2 150	4 404	2 252	8 806	2 252	–	577	5 977	1 403	–	1 403
2009/10	866	–128	–3 666	–2 928	–2 248	–	–680	–	5 227	–	5 227
2010/11	897	–1 135	–4 651	–4 889	–23	–	–4 866	–	–	750	750
2011/12	710	405	–39	1 076	–20	–	596	500	–	–	–
2012/13	723	–135	3 725	4 313	3 725	–	588	–	500	–	500
2013/14	9 242[c]	790	–640	9 392	–640	–3	8 800	1 235	–	–	–
2014/15	832	2 622	3 434	6 888	3 434	–	1 570	1 884	618	–	618
2015/16	1 223	3 389	–1 729	2 883	–1 729	–	1 390	3 222	1 884	618	2 501
2016/17									3 222	–	3 222

(a) As originally published
(b) Excludes gains or losses realised from the sale of fixed assets that had been held in Asset Revaluation Reserves
(c) Includes the Commonwealth grant of $8 800 million

Pro Forma Business Accounts

The Pro Forma Business Accounts for the Reserve Bank's contestable business have been prepared in accordance with competitive neutrality guidelines. These accounts do not form part of the audited financial statements.

	Transactional Banking	
	2014/15 $ million	**2015/16** $ million
Revenue		
– Service fees	95.0	99.8
– Other revenue	3.5	3.8
Total	98.5	103.6
Expenditure		
– Direct costs	91.0	95.3
– Indirect costs	0.1	0.0
Total	91.1	95.3
Net profit/(loss)	7.4	8.3
Net profit/(loss) after taxes[(a)]	5.5	6.0
Assets[(b)]		
– Domestic markets investments	981.3	1,573.7
– Other assets	28.5	34.8
Total	1,009.8	1,608.5
Liabilities[(b)]		
– Capital & reserves	25.0	25.0
– Deposits	968.8	1,565.2
– Other liabilities	16.0	18.3
Total	1,009.8	1,608.5

(a) In accordance with competitive neutrality guidelines, income tax expense has been calculated and transferred to the Commonwealth as a notional part of the Reserve Bank's annual profit distribution

(b) As at 30 June

Annual Performance Statement for 2015/16

Introduction

This performance statement is prepared for 2015/16 in accordance with section 39(1)(a) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

It outlines the key purposes of the Reserve Bank as set out in the 2015/16 corporate plan and provides the results of the measurement and assessment of the Bank's performance in achieving those purposes for the year ending 30 June 2016. Where necessary, additional context is provided, including an analysis of the significant factors that have contributed to the performance of the Bank in achieving its purposes in 2015/16.

As noted elsewhere in this annual report, the Reserve Bank is Australia's central bank and it conducts central banking business. The Bank has two boards, the Reserve Bank Board and the Payments System Board. The Reserve Bank Board is responsible for the Bank's monetary and banking policy and the Bank's policy on all other matters, except for payments system policy, for which the Payments System Board is responsible.

The accountable authority of the Reserve Bank is the Governor.

In the opinion of the Bank's accountable authority, this performance statement:

i. accurately presents the Bank's performance in 2015/16; and

ii. complies with section 39(2) of the PGPA Act.

Monetary Policy

Purpose

It is the duty of the Reserve Bank Board to ensure that the monetary and banking policy of the Bank is directed to the greatest advantage of the people of Australia and that the powers of the Bank are exercised in a way that, in the Board's opinion, will best contribute to:

(a) the stability of the currency of Australia;

(b) the maintenance of full employment in Australia; and

(c) the economic prosperity and welfare of the people of Australia.

In support of the above duties, the most recent *Statement on the Conduct of Monetary Policy* agreed by the Treasurer and the Governor, dated 24 October 2013, confirms the Bank's continuing commitment to keeping consumer price inflation between 2 and 3 per cent, on average, over the cycle, consistent with its duties under the *Reserve Bank Act 1959*. Ensuring low and stable inflation preserves the value of money and facilitates strong and sustainable growth in the economy over the longer term.

Results

Assessing the conduct of monetary policy by the Reserve Bank during 2015/16 involves judging whether the policy decisions taken by the Reserve Bank Board, based on the information available at the time, were consistent with the objectives of monetary policy.

During 2015/16, monetary policy remained focused on the medium-term inflation target, which allows the Bank to foster sustainable economic growth in Australia and maintain inflation of between 2 and 3 per cent, on average, over time.

The Reserve Bank's forecasts for output, the unemployment rate and inflation are published quarterly in the *Statement on Monetary Policy*. As outlined in the August 2015 *Statement*, the economy was initially expected to grow at a rate slightly below long-term trend, increasing to slightly above trend during the 2½-year forecast period, while inflation was expected to be 2–3 per cent throughout. During 2015/16, as new data were received, there were upward revisions to the Bank's near-term forecast for output growth and downward revisions to the forecast profile for the unemployment rate. At the same time, data on domestic cost pressures, including unit labour costs and final prices facing consumers, led to downward revisions to the forecasts for inflation.

The Reserve Bank Board decided to lower the cash rate by 25 basis points at each of its May and August 2016 meetings, to improve the prospects for achieving sustainable growth in the economy and inflation consistent with the target over the medium term. Given the already very low level of interest rates, prior to making these decisions, the Board also carefully considered movements in asset values and leverage over this period because, over the long term, preserving financial stability, as well as low inflation, is key for sustainable growth.

In the August 2016 *Statement*, the central forecast was for output growth to be close to trend and unemployment to be little changed over the next year or so, before a strengthening in growth started to reduce unemployment further in 2018. Inflation was forecast to be 1½ per cent in 2016 and 1½–2½ per cent thereafter, until the end of the forecast period. This is consistent with the medium-term inflation target, which requires that inflation is 2–3 per cent, on average, over the cycle, rather than in any short timeframe. Taking a longer perspective, inflation has averaged around 2½ per cent since the inflation-targeting period commenced in the early 1990s.

Analysis

There have been considerable challenges in the conduct of monetary policy globally. Interest rates are extremely low, inflation is generally subdued and growth in output appears to be lower than in previous decades. There is always uncertainty around the economic forecasts that are an important input to the Reserve Bank Board's monetary policy deliberations, and forecasting performance has not been noticeably different from earlier years. Of more importance, with interest rates already low, and a good deal of debt already on household balance sheets, the trade-offs for monetary policy have become more complex. On the one hand, policymakers are wary of fostering a further substantial build-up in debt. At the same time, high debt levels mean that monetary policy's ability to stimulate growth in the short term may be more limited than in the past.

Globally, the current persistent period of highly accommodative monetary policies is unprecedented. These global influences partly condition the environment in which policy in Australia is conducted. All these factors contributed to a difficult policy environment in 2015/16 and this seems likely to continue in 2016/17. The quarterly *Statement on Monetary Policy* provides further analysis by the Reserve Bank of the developments in the international and domestic economy and financial markets relevant to monetary policy, as do speeches by the Governor and other senior Bank officials, and the monthly statements and minutes following the monetary policy meetings of the Reserve Bank Board.

Financial Stability

Purpose

The Reserve Bank's responsibilities for fostering overall financial stability, while not explicitly established in statute, are similar to those of most other central banks and are also recognised in the *Statement on the Conduct of Monetary Policy*. The Bank works with other official organisations in Australia to foster financial stability. The Governor chairs the Council of Financial Regulators (CFR) – comprising the Bank, Australian Prudential Regulation Authority (APRA), Australian Securities and Investments Commission (ASIC) and Australian Treasury – whose role is to contribute to the efficiency and effectiveness of regulation and the stability of the financial system. The Bank's responsibility to promote financial stability does not, however, equate to a guarantee of solvency for financial institutions, nor is its balance sheet available to support insolvent institutions. Nevertheless, the Bank's central position in the financial system – and its position as the ultimate provider of liquidity to the system – gives it a key role in financial crisis management, in conjunction with the other members of the CFR.

Results

The ultimate measure of performance in financial stability policy remains the stability of the financial system itself. The Reserve Bank assesses a range of economic and financial data to help gauge the soundness of the financial system and potential vulnerabilities. As noted in the October 2015 and April 2016 issues of the Bank's half-yearly *Financial Stability Review*, domestic financial risks shifted from housing lending towards lending for residential development and some other commercial property markets during 2015/16, and there were ongoing concerns associated with the challenges in the resources-related sector. Tighter lending standards by authorised deposit-taking institutions (ADIs), in part induced by earlier regulatory actions, have assisted in enhancing resilience to potential risks, and none of the domestic risks on its own appears to be enough to be a source of domestic financial instability in the near term. Risks in the global financial system to date have not significantly affected Australia's financial system, although a large global shock could have spillover effects on Australia, which could be exacerbated by the aforementioned domestic risks.

The Reserve Bank uses its powers, influence and public communications to ensure as far as possible that the Australian financial system remains stable. This entails the assessment and, together with other CFR agencies, management of domestic sources of systemic risk, as well as enhancing the resilience of the financial system to any shocks that might come from abroad. During 2015/16, the Bank highlighted to the public the key issues and risks for the Australian financial system in its half-yearly *Financial Stability Review*, as well as in various public speeches. The Bank contributed to work with other CFR agencies during the year in the areas of: housing and mortgage markets; derivative markets and financial market infrastructures; Australia's shadow banking sector; APRA's countercyclical capital buffer framework; exploring a domestic loss-absorbing and recapitalisation capacity framework in response to a government-endorsed recommendation of the Financial System Inquiry and related new international standard for global systemically important banks; and preparatory work for a CFR crisis management exercise focused on the general insurance industry, which was held in early 2016/17.

In 2015/16, the Bank also contributed to work undertaken in relation to financial stability under the auspices of various international regulatory bodies, including the Financial Stability Board (FSB), the Basel Committee on Banking Supervision and the Trans-Tasman Council on Banking Supervision. The Governor participated as a member of the FSB Plenary (the decision-making body of the FSB) and Steering Committee, and also served as the chair of the FSB's Standing Committee on Assessment of Vulnerabilities. Other Bank staff participated as members of various committees and working groups. For further information, see the chapter on 'International Financial Cooperation' in this annual report.

Analysis

Financial stability in Australia has been assisted by the sustained strong financial performance of the domestic banking system. Australian banks have improved their resilience to future financial and economic shocks by increasing their capital ratios in 2015/16, as well as strengthening their lending standards, particularly for their mortgage business. Further relevant analysis by the Reserve Bank is provided in the half-yearly *Financial Stability Review* and speeches by the Governor and other senior Bank officials.

Financial Market Operations

Purpose

The Reserve Bank has a sizeable balance sheet, which is managed in support of the Bank's policy objectives. Part of the balance sheet is used to ensure that there is sufficient liquidity in the domestic money market on a daily basis. This promotes the stable functioning of the financial system, in particular the payments system, and the objectives of monetary policy. The Bank's regular transactions in the foreign exchange market are conducted to manage Australia's foreign currency reserves, which are held on the balance sheet of the Bank, and also to provide foreign exchange services to the Bank's clients, the largest of which is the Australian Government. On occasion, the Bank may intervene in the foreign exchange market, consistent with the objectives of monetary policy.

Results

The Reserve Bank's operations in financial markets support its monetary policy objectives through the specification of an operational target for the overnight cash rate in the domestic money market, which is a decision of the Reserve Bank Board. When supplying liquidity to the domestic money market, the Bank seeks to ensure that the overnight cash rate is maintained at the prevailing cash rate target each day. The Bank collects information on each participant's activity in the money market in order to make this assessment and it publishes the outcome daily. The cash rate was equal to the target every day during 2015/16.

The Bank manages its foreign reserves portfolio relative to a benchmark. During 2015/16, the portfolio was managed in a manner consistent with the objective of only small deviations around the asset and duration benchmarks.

Analysis

The nature of the Reserve Bank's financial markets operations continues to be influenced by the diverging monetary policy trends among the major central banks, as well as the regulatory regimes that are imposed on financial markets in which the Bank transacts and/or the counterparties with which it deals, both domestically and internationally. During 2015/16, the Bank continued to adjust to an environment where regulations are undergoing a period of substantial reform and market functioning and structure is evolving significantly. The historically extremely low level of global interest rates provided challenges for the Bank in managing its holdings of foreign reserves.

Payments

Purpose

There are several distinct aspects to the Reserve Bank's role in the payments system, involving that of policymaker and that of owner and operator of key national payments infrastructure.

In relation to the policymaking role, it is the duty of the Payments System Board to ensure that the Bank's payments system policy is directed to the greatest advantage of the people of Australia, to ensure that the powers of the Bank under the *Payment Systems (Regulation) Act 1998* and the *Payment Systems and Netting Act 1998* are exercised in a way that, in the Board's opinion, will best contribute to:

(a) controlling risk in the financial system;

(b) promoting the efficiency of the payments system; and

(c) promoting competition in the market for payment services, consistent with the overall stability of the financial system.

In addition, it is the Payments System Board's duty to ensure that the powers and functions of the Bank under Part 7.3 of the *Corporations Act 2001* are exercised in a way that, in the Board's opinion, will best contribute to the overall stability of the financial system.

The Bank's operational role in the payments system is effected through its ownership and management of the Reserve Bank Information and Transfer System (RITS), Australia's high-value payments system, which is used by banks and other approved financial institutions to settle their payment obligations on a real-time, gross settlement basis. Extinguishing settlement obligations in a safe and efficient manner ensures that there is no build-up of settlement risk and thereby promotes the stability of Australia's financial system.

Results

As the owner and operator of RITS, the Reserve Bank seeks to ensure that this system operates with extremely high levels of reliability and security, while also adapting to the needs of a 24/7 payments world. The system availability target is 99.95 per cent for RITS during core system hours. The Bank met this target during 2015/16.

