Reserve Bank of Australia Annual Report

2022

RESERVE BANK OF AUSTRALIA

Reserve Bank of Australia Annual Report

2022

Contents

This report is also available electronically in PDF and HTML formats on the Reserve Bank's website: https://www.rba.gov.au/publications/annual-reports/rba/2022

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

Secretary's Department
Reserve Bank of Australia
65 Martin Place
Sydney NSW 2000
GPO Box 3947
Sydney NSW 2001
Telephone: +61 2 9551 8111
Email: rbainfo@rba.gov.au

© Reserve Bank of Australia 2022

Apart from any use as permitted under the *Copyright Act 1968*, and the permissions explicitly granted below, all other rights are reserved in all materials contained in this publication.

All materials contained in this publication, with the exception of any Excluded Material as defined on the RBA website, are provided under a Creative Commons Attribution 4.0 International License. The materials covered by this licence may be used, reproduced, published, communicated to the public and adapted provided that the RBA is properly attributed in the following manner:

Source: Reserve Bank of Australia 2022 OR Source: RBA 2022

For the full copyright and disclaimer provisions which apply to this publication, including those provisions which relate to Excluded Material, see the RBA website.

The graphs in this publication were generated using Mathematica.

ISSN 1448–5303 (Print)
ISSN 1448–5192 (Online)

Letter of Transmittal

RESERVE BANK OF AUSTRALIA

65 Martin Place
Sydney NSW 2000

GPO Box 3947
Sydney NSW 2001

+61 2 9551 9507
lowep@rba.gov.au

Philip Lowe
GOVERNOR

29 September 2022

The Hon Dr Jim Chalmers MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

RESERVE BANK OF AUSTRALIA ANNUAL REPORT 2022

In accordance with section 46 of the *Public Governance, Performance and Accountability Act 2013*, I am pleased to submit the Reserve Bank's Annual Report for 2022 for presentation to the Parliament.

Yours sincerely,

Governor's Foreword

The past year has seen the return of high inflation as a major policy concern globally. This follows pandemic-related supply-side disruptions, Russia's invasion of Ukraine and significant monetary and fiscal policy stimulus during the pandemic. The Reserve Bank Board is committed to making sure that the current period of higher inflation in Australia is only temporary and that inflation returns to the 2 to 3 per cent target over time.

The past year has also seen a welcome decline in unemployment, with the unemployment rate the lowest it has been in nearly 50 years. This is a significant achievement and is one of the legacies of the policy support provided during the pandemic. Labour force participation has also risen and a higher share of Australians have a job today than ever before. The societal and economic benefits of this should not be understated in supporting the economic welfare of Australians.

The combination of higher inflation, a strong labour market and the underlying resilience of the economy has meant the Board has increased interest rates earlier, and more quickly, than previously expected. The monetary policy support implemented over the past couple of years has helped insulate the economy from the worst effects of the pandemic, but the challenge facing monetary policy has now changed. The task ahead is to return inflation to target while keeping the economy on an even keel. It is possible to do this, but the path is a narrow one and clouded in uncertainty, not least because of developments elsewhere in the world.

The rise in bond yields that has accompanied the stronger economy and higher inflation has resulted in significant valuation losses on the Bank's holdings of government bonds. As a result, the Bank has recorded an accounting loss of $36.7 billion this year, which has reduced its equity to negative $12.4 billion. This negative equity position does not affect the Bank's operations or its ability to operate effectively or perform its policy functions.

The Board expects that the Bank's capital will be restored over time due to positive underlying earnings and capital gains when bonds mature. Accordingly, it has not sought a capital injection from the government. Instead, the Board's strong expectation is that future distributable earnings will be retained by the Bank to restore its capital, rather than paid as dividends to the government. The Treasurer has indicated his support for this approach, noting the situation will be reviewed each year.

The Government has announced an independent review of Australia's monetary policy arrangements and the Reserve Bank. The Board and the Bank's staff welcome this opportunity to take stock and make sure that Australia's monetary policy arrangements are fit for purpose for the challenges ahead. We look forward to listening and learning from the perspective of others. We are also undertaking internal reviews of our policy measures during the pandemic, including the yield target, the bond purchase program and forward guidance.

The Reserve Bank is the banker to the Australian Government and during the year processed the government's pandemic assistance payments and the disaster recovery payments following the east coast floods. It did this using Australia's real-time fast payment system, which allows money to be paid into bank accounts 24 hours a day, seven days a week. Bank staff have also been working closely with Services Australia to help deliver new and innovative payment solutions.

More broadly, the payments landscape is changing rapidly with new technologies and business models. In its capacity as supervisor and regulator of the payments system, the Bank is devoting considerable resources to ensuring that safety and efficiency continue to underpin the evolving payments landscape. The Bank is engaged in global efforts to lower the cost, and improve the efficiency, of cross-border payments. We are also examining, in conjunction with industry partners and other central banks, the case for a central bank digital currency.

The Reserve Bank staff have continued to work tirelessly in the public interest over the past year, while dealing with the interruptions caused by the pandemic. As an organisation, we are devoting significant resources to cybersecurity and technology stability to ensure our IT systems remain secure and resilient. We are also investing in data management so that we can better harness the power of data. We remain committed to being open and transparent and to explaining our decisions. We are also continuing to broaden our engagement with the community and to invest in public education resources for students and teachers of economics.

The Reserve Bank is staffed by people who have a strong commitment to serving the public interest. They do their jobs with calm professionalism and to a very high standard. The past year has been another challenging one, but the staff have been more than up to the task. Once again, the Board joins me in thanking the Bank's staff for their dedication and for their contribution to the welfare of the Australian people.

Philip Lowe
Governor

7 September 2022

PART 1
About the Reserve Bank

Our Role

The Reserve Bank is Australia's central bank, as established under legislation. The Bank has five broad responsibilities:

- determine and implement monetary policy in pursuit of price stability and full employment
- foster the stability of the financial system
- support a secure, stable and efficient payments system
- deliver efficient and effective banking services to the Australian Government
- provide secure and reliable Australian banknotes.

The Reserve Bank's mission is to promote the economic welfare of the Australian people through our monetary and financial policies and operations. Our vision is to be a world-leading central bank that is trusted for our analysis, service delivery and policies. As part of our strategic plan, the Bank has six focus areas, which are outlined further in the Bank's Corporate Plan for 2022/23 to 2025/26.[1] The most important focus area is returning inflation to the 2 to 3 per cent target over time while fostering sustainable economic growth. Supporting the evolution of payments is also an important focus area, while the remaining strategic focus areas of people, technology resilience, data management and communication effectiveness are intended to strengthen our capability to deliver successfully on our mission and key objectives. The Bank will reconsider the strategic focus areas in light of the findings of the independent Review of the Reserve Bank, which will produce a final report by March 2023 (see chapter on 'Governance and Accountability').

Price stability and full employment

The Reserve Bank's responsibility for monetary policy is set out in section 10(2) of the *Reserve Bank Act 1959*, 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.

In support of this, the *Statement on the Conduct of Monetary Policy* confirms the Bank's continuing commitment to achieving consumer price inflation between 2 and 3 per cent, on average, over time,

[1] See RBA (2022), 'Corporate Plan 2022/23'.

Reserve Bank of Australia Strategic Plan

September 2022

Mission

To promote the economic welfare of the Australian people through our monetary and financial policies and operations

Key Objectives

- Price stability and full employment
- The stability of the financial system
- A secure, stable and efficient payments system
- The delivery of efficient and effective banking services to the Australian Government
- The provision of secure and reliable banknotes

Vision

To be a world-leading central bank that is trusted for our analysis, service delivery and policies

Strategic Focus Areas

- Return inflation to the target over time
- Support the evolution of payments
- Attract and maintain a high-quality and innovative workforce
- Strengthen the resilience of technology services
- Harness the power of data
- Ensure we communicate effectively in a changing world

Values

Promoting the public interest, integrity, excellence, intelligent inquiry and respect

consistent with its duties under the Reserve Bank Act. The flexible medium-term inflation target underpins the monetary policy framework in Australia. Since the early 1990s, it has provided the foundation for the Bank to achieve its monetary policy objectives, including by providing an anchor for inflation expectations.

Achieving the inflation target preserves the value of money and facilitates strong and sustainable growth in the economy over the longer term. This helps businesses and households make sound investment decisions, underpins the creation of jobs and protects the savings of Australians. Sustaining high employment means not only do more people have jobs, but they also have better opportunities in life. High rates of unemployment are costly for the economy and hurt our society.

Monetary policy decisions are implemented through the Bank's operations in domestic financial markets. Operations in financial markets are also undertaken to ensure the stable functioning of the financial system, including by ensuring there is sufficient liquidity in the domestic money market.

The Bank's monetary policy framework, including the *Statement on the Conduct of Monetary Policy*, is being considered by the independent Review of the Reserve Bank. The Treasurer has confirmed that all existing arrangements will remain in place until the review is completed.

The stability of the financial system

Given the serious damage to employment and economic prosperity that can be caused by financial instability, the Reserve Bank Act has long had an implied mandate to pursue financial stability. This responsibility is included in the *Statement on the Conduct of Monetary Policy*. The Bank also has specific responsibility to oversee financial market infrastructures that could have implications for financial stability (see below).

We work with other regulatory bodies to foster financial stability. The Governor chairs the Council of Financial Regulators (CFR), which brings together the Reserve Bank, the Australian Prudential Regulation Authority, the Australian Securities and Investments Commission and the Australian Treasury. The CFR is a non-statutory body whose role is to promote the stability of the Australian financial system and support effective and efficient regulation by the financial regulatory agencies. The CFR draws on the expertise of other non-member government agencies where appropriate, and meets jointly with the Australian Competition and Consumer Commission, the Australian Transaction Reports and Analysis Centre (AUSTRAC) and the Australian Taxation Office at least annually to discuss broader financial sector policy matters. 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.

A secure, stable and efficient payments system

There are several distinct aspects to the Reserve Bank's role in the payments system, including those of policymaker, regulator, overseer and supervisor, and 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 Reserve Bank's payments system policy is directed to the greatest advantage of the people of Australia, and 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:

- controlling risk in the financial system
- promoting the efficiency of the payments system
- 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 Reserve 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. These powers and functions relate to the supervision of central counterparties and securities settlement facilities, which are key components of the infrastructure that supports financial markets. The Bank's payments policy area also acts as overseer of Australia's high-value payment system – the Reserve Bank Information and Transfer System (RITS).

Our operational role in the payments system is effected through the Bank's ownership and management of RITS (including the Fast Settlement Service (FSS)), which is used by banks and other approved institutions to settle their payment obligations efficiently on a real-time, gross settlement basis. This ensures that there is no build-up of settlement obligations associated with high-value transactions and thereby promotes the stability of Australia's financial system.

The delivery of efficient and effective banking services to the Australian Government

Insofar as the Commonwealth of Australia requires it to do so, the Reserve Bank must act as banker for the Commonwealth. Our government banking services broadly comprise two activities: management of the Government's core accounts: and the transactional banking services we provide to Australian government agencies. In common with many other central banks, we also provide banking and custody services to a number of overseas central banks and official institutions. The banking services offered to the Australian Government and other central banks include payments and collections, as well as general account maintenance and reporting.

The provision of secure and reliable banknotes

We are responsible for the issue, reissue and cancellation of Australian banknotes. Our primary purpose in carrying out this role is to maintain the capacity of Australian banknotes to provide a safe, secure and reliable means of payment and store of value. We work with our wholly owned subsidiary, Note Printing Australia Limited (NPA), to design and produce banknotes. NPA also produces banknotes for other countries, as well as Australian passports and other security products. We distribute banknotes to financial institutions, monitor and maintain banknote quality in circulation and withdraw unfit banknotes from circulation.

Governance and Accountability

The Reserve Bank is an independent central bank, accountable to the Parliament of Australia. The Bank has two boards: the Reserve Bank Board, which has responsibility for monetary and banking policy; and the Payments System Board, which has responsibility for payments system policy.

Some aspects of the Reserve Bank's governance and accountability arrangements (including the Reserve Bank Board structure) are being examined as part of an independent review of Australia's monetary policy arrangements. The Review of the Reserve Bank will exclude the Bank's payments, financial infrastructure, banking and banknotes functions. The Treasurer has confirmed that all existing arrangements will remain in place until the Review is completed in March 2023.