A broad range of operational metrics were tracked in real time during 2015/16, including measures of system liquidity, participants' transaction values and volumes, and system throughput and performance. The 2015 assessment of RITS against the *Principles for Financial Market Infrastructures,* which was published in December 2015, concluded that RITS observed all of the relevant Principles.

The Reserve Bank's regulatory responsibilities in the retail payments area include promoting competition and efficiency. Consistent with this, in 2015/16 the Bank completed, in a timely and effective manner, the required consultation processes for the wide-ranging review of card payments regulation, which followed from some recommendations of the Financial System Inquiry. The review process included publication of an Issues Paper in March 2015, a Consultation Paper with draft standards in December 2015 and a Conclusions Paper in May 2016. The Bank consulted widely with stakeholders throughout the review process. At the conclusion of the review, the Payments System Board determined three new standards, two dealing with interchange payments in debit and credit card systems and one relating to merchant surcharging. End users of the payments system, including leading consumer and merchant organisations, expressed significant support for the reforms contained in the new standards. More detail on the Bank's policy role in the payments system is available in the Payments System Board annual report.

In addition, to support innovation in the payments system, aimed at improving the efficiency and performance of Australia's retail payments infrastructure, the Reserve Bank has been developing the Fast Settlement Service (FSS), which is the settlements hub for the new industry retail payments platform. This large, complex project with multiple stakeholders has had the usual attendant challenges, but these have been effectively managed so as to meet the mid-2016 target to commission the test system. During 2015/16, the Bank purchased and installed test infrastructure and developed systems to operate the FSS. The FSS test environment is expected to be used for industry testing from October 2016.

The Reserve Bank's regulatory responsibilities also include supervision of clearing and settlement systems. The Bank published its assessments against the domestic regulatory standards of the ASX clearing and settlement facilities in September 2015, of LCH.Clearnet Limited's SwapClear Service in December 2015 and of Chicago Mercantile Exchange Inc. in March 2016. The Bank participates actively in the Basel-based Committee on Payments and Market Infrastructures to ensure that domestic regulatory standards are fully adapted as needed in response to international developments. Accordingly, in line with international developments, an important domestic policy focus in recent years has been the development of a special resolution regime for financial market infrastructures. Advised by the Bank and other financial regulators, the Australian Government consulted on the design of such a regime in 2015. This included the proposal that the Bank be the resolution authority for central counterparties and securities settlement facilities. The conclusions from this consultation were published in November 2015 and indicated that stakeholders were generally supportive of the proposed regime. The CFR has been advising the government on the development of draft legislation to implement the regime. No other changes to the domestic regulatory standards have been identified as necessary in response to international developments.

Analysis

The Reserve Bank's work in the payments area in 2015/16 occurred in an environment that was continuing to change rapidly, with higher expectations of users and the industry concerning the speed of payments and the capacity to combine information with payments. Use of cash and cheques is declining relative to other payment instruments, while use of cards and other electronic forms of payment continues to grow strongly. New technologies, including distributed ledger technologies and other forms of 'fintech', have the potential to change the payments landscape and the operation of financial market infrastructures significantly. Bank staff liaise actively with the private sector to better understand trends in these areas and have participated in a range of domestic and international working groups with other regulators.

Banking

Purpose

Insofar as the Commonwealth requires it to do so, the Reserve Bank must act as banker for the Commonwealth. In common with most other central banks, the Bank also provides banking services to a number of overseas central banks and official institutions. These services include payments and collections as well as general account maintenance and reporting.

Results

The Reserve Bank competes with other organisations to provide banking services to Australian Government agencies. It must cost and price the services separately from other activities as well as meet an externally prescribed minimum rate of return on capital over a business cycle. At present, the return on capital is the Bank's principal measure of financial performance for its transactional banking business. In 2015/16, the Bank met the prescribed rate. Pro forma accounts for the transactional banking business are published in a separate chapter of this annual report.

During 2015/16, the Bank achieved progress in implementing several important banking projects, including the renovation of its banking applications and systems, building the capabilities to participate in the industry's New Payments Platform and refreshing its online payment service, Government EasyPay. All these projects have encountered the usual challenges associated with projects of large scale and complexity, mostly around hiring and retaining appropriate resources. These challenges have been effectively handled. The Government EasyPay project was completed as planned in early 2015/16. Key milestones were reached on schedule for the renovation of banking applications and systems, including renovation of international payments functionality in October 2015, renovation of the initial phases of payment collections functionality in May 2016 and commencement of work in mid 2015 to replace the core account maintenance system. Building capability to participate in the New Payments Platform proceeded in step with the payments industry's schedule. This project involved working with other financial institutions to meet an industry-set deadline, and so has had to manage the usual challenges associated with coordinating with multiple stakeholders, each with their own business pressures and priorities.

Analysis

Substantial changes are under way in transactional banking, particularly in the area of payment services. The broader community is embracing technology and demanding digital services from all providers, including the government, at a rapid pace. During 2015/16, the Bank continued to ensure that it remained in a position to respond appropriately with convenient, secure, reliable and cost-effective services as the largest provider of transactional banking services to the Australian Government.

Currency

Purpose

The Reserve Bank is responsible for the issue, reissue and cancellation of Australian banknotes. Its primary purpose in carrying out this role is to maintain public confidence in the supply, security and quality of Australian banknotes. The Bank works with its wholly owned subsidiary, Note Printing Australia Limited (NPA), to design the banknotes and arranges for their production through NPA. The Bank distributes the banknotes to financial institutions, monitors and maintains their quality in circulation and withdraws unfit banknotes from circulation. It also monitors and analyses trends in counterfeiting and carries out research into banknote security technology.

Results

The next Reserve Bank survey measuring public confidence in Australian banknotes is on schedule to occur in late 2016, as planned. During 2015/16, the Bank continued to monitor indicators that could affect the public's confidence in the supply, security and quality of Australian banknotes in circulation as described below.

Fulfilment of banknote orders by commercial banks provides an indication that the public's demand for banknotes is being met. As an indicator of meeting demand, the Bank aims to fulfil 99.5 per cent of banknote orders on the day requested; during 2015/16, 100 per cent of orders were fulfilled on the day requested.

The Reserve Bank's key initiative to enhance banknote security is the issuance of the new banknote series. Work on the Next Generation Banknote (NGB) program continued during 2015/16, with the new $5 banknote on track to enter circulation on 1 September 2016, as planned. Wide acceptance and distribution of these banknotes over subsequent years will be important to this strategy. The Bank has a detailed communication strategy involving both businesses and consumers to assist with public recognition of the new series of banknotes.

Construction of the new National Banknote Site at NPA's Craigieburn facility has been under way since June 2015 and is currently scheduled for completion and commissioning in 2017. This will facilitate the effective issuance of the new banknote series and is designed to meet Australia's banknote storage, processing and distribution needs for the next 25 years.

The Reserve Bank continued to monitor Australian banknote counterfeiting rates, which declined in 2015/16 compared with the previous year. A new significant counterfeit production source was identified, however, and is being investigated by the Australian Federal Police. The Bank also continued to monitor international developments in counterfeiting. This was aided by the Bank's engagement with overseas central banks and international organisations.

Bank staff attended meetings of the Central Bank Counterfeit Deterrence Group and the Four Nations Group of central banks, including hosting meetings of the latter in Sydney and Melbourne, and undertook work at the Reproduction Research Centre.[1]

In order to ensure banknotes in circulation remain of high quality – to make it easier for the public to detect counterfeits – in 2015/16 the Reserve Bank continued to accept banknotes only of sufficiently high quality for issuance to the public. NPA met the bulk of the Bank's Australian banknote orders for $5, $10 and $50 banknotes from the existing series in full, on time and to the required quality standard. NPA also met the bulk of the Bank's production orders for the new generation banknotes.

In 2015/16, the Reserve Bank also continued to operate the Note Quality Reward Scheme (NQRS), which encourages the private sector to sort banknotes to desired standards. Information collected indicated that banknote quality exceeded the desired standard and remained significantly better than prior to the introduction of the NQRS.

Analysis

While the proportion of payments made using banknotes is declining relative to electronic payments, the number and value of banknotes on issue continues to rise, highlighting their continued importance as a payment mechanism and store of value. Australia's level of counterfeiting remains low by international standards, although it has been tending to increase over time as advances in technology make it easier and cheaper to produce and distribute counterfeit banknotes.

1 The Four Nations Group of central banks collaborates on banknote security research, testing and development and comprises the Reserve Bank of Australia, Bank of Canada, Bank of England, Bank of Mexico and Federal Reserve Board. The Reproduction Research Centre provides facilities to test new security features.

Financial Position and Capital

Purpose

The Reserve Bank makes profits that are incidental to its policy outcomes. The Bank holds assets primarily to conduct operations in financial markets to achieve its central banking policy objectives – specifically, to implement monetary policy, support the Bank's role in the Australian foreign exchange market and manage the country's international reserves. Although carried out largely for policy purposes, these activities have been profitable in most years in the past. Nonetheless, the Bank's balance sheet contains substantial financial risk, and the Bank seeks to ensure that its retained profits and other capital reserves are sufficient over time to absorb losses to which the Bank may be exposed.

Results

The Reserve Bank Board has set a target for capital of 15 per cent of the Bank's assets at risk; this target was met as at the end of June 2016. A transfer of $1 390 million was made to the Reserve Bank Reserve Fund (RBRF) at the end of June 2016 as part of the distribution of the Bank's profit in accordance with section 30 of the *Reserve Bank Act 1959*, resulting in the balance of the RBRF being equal to 15 per cent of the Bank's assets at risk.

Analysis

The Bank's profits primarily come from two sources: underlying earnings, mainly net interest and fee income, less operating costs; and valuation gains and losses (realised and unrealised). The increase in underlying earnings in 2015/16 reflected higher net interest income and the first full-year receipt of fees from authorised deposit-taking institutions (ADIs) for providing the Committed Liquidity Facility, which was introduced on 1 January 2015. Net valuation gains were recognised in 2015/16, primarily from the net depreciation of the Australian dollar against the reserve currencies. More detail is provided in the chapter on 'Earnings and Distribution' in this annual report.

Statutory Reporting Requirements

The Reserve Bank has a number of statutory reporting requirements that extend beyond its policy objectives and cover areas such as equal employment opportunity, work health and safety and freedom of information requests submitted to the Bank. Priorities for the Bank's Diversity and Inclusion Program in 2015/16 included gender diversity, the Bank's culture of inclusiveness and flexible work practices.

Equal Employment Opportunity

The Reserve Bank is strongly committed to ensuring that all employees are treated with dignity and respect and experience equal opportunity throughout their careers with the Bank. This commitment is underpinned by the two key elements of the Diversity and Inclusion Program, namely existing policies and procedures, and the current Diversity and Inclusion Plan (covering 2016–19). Existing policies and procedures seek to embed equity, diversity and inclusion principles in work practices and the current Diversity and Inclusion Plan provides specific initiatives that highlight priorities, raise awareness and aim for continuous improvement. The priorities of the plan are covered in the chapter on 'Our People'. The major focus in 2015/16 was on gender diversity and the Bank's culture of inclusiveness and flexible work practices, to encourage diversity of people, ideas and approaches to work such that no employee is disadvantaged on the basis of their individual differences.

The Diversity and Inclusion Program is governed by the Executive Committee, in consultation with the Diversity and Inclusion Policy Committee, a consultative group responsible for monitoring the development and implementation of and diversity and inclusion initiatives, policies and practices in the Reserve Bank. Full details and outcomes of the Diversity and Inclusion Program in 2015/16 are included in the Bank's *Equity & Diversity Annual Report 2016*, which will be tabled in parliament in accordance with the requirement under the *Equal Employment Opportunity (Commonwealth Authorities) Act 1987*. The *Equity & Diversity Annual Report 2015*, which reported on the Bank's diversity profile, employee engagement with existing policies and progress with the program in 2014/15, was tabled in parliament on 22 October 2015.

Work Health and Safety, Compensation and Rehabilitation

The Reserve Bank fosters a safety culture that is preventative, proactive and based on due diligence, by demonstrating the visible commitment to safety of the Bank's senior and executive management. The Reserve Bank Board and the Bank's executive management receive regular reports on work health and safety (WHS) matters in the Bank.

During the year, a project commenced to review the Reserve Bank's WHS framework and make recommendations for change. A key objective of the project is to provide a more streamlined approach to WHS management that is commensurate with the WHS risks

All employees are treated with dignity and respect and experience equal opportunity throughout their careers with the Bank

the Bank faces and clearly outlines roles and responsibilities. Ongoing training was provided to management, workers and health and safety representatives on contemporary WHS matters, including mental health. The Health & Wellbeing Program is designed to maximise the physical and psychological health of employees through promotion of positive health outcomes and prevention of potential health risks and problems. The types of initiatives and activities conducted during the year in review fell into two categories:

- physical health activities, such as fitness classes at Head Office, an annual health challenge, health checks and influenza vaccinations
- mental health initiatives such as piloting a targeted resilience program, providing an Employee Assistance Program (EAP) and facilitating seminars and providing information on topics related to mental health and wellbeing.

There were 41 reported WHS incidents between 1 July 2015 and 30 June 2016, 2 per cent lower than the previous year. Around 22 per cent of the incidents were sporting injuries sustained during breaks. Five of the reported incidents required notification to Comcare. Accepted workers compensation claims remained low at two in 2015/16, with both involving sporting injuries sustained during breaks. Overall, the Reserve Bank's Lost Time Injury Frequency Rate (number of lost time injuries per million hours worked) for 2015/16 was 1.0, compared with 0.5 in 2014/15 and 1.2 in 2013/14, and a little lower than the industry average. One internal investigation relating to WHS matters was conducted by the Bank in 2015/16. No investigations were conducted by Comcare during 2015/16 that related to businesses or undertakings conducted by the Bank, and no improvement, prohibition or non-disturbance notices were issued to the Bank by Comcare under Part 10 of the *Work Health and Safety Act 2011* (WHS Act).