Governance

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 Reserve Bank is a corporate Commonwealth entity under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

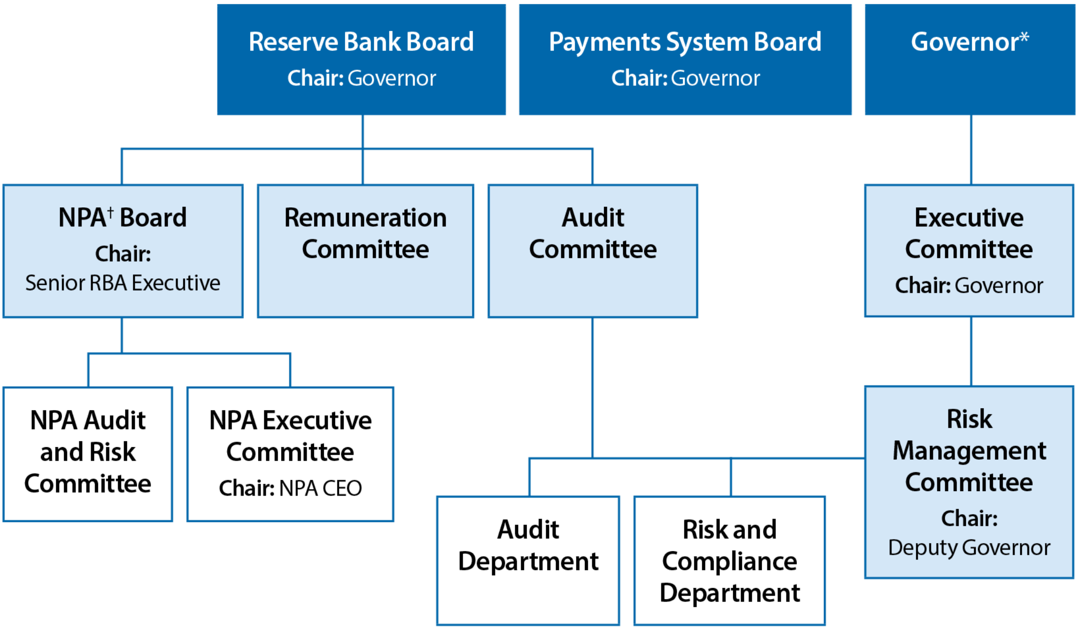
The Reserve Bank's two boards have operational independence under the Reserve Bank Act to determine the policies of the Bank so as to achieve the objectives set out in the Act. In terms of monetary policy, the *Statement on the Conduct of Monetary Policy*, as updated from time to time, has recorded the common understanding of the Governor, as Chair of the Reserve Bank Board, and the Australian Government on key aspects of Australia's monetary and central banking policy framework since 1996.

Under the Reserve Bank Act, the Bank is managed by the Governor, who is also the Chair of the Reserve Bank Board and the Payments System Board. The Governor is the 'accountable authority' under the PGPA Act. The Governor is assisted in fulfilling his responsibilities to manage the Bank by the Executive Committee and the Risk Management Committee (see chapter on 'Management of the Reserve Bank').

Note Printing Australia Limited (NPA) is a wholly owned subsidiary of the Reserve Bank. NPA operates under a charter reviewed and approved annually by the Reserve Bank Board.

Reserve Bank of Australia Governance Structure

August 2022



† 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 responsibilities of the Reserve Bank Board are set out in the Reserve Bank Act, which states that the Board has power to determine the policy of the Bank in relation to any matter, other than its payments system policy. It is the duty of the Board to ensure that the monetary and banking policy of the Bank is directed to the greatest advantage of the people of Australia.

The Reserve Bank Board comprises nine members: the Governor (Chair); the Deputy Governor (Deputy Chair); the Secretary to the Australian Treasury; and six other non-executive members appointed by the Treasurer. New appointments to the Board are made by the Treasurer from a register of candidates maintained by the Secretary to the Treasury and the Governor. Attendance by members at meetings of the Board during 2021/22 is shown in the table below, and members' qualifications and experience are provided in the chapter on the 'Reserve Bank Board'.

The Reserve Bank Board usually 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. Consistent with the Reserve Bank Act, the Board makes decisions by a majority of the members present, with the Chair having a casting vote, if necessary.

Reserve Bank Board Meetings – 2021/22

Attendance by members

	No. of meetings attended	No. of meetings eligible to attend
Philip Lowe (Governor)	11	11
Guy Debelle (Deputy Governor)(a)	8	8
Michele Bullock (Deputy Governor)(b)	3	3
Steven Kennedy (Secretary to the Australian Treasury)	11	11
Mark Barnaba	11	11
Wendy Craik	11	11
Ian Harper	11	11
Carolyn Hewson	10	11
Carol Schwartz	11	11
Alison Watkins	11	11

(a) Guy Debelle's term on the Board ended on 16 March 2022.

(b) Michele Bullock's term on the Board commenced on 2 April 2022.

Reserve Bank Board meetings are usually held at the Reserve Bank's Head Office in Sydney. The Board also aims to meet in two other Australian cities each year. However, owing to the COVID-19 pandemic and domestic travel restrictions, in 2021/22 five meetings were held via videoconference, four meetings were held via hybrid arrangements with some members participating remotely, two meetings were held at the Bank's Head Office in Sydney, and no meetings were held interstate.

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

Audit Committee

The Audit Committee is constituted as a subcommittee of the Reserve Bank Board. The Audit Committee assists the Governor (as the Reserve Bank's accountable authority) and the Reserve Bank Board to fulfil certain obligations under the Reserve Bank Act and the PGPA Act, namely:

- it assists the Governor and the Reserve Bank Board by reviewing the appropriateness of the Reserve Bank's financial reporting, including the financial statements in the annual report
- it assists the Governor by reviewing the appropriateness of the Bank's:
  - performance reporting, including the annual performance statement in the annual report
  - systems of risk oversight and management
  - systems of internal control.

The charter of the Audit Committee is published on the Bank's website.[1]

Membership of the Audit Committee comprises two non-executive members of the Reserve Bank Board, one of whom chairs the committee, and two external members, typically former senior audit partners of major accounting firms with extensive experience in auditing in the finance sector. Attendance by

[1] See RBA (2021), 'Reserve Bank Board Audit Committee Charter', September.

The Reserve Bank Board with members of staff; (clockwise from centre) Board members: Governor Philip Lowe, Deputy Governor Michele Bullock, Steven Kennedy PSM, Carol Schwartz AO, Mark Barnaba AM, Anthony Dickman (Reserve Bank Secretary), Ian Harper AO, Alison Watkins AM (Carolyn Hewson AO participated remotely via Zoom); staff members: Christopher Kent (Assistant Governor, Financial Markets) and Luci Ellis (Assistant Governor, Economic); (back row, from left) Penelope Smith (Deputy Secretary), Carl Schwartz (Acting Head, Domestic Markets Department), Matthew Boge (Acting Head, International Department), Marion Kohler (Head, Economic Analysis Department), August 2022

members at meetings of the Audit Committee during 2021/22 is shown in the table below, and members' qualifications and experience are provided in the chapter on the 'Reserve Bank Board'.