In terms of the WHS Act and the conditions of its licence as a Licensed Authority under the

Summary of Notifiable Incidents, Investigations and Notices under the WHS Act

Action	2015/16	2014/15
Death of a person that required notice to Comcare under section 35	0	0
Serious injury or illness of a person that required notice to Comcare under section 35	2	1
Dangerous incident that required notice to Comcare under section 35	3	5
Internal Investigations conducted	1	1
Investigations conducted under Part 10	0	0
Notices given to RBA under section 90 (provisional improvement notices)	0	0
Notices given to RBA under section 191 (improvement notices)	0	0
Notices given to RBA under section 195 (prohibition notices)	0	0
Directions given to RBA under section 198 (non-disturbance notices)	0	0

Source: RBA

Safety, Rehabilitation and Compensation Act 1988, the Reserve Bank is required to report to the Safety, Rehabilitation and Compensation Commission each year on WHS and workers compensation and rehabilitation matters as they affect the Bank. Compliance with the relevant legislation – and the conditions of its licence as a Licensed Authority – was validated during the period by external audits of the Bank's safety, compensation and rehabilitation arrangements. The Safety, Rehabilitation and Compensation Commission subsequently confirmed that the Bank retained the highest rating (Tier 3) for its prevention, claims management and rehabilitation practices in each area for 2016/17.

Freedom of Information (FOI)

The Reserve Bank is an Australian Government agency subject to the *Freedom of Information Act 1982* (FOI Act). As required by Part II of the FOI Act, the Bank publishes information to the public as part of the Information Publication Scheme (IPS). Details of the Bank's obligations under the FOI Act and the IPS can be found on the Bank's website at <http://www.rba.gov.au/foi/index.html>.

Eleven requests for access to documents under the FOI Act were received in 2015/16. Access was granted in part in response to three requests. No relevant documents were found in response to two requests. Access to documents was denied in response to three requests and two requests were withdrawn. One request was outstanding at the end of the financial year. Information that was released in response to FOI access requests was published on the Reserve Bank's website, as required by the FOI Act, with RSS feeds to these releases also available.

One application was received for the internal review of a decision in 2015/16. As required by the FOI Act, a fresh decision was taken, with the original decision being affirmed in this instance.

The estimated amount of staff time spent dealing with all aspects of FOI requests in 2015/16 was around 230 hours, compared with around 323 hours in 2014/15. The total cost to the Reserve Bank of administering the FOI Act in 2015/16 is estimated to be about $59 900, compared with $81 400 in the previous year. No processing charges were levied in 2015/16 (charges levied and received in 2014/15 amounted to $460).

Regulatory Developments

In April 2016, the Reserve Bank was granted an exemption by the Australian Transaction Reports and Analysis Centre (AUSTRAC) from almost all of the substantial obligations of the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (the AML/CTF Act). The Bank, like many central banks around the world, had previously sought and been granted exemptions from various anti-money laundering/counter-terrorism financing (AML/CTF) legislative obligations, on the basis that the Bank's financial services activities form part of its central banking policy functions and/or present low or no money laundering or terrorism financing risk. Over time, the number and nature of the Bank's exemptions had created complexities, with the result that the Bank and AUSTRAC agreed that a more practical way forward would be to grant the Bank a general exemption from all of the substantial obligations of the AML/CTF Act other than those relating to the reporting of suspicious matters. In its application for this exemption, the Bank committed, as a matter of policy and best practice, to continue to undertake risk management activities in relation to money laundering and terrorism-financing risks on a voluntary basis and in a manner consistent with the principles in the AML/CTF Act. Consequently, the Bank has developed a new AML/CTF framework to identify, mitigate and manage the risk that the Bank may be involved in or facilitate money laundering or terrorism financing. This new framework is overseen by the

Risk Management Committee, which is provided with regular reports on its implementation. Any significant breaches will be reported to the Reserve Bank Board Audit Committee.

On 10 May 2016, the *Reserve Bank Regulation 2016*, made pursuant to section 89 of the *Reserve Bank Act 1959*, came into effect. This regulation remakes (with minor amendments) the previous *Reserve Bank Regulation*, which was due to 'sunset' on 1 April 2017 and which provided the form of declaration of secrecy required by members of each of the Reserve Bank Board and Payments System Board. The new regulation requires the same form of declaration of secrecy as previously required.

The new regulation also permits the Reserve Bank to disclose protected information and protected documents to a small number of important domestic and international bodies and agencies with which it collaborates, but which are not financial sector supervisory agencies or foreign central banks (sharing with these entities is permitted under the Reserve Bank Act itself). Section 79A(4)(c) of the Reserve Bank Act allows Bank employees to disclose protected information or produce a protected document to any person or body prescribed by the regulations, if they are satisfied that disclosure of the information, or the production of the document, will assist that other person or body to perform its functions or exercise its powers. The new regulation facilitates enhanced collaboration and coordination in the course of the Bank's work as a supervisory agency and as a participant in policy discussions with and within important international organisations. It also facilitates the sharing of information between key agencies in the event of a financial system crisis, which would assist in the effective management of the crisis.

Ministerial Directions

The Reserve Bank received no new directions from its responsible Minister (the Treasurer) or from any other Minister during 2015/16.

No government policy orders under section 22 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) were applied in relation to the Reserve Bank during 2015/16.

No issues relating to non-compliance by the Reserve Bank with finance law were reported to the Bank's responsible Minister (the Treasurer) under paragraph 19(1)(e) of the PGPA Act.

As one of the corporate Commonwealth entities 'prescribed' under section 30 of the Public Governance, Performance and Accountability Rule 2014, the Reserve Bank continues to be required to apply the Commonwealth Procurement Rules (CPRs) when performing duties relating to certain procurements.

The CPRs, which were amended and re-issued under section 105B(1) of the PGPA Act and effective from 1 July 2014, apply to the Reserve Bank whenever it undertakes a procurement where the expected value of the property or service being procured exceeds $400 000 for non-construction services or $7.5 million for construction services. For purchases of lower value, the Bank uses detailed guidelines based on the principles contained in the CPRs. The broad objective is to ensure that all goods and services procured by the Bank support its policy and operational responsibilities in an efficient and cost-effective manner.

Other Statutory Reporting Obligations

There were no significant activities or changes affecting the operations or structure of the Reserve Bank in 2015/16.

There were no judicial decisions or decisions of administrative tribunals made during 2015/16 that have had, or may have, a significant effect on the operations of the Reserve Bank.

Other statutory reporting obligations applying to the Reserve Bank that are covered elsewhere in this report are identified in the 'Statutory Reporting Requirements Index' on pages 187–188.

Part 4:

Financial Statements

Financial Statements

For the year ended 30 June 2016

Statement of Assurance

In the opinion of each of the Governor, as the accountable authority of the Reserve Bank of Australia, and the Assistant Governor (Corporate Services), the financial statements for the year ended 30 June 2016 present fairly the Reserve Bank's financial position, financial performance and cash flows, comply with the accounting standards and any other requirements prescribed by the rules made under section 42 of the *Public Governance, Performance and Accountability Act 2013* and have been prepared from properly maintained financial records. These financial statements have been approved by a resolution of the Reserve Bank Board on 2 August 2016.

Glenn Stevens AC
Governor and Chair, Reserve Bank Board

Frank Campbell
Assistant Governor (Corporate Services)

18 August 2016

Statement of Financial Position – as at 30 June 2016

Reserve Bank of Australia and Controlled Entity

	Note	2016 $M	2015 $M
Assets			
Cash and cash equivalents	6	367	438
Australian dollar investments	1(b), 15	88,500	86,294
Foreign currency investments	1(b), 15	72,879	65,241
Gold	1(d), 15	4,567	3,915
Property, plant and equipment	1(e), 8	640	549
Other assets	7	536	476
Total Assets		167,489	156,913
Liabilities			
Deposits	1(b), 9	61,210	60,486
Distribution payable to the Commonwealth	1(h), 3	3,222	2,501
Australian banknotes on issue	1(b)	70,209	65,481
Other liabilities	10	8,936	4,576
Total Liabilities		143,577	133,044
Net Assets		23,912	23,869
Capital and Reserves			
Reserves:			
Unrealised profits reserve	1(g)	4,861	6,590
Asset revaluation reserves	1(g), 5	5,074	4,376
Superannuation reserve	1(g)	(182)	134
Reserve Bank Reserve Fund	1(g)	14,119	12,729
Capital	1(g)	40	40
Total Capital and Reserves		23,912	23,869

The above statement should be read in conjunction with the accompanying Notes.

Statement of Comprehensive Income – for the year ended 30 June 2016

Reserve Bank of Australia and Controlled Entity

	Note	2016 $M	2015 $M
Net interest income	2	1,193	920
Net gains/(losses) on securities and foreign exchange	2	1,660	6,056
Fees and commission income	2	508	324
Other income	2	66	65
General administrative expenses	2	(405)	(340)
Other expenses	2	(139)	(137)
Net Profit		2,883	6,888
Other Comprehensive Income			
Items that may be reclassified to profit or loss			
Gains/(losses) on:			
Gold		651	331
Shares in international and other institutions		14	52
		665	383
Items that will not be reclassified to profit or loss			
Gains/(losses) on:			
Property, plant and equipment		33	15
Superannuation		(316)	157
		(283)	172
Total Other Comprehensive Income		382	555
Total Comprehensive Income		3,265	7,443

The above statement should be read in conjunction with the accompanying Notes.

Statement of Distribution – for the year ended 30 June 2016

Reserve Bank of Australia and Controlled Entity

	Note	2016 $M	2015 $M
Net Profit		2,883	6,888
Transfer from/(to) unrealised profits reserve		1,729	(3,434)
Earnings available for distribution		4,612	3,454
Distributed as follows:			
Transfer to Reserve Bank Reserve Fund		1,390	1,570
Payable to the Commonwealth	3	3,222	1,884
		4,612	3,454

The above statement should be read in conjunction with the accompanying Notes.

Statement of Changes in Capital and Reserves – for the year ended 30 June 2016

Reserve Bank of Australia and Controlled Entity

	Note	Unrealised profits reserve $M	Asset revaluation reserves $M	Superannuation reserve $M	Earnings available for distribution $M	Reserve Bank Reserve Fund $M	Capital $M	Total capital and reserves $M
Balance as at 30 June 2014		**3,156**	**3,978**	**(23)**	**–**	**11,159**	**40**	**18,310**
Net Profit/(Loss)	1(h)	3,434			3,454			6,888
Gains/(losses) on:								
Gold	1(d)		331					331
Shares in international and other institutions	1(b)		52					52
Property, plant and equipment	1(e)		15					15
Superannuation	1(i)			157				157
Other comprehensive income			398	157				555
Total comprehensive income for 2014/15								**7,443**
Transfer to Reserve Bank Reserve Fund	1(g), 3				(1,570)	1,570		–
Transfer to distribution payable to the Commonwealth	1(h), 3				(1,884)			(1,884)
Balance as at 30 June 2015		**6,590**	**4,376**	**134**	**–**	**12,729**	**40**	**23,869**
Net Profit/(Loss)	1(h)	(1,729)			4,612			2,883
Gains/(losses) on:								
Gold	1(d)		651					651
Shares in international and other institutions	1(b)		14					14
Property, plant and equipment	1(e)		33					33
Superannuation	1(i)			(316)				(316)
Other comprehensive income			698	(316)				382
Total comprehensive income for 2015/16								**27,134**
Transfer to Reserve Bank Reserve Fund	1(g), 3				(1,390)	1,390		–
Transfer to distribution payable to the Commonwealth	1(h), 3				(3,222)			(3,222)
Balance as at 30 June 2016		**4,861**	**5,074**	**(182)**	**–**	**14,119**	**40**	**23,912**

The above statement should be read in conjunction with the accompanying Notes.

Cash Flow Statement – for the year ended 30 June 2016

Reserve Bank of Australia and Controlled Entity

For the purposes of this statement, cash includes the banknotes and coin held at the RBA and overnight settlement balances due from other banks.

	Note	2016 Inflow/ (outflow) $M	2015 Inflow/ (outflow) $M
Cash flows from operating activities			
Interest received		2,299	2,176
Interest paid		(1,095)	(1,259)
Net fee income received		423	278
Net payments for investments		(1,194)	(12,243)
Net cash collateral received/(pledged)		(3,002)	545
Other		(361)	(296)
Net cash used in operating activities	6	(2,930)	(10,799)
Cash flows from investment activities			
Proceeds from the sale of Securency		1	8
Net expenditure on property, plant and equipment		(93)	(42)
Net cash used in investment activities		(92)	(34)
Cash flows from financing activities			
Distribution to the Commonwealth	3	(2,501)	(618)
Net movement in deposit liabilities		724	6,912
Net movement in loans and advances		–	1
Net movement in banknotes on issue		4,728	4,703
Net cash provided by financing activities		2,951	10,998
Net increase/(decrease) in cash		(71)	165
Cash at beginning of financial year		438	273
Cash at end of financial year	6	367	438

The above statement should be read in conjunction with the accompanying Notes.

Notes to and Forming Part of the Financial Statements – for the year ended 30 June 2016

Reserve Bank of Australia and Controlled Entity

Note 1 – Accounting Policies

The Reserve Bank of Australia (RBA) reports its consolidated financial statements in accordance with the *Reserve Bank Act 1959* and the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). These financial statements for the year ended 30 June 2016 have been prepared under Australian Accounting Standards (AAS), other accounting standards and accounting interpretations issued by the Australian Accounting Standards Board, in accordance with the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (FRR), which is issued pursuant to the PGPA Act. These financial statements comply with International Financial Reporting Standards. In preparing them, the RBA has not 'early adopted' new accounting standards or amendments to current standards that apply from 1 July 2016.

These financial statements and accompanying notes are a general purpose financial report prepared in accordance with relevant AAS. Specific elections of accounting treatment under AAS are noted appropriately. All amounts are expressed in Australian dollars, the functional and presentational currency of the RBA, unless another currency is indicated. The RBA is classified as a for-profit public sector entity for purposes of financial disclosure. Fair values are used to measure the RBA's major assets, including Australian dollar and foreign marketable securities, gold and foreign currency, and property, plant and equipment. Revenue and expenses are brought to account on an accruals basis. All revenues, expenses and profits of the RBA are from ordinary activities.

These financial statements were approved by a resolution of the Reserve Bank Board on 2 August 2016 in accordance with the Reserve Bank Act.

(a) Consolidation and joint venture

The financial statements show information for the economic entity only; this reflects the consolidated results for the parent entity, the Reserve Bank of Australia, and its wholly owned subsidiary, Note Printing Australia Limited (NPA). The results of the parent entity do not differ materially from the economic entity and have therefore not been separately disclosed.

Note Printing Australia Limited

NPA was incorporated as a wholly owned subsidiary of the RBA on 1 July 1998, with an initial capital of $20.0 million. The RBA provided NPA with additional capital of $15.0 million in July 2008 and a further $25.0 million in July 2009.

NPA Balance Sheet	**2016 $M**	**2015 $M**
Assets	159.6	144.2
Liabilities	30.9	19.2
Equity	128.7	125.0

The assets, liabilities and results of NPA have been consolidated with the accounts of the parent entity in accordance with AASB 10 – *Consolidated Financial Statements*. All internal transactions and balances have been eliminated on consolidation. These transactions include items relating to the purchase of Australian banknotes, lease of premises and the provision of general administrative services.

Innovia Security Pty Ltd (formerly Securency International Pty Ltd)

In February 2013, the RBA completed the sale of its 50 per cent interest in Securency International Pty Ltd (Securency). The sale of the RBA's shares was made to a related entity of Innovia Films, a UK-based film manufacturer, which had previously owned the other half of Securency. Under the terms of the sale agreement, additional payments arising from the sale may be made to the RBA in future periods, including if Innovia Security exceeded certain earnings benchmarks in the period to 31 December 2015. Under these arrangements, an amount of $6.0 million was recognised in the Statement of Comprehensive Income in 2015/16 ($7.7 million in 2014/15). These amounts are shown in Note 2 as the Gain on sale of Securency. Other potential payments relating to the sale remain uncertain at the reporting date and are, therefore, not recognised in these financial statements.

Legal issues

Charges were laid against NPA and Securency and against former employees of these companies in the period between 2011 and 2013. These charges relate to allegations that these employees and the companies had conspired to provide, or offered to provide, benefits to foreign public officials that were not legitimately due. The RBA has accounted for these matters in accordance with the relevant accounting standards. Specific information about these charges and the associated costs has not been disclosed in the notes to the accounts as these legal matters remain before the courts.

(b) Financial instruments

A financial instrument is defined as any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. The RBA's financial instruments include its Australian dollar securities, foreign government securities, repurchase agreements, deposits with the Bank for International Settlements (BIS) and other central banks, interest rate futures, foreign currency swap contracts, holdings in the Asian Bond Fund (ABF), a shareholding in the BIS, gold loans, cash and cash equivalents, Australian banknotes on issue and deposit liabilities. The RBA accounts for its financial instruments in accordance with AASB 139 – *Financial Instruments: Recognition and Measurement* and reports these instruments under AASB 7 – *Financial Instruments: Disclosures* and AASB 13 – *Fair Value Measurement*.

The RBA brings its securities transactions and foreign exchange transactions to account on a trade date basis. Deposits and repurchase agreements are brought to account on settlement date.

Financial assets

Australian dollar securities

The RBA holds on an outright basis Australian Government Securities and securities issued by the central borrowing authorities of state and territory governments.

Australian dollar securities, except those held under reverse repurchase agreements, are classified under AASB 139 as 'at fair value through profit or loss', as they are held to conduct monetary policy and may be sold or lent, typically for short terms, under repurchase agreements. The securities are valued at market bid prices on balance date; valuation gains or losses are taken to profit. Interest earned is accrued over the term of the security and included as revenue in the Statement of Comprehensive Income.

Repurchase agreements and reverse repurchase agreements

In carrying out operations to manage domestic liquidity and foreign reserves, the RBA enters into repurchase agreements and reverse repurchase agreements in Australian dollar and foreign currency securities. A repurchase agreement involves the sale of securities with an undertaking to repurchase them on an agreed future date at an agreed price. In a reverse repurchase agreement, securities are initially bought and this transaction is reversed at an agreed price in the second leg. As a reverse repurchase agreement provides the RBA's counterparties with cash for the term of the agreement, the RBA treats it as an asset by recording a cash receivable. Repurchase agreements result in cash being paid to the RBA and are treated as a liability, reflecting the obligation to repay cash. This treatment of repurchase agreements is discussed further below.

Securities purchased and contracted for sale under reverse repurchase agreements are classified under AASB 139 as 'loans and receivables' and valued at amortised cost, the equivalent of fair value. The difference between the purchase and sale price is accrued over the term of the agreement and recognised as interest revenue.

RBA open repurchase agreements were introduced in November 2013 to assist eligible financial institutions manage their liquidity after normal business hours following the introduction of same-day settlement of Direct Entry payments. An RBA open repurchase agreement is an Australian dollar reverse repurchase agreement without an agreed maturity date. The RBA accrues interest daily on open repurchase agreements at the target cash rate.

Foreign government securities

Foreign government securities, except those held under reverse repurchase agreements, are classified under AASB 139 as 'at fair value through profit or loss', as they are available to be traded in managing the portfolio of foreign exchange reserves. These securities are valued at market bid prices on balance date and valuation gains or losses are taken to profit. Interest earned on securities is accrued as revenue in the Statement of Comprehensive Income.

Foreign deposits

Some foreign currency reserves are invested in deposits with the BIS and other central banks, while small working balances are also maintained with a small number of commercial banks. Deposits are classified as 'loans and receivables' under AASB 139 and recorded at face value, which is equivalent to their amortised cost using the effective interest method. Interest is accrued over the term of deposits and is received periodically or at maturity. Interest accrued but not received is included in Accrued interest (Note 15).

Foreign currency swaps

The RBA uses foreign currency swaps with market counterparties both to assist daily domestic liquidity management and in managing foreign reserve assets. A foreign currency swap is the simultaneous purchase and sale of one currency against another currency for a specified maturity. The cash flows are the same as borrowing one currency for a certain period and lending another currency for the same period. The pricing of the swap therefore reflects the interest rates applicable to these money market transactions. Interest rates are implicit in the swap contract but interest itself is not paid or received.

Interest rate futures

The RBA uses interest rate futures contracts on overseas exchanges to manage interest rate risk on its portfolio of foreign securities. An interest rate futures contract is a contract to buy or sell a specific amount of securities for a specific price on a specific future date.

Interest rate futures positions are classified under AASB 139 as 'at fair value through profit or loss'. Futures positions are marked to market on balance date at the relevant market price and valuation gains and losses are taken to profit.

Asian Bond Fund

The RBA invests in a number of non-Japan Asian debt markets through participation in the EMEAP Asian Bond Fund. The RBA had modest holdings in the US dollar-denominated fund, ABF1, and the local currency-denominated fund, ABF2. The two funds are classified under AASB 139 as 'at fair value through profit or loss'. The funds are valued on balance date at the relevant unit price of the fund and valuation gains and losses are taken to profit.

Following agreement among member central banks, EMEAP announced the closure of ABF1 in July 2016. The funds of member central banks, including the RBA, invested in ABF1 were transferred to ABF2.

Bank for International Settlements

The RBA holds shares in the BIS. The purpose of this membership is to maintain and develop strong relationships with other central banks. Shares in the BIS are owned exclusively by the central banks and monetary authorities that are its members. Under AASB 139, the RBA's shareholding in the BIS is classified as 'available for sale'. The shareholding is valued at fair value and revaluation gains and losses are transferred directly to the revaluation reserve for shares in international and other institutions (Note 5). Dividends are recognised as revenue in the Statement of Comprehensive Income.

Financial liabilities

Deposit liabilities

Deposits are classified as financial liabilities under AASB 139. Deposits include both deposits 'at call' and term deposits. Deposit balances are shown at their amortised cost, which is equivalent to their face value. Interest is accrued over the term of deposits and is paid periodically or at maturity. Interest accrued but not paid is included in Other Liabilities (Note 10). Details of deposits are included in Note 9.

Australian banknotes on issue

Banknotes on issue are recorded at face value.

The RBA pays interest on working balances of banknotes held by banks under cash distribution arrangements. Details of the interest expense are included in Note 4.

Costs related to the production of banknotes are included in Other expenses in Note 2.

Repurchase agreements

Securities sold and contracted for repurchase under repurchase agreements are classified under AASB 139 as 'at fair value through profit or loss', as these securities are held for trading, and reported on the balance sheet within the relevant investment portfolio. The counterpart obligation to repurchase the securities is reported in Other Liabilities (Note 10) at amortised cost; the difference between the sale and purchase price is accrued over the term of the agreement and recognised as interest expense.

(c) Foreign exchange translation

Assets and liabilities denominated in foreign currency are converted to Australian dollar equivalents at the relevant market exchange rate ruling on balance date in accordance with AASB 121 – *The Effects of Changes in Foreign Exchange Rates*. Valuation gains or losses on foreign currency are taken to profit. Interest revenue and expenses and revaluation gains and losses on foreign currency assets and liabilities are converted to Australian dollars using the relevant market exchange rate on the date they are accrued or recognised.

(d) Gold

Gold holdings (including gold on loan to other institutions) are valued at the Australian dollar equivalent of the 3 pm fix in the London gold market on balance date. Revaluation gains and losses on gold are transferred to the asset revaluation reserve for gold. The RBA lends gold to institutions that participate in the gold market. As outlined in Note 1(b), gold loans are a financial instrument and the RBA accounts for them in accordance with AASB 139 and reports them under AASB 7.

(e) Property, plant and equipment

The RBA accounts for its property, plant and equipment at fair value in accordance with AASB 116 – *Property, Plant and Equipment* and AASB 13. Valuation gains (losses) are generally transferred to (from) the relevant asset revaluation reserve. Any part of a valuation loss that exceeds the balance in the relevant asset revaluation reserve is expensed. Subsequent valuation gains that offset losses that were previously treated as an expense are recognised as revenue in the Statement of Comprehensive Income.

Property

The RBA's Australian properties are formally valued annually by an independent valuer; overseas properties are independently valued on a triennial basis. The most recent independent valuation of overseas properties was at 30 June 2016. Reflecting its specialised nature, the RBA's Business Resumption Site is valued at depreciated replacement cost. Annual depreciation is calculated on a straight line basis using assessments of the remaining useful life of the relevant asset.

Plant and equipment

Plant and equipment is valued by an independent valuer every three years. The most recent independent valuation was at 30 June 2014. Between revaluations, plant and equipment is carried at the most recent valuation less any subsequent depreciation. Annual depreciation is calculated on a straight line basis using the RBA's assessments of the remaining useful life of individual assets.

Depreciation rates for each class of depreciable assets are based on the following range of useful lives:

	Years
Buildings	20–50
Fit-out and furniture	5–10
Computer hardware	3–5
Motor vehicles	5
Plant and other equipment	4–20

The RBA's assets are assessed for impairment at the end of each financial year. If indications of impairment are evident, the asset's recoverable amount is estimated and an impairment adjustment is made if the recoverable amount is less than the asset's carrying amount.

Annual net expenditure, revaluation adjustments and depreciation of buildings, plant and equipment are included in Note 8.

(f) Computer software

Computer software is treated in accordance with AASB 138 – *Intangible Assets*. Computer software is recognised at cost less accumulated amortisation and impairment adjustments, if any (refer to Note 7).

Amortisation of computer software is disclosed in Note 2 and is calculated on a straight line basis over the estimated useful life of the relevant asset, usually for a period of between three and five years. The useful life of core banking software may be up to 15 years, reflecting the period over which future economic benefits are expected to be realised from this asset.

(g) Capital and reserves

The capital of the Reserve Bank is established by the Reserve Bank Act.

The Reserve Bank Reserve Fund (RBRF) is also established by the Reserve Bank Act and is regarded essentially as capital. The RBRF is a permanent reserve maintained to provide for events which are contingent and not foreseeable, including to cover losses from falls in the market value of the RBA's holdings of Australian dollar and foreign currency securities that cannot be absorbed by its other resources. The RBRF also provides for other risks such as fraud and operational risk. In accordance with the Reserve Bank Act, this reserve is funded only by transfers from net profits.

The Reserve Bank Board assesses the adequacy of the balance of the RBRF each year. In line with section 30 of the Reserve Bank Act, the Treasurer, after consulting the Board, determines any amounts to be placed to the credit of the RBRF from net profit (refer Note 1(h)). Accordingly, the Treasurer, after consulting the Board, has determined that a sum of $1,390 million be transferred from the 2015/16 net profit to the RBRF. The balance of the RBRF currently stands at a level that the Board regards as appropriate for the risks the Bank holds on its balance sheet.

The RBA also holds as equity a number of other reserves.

Unrealised gains and losses on foreign exchange, foreign securities and Australian dollar securities are recognised in net profit. Such gains or losses are not available for distribution and are transferred to the Unrealised profits reserve, where they remain available to absorb future unrealised losses or become available for distribution if gains are realised when assets are sold or mature.

The balance of the Superannuation reserve represents accumulated re-measurement gains and losses on the RBA's defined benefit superannuation obligations (refer Note 1 (i)). These unrealised gains and losses are included in Other Comprehensive Income in accordance with AASB 119 – *Employee Benefits*.