Audit Committee Meetings – 2021/22

Attendance by members

	No. of meetings attended	No. of meetings eligible to attend
Mark Barnaba[(a)]	4	4
Sandra Birkensleigh	4	4
Rahoul Chowdry	4	4
Alison Watkins[(a)]	4	4

(a) Member of the Reserve Bank Board.

Consistent with contemporary governance standards, none of the members of the Audit Committee is an employee or executive of the Reserve Bank. 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 regular attendees from the Bank's senior executive team are the Chief Financial Officer and the heads of the Audit and the Risk and Compliance departments; other Bank executives attend meetings of the Committee as required.

During 2021/22, the Audit Committee met on four occasions. At its August 2022 meeting, the Committee considered the draft consolidated financial statements for the Reserve Bank for the year ended 30 June 2022 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; for 2022/22, this occurred immediately prior to the August 2022 meeting.

Remuneration Committee

The Remuneration Committee of the Reserve Bank Board is 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 Carol Schwartz (Chair), Wendy Craik and Ian Harper. During 2021/22, the Committee met on two occasions. Attendance by members at meetings of the Remuneration Committee during 2021/22 is shown in the table below.

Remuneration Committee Meetings – 2021/22

Attendance by members

	No. of meetings attended	No. of meetings eligible to attend
Carol Schwartz	2	2
Wendy Craik	2	2
Ian Harper	2	2

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 any adjustments to the Reserve Bank Board for approval, providing that such terms and conditions are consistent with the framework for Principal Executive Offices determined by the Remuneration Tribunal. In accordance with section 21A of the Reserve Bank Act, neither the Governor nor the Deputy Governor takes part in decisions of the Reserve Bank Board relating to the determination or application of any terms or conditions on which either of them holds office.

The Remuneration Committee is also kept informed of the general remuneration arrangements for Reserve Bank staff. The Committee communicates with the Remuneration Tribunal as required.

Payments System Board

The responsibilities of the Payments System Board are set out in the Reserve Bank Act. In particular, the Act requires the Payments System 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:

a. controlling risk in the financial system

b. promoting the efficiency of the payments system

c. 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 Payments System Board issues a separate annual report, which, as required under the Reserve Bank Act:

- informs the Australian Government of the Bank's role and activities in relation to payments system policy
- covers certain matters relating to the standards that the Bank determines under section 827D of the Corporations Act and developments in the clearing and settlement industry that are relevant to Australia's financial stability.

The Payments System Board comprises: the Governor, who is the Chair; one representative of the Bank appointed by the Governor, who is the Deputy Chair; one representative of the Australian Prudential Regulation Authority (APRA) appointed by APRA; and up to five other members appointed by the Treasurer for terms of up to five years. Members of the Board during 2021/22 are shown below and details of the qualifications and experience of members are provided in the chapter on the 'Payments System Board'. Since its inception, the Board's practice has been to meet at least four times a year, with the option of meeting more often if needed. Six meetings were held in 2021/22: two at the Bank's Head Office in Sydney; and four via videoconference due to the COVID-19 pandemic and domestic travel restrictions. Five members form a quorum at a meeting of the Board or are required to pass a resolution without a meeting.

Payments System Board Meetings – 2021/22

Attendance by members

	No. of meetings attended	No. of meetings eligible to attend
Philip Lowe (Governor)	6	6
Michele Bullock (RBA)	6	6
Wayne Byres (APRA)	6	6
Gina Cass-Gottlieb	6	6
Scott Farrell[(a)]	1	1
Deborah Ralston	6	6
Greg Storey	6	6
Catherine Walter	6	6

(a) Scott Farrell's term on the Board commenced on 23 March 2022.

Conduct of Board members

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

Members must comply with the statutory obligations for officials of the Reserve Bank, including the general duties for officials 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 of the Reserve Bank Board to discuss and decide monetary and financial stability policies, notwithstanding any material personal interest in the outcome, the Reserve Bank Act requires members to furnish a confidential disclosure of material personal interests to the Treasurer annually and, during the year, to notify any substantial change since their most recent annual disclosure.

Members of the Reserve Bank Board must declare to the other members of the Board any material personal interests they have in matters relating to the affairs of the Board other than monetary policy and financial stability. Members may give standing notice to other members outlining the nature and extent of a material personal interest in such matters.

Members of the Payments System Board 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. Members may give standing notice to other members outlining the nature and extent of a material personal interest.

Codes of conduct for members of the Reserve Bank Board and the Payments System Board supplement these statutory requirements and impose obligations on members that are designed to ensure the highest possible standards of ethical conduct. The codes of conduct, which are available on the Reserve Bank's website, provide general principles to guide the conduct of members in fulfilling their duties and responsibilities as Board members and address a range of matters, including conflicts of interest. In the case of the Reserve Bank Board, the Code of Conduct covers restrictions on undertaking, or being involved in, financial transactions of certain types at certain times.[2]

Policy risk management framework and Board reviews

Risks associated with the formulation of monetary policy and payments system policy are the direct responsibility of the Reserve Bank Board and the Payments System Board, respectively. The Boards review these risks periodically as part of their decision-making processes. Operational risks are managed by executives in terms of the Reserve Bank's risk management framework, as discussed in the chapter on 'Risk Management'.

Towards the end of 2021, the Reserve Bank Board conducted its annual review of the key risks inherent in the formulation of monetary policy and the monetary policy risk register and control framework. The Board endorsed updates to the risk register to reflect a number of aspects relating to the exit from unconventional monetary policies and increased staff turnover and vacancies over the preceding year. At the same time, the Reserve Bank Board conducted its annual review of its own operation and processes, based on a survey of Board members. It concluded that Board processes were functioning effectively. Following the decision in November 2021 to discontinue the yield target, members agreed there would be merit in establishing general principles for responding in the event an unforeseen and urgent policy change might be necessary. Members also saw merit in reviewing the Board's governance arrangements relating to its role in policies other than monetary policy.

The performance of the Board's Audit and Remuneration committees is assessed as part of the annual review of the effectiveness of the Board itself. The most recent review concluded that the committees and their processes were functioning effectively. The review by the Audit Committee of its own processes

[2] See RBA (2021), 'Code of Conduct for Reserve Bank Board Members', July; RBA (2021), 'Code of Conduct for Payments System Board Members', August.

concluded that the Committee was operating effectively. Members supported the regular interaction between the Chair and senior management and saw merit in seeking opportunities for informal interactions among members and staff in relevant areas.