Balances of asset revaluation reserves reflect differences between the fair value of non-traded assets and their cost. These assets are: gold; property, plant and equipment; and shares in international and other institutions. Valuation gains are transferred directly to the relevant reserves and are included in Other Comprehensive Income; gains on these assets are not distributable unless an asset is sold and these gains are realised.

(h) Profits

Profits of the RBA are dealt with in the following terms by section 30 of the Reserve Bank Act:

(1) Subject to subsection (2), the net profits of the Bank in each year shall be dealt with as follows:

(aa) such amount as the Treasurer, after consultation with the Reserve Bank Board, determines is to be set aside for contingencies; and

(a) such amount as the Treasurer, after consultation with the Reserve Bank Board, determines shall be placed to the credit of the Reserve Bank Reserve Fund; and

(b) the remainder shall be paid to the Commonwealth.

(2) If the net profit of the Bank for a year is calculated on a basis that requires the inclusion of unrealised gains on assets during the year, the amount to which subsection (1) applies is to be worked out as follows:

(a) deduct from the net profit an amount equal to the total of all amounts of unrealised gains included in the net profit; and

(b) if an asset in respect of which unrealised gains were included in the net profit for a previous year or years is realised during the year – add to the amount remaining after applying paragraph (a) the total amount of those unrealised gains.

(i) Superannuation funds

The RBA includes in its Statement of Financial Position an asset or liability representing the position of its defined benefit superannuation funds measured in accordance with AASB 119. Movements in the superannuation asset or liability are reflected in the Statement of Comprehensive Income. Re-measurement gains and losses are transferred to the Superannuation reserve. Details of the superannuation funds and superannuation expenses are included in Note 14.

(j) Committed Liquidity Facility

From 1 January 2015, the RBA has provided a Committed Liquidity Facility (CLF) to eligible authorised deposit-taking institutions. Fees received from providing the CLF are recognised as fee income in the Statement of Comprehensive Income. Additional information on the CLF is provided in Note 11.

(k) Rounding

Amounts in the financial statements are rounded to the nearest million dollars unless otherwise stated.

(l) Application of new or revised Australian accounting standards

A number of new and revised Australian accounting standards will apply to the RBA's financial statements in future reporting periods, as set out below. Application of these standards is not expected to have a material effect on the RBA's financial statements.

AASB 9 – Financial Instruments

The new standard, which will be applicable for annual reporting periods beginning on or after 1 January 2018, contains requirements for the classification, measurement and recognition of financial assets and liabilities. It will replace the corresponding requirements currently in AASB 139.

AASB 15 – Revenue from Contracts with Customers

AASB 15, which will be applicable for annual reporting periods beginning on or after 1 January 2018, contains requirements for the recognition, measurement, classification and disclosure of revenue arising from contracts with customers. It will replace corresponding requirements currently contained in AASB 118 – *Revenue* and AASB 111 – *Construction Contracts*.

AASB 16 – Leases

AASB 16 contains requirements for the recognition, measurement, classification and disclosure of leases for both lessee and lessors. The new standard, which will be applicable for annual reporting periods beginning on or after 1 January 2019, will replace corresponding requirements currently contained in AASB 117 – *Leases*.

Note 2 – Net Profit

	Note	2016 $M	2015 $M
Net interest income			
Interest income	1(b), 4	2,305	2,165
Interest expense	1(b), 4	(1,112)	(1,245)
		1,193	920
Net gains/(losses) on securities and foreign exchange			
Foreign investments	1(b)	68	40
Australian dollar securities	1(b)	(229)	(130)
Foreign currency	1(b)	1,821	6,146
		1,660	6,056
Fees and commissions income			
Committed Liquidity Facility fee income	1(j)	390	208
Banking services fee income		100	98
Payment services fee income		18	18
		508	324
Other income			
Sales of note and security products		43	41
Rental of Bank premises		9	10
Gain on sale of Securency	1(a)	6	8
Dividend revenue	1(b)	4	4
Other		4	2
		66	65
General administrative expenses			
Staff costs		(215)	(196)
Net gains/(losses) on employee provisions		(34)	10
Superannuation costs	1(i)	(50)	(54)
Depreciation of property, plant and equipment	1(e), 8	(34)	(32)
Amortisation of computer software	1(f), 7	(5)	(4)
Premises and equipment		(50)	(47)
Other		(17)	(17)
		(405)	(340)
Other expenses			
Banking service fee expenses		(81)	(79)
Materials used in note and security products		(25)	(28)
Banknote distribution expenses		(3)	(4)
Other		(30)	(26)
		(139)	(137)
Net Profit		2,883	6,888

Note 3 – Distribution Payable to the Commonwealth

	2016 $M	2015 $M
Opening balance	2,501	1,235
Distribution to the Commonwealth	(2,501)	(618)
Transfer from Statement of Distribution	3,222	1,884
As at 30 June	3,222	2,501

Section 30 of the Reserve Bank Act requires that the net profits of the RBA, less amounts set aside for contingencies or placed to the credit of the RBRF, shall be paid to the Commonwealth (see Note 1(h)). Also under section 30, unrealised profits from foreign exchange, foreign securities and Australian dollar securities are not available for distribution. Instead they are transferred to the Unrealised profits reserve where they remain available to absorb future valuation losses or are realised when relevant assets are sold or mature. Unrealised losses are, in the first instance, absorbed within the Unrealised profits reserve and are offset against unrealised profits accumulated from previous years. For purposes of distribution, if such losses exceed the balance of the Unrealised profits reserve, the amount by which they do so is initially charged against other components of net profit, and any remaining loss is absorbed by the RBRF.

In 2015/16, the RBA recorded a net profit of $2,883 million. Unrealised profits recorded in previous years were also realised during 2015/16, resulting in a net transfer of $1,729 million from the Unrealised profits reserve which became available for distribution. Earnings available for distribution therefore totalled $4,612 million in 2015/16.

The Treasurer, after consulting the Board, determined that a sum of $1,390 million was to be placed from earnings to the credit of the RBRF. Accordingly, a sum of $3,222 million is payable as a dividend to the Commonwealth. This sum will be paid to the Commonwealth in August 2016. In 2015/16, the Bank made payments totalling $2,501 million, comprising the dividend from 2014/15 profits of $1,884 million, paid in two equal instalments in August and May, and a sum of $618 million deferred from the dividend payable the previous year.

Note 4 – Interest Income and Interest Expense

Analysis for the year ended 30 June 2016.

	Average balance $M	Interest $M	Average annual interest rate Per cent
Interest income			
Foreign currency investments	63,013	189	0.3
Australian dollar investments	86,152	2,098	2.4
Overnight settlements	342	6	1.7
Cash collateral provided	563	11	1.9
Gold loans	195	1	0.2
Loans, advances and other	23	–	1.6
	150,288	2,305	1.5
Interest expense			
Exchange Settlement balances	23,552	458	1.9
Deposits from governments	29,280	581	2.0
Deposits from overseas institutions	2,363	17	0.7
Banknote holdings of banks	2,913	50	1.7
Foreign currency repurchase agreements	3,313	4	0.1
Australian dollar repurchase agreements	66	1	2.0
Cash collateral received	95	1	2.0
Other deposits	14	–	1.0
	61,596	1,112	1.8
Net interest income	88,692	1,193	1.3
Analysis for the year ended 30 June 2015			
Interest income	135,194	2,165	1.6
Interest expense	56,439	1,245	2.2
Net interest income	78,755	920	1.2

Interest income for 2015/16 includes $1,503 million calculated using the effective interest method for financial assets not at fair value through profit or loss ($1,625 million in 2014/15). Interest expense for 2015/16 includes $1,112 million calculated using the effective interest method for financial liabilities not at fair value through profit or loss ($1,245 million in 2014/15).

Note 5 – Asset Revaluation Reserves

The composition of the RBA's asset revaluation reserves (Note 1(g)) is shown below.

	Note	2016 $M	2015 $M
Gold	1(d)	4,439	3,788
Shares in international and other institutions	1(b), 7	370	356
Property, plant and equipment	1(e), 8	265	232
As at 30 June		5,074	4,376

Note 6 – Cash and Cash Equivalents

	2016 $M	2015 $M
Cash	31	33
Overnight settlements	336	405
As at 30 June	367	438

Reconciliation of net cash used in operating activities to Net Profit	Note	2016 $M	2015 $M
Net Profit		2,883	6,888
Increase/(decrease) in interest payable		11	(6)
Net loss/(gain) on overseas investments	2	(68)	(40)
Net loss/(gain) on Australian dollar securities	2	229	130
Net loss/(gain) on foreign currency	2	(1,821)	(6,146)
Decrease/(increase) in income accrued on investments		–	11
Cash collateral received/(pledged)		(3,002)	545
Depreciation of property, plant and equipment	2	34	32
Amortisation of computer software	2	5	4
Net payments for investments		(1,194)	(12,243)
Other		(7)	26
Net cash used in operating activities		(2,930)	(10,799)

Cash and cash equivalents include net amounts of $336 million owed to the RBA for overnight clearances of financial transactions through the payments system ($405 million at 30 June 2015). Other cash and cash equivalents include NPA's bank deposits.

Cash and cash equivalents exclude Australian and foreign short-term investments held to implement monetary policy or as part of Australia's foreign reserve assets. These investments are disclosed as Australian dollar investments and foreign currency investments, respectively; further detail is disclosed in Note 15.

Note 7 – Other Assets

	Note	2016 $M	2015 $M
Shareholding in Bank for International Settlements	1(b)	413	399
Computer software	1(f)	56	34
Other		67	43
As at 30 June		536	476

At 30 June 2016, the gross book value of the RBA's computer software amounted to $79.3 million and the accumulated amortisation on these assets was $23.1 million ($53.2 million and $18.9 million, respectively, at 30 June 2015). During 2015/16, there were $26.1 million in net additions to computer software ($20.0 million in 2014/15) and $4.6 million in amortisation expense ($4.0 million in 2014/15). The RBA had contractual commitments of $1.1 million as at 30 June 2016 for the acquisition of computer software ($11.7 million at 30 June 2015).

Other assets include receivables of $24.9 million as at 30 June 2016 ($21.6 million at 30 June 2015), none of which is impaired.

Note 8 – Property, Plant and Equipment

	Land and Buildings $M	Plant and Equipment $M	Total $M
Gross Book Value as at 30 June 2015	383	207	590
Accumulated depreciation	(1)	(40)	(41)
Net Book Value	382	167	549
Additions	46	46	92
Depreciation expense	(9)	(25)	(34)
Net gain/(loss) recognised in Net Profit	1	–	1
Net gain/(loss) recognised in Other Comprehensive Income	33	–	33
Disposals	–	(1)	(1)
Net additions to net book value	71	20	91
Gross Book Value as at 30 June 2016	453	250	703
Accumulated depreciation	–	(63)	(63)
Net Book Value	453	187	640

The net book value of the RBA's property, plant and equipment includes $83.4 million of work in progress ($39.7 million at 30 June 2015).

As at 30 June 2016, the RBA had contractual commitments of $65.7 million for the acquisition or development of property, plant and equipment ($81.2 million at 30 June 2015); contractual commitments of $46.9 million are due within one year ($59.6 million at 30 June 2015). Included within these contractual commitments is an amount of $26.5 million which relates to the construction of the new National Banknote Site in Craigieburn ($55.0 million at 30 June 2015), which is due within one year.

Note 9 – Deposits

	2016 $M	2015 $M
Exchange Settlement balances	24,745	23,360
Australian Government	31,521	36,294
State governments	120	59
Foreign governments, foreign institutions and international organisations	4,810	758
Other depositors	14	15
As at 30 June	61,210	60,486

Note 10 – Other Liabilities

	Note	2016 $M	2015 $M
Provisions			
Provision for annual and other leave		19	18
Provision for long service leave		43	39
Provision for post-employment benefits		125	92
Other		1	–
		188	149
Other			
Securities sold under agreements to repurchase	1(b)	4,526	1,780
Payable for unsettled purchases of securities		1,809	1,556
Interest accrued on deposits		64	59
Superannuation liability	1(i), 14	397	64
Other		1,952	968
		8,748	4,427
Total Other Liabilities as at 30 June		8,936	4,576

The RBA's provision for its post-employment benefits was $33.1 million higher in 2015/16, largely due to a decrease in the discount rate. Benefits of $4.6 million were paid out of the provision for post-employment benefits in 2015/16. The balance of the provision for post-employment benefits will change if assumptions about the length of staff service, the longevity of retired staff, future movements in medical costs or the discount rate vary.

Other provisions consist of $694,000 for workers compensation ($416,000 at 30 June 2015).

Note 11 – Contingent Assets and Liabilities

Committed Liquidity Facility

From 1 January 2015, the RBA has provided a Committed Liquidity Facility (CLF) to eligible authorised deposit-taking institutions (ADIs) as part of Australia's implementation of the Basel III liquidity standards. The CLF provides ADIs with a contractual commitment to funding under repurchase agreements with the RBA, subject to certain conditions. It was established to ensure that ADIs are able to meet their liquidity requirements under Basel III. The CLF is made available to ADIs in Australia because the supply of High Quality Liquid Assets (HQLA) is lower in Australia than is typical in other major countries; in other countries, these liquidity requirements are usually met by banks holding HQLAs on their balance sheet. While the RBA administers the CLF, the Australian Prudential Regulation Authority (APRA) determines which institutions have access to the facility and the limits available. Any drawdown must meet certain conditions, including: APRA does not object to the drawdown; and the RBA assesses that the ADI has positive net worth. Accordingly, the potential funding under the CLF is disclosed as a contingent liability; repurchase agreements associated with providing funding are disclosed as a contingent asset. If an ADI drew on the CLF, the funds drawn would be shown as a deposit liability of the RBA, and the counterpart repurchase agreement as an Australian dollar investment.

The aggregate undrawn commitment of the CLF at 30 June 2016 totalled about $224 billion for 13 ADIs (about $255 billion for 13 ADIs at 30 June 2015).