Towards the end of 2021, the Payments System Board also conducted its annual review of the key risks inherent in the consideration of payments policy and the payments policy risk register and control framework. No changes were made to the risk register, pending a broad review of the risk register planned for later in 2022, and the control framework was assessed to be operating effectively and managing risks adequately. At the same time, the Payments System Board conducted its annual review of its own operation and processes, based on a survey of Board members. It concluded that Board processes were functioning effectively. Members saw merit in discussions with industry participants – in particular, payments innovators and 'disruptors' – given the complexity and policy challenges from the continuing development of digital technologies. In addition, in response to the survey, the staff were requested to explore means to improve the accessibility of Board papers.

Review of the Reserve Bank

On 20 July 2022, the Treasurer announced the terms of reference of an independent Review of the Reserve Bank.[3] The Review is designed to ensure that Australia's monetary policy arrangements and the operations of the Bank continue to support strong macroeconomic outcomes for Australia in a complex and continuously evolving landscape. The Review will assess Australia's monetary policy arrangements, including the objectives for monetary policy, the interaction of monetary policy with fiscal and macroprudential policies, the Bank's performance in meeting its objectives, governance (including Board structure, experience and expertise, composition and the appointments process), and culture, management and recruitment processes. The Bank's payments, financial infrastructure, banking and banknotes functions are not included in the Review.

A panel of three independent experts will conduct the Review and will be supported by a secretariat with Treasury and other staff. The Review panel will produce a final report with recommendations to the Australian Government by March 2023.

The Reserve Bank Board and staff welcome the Review and look forward to learning from it.

Other policy matters

The Governor reports annually to the Reserve Bank Board on the process of review and implementation of the key Reserve Bank policies that are determined and managed by the Governor. This report includes information on compliance arrangements. An annual report covering matters relating to work health and safety in the Bank is also presented to the Reserve Bank Board. These reports for 2021/22 will be provided to the Board at its October 2022 meeting.

Conflicts of interest and payments policy matters

The Reserve Bank has several distinct areas of responsibility in the Australian payments system: it owns, operates and participates in Australia's real-time gross settlement (RTGS) system, the Reserve Bank Information and Transfer System (RITS); it is a provider of transactional banking services to the Australian

[3] See Australian Government, 'Review of the Reserve Bank of Australia'.

Government and its agencies; and it is the principal regulator of the payments system through the Payments System Board.

While the various functions are distinct, their existence in the one institution may give rise to concerns about actual or perceived conflicts of interest. The Payments System Board and senior management of the Bank take seriously the possibility of any perception that the Bank's policy and operational roles may be conflicted, especially since this could undermine public confidence in the regulatory and policy process.

Accordingly, the Reserve Bank has policies in place for avoiding conflicts and dealing with them when they do occur. The Payments System Board has adopted a policy on the management of conflicts of interest, which is published on the Bank's website.[4] The most recent review of that policy by the Payments System Board occurred in May 2022. The policy focuses on interactions between the Bank's Payments Policy and Banking departments. Details of the steps taken to achieve compliance with the policy, including the minutes of informal meetings between departments, are audited regularly, with the results presented to the Payments System Board. In May 2022, the Board approved a change from biennial to triennial audits. The most recent audit was conducted in March 2022 and was reviewed by the Board in May 2022.

The conflicts of interest policy was also amended during the year to reflect changes to the Reserve Bank's involvement with NPP Australia Ltd (NPPA). The Bank was one of the 13 original shareholders of NPPA; consistent with the policy, the Bank had in place a formal Memorandum of Understanding with NPPA setting out a framework for engagement and information sharing. The Memorandum of Understanding was discontinued following the merger of NPPA with two other domestic payment schemes in February 2022; at that time, the Bank redeemed its shares in NPPA and is not a shareholder of the new entity.

In the case of the Reserve Bank's oversight of RITS, the Payments System Board has a governance role in managing conflicts of interest. In particular, while the internal Financial Market Infrastructure Review Committee has formal responsibility to review and approve assessments of other financial market infrastructures, the Board retains primary responsibility for approving the staff's periodic assessments of RITS.

Induction of Board members

An induction program assists newly appointed members of the Reserve Bank Board and the Payments System Board in understanding their role and responsibilities, and provides them with an overview of the Bank's role in the conduct of monetary policy or the payments system (as applicable) as well as details of relevant developments in preceding years. Separate briefing sessions are tailored to meet particular needs and interests.

Remuneration and allowances

Remuneration and travel allowances for the non-executive members of the Reserve Bank Board and the Payments System Board are set by the Remuneration Tribunal. Remuneration of Reserve Bank Board members for their membership of the Audit Committee is determined by the Remuneration Tribunal. The Bank's longstanding practice 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

[4] See RBA (2022), 'Managing Potential Conflicts of Interest Arising from the Bank's Commercial Activities', May.

Committee is not remunerated. The remuneration of each member of the Reserve Bank Board, the Payments System Board and the Audit Committee is provided in the chapter on 'Our People'.

Note Printing Australia Limited

Note Printing Australia Limited (NPA) is a wholly owned subsidiary of the Reserve Bank operating under a charter reviewed and approved annually by the Reserve Bank Board. NPA's prime function is the efficient and cost-effective production of high-quality and secure Australian banknotes, in accordance with specifications and requirements set by the Reserve Bank. NPA also produces banknotes for other issuing authorities, Australian passport booklets and other security products.

NPA is governed by a board of directors appointed by the Reserve Bank. As at the date of this report, the NPA Board comprised four Reserve Bank executives and an external director: Susan Woods (Assistant Governor, Corporate Services) as Chair; Greg Johnston (Head of Payments Settlements Department) as alternate Chair; Emma Costello (Chief Financial Officer); Keith Drayton (Head of Risk and Compliance Department); and Ross Pilling, who has held multiple senior management roles and directorships in the manufacturing sector. The NPA Board has an Audit and Risk Committee, whose membership comprises Keith Drayton (Chair), Emma Costello and an external member, Megan Haas, a former PricewaterhouseCoopers partner with a strong background in cybersecurity and risk assurance across a broad range of industries, including manufacturing.

More detail about the activities and operational structure of NPA is provided in the chapters on 'Banknotes' and 'Operational Structure'.

Indemnities for Board members and staff

Members of the Reserve Bank Board and the Payments System Board are indemnified to the extent permitted by law against liabilities incurred by reason of their appointment to the relevant Board or by virtue of holding and discharging such office. Members of the Audit Committee who are not members of the Reserve Bank Board are indemnified on substantially the same terms as the indemnities given to Reserve Bank Board members.

Certain other indemnities, all given prior to 1 July 2014, continue. These are:

- an indemnity to senior staff of the Bank in relation to liabilities they may have incurred in the conduct of their duties at the Bank (this indemnity covers liability in relation to events over a period ending on 31 March 2017)
- indemnities to current and former senior staff and former Reserve Bank Board members who, at the request of the Bank, formerly served on the board of NPA or the board of CCL Secure Pty Limited (formerly Innovia Security Pty Ltd and, prior to that, Securency International Pty Ltd).