Bank for International Settlements

The RBA has a contingent liability, amounting to $67.7 million at 30 June 2016 ($65.8 million at 30 June 2015), for the uncalled portion of its shares held in the BIS.

NPA and Securency

As outlined in Note 1, the RBA has accounted for the costs, and potential costs, to the consolidated entity associated with the charges laid against NPA, Securency and several former employees of these companies during 2011 and the charges against former employees laid in 2013. In light of several uncertainties, it is not possible to make reliable estimates of all of the potential costs associated with the charges, or potential claims in connection with them, at the date of preparing these accounts.

Regarding the sale of Securency in 2013, the RBA provided the owner of Innovia Security with a number of indemnities for the period during which the company had been jointly owned by the RBA and Innovia Films. It is not possible to reliably estimate the potential financial effect of these indemnities. The RBA, however, does not consider it probable at this time that it will have to make payments in terms of these indemnities. Accordingly, they are treated as contingent liabilities in accordance with AASB 137 – *Provisions, Contingent Liabilities and Contingent Assets*.

In addition, an amount covering 50 per cent of certain potential liabilities of Innovia Security relating to events prior to the sale has been placed in escrow. The RBA will receive the remaining balance after relevant claims have been paid, settled or lapse. If it is not possible to estimate the likelihood of the RBA receiving any payments from amounts held in escrow, these amounts are treated as a contingent asset, in accordance with AASB 137.

Insurance

The RBA carries its own insurance risks except when external insurance cover is considered to be more cost-effective or is required by legislation.

Performance Guarantees

In the course of providing services to its customers, the RBA provides performance guarantees to third parties in relation to customer activities. Such exposure is not material and has not given rise to losses in the past.

Note 12 – Key Management Personnel

The key management personnel of the Reserve Bank are the Governor and Deputy Governor, non-executive members of the Reserve Bank Board, non-executive members of the Payments System Board and the Assistant Governors, who are the senior staff responsible for planning, directing and controlling the activities of the Bank. On the retirement of the Assistant Governor (Banking & Payments) late in 2015, the responsibilities of this position were consolidated with those of another Assistant Governor, creating a single role as the Assistant Governor (Business Services); there are now five Assistant Governors compared with six in the previous year. During the financial year, a total of 22 individuals occupied positions classified as Key Management Personnel for all or part of the year, the same as in the previous year.

The positions of Governor and Deputy Governor are designated as Principal Executive Offices in terms of the *Remuneration Tribunal Act 1973*, which provides for the Remuneration Tribunal to determine the applicable remuneration for these positions. Within these parameters, the Reserve Bank Board Remuneration Committee, comprising three non-executive directors, makes a recommendation on remuneration for these positions for the approval of the Board, which is the 'employing body' for the positions. Fees for non-executive members of the Reserve Bank Board and the Payments System Board are determined by the Remuneration Tribunal. The Governor, in consultation with the Board Remuneration Committee, determines the remuneration of Assistant Governors and other staff. For staff generally, remuneration aims to be market competitive and designed to attract and retain appropriately skilled people. Remuneration levels for employees are externally benchmarked.

In December 2015, the Remuneration Tribunal determined that, effective 1 January 2016, an adjustment of 2 per cent would be made to the remuneration of offices in its jurisdiction, including those of the Governor and Deputy Governor. Accordingly, total remuneration for the position of Governor was $1,030,645 (including superannuation salary of $878,549) and for the Deputy Governor was $771,120 (including superannuation salary of $593,782).

The RBA discloses remuneration of key management personnel in terms of both AAS and the FRR; these disclosures are set out below.

Disclosures under AAS

Under AAS, disclosure of remuneration of key management personnel is based on AASB 124 – *Related Party Disclosures*, as shown below in Table A. The figures are disclosed on an accruals basis and show the full cost to the consolidated entity; they include all leave and fringe benefits tax charges.

Table A: Remuneration of Key Management Personnel

	2016 $	2015 $
Short-term employee benefits	5,402,979	5,457,650
Post-employment benefits	1,013,006	1,026,138
Other long-term benefits	300,252	(65,074)
Termination benefits	–	–
Total compensation	6,716,237	6,418,714

Short-term benefits include cash salary and, where relevant for executives, lump sum payments, motor vehicle benefits, car parking and health benefits and the fringe benefits tax paid or payable on these benefits. Post-employment benefits include superannuation benefits and, in the case of staff, health benefits. Other long-term benefits include long service leave and annual leave as well as the cost of (or gain on) revaluing previously accrued leave entitlements in accordance with AASB 119 (refer Note 10).

There were no loans during 2015/16 and 2014/15 by the RBA to any key management personnel.

There were no related party transactions with Board members or executives. Transactions with director-related entities that occurred in the normal course of the RBA's operations were incidental and conducted on terms no more favourable than similar transactions with other employees or customers; any vendor relationships with such entities were at arm's length and complied with the Bank's procurement policy.

Disclosure under FRR

The disclosures on senior management remuneration required under section 27 of the FRR are shown in Table B below. Aggregates in Table B are similar to those in Table A and correspond to the same group of key management personnel. The figures in Table B exclude valuation changes in accumulated annual and long service leave entitlements, consistent with the requirements of the FRR.

Table B: Remuneration of Senior Management[(a)]

	2016 $	2015 $
Short-term employee benefits		
Salary	4,322,772	4,383,444
Performance-related payments	58,604	57,105
Other[(b)]	226,628	236,392
Directors' fees	794,975	780,709
Total short-term employee benefits	5,402,979	5,457,650
Post-employment benefits		
Superannuation	983,355	996,003
Other[(c)]	29,651	30,135
Total post-employment benefits	1,013,006	1,026,138
Other long-term benefits[(d)]		
Annual leave	16,760	(16,130)
Long service leave	80,055	66,133
Total other long-term benefits	96,815	50,003
Termination benefits	–	–
Total employment benefits	6,512,800	6,533,791

(a) Within the group of 22 key management personnel, 20 positions are remunerated and included in this table, which is prepared on an accruals basis
(b) Other short-term employee benefits include car parking and health benefits and, for relevant executives, motor vehicle and related benefits
(c) Other post-employment benefits include health benefits
(d) Other long-term benefits include the net accrual of annual and long service leave in the relevant year, but not the cost of revaluing leave entitlements previously accrued (as in Table A above)

Note 13 – Auditor's Remuneration

	2016 $	2015 $
Fees paid or payable to the statutory auditor (Australian National Audit Office) for audit services	425,000	411,600

KPMG has been contracted by the Australian National Audit Office (ANAO) to provide audit services for the external audit of the RBA. This includes audit services for the RBA's subsidiary NPA and the Reserve Bank of Australia Officers' Superannuation Fund.

During 2015/16, KPMG earned additional fees of $184,698 for non-audit services that were separately contracted by the RBA ($143,085 in 2014/15). These fees are mainly included in General administrative expenses in Note 2.

Note 14 – Superannuation Funds

Overview

Independent actuarial estimates place the RBA defined benefit superannuation fund (the OSF) in surplus at 30 June 2016. This analysis updates the full actuarial valuation prepared as at 30 June 2014, and is consistent with AAS 25 – *Financial Reporting by Superannuation Plans*. The next full actuarial review of the fund will be completed for the financial position as at 30 June 2017.

For financial statement purposes, disclosures on superannuation follow AASB 119 and are based on future liabilities being discounted at the yield on high-quality Australian dollar corporate bonds. This places a higher present value on those liabilities than the funding assessment, which discounts them at the assumed return on fund assets. The RBA currently carries a liability for defined benefit superannuation in terms of AASB 119.

The RBA and OSF Board of Trustees are currently working to transfer the members and assets of the OSF to a multi-employer fund (MEF) via a successor fund transfer. The transfer to an MEF is expected to be completed by mid-2017, when the Bank's role in directly operating and governing the fund will cease.

Structure of funds

The RBA has two superannuation funds: the Reserve Bank of Australia Officers' Superannuation Fund (OSF) and the Reserve Bank of Australia UK Pension Scheme. Current and future benefits are funded by member and RBA contributions and the existing assets of these schemes. The RBA's superannuation expenses are included in net profits and shown in Note 2. Administration and other operational costs, and any recoupment of costs from the funds, are also included in Note 2. There were no other related party transactions between the RBA and either fund during 2015/16.

The OSF is a hybrid fund licensed by APRA, with a mix of defined benefit members, defined contribution members and pensioners. Defined benefit members receive a defined benefit in accordance with the OSF's Trust Deed. All members have unitised accumulation balances, which comprise employer contributions and members' personal contributions plus earnings on contributions. The OSF is classified as a single-employer plan in terms of AASB 119. Defined benefit membership in the OSF was closed to new RBA staff from 1 August 2014. From that date, new staff have been offered defined contribution superannuation. The UK Pension Scheme is a closed defined benefit scheme subject to relevant UK regulation.

Funding valuation – AAS 25

Independent actuarial valuations of the OSF and UK Pension Scheme are conducted every three years. The latest for the OSF was at 30 June 2014 and for the UK Scheme at 30 June 2013. These valuations showed both funds were in surplus and in a satisfactory financial position.

The funding valuation of the OSF in 2014 was based on the Attained Age Funding method. Accrued benefits were determined as the value of the future benefits payable to members (allowing for future salary increases), discounted by the expected rate of return on assets held to fund these benefits. At the time of this review, the surplus of the OSF was $110.3 million. The OSF surplus measured on this basis as at 30 June 2016 amounted to $132.0 million.

The RBA maintained its contribution rate to the OSF defined benefit at 18.3 per cent of salaries in 2015/16, consistent with the actuary's recommendation.

The latest funding valuation for the UK Pension Scheme was prepared as at 30 June 2013 and was also based on the Attained Age Funding method. On this basis, the UK Pension Scheme recorded a small deficit at 30 June 2016, with assets of $25.6 million compared with accrued benefits of $26.0 million (assets of $26.4 million and accrued benefits of $26.5 million at 30 June 2015). The Trustees of the UK Scheme will keep its funding position under review.

Accounting valuation – AASB 119

For financial statement purposes, the financial positions of the OSF and UK Pension Scheme are valued in accordance with AASB 119. This standard requires disclosures of significant actuarial assumptions, a maturity analysis of the defined benefit obligation and key risk exposures. Unless otherwise stated, information is provided only for the OSF, as the UK Pension Scheme is not material.

Actuarial assumptions

The principal actuarial assumptions for the AASB 119 valuation of the OSF are:

	2016 Per cent	2015 Per cent
Discount rate (gross of tax)[(a)]	3.6	4.9
Future salary growth[(b)]	3.0	3.0
Future pension growth[(b)]	3.0	3.0

(a) Based on highly rated Australian dollar denominated corporate bond yields
(b) Includes a short-term assumption of 2.00 per cent for the first five years of the projections (2.50 per cent for the first five years of the projections in 2015)

Maturity analysis

The weighted-average duration of the defined benefit obligation for the OSF is 21 years (18 years at 30 June 2015). The expected maturity profile for defined benefit obligations of the OSF is as follows:

	2016 Per cent	2015 Per cent
Maturity profile		
Less than 5 years	15	19
Between 5 and 10 years	14	16
Between 10 and 20 years	25	26
Between 20 and 30 years	20	18
Over 30 years	26	21
Total	100	100

Risk exposures

Key risks from the RBA's sponsorship of the OSF defined benefit plan include investment, interest rate, longevity, salary and pension risks.

Investment risk is the risk that the actual future return on plan assets will be lower than the assumed rate.

Interest rate risk is the exposure of the defined benefit obligations to adverse movements in interest rates. A decrease in interest rates will increase the present value of these obligations.

Longevity risk is the risk that OSF members live longer than actuarial estimates of life expectancy.

Salary risk is the risk that higher than assumed salary growth will increase the cost of providing a salary-related pension.

Pension risk is the risk that pensions increase at a faster rate than assumed and increases the cost of providing them.

The table below shows the estimated change in the defined benefit obligation resulting from movements in key actuarial assumptions. These estimates change each assumption individually, holding other factors constant; they do not incorporate any correlations among these factors.

	2016 $M	2015 $M
Change in defined benefit obligation from an increase of 0.25 percentage points:		
Discount rate (gross of tax)	(76)	(50)
Future salary growth	21	13
Future pension growth	56	38
Change in defined benefit obligation from a decrease of 0.25 percentage points:		
Discount rate (gross of tax)	82	54
Future salary growth	(20)	(13)
Future pension growth	(53)	(36)
Change in defined benefit obligation from an increase in life expectancy of one year	54	38

Asset distribution

The distribution of the OSF's assets used to fund members' defined benefits at 30 June is:

	Per cent of fund assets	
	2016	2015
Cash and short-term securities	3	5
Fixed interest and indexed securities	15	14
Domestic equities	35	36
Foreign equities	17	18
Property	15	14
Private equity and infrastructure	15	13
Total	100	100

AASB 119 Reconciliation

The table below contains a reconciliation of the AASB 119 valuation of the two superannuation funds. For the OSF these details are for the defined benefit component only, as the RBA faces no actuarial risk on defined contribution balances and these balances have no effect on the measurement of the financial position of the OSF. At 30 June 2016, OSF accumulation balances totalled $279.5 million ($265.0 million as at 30 June 2015).

	OSF		UK Scheme		Total	
	2016 $M	**2015 $M**	**2016 $M**	**2015 $M**	**2016 $M**	**2015 $M**
Opening balances:						
Net market value of assets	967	906	26	22	993	927
Accrued benefits	(1,031)	(1,103)	(22)	(19)	(1,053)	(1,123)
Surplus/(deficit)	(64)	(197)	4	2	(60)	(195)
Effect of asset cap	–	–	(4)	(2)	(4)	(2)
Opening superannuation asset/(liability)	(64)	(197)	–	–	(63)	(197)
Change in net market value of assets	24	61	(1)	5	23	66
Change in accrued benefits	(357)	72	2	(3)	(355)	69
Change in asset cap	–	–	(1)	(2)	(1)	(2)
Change in superannuation asset/(liability)	(333)	133	–	–	(333)	133
Closing balances:						
Net market value of assets	991	967	26	26	1,017	993
Accrued benefits	(1,388)	(1,031)	(21)	(22)	(1,409)	(1,053)
Surplus/(deficit)	(397)	(64)	5	4	(392)	(60)
Effect of asset cap	–	–	(5)	(4)	(5)	(4)
Closing superannuation asset/(liability)	(397)	(64)	–	–	(397)	(63)
Interest income	47	41	1	1	48	42
Benefit payments	(42)	(43)	(1)	(1)	(43)	(44)
Return on plan assets	(6)	38	3	2	(3)	40
Contributions from RBA to defined benefit schemes	24	25	–	–	24	25
Exchange rate gains/(losses)	–	–	(3)	3	(3)	3
Change in net market value of assets	24	61	(1)	5	23	66

The components of this table may not add due to rounding.

Note 14 – Superannuation Funds (continued)

	OSF		UK Scheme		Total	
	2016 $M	2015 $M	2016 $M	2015 $M	2016 $M	2015 $M
Current service cost	(37)	(40)	–	–	(37)	(40)
Interest cost	(50)	(50)	(1)	(1)	(51)	(51)
Benefit payments	42	43	1	1	43	44
Gains/(losses) from change in demographic assumptions	–	–	–	–	–	–
Gains/(losses) from change in financial assumptions	(312)	88	(1)	(1)	(313)	87
Gains/(losses) from change in other assumptions	1	31	–	–	1	31
Exchange rate gains/(losses)	–	–	3	(2)	3	(2)
Change in accrued benefits	(357)	72	2	(3)	(355)	69
Current service cost	37	40	–	–	37	40
Net Interest expense/(income)	4	9	–	–	4	9
Productivity and superannuation guarantee contributions	6	5	–	–	6	5
Superannuation expense/(income) included in profit or loss	47	54	–	–	47	53
Actuarial remeasurement loss/(gain)	316	(157)	–	–	316	(157)
Superannuation expense/(income) included in Statement of Comprehensive Income	363	(103)	–	–	363	(103)

The components of this table may not add due to rounding.

Note 15 – Financial Instruments and Risk

As the central bank in Australia, the RBA is responsible for implementing monetary policy and managing Australia's foreign reserve assets. Consequently, the RBA holds a range of financial assets, including government securities, repurchase agreements and foreign currency swaps. As to financial liabilities, the RBA issues Australia's banknotes and takes deposits from its customers, mainly the Australian Government, and eligible financial institutions. The RBA also provides banking services to its customers and operates Australia's high-value payments and interbank settlement systems.

Financial Risk

The RBA is exposed to a range of financial risks that reflect its policy and operational responsibilities. These risks include market risk, credit risk and liquidity risk. The chapters in the Annual Report on 'Operations in Financial Markets' and 'Risk Management' provide additional information on the RBA's management of these financial risks. The RBA's approach to managing financial risk is set out in the Risk Appetite Statement available on the RBA website.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises foreign exchange risk and interest rate risk.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or cash flows of the RBA's foreign currency assets and liabilities will fluctuate because of movements in exchange rates. An appreciation in the exchange rate results in valuation losses, while a depreciation leads to valuation gains. The overall level of foreign currency exposure is determined by policy considerations. The RBA's net foreign currency exposure as at 30 June 2016 was $53.3 billion ($50.1 billion as at 30 June 2015). Within the overall exposure and to a limited extent, foreign currency risk can be mitigated by holding assets across a diversified portfolio of currencies. The RBA holds foreign reserves in seven currencies – the US dollar, euro, Japanese yen, Canadian dollar, Chinese renminbi, UK pound sterling and South Korean won.

The RBA also undertakes foreign currency swaps to assist its daily domestic liquidity management and to manage foreign reserve assets. These instruments carry no foreign exchange risk.

Concentration of foreign exchange

The RBA's net holdings of foreign exchange (excluding Special Drawing Rights) were distributed as follows as at 30 June:

	Per cent of foreign exchange	
	2016	**2015**
US dollar	55	55
Euro	20	25
Japanese yen	5	5
Canadian dollar	5	5
Chinese renminbi	5	5
UK pound sterling	5	5
South Korean won	5	–
Total foreign exchange	100	100

Sensitivity to foreign exchange risk

The sensitivity of the RBA's profit and equity to a movement of +/–10 per cent in the value of the Australian dollar exchange rate as at 30 June is shown below. These figures are generally reflective of the RBA's exposure over the financial year.

	2016 $M	**2015 $M**
Change in profit/equity due to a 10 per cent appreciation in the reserves-weighted value of the A$	(4,845)	(4,547)
Change in profit/equity due to a 10 per cent depreciation in the reserves-weighted value of the A$	5,922	5,557

Interest rate risk

Interest rate risk is the risk that the fair value or cash flows of financial instruments will fluctuate because of movements in market interest rates. The RBA faces interest rate risk because most of its assets are financial assets that have a fixed income stream, such as Australian dollar and foreign currency securities. The price of such securities rises when market interest rates decline, and it falls if market rates rise. Interest rate risk increases with the maturity of a security. Interest rate risk on foreign assets is controlled through limits on the duration of these portfolios. Interest rate risk on Australian dollar assets is relatively low as most of the portfolio is held in short-term reverse repurchase agreements.

Sensitivity to interest rate risk

The figures below show the effect on the RBA's profit and equity of a movement of +/–1 percentage point in interest rates, given the level, composition and modified duration of the RBA's foreign currency and Australian dollar securities as at 30 June.

	2016 $M	2015 $M
Change in profit/equity due to movements of +/–1 percentage point across yield curves:		
Foreign currency securities	–/+339	–/+300
Australian dollar securities	–/+144	–/+156

Liquidity risk

Liquidity risk is the risk that the RBA will not have the resources required at a particular time to meet its obligations to settle its financial liabilities. As the ultimate source of liquidity in Australian dollars, the RBA can create liquidity in unlimited amounts in Australian dollars at any time. A small component of the RBA's liabilities is in foreign currencies, namely foreign repurchase agreements.

Liquidity risk may also be associated with the RBA, in extraordinary circumstances, being forced to sell a financial asset at a price less than its fair value. The RBA manages this risk by holding a diversified portfolio of highly liquid Australian dollar and foreign currency assets.

The analysis of portfolio maturity in the table that follows is based on the RBA's contracted portfolio as reported in the RBA's Statement of Financial Position. All financial instruments are shown at their remaining term to maturity, which is equivalent to the repricing period. Other liabilities include amounts outstanding under repurchase agreements. Foreign currency swaps reflect the gross settlement amount of the RBA's outstanding foreign currency swap positions.

Maturity Analysis – as at 30 June 2016

	Balance sheet total $M	Contracted maturity $M					No specified maturity $M	Weighted average effective rate %
		On demand	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Assets								
Cash and cash equivalents	367	30	336	–	–	–	1	1.50
Australian dollar investments								
Securities sold under repurchase agreements	35	–	–	–	–	35	–	2.51
Securities purchased under repurchase agreements	83,223	–	58,315	1,828	–	–	23,080	1.83
Other securities	5,069	–	–	–	3,922	1,147	–	1.80
Accrued interest	173	–	163	10	–	–	–	na
	88,500							
Foreign currency investments								
Balances with central banks	8,135	7,394	741	–	–	–	–	0.04
Securities sold under repurchase agreements	4,491	–	–	3,463	1,028	–	–	0.40
Securities purchased under repurchase agreements	5,873	–	5,873	–	–	–	–	0.67
Other securities	51,931	–	28,411	11,356	6,139	510	5,515	0.09
Deposits	42	–	42	–	–	–	–	0.44
Cash collateral provided	2,329	–	2,329	–	–	–	–	1.75
Accrued interest	78	–	56	22	–	–	–	na
	72,879							
Gold								
Gold loans	402	–	230	172	–	–	–	0.22
Gold holdings	4,165	–	–	–	–	–	4,165	na
	4,567							
Property, plant & equipment	640	–	–	–	–	–	640	na
Other assets	536	–	23	4	6	2	501	na
Total assets	167,489	7,424	96,519	16,855	11,095	1,694	33,902	1.03
Liabilities								
Deposits	61,210	30,943	30,267	–	–	–	–	1.69
Distribution payable to the Commonwealth	3,222	–	3,222	–	–	–	–	na
Cash collateral received	–	–	–	–	–	–	–	na
Australian banknotes on issue	70,209	–	–	–	–	–	70,209	0.06
Other liabilities	8,936	–	8,346	–	–	–	590	0.26
Total liabilities	143,577	30,943	41,835	–	–	–	70,799	0.77
Capital and reserves	23,912							
Total balance sheet	167,489							
Swaps								
Australian dollars								
Contractual outflow	(115)	–	(115)	–	–	–	–	
Contractual inflow	9,255	–	9,255	–	–	–	–	
	9,140	–	9,140	–	–	–	–	
Foreign currency								
Contractual outflow	(34,472)	–	(34,472)	–	–	–	–	
Contractual inflow	25,332	–	25,332	–	–	–	–	
	(9,140)	–	(9,140)	–	–	–	–	

Maturity Analysis – as at 30 June 2015

	Balance sheet total $M	Contracted maturity $M					No specified maturity $M	Weighted average effective rate %
		On demand	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Assets								
Cash and cash equivalents	438	32	405	–	–	–	1	1.75
Australian dollar investments								
Securities sold under repurchase agreements	–	–	–	–	–	–	–	na
Securities purchased under repurchase agreements	76,183	–	52,800	1,969	–	–	21,414	2.02
Other securities	9,930	–	1,404	6,318	899	1,309	–	2.15
Accrued interest	181	–	137	44	–	–	–	na
	86,294							
Foreign currency investments								
Balances with central banks	832	116	716	–	–	–	–	0.13
Securities sold under repurchase agreements	1,780	–	544	1,118	118	–	–	0.02
Securities purchased under repurchase agreements	4,090	–	4,090	–	–	–	–	0.11
Other securities	58,467	–	33,609	12,037	5,832	495	6,494	0.16
Deposits	1	–	1	–	–	–	–	(0.03)
Cash collateral provided	–	–	–	–	–	–	–	na
Accrued interest	71	–	42	29	–	–	–	na
	65,241							
Gold								
Gold loans	49	–	–	49	–	–	–	0.25
Gold holdings	3,866	–	–	–	–	–	3,866	na
	3,915							
Property, plant & equipment	549	–	–	–	–	–	549	na
Other assets	476	–	23	3	–	3	447	na
Total assets	156,913	148	93,771	21,567	6,849	1,807	32,771	1.18
Liabilities								
Deposits	60,486	26,236	34,250	–	–	–	–	1.98
Distribution payable to the Commonwealth	2,501	–	1,559	–	942	–	–	na
Cash collateral received	673	–	673	–	–	–	–	2.00
Australian banknotes on issue	65,481	–	–	–	–	–	65,481	0.07
Other liabilities	3,903	–	3,687	–	–	–	216	(0.02)
Total liabilities	133,044	26,236	40,169	–	942	–	65,697	0.94
Capital and reserves	23,869							
Total balance sheet	156,913							
Swaps								
Australian dollars								
Contractual outflow	(40)	–	(40)	–	–	–	–	
Contractual inflow	11,676	–	11,676	–	–	–	–	
	11,636	–	11,636	–	–	–	–	
Foreign currency								
Contractual outflow	(28,846)	–	(28,846)	–	–	–	–	
Contractual inflow	17,210	–	17,210	–	–	–	–	
	(11,636)	–	(11,636)	–	–	–	–	

Credit risk

Credit risk is the potential for financial loss arising from an issuer or counterparty defaulting on its obligations to: repay principal; make interest payments due on an asset; or settle a transaction. The RBA's credit exposure is managed within a framework designed to contain risk to a level consistent with its very low appetite for such risk. In particular, credit risk is controlled by: holding securities issued by a limited number of highly rated governments, government-guaranteed agencies and supranational organisations; and holding high-quality collateral against reverse repurchase agreements.

The RBA's maximum exposure to credit risk for each class of recognised financial assets, other than derivatives, is the carrying amount of those assets as indicated in the balance sheet.

The RBA's maximum credit risk exposure to derivative financial instruments is:

1. ***Foreign exchange swaps*** – As at 30 June 2016, the RBA was under contract to purchase $25.3 billion of foreign currency ($17.2 billion at 30 June 2015) and sell $34.5 billion of foreign currency ($28.8 billion at 30 June 2015). As of that date there was a net unrealised loss of $1,852 million on these swap positions included in net profit ($218 million unrealised gain at 30 June 2015).

   The RBA has a credit exposure from foreign exchange swaps because of the risk that a counterparty might fail to deliver the second leg of a swap, a sum that would then have to be replaced in the market, potentially at a loss. To manage credit risk on swaps, the RBA exchanges collateral with counterparties under credit support annexes (CSAs), which cover the potential cost of replacing the swap position in the market if a counterparty fails to deliver. The RBA's CSAs specify that only Australian dollar cash is eligible as collateral. Under CSAs, either party to the agreement may be obliged to deliver collateral with interest paid or received on a monthly basis. At 30 June 2016, there was no cash collateral received ($673 million at 30 June 2015), while cash collateral provided was $2,329 million (nil at 30 June 2015).

2. ***Interest rate futures*** – As at 30 June 2016, the amount of credit risk on margin accounts associated with interest rate futures contracts held by the RBA was approximately $0.4 million ($0.5 million at 30 June 2015). As at 30 June 2016, there was an unrealised loss of $0.2 million brought to account on those contracts ($0.2 million unrealised loss at 30 June 2015).

The RBA held no past due or impaired assets at 30 June 2016 or 30 June 2015.