Indemnities given prior to 1 July 2014 were in accordance with section 27M of the *Commonwealth Authorities and Companies Act 1997* (CAC Act), which specified when indemnity for liability and legal costs was not allowed. Indemnities given after 1 July 2014, when the CAC Act was repealed, contain contractual restrictions reflecting the substance of the previous CAC Act restrictions. Section 22B in the *Public Governance, Performance and Accountability Rule 2014* (PGPA Rule) imposes limits on the granting of indemnities by corporate Commonwealth entities in relation to liabilities incurred from 28 February 2020. Indemnities issued by the Reserve Bank to two new members of the Reserve Bank Board since that date were consistent with the indemnity template approved by the Reserve Bank Board in March 2017 as amended by the Governor under the authority of the Reserve Bank Board to ensure that the template reflects the terms of section 22B of the PGPA Rule. The changes to the indemnity template do not materially change the approach to the Bank's indemnification of members of the Reserve Bank Board, the Payments System Board and the Audit Committee.

The Bank's policy on Assistance to Staff for Legal Proceedings applies in relation to events on or after 1 April 2017. This policy applies to all staff, not only senior staff, and is closely based on the rules that apply to the provision of assistance to staff for legal proceedings in non-corporate Commonwealth entities set out in Appendix E to the *Legal Services Directions 2017*. This policy states that assistance will not be provided when section 22B of the PGPA Rule forbids it. No assistance has been provided under this policy since its introduction in 2017.

As the Reserve Bank does not take out directors' and officers' insurance in relation to members of its Boards or other officers, no premiums were paid for any such insurance in 2021/22.

Accountability

The Reserve Bank Board has an obligation to inform the Australian Government of its monetary policy 'from time to time'. This obligation is discharged mainly by regular contact between the Governor and other senior executives and the Treasurer, who is the Bank's responsible Minister (in the reporting period, the Hon Jim Chalmers MP and the Hon Josh Frydenberg MP), usually by way of regular discussions. The Governor also meets regularly with the House of Representatives Standing Committee on Economics.

The House of Representatives Standing Committee on Economics 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 typically 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. For this purpose, in 2021/22 the Governor and senior Bank officers attended hearings of the Committee on 6 August 2021 and 11 February 2022 via videoconference. The Committee's report on the three hearings in 2020/21 and the two hearings in 2021/22 was issued on 25 March 2022.

In 2020/21, the Reserve Bank was requested to attend hearings of the Senate Economics Legislation Committee (Senate Estimates) to answer questions about monetary policy and other aspects of its central banking activities. For this purpose, the Deputy Governor and Assistant Governor (Financial System) attended Supplementary Estimates hearings of the Committee on 28 October 2021 and 16 February 2022 by videoconference, and the Deputy Governor and Assistant Governor (Financial Markets) attended a Budget Estimates hearing of the Committee on 6 April 2022, also by videoconference. Following each of these hearings, the Bank responded to a series of questions on notice and questions in writing from senators.

During 2021/22, senior Reserve Bank officers gave evidence to inquiries held by the Joint Committee on Corporations and Financial Services (July 2021), the Joint Standing Committee on Trade and Investment Growth (August 2021), the Standing Committee on Tax and Revenue (September and November 2021) and the Senate Legal and Constitutional Affairs References Committee (November 2021).

The Reserve Bank seeks to ensure a high degree of transparency about its goals, activities and the basis of its policy decisions. Transparency facilitates the Bank's accountability and increases the effectiveness of policy decisions by promoting a better understanding of those decisions in the community. The Bank communicates regularly through publications and speeches, and engages with the community through its regional and industry liaison program. For more details, see the chapter on 'Communication and Community Engagement'.

Under section 46 of the PGPA Act, the Governor is responsible for preparing this annual report and providing it to the Treasurer for presentation to the 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 6 September 2022.

No report on the Reserve Bank was issued in 2021/22 by the Commonwealth Ombudsman, the Office of the Australian Information Commissioner or the Auditor-General, apart from those dealing with the audit of the Bank's annual financial statements. The Australian National Audit Office published its 'Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2021' on 14 December 2021 and its 'Interim Report on Key Financial Controls of Major Entities' on 9 June 2022; the Reserve Bank was one of the entities covered in both of these reports.

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 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.[5]

The Reserve Bank received 23 requests for access to documents under the FOI Act in 2021/22. Access was granted in full in relation to five requests, in part in relation to four requests, and was denied in relation to nine requests. No relevant documents were found in response to two requests. Two requests were withdrawn. One request was outstanding at the end of the financial year and was answered in July 2022. Information released in response to FOI access requests was published on the Reserve Bank's website, as required by the FOI Act; RSS feeds to these releases were also made available.

Two applications were received for the internal review of an FOI decision made by the Reserve Bank in 2021/22. Following consultation with each applicant, and clarification of the exemptions claimed in each case (section 45, material received in confidence), each application was subsequently withdrawn.

The estimated amount of time staff spent dealing with all aspects of FOI requests in 2021/22 was around 355 hours, compared with around 602 hours in 2020/21. The total cost to the Reserve Bank of administering the FOI Act in 2021/22 is estimated to have been around $52,274. No processing charges were received in 2021/22.

Other reporting requirements under the PGPA Act

The statutory reporting obligations applying to the Reserve Bank, including those that are covered elsewhere in this report, are identified in the 'Statutory Reporting Requirements Index'.

[5] See RBA, 'Freedom of Information (FOI)'.

Ministerial directions

The Reserve Bank received no directions from its responsible Minister (the Treasurer) or from any other Minister during 2021/22.

Government policy orders

No government policy orders under section 22 of the PGPA Act applied in relation to the Reserve Bank during 2021/22.

Compliance with finance law

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.

Transactions with related entities

In accordance with the PGPA Act, the Reserve Bank is required to disclose certain transactions with related entities. During 2021/22, the Reserve Bank donated $50,000 to the Financial Markets Foundation for Children, which is managed by a Board of Directors chaired by the Governor of the Reserve Bank. The Bank has made an annual donation of $50,000 to the Foundation since 2002/03; the decision to continue making this donation is subject to annual review by the Bank.

Significant activities or changes affecting the Reserve Bank

There were no significant activities or changes that affected the operations or structure of the Reserve Bank in 2021/22.

Judicial decisions or decisions of administrative tribunals

There were no judicial decisions or decisions of administrative tribunals made during 2021/22 that have had, or may have, a significant effect on the operations of the Reserve Bank.

Reserve Bank Board

The Reserve Bank Board comprises nine members: the Governor; Deputy Governor; Secretary to the Australian 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, which is published on the Bank's website.[1] Information about members of the Reserve Bank Board Audit Committee is provided at the end of this chapter.

August 2022

Philip Lowe

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

Governor and Chair

Governor since 18 September 2016
Present term ends 17 September 2023

Philip Lowe's appointment as Governor took effect in September 2016. Prior to that, he was Deputy Governor from February 2012 and held various senior positions at the Reserve Bank, including Deputy Governor, 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 at the Bank for International Settlements working on financial stability issues. Mr Lowe has authored numerous papers, including on the linkages between monetary policy and financial stability. He is a signatory to The Banking and Finance Oath.

Other roles

Chair – Payments System Board
Chair – Council of Financial Regulators

[1] RBA (2021), 'Code of Conduct for Reserve Bank Board Members', July.

Chair – Bank for International Settlements Committee on the Global Financial System
Chair – Financial Markets Foundation for Children
Member – Financial Stability Board
Member – Trans-Tasman Council on Banking Supervision
Director – The Anika Foundation

Michele Bullock

BEc (Hons) (University of New England), MSc (LSE)

Deputy Governor and Deputy Chair

Deputy Governor since 2 April 2022
Present term ends 1 April 2027

Michele Bullock was appointed as Deputy Governor on 2 April 2022. She is Deputy Chair of the Reserve Bank Board and Deputy Chair of the Payments System Board. Prior to her current role, Ms Bullock was Assistant Governor (Financial System), responsible for the Bank's work on financial stability and oversight of the payments system. Ms Bullock has also held a variety of senior management positions in the Bank. She was Assistant Governor (Business Services), Assistant Governor (Currency), Adviser for the Currency Group and, prior to that, Head of Payments Policy Department.

Other roles

Deputy Chair – Payments System Board
Member – Bank for International Settlements Committee on Payments and Market Infrastructures

Mark Barnaba AM

BCom (Hons) (Western Australia), MBA (Harvard)

Non-executive member

Member since 31 August 2017
Present term ends 30 August 2023

Mark Barnaba has extensive experience in finance and commerce, having spent most of his career with McKinsey & Company (both in Australia and overseas), with companies he founded and in several senior executive roles at Macquarie Group. At the time of his retirement from Macquarie Group at the end of August 2017, Mr Barnaba served as Chair and Global Head of Natural Resources for Macquarie Capital. He was co-founder (and previously Co-Executive Chair) of Azure Capital and previously served as the Chair of Western Power, the Black Swan State Theatre Company of WA, the West Coast Eagles Football Club and Alinta Infrastructure Holdings. In 2009, Mr Barnaba was the recipient of the Western Australian Citizen of the Year award in industry and commerce. In 2012, he was awarded an honorary Doctor of Commerce from the University of Western Australia. In the 2015 Australia Day Honours, Mr Barnaba was awarded a Member of the Order of Australia for his significant service to the investment banking and financial sectors, to business education, and to sporting and cultural organisations.

Other roles

Deputy Chair and Lead Independent Director – Fortescue Metals Group Ltd
Chair – Audit and Risk Management Committee, Fortescue Metals Group Ltd
Chair – GLX
Chair – Investment Committee, HBF Health Limited
Emeritus Board Member – The University of Western Australia Business School Board
Non-executive Director – The Centre for Independent Studies
Adjunct Professor – Investment Banking and Finance, University of Western Australia
Senior Fellow – EY Oceania
Senior Advisory Board Member – Appian Capital Advisory

Reserve Bank Board committee membership

Chair – Audit Committee

Wendy Craik AM

BSc (Hons) (ANU), PhD (Zoology) (British Columbia)

Non-executive member

Member since 7 May 2018
Present term ends 6 May 2023

Wendy Craik is an independent public policy advisor, including on issues related to natural resource management, and has over 25 years' experience in public policy. Senior positions she has held include Commissioner at the Productivity Commission, Chief Executive of the Murray-Darling Basin Commission, President of the National Competition Council, Chair of the Australian Fisheries Management Authority, Executive Director of the National Farmers Federation and Executive Officer of the Great Barrier Reef Marine Park Authority. Dr Craik has also been a director on a number of boards mainly in the Australian public sector. Dr Craik was awarded a Centenary Medal in 2001 for her contribution to industry development and social issues impacting on rural industries. In the 2007 Australia Day Honours, she was awarded a Member of the Order of Australia for her service to the natural resource sector of the economy, particularly in the areas of fisheries, marine ecology and management of water reform, and for contributions to policies affecting rural and regional Australia. Dr Craik is a Fellow of the Australian Institute of Company Directors, the Australian Rural Leadership Foundation and the Academy of Technology, Science and Engineering.

Other roles

Chair – CSIRO Oceans and Atmosphere Advisory Board
Chair – ONE Basin CRC
Chair – Steering Committee, National Red Imported Fire Ant Eradication Program – South East Queensland
Member – Advisory Board, The Centre for Strategy and Governance
Member – Advisory Board, Public Leadership Research Group, Howard Library of the University of New South Wales
Member – Consultative Committee, Future Drought Fund

Reserve Bank Board committee membership

Member – Remuneration Committee

Ian Harper AO

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

Non-executive member

Member since 31 July 2016
Present term ends 30 July 2026

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 (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 (1988–1992), then as the Ian Potter Professor of International Finance (1992–2002) and the Sidney Myer Professor of Commerce and Business Administration (2002–2008) at the Melbourne Business School. Professor Harper spent eight years as an economic consultant – first as a director of Access Economics Pty Ltd (2008–2011) and then as a partner of Deloitte Touche Tohmatsu (2011–2016). In the 2020 Queen's Birthday Honours, Professor Harper was awarded an Officer of the Order of Australia for his distinguished service to education in the field of economics, and to public and monetary policy.