Collateral held under reverse repurchase agreements

Cash invested under reverse repurchase agreements in overseas markets is secured against government securities or securities issued by US agencies; the RBA takes and maintains collateral to the value of 102 per cent of the cash invested. Cash invested under Australian dollar reverse repurchase agreements is secured by securities issued by Australian governments, banks and various corporate and asset-backed securities. The RBA holds collateral equivalent to the amount invested plus a margin according to the risk profile of the collateral held. If the current value of collateral falls by more than a predetermined amount, the counterparty is required to provide additional collateral to restore this margin; the thresholds are specified in the legal agreements which govern these transactions. The management of collateral and cash associated with tri-party repurchase agreements is conducted through a third party, in this case the Australian Securities Exchange. The terms and requirements of tri-party repurchase agreements are broadly consistent with bilateral agreements and the RBA manages the risk of holding them in a similar way.

The RBA does not sell or re-pledge securities held as collateral under reverse repurchase agreements.

Collateral provided under repurchase agreements

At 30 June 2016, the carrying amount of securities sold and contracted for purchase under repurchase agreements was $4,527 million ($1,781 million at 30 June 2015). Terms and conditions of repurchase agreements are consistent with those for reverse repurchase agreements disclosed above.

Concentration of credit risk

As noted, the RBA operates to minimise its credit risk exposure through comprehensive risk management policy guidelines. The following table indicates the concentration of credit risk in the RBA's investment portfolio.

	Risk rating of security/issuer[(a)]	Risk rating of counterparties[(a)]	Per cent of investments	
			2016	2015
Australian dollar investments				
Holdings of Australian Government Securities	Aaa	na	1.6	3.8
Holdings of semi-government securities	Aaa	na	0.6	0.6
	Aa	na	0.9	2.0
Securities purchased under reverse repurchase agreements	Aaa	Aa	26.4	27.4
	Aaa	A	10.4	7.3
	Aaa	Other[(b)]	1.1	1.6
	Aa	Aa	8.1	6.8
	Aa	A	1.5	3.1
	Aa	Baa	0.1	0.2
	Aa	B	0.0	0.1
	Aa	Other[(b)]	0.1	0.3
	A	Aa	1.4	1.2
	A	A	0.5	0.6
	A	Baa	0.1	0.0
	Baa	Aa	0.1	0.0
Foreign investments				
Holdings of securities	Aaa	na	10.6	14.7
	Aa	na	3.4	3.9
	A	na	15.3	18.0
Securities sold under repurchase agreements	Aaa	Aa	1.1	0.9
	Aaa	A	1.4	0.2
Securities purchased under reverse repurchase agreements	Aaa	Aa	1.4	1.1
	Aaa	A	1.9	0.5
	Aaa	Baa	0.0	0.2
	Aa	A	0.0	0.1
	A	A	0.2	0.8
Deposits	na	Aaa	0.5	0.5
	na	Aa	0.1	0.0
	na	A	4.3	0.0
Other	Aaa	A	0.4	0.0
	Aaa	Other[(b)]	0.1	0.0
	A	A	1.3	0.4
	Other[(b)]	Aa	0.7	0.1
	Other[(b)]	A	0.1	0.1
	Other[(b)]	Other[(b)]	0.6	0.0
Other assets			3.7	3.5
			100.0	100.0

(a) Average of the credit ratings of the three major rating agencies, where available
(b) This category includes counterparties which are not rated

Note 16 – Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date. This is the quoted market price if one is available. The RBA's financial assets measured at fair value include its holdings of Australian dollar securities, foreign government securities, interest rate futures, foreign currency swap contracts and its shareholding in the BIS. Non-financial assets carried on the balance sheet at fair value include the RBA's property, plant and equipment. Other than derivatives, there are no financial liabilities measured at fair value.

AASB 13 requires financial and non-financial assets and liabilities measured at fair value to be disclosed according to their position in the fair value hierarchy. This hierarchy has three levels: valuation for Level 1 assets is based on quoted prices in active markets for identical assets; that for Level 2 assets is based on quoted prices or other observable market data not included in Level 1; Level 3 assets include inputs to valuation other than observable market data.

The table below presents the RBA's assets and liabilities measured and recognised at fair value and their classification within the fair value hierarchy at 30 June 2016.

	Fair Value			Amortised Cost	Total
	Level 1 $M	Level 2 $M	Level 3 $M	$M	$M
As at 30 June 2016					
Financial assets					
At fair value through profit or loss					
Australian dollar securities	5,083	67	–	na	5,150
Foreign government securities	48,021	5,438	–	na	53,459
Foreign currency swaps	–	10	–	na	10
Available for sale					
Shares in other institutions	–	–	415	–	415
Loans and receivables	na	na	na	103,561	103,561
	53,104	5,515	415	103,561	162,595
Non-financial assets					
Land and buildings	–	–	453	na	453
Plant and equipment	–	–	187	na	187
Gold holdings not on loan	4,165	–	–	na	4,165
Other	–	–	–	89	89
	4,165	–	640	89	4,894
Total assets	57,269	5,515	1,055	103,650	167,489
Financial liabilities					
At fair value through profit or loss					
Foreign currency swaps	200	1,661	–	na	1,861
Not at fair value through profit or loss	na	na	na	141,093	141,093
	200	1,661	–	141,093	142,954
Non-financial liabilities	na	na	na	623	623
Total liabilities	200	1,661	–	141,716	143,577

	Fair Value			Amortised Cost	Total
	Level 1 $M	Level 2 $M	Level 3 $M	$M	$M
As at 30 June 2015					
Financial assets					
At fair value through profit or loss					
Australian dollar securities	9,379	617	–	na	9,996
Foreign government securities	54,535	4,582	–	na	59,117
Foreign currency swaps	50	367	–	na	417
Available for sale					
Shares in other institutions	–	–	401	–	401
Loans and receivables	na	na	na	82,521	82,521
	63,964	5,566	401	82,521	152,452
Non-financial assets					
Land and buildings	–	–	382	–	382
Plant and equipment	–	–	167	–	167
Gold holdings not on loan	3,866	–	–	–	3,866
Other	–	–	–	46	46
	3,866	–	549	46	4,461
Total assets	67,830	5,566	950	82,567	156,913
Financial liabilities					
At fair value through profit or loss					
Foreign currency swaps	–	198	–	na	198
Not at fair value through profit or loss	na	na	na	132,594	132,594
	–	198	–	132,594	132,792
Non-financial liabilities	na	na	na	252	252
Total liabilities	–	198	–	132,846	133,044

The RBA's Level 2 financial instruments include Australian dollar-denominated discount securities and some foreign currency swaps priced with reference to an active market yield or rate, but with an adjustment applied to reflect maturity dates. Prices for some Australian dollar and foreign currency denominated securities are derived from markets that are not considered active.

Level 3 assets include the RBA's shareholding in the BIS and its property, plant and equipment, as fair values for these assets are determined by reference to inputs that cannot be directly observed. The shareholding in the BIS is valued using the net asset value, as published in annual financial statements of the BIS, less a discount of 30 per cent. The discount applied is based on a Hague Arbitral Tribunal decision on compensation paid to former private shareholders, and subsequent transactions involving the re-allocation of BIS shares. Fair values of the RBA's property, plant and equipment incorporate factors such as net market income and capitalisation rates, for property valued using an income capitalisation or a discounted cash flow approach, and depreciation rates for property and plant and equipment valued using a depreciable replacement cost methodology.

There were no transfers between levels within the fair value hierarchy during the financial year. Movements in the fair value of the RBA's property, plant and equipment assets during the financial year are detailed in Note 8; the increase in value of the RBA's shareholding in the BIS solely reflects a valuation gain recognised in Other Comprehensive Income.

Note 17 – Subsequent Events

There are no events subsequent to 30 June 2016 to be disclosed.

Auditor-General for Australia

Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Treasurer

I have audited the accompanying financial statements of the Reserve Bank of Australia and Controlled Entity for the year ended 30 June 2016, which comprise the following for the consolidated entity:

- Statement of Assurance;
- Statement of Financial Position as at 30 June 2016
- Statement of Comprehensive Income;
- Statement of Distribution;
- Statement of Changes in Capital and Reserves;
- Cash Flow Statement; and
- Notes to and forming part of the annual Financial Statements, including Accounting Policies and other explanatory information.

The consolidated entity comprises the Reserve Bank of Australia and the entity it controlled at 30 June 2016 or from time to time during the year.

Opinion

In my opinion, the financial statements of the Reserve Bank of Australia and the Controlled Entity:

(a) comply with Australian Accounting Standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*;

(b) present fairly the financial position of the consolidated entity as at 30 June 2016 and its financial performance and cash flows for the year then ended; and

(c) comply with *International Financial Reporting Standards* as disclosed in Note 1.

Accountable Authority's Responsibility for the Financial Statements

The Governor of the Reserve Bank of Australia is responsible under the *Public Governance, Performance and Accountability Act 2013* for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards and the rules made under that Act and is also responsible for such internal control as the Governor determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. In the Notes to the financial statements, the Governor also states, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

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Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These auditing standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Accountable Authority of the entity, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

In conducting my audit, I have complied with the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

Australian National Audit Office

Grant Hehir

Auditor-General

Canberra

18 August 2016

Part 5:

Indexes

Statutory Reporting Requirements Index

The Reserve Bank Annual Report complies with the reporting requirements of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), rules made under the PGPA Act and other applicable legislation.

To assist readers locate this information, the index of annual report statutory reporting requirements identifies where relevant information can be found in this annual report.

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Abbreviations

24/7	24 hours per day, 7 days per week
AAS	Australian Accounting Standards
ABF	Asian Bond Fund
ABF1	Asian Bond Fund 1
ABF2	Asian Bond Fund 2
ADI	Authorised deposit-taking institution
AGS	Australian Government Securities
AGV	Analytical Group on Vulnerabilities (of the FSB)
AML/CTF	Anti-Money Laundering/Counter-Terrorism Financing
AML/CTF Act	*Anti-Money Laundering and Counter-Terrorism Financing Act 2006*
ANAO	Australian National Audit Office
AOFM	Australian Office of Financial Management
APRA	Australian Prudential Regulation Authority
ASD	Australian Signals Directorate
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
AUSTRAC	Australian Transaction Reports and Analysis Centre
BCBS	Basel Committee on Banking Supervision (of the BIS)
BIS	Bank for International Settlements
BRS	Business Resumption Site
CAC Act	*Commonwealth Authorities and Companies Act 1997*
CCP	central counterparty
CEDA	Committee for Economic Development of Australia
CFETS	Chinese Foreign Exchange Trade System
CFR	Council of Financial Regulators
CGFS	Committee on the Global Financial System (of the BIS)
CHESS	Clearing House Electronic Sub-register System
CLF	Committed Liquidity Facility
CPMI	Committee on Payments and Market Infrastructures (of the BIS)
CPRs	Commonwealth Procurement Rules
CSA	Credit support annex
EAP	Employee Assistance Program
EMEAP	Executives' Meeting of East Asia-Pacific Central Banks
eftpos	electronic funds transfer at point of sale
ES	Exchange Settlement
ESA	Exchange Settlement Account
fintech	financial technology
FMI	financial market infrastructure
fmiCBCM	Cross-border Crisis Management Group for Financial Market Infrastructures (subgroup of FSB ReSG)

FRR	Financial Reporting Rule
FOI	Freedom of Information
FOI Act	*Freedom of Information Act 1982*
FSB	Financial Stability Board
FSS	Fast Settlement Service (of RITS)
FX	foreign exchange
FXWG	Foreign Exchange Working Group (of the BIS)
G20	Group of Twenty
G-SIB	global systemically important bank
GHOS	Group of Governors and Heads of Supervision
GPF	Government Partnership Fund (with Indonesia)
HQLA	high-quality liquid assets
IDR	Indonesian rupiah
IMF	International Monetary Fund
IMSG	Implementation Monitoring Standing Group (a CPMI-IOSCO group)
IOSCO	International Organization of Securities Commissions
IPS	Information Publication Scheme
ISDA	International Swaps and Derivatives Association
IT	information technology
JPY	Japanese yen
LCR	Liquidity Coverage Ratio
MC	Markets Committee (of the BIS)
MEF	multi-employer fund
MFSC	Monetary and Financial Stability Committee (of EMEAP)
MPG	Macroprudential Supervision Group (of the BCBS)
NBS	National Banknote Site
NGB	Next Generation Banknote
NNPDC	National Note Processing and Distribution Centre
NPA	Note Printing Australia Limited
NPP	New Payments Platform
NQRS	Note Quality Reward Scheme
OECD	Organisation for Economic Co-operation and Development
OPA	Official Public Account
OSF	Officers' Superannuation Fund
OTC	over-the-counter (derivatives)
PEXA	Property Exchange Australia Limited
PFMI	Principles for Financial Market Infrastructures
PGPA Act	*Public Governance, Performance and Accountability Act 2013*
PSG	Policy Standing Group (a CPMI-IOSCO group)
RBA	Reserve Bank of Australia
RBRF	Reserve Bank Reserve Fund
RCG	Regional Consultative Group (of the FSB)
RDP	Research Discussion Paper
repo	repurchase agreement
ReSG	Resolution Steering Group (of the FSB)
RITS	Reserve Bank Information and Transfer System
RMBS	residential mortgage-backed securities
RTGS	real-time gross settlement
SAR	Special Administrative Region
SCAV	Standing Committee on Assessment of Vulnerabilities (of the FSB)

SCSI	Standing Committee on Standards Implementation (of the FSB)
SDR	Special Drawing Right
SEACEN	South East Asian Central Banks
Semis	Semi-government securities (Australian state and territory government securities)
SRC	Standing Committee on Supervisory and Regulatory Cooperation (of the FSB)
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TRI	Cash Rate Total Return Index
WHS	work health and safety
WHS Act	*Work Health and Safety Act 2011*

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