Other roles

Dean and Director – Melbourne Business School Limited
Chair – Australian Statistics Advisory Council
Chair – Stipends Committee, Anglican Diocese of Melbourne
Director – Harper Associates Australia
Director – Robert Menzies Institute

Reserve Bank Board committee membership

Member – Remuneration Committee

Carolyn Hewson AO

BEc (Hons) (Adelaide), MA (Econ) (Cantab)

Non-executive member

Member since 30 March 2021
Present term ends 29 March 2026

Carolyn Hewson is a former investment banker with over 35 years' experience in the finance sector. She was previously an executive director of Schroders Australia Limited and has extensive financial markets, risk management and investment management expertise. She served as a panel member on the Australian Government's Financial System Inquiry in 2013. Ms Hewson is also a former director of BHP Group, Stockland Group, BT Investment Management Limited, Westpac Banking Corporation, AGL Energy Limited, the Australian Gas Light Company, CSR Limited, AMP Limited, South Australian Water and the Economic Development Board of South Australia. Ms Hewson was awarded a Centenary Medal in 2001 for her service to Australian society in business leadership. In the 2009 Queen's Birthday Honours, she was awarded an Officer of the Order of Australia for her service to the community through support for charitable organisations, particularly YWCA, and to business. Ms Hewson is a Life Fellow of the Australian Institute of Company Directors.

Other roles

Non-executive Director – CSL Limited
Non-executive Director – Infrastructure SA

Steven Kennedy PSM

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

Ex officio member

Secretary to the Australian Treasury
Member since 2 September 2019

Steven Kennedy was appointed Secretary to the Australian Treasury with effect from 2 September 2019.

Prior to his current role, Dr Kennedy was Secretary of the Department of Infrastructure, Transport, Cities and Regional Development from September 2017 to August 2019. During his nearly 30 years in the public service, Dr Kennedy has held other senior positions, including: Deputy Secretary at the Department of the Prime Minister and Cabinet; Deputy Secretary at the Department of Industry, Innovation and Science; Deputy Secretary at the Department of the Environment; Deputy Secretary at the Department of Climate Change and Energy Efficiency; and the Head of Secretariat of the Garnaut Climate Change Review – Update 2011. Dr Kennedy was awarded a Public Service Medal in 2016 for his outstanding public service in the area of climate change policy.

Other roles

Ex officio member – Board of Taxation
Ex officio member – Council of Financial Regulators
Member – Centre for Market Design Advisory Board
Member – Melbourne Institute Advisory Board
Member – Sir Roland Wilson Foundation
Member – Trans-Tasman Council on Banking Supervision

Carol Schwartz AO

BA, LLB, MBA (Monash)

Non-executive member

Member since 14 February 2017
Present term ends 13 February 2027

Carol Schwartz has extensive experience in business, property, the arts and community organisations. Past high-level leadership roles, including a portfolio of diverse board appointments, have spanned the business, government, arts, health and community sectors. Ms Schwartz was awarded a Centenary Medal in 2001 for her outstanding service as a leading business executive and committee participant. In the 2019 Queen's Birthday Honours, she was awarded an Officer of the Order of Australia for her distinguished service to the community as a supporter of women in leadership roles, to social justice advocacy and to business. In 2019, she was awarded the Leading Philanthropist Award by Philanthropy Australia. Ms Schwartz is a Fellow of the Australian Institute of Company Directors.

Other roles

Founding Chair – Women's Leadership Institute Australia
Chair – Equity Trustees
Chair – Our Community
Director – Trawalla Group

Reserve Bank Board committee membership

Chair – Remuneration Committee

Alison Watkins AM

BCom (Tasmania)

Non-executive member

Member since 17 December 2020
Present term ends 16 December 2025

Alison Watkins is an experienced chief executive officer and non-executive director. Ms Watkins has led two ASX-listed companies: Coca-Cola Amatil Limited and GrainCorp Limited. Previously, Ms Watkins led Berri Limited and the Regional Banking business at Australia and New Zealand Banking Group Limited. Ms Watkins spent 10 years at McKinsey & Company, where she became a partner before moving to ANZ as Group General Manager Strategy. Ms Watkins has been a non-executive director of ANZ, Woolworths Limited and Just Group Limited. In the 2022 Australia Day Honours, Ms Watkins was awarded a Member of the Order of Australia for her significant service to business through leadership roles with a range of organisations. Ms Watkins is a Fellow of Chartered Accountants Australia and New Zealand, the Financial Services Institute of Australasia and the Australian Institute of Company Directors.

Other roles

Chancellor – University of Tasmania
Non-executive Director – CSL Limited
Non-executive Director – The Centre for Independent Studies
Non-executive Director – Wesfarmers Limited

Reserve Bank Board committee membership

Member – Audit Committee

Resignation from the Board

Guy Debelle resigned from the Reserve Bank (and the Reserve Bank Board) on 16 March 2022.

Guy Debelle

BEc (Hons) (Adelaide), PhD (MIT)

Deputy Governor and Deputy Chair

Deputy Governor from 18 September 2016 to 16 March 2022

Prior to his appointment as Deputy Governor, Guy Debelle was Assistant Governor (Financial Markets) from March 2007, where he had oversight of the Bank's operations in the domestic and global financial markets. Dr Debelle previously worked at the Australian Treasury, the International Monetary Fund and the Bank for International Settlements, and was a Visiting Professor at the Massachusetts Institute of Technology in 2003. From May 2015 until May 2017, Dr Debelle was Chair of the Bank for International Settlements Foreign Exchange Working Group, which developed the Global Code of Conduct for the Foreign Exchange Market. From June 2019 to December 2021, he was Chair of the Global Foreign Exchange Committee. Dr Debelle is a signatory to The Banking and Finance Oath.

Other roles

Chair – Council of Financial Regulators Climate Change Working Group

Resolution passed by the Reserve Bank Board

Members paid tribute to Guy Debelle's contribution to the Bank over many years and most recently as Deputy Governor. On behalf of all members, the Governor expressed appreciation for Dr Debelle's contribution to the Board's deliberations, drawing on his extensive expertise in macroeconomics and financial market operations. The Governor also acknowledged Dr Debelle's significant contribution to the development of Australia's contemporary monetary policy framework. Members recognised Dr Debelle's contribution to the stability of Australia's financial markets during challenging periods for the global and Australian economy, and his leadership in establishing the Global Code of Conduct for the Foreign Exchange Market. Members commended Dr Debelle's dedication to public policy and his service to the nation in a career at the Bank spanning 25 years.

Reserve Bank Board Audit Committee

Membership of the Audit Committee comprises: two non-executive members of the Reserve Bank Board, one of whom chairs the committee; and two external members, typically former senior audit partners of major accounting firms with extensive experience in auditing in the finance sector.

Mark Barnaba AM

Chair

Member since 23 July 2018
Term ends 30 August 2023

See above for Mr Barnaba's professional details.

Sandra Birkensleigh

BCom (UNSW)

Member

Member since 9 September 2015
Term ends 8 September 2023

Sandra Birkensleigh has extensive experience in financial services, with a particular focus on risk management, compliance and corporate governance. Ms Birkensleigh's career includes 24 years at PricewaterhouseCoopers, where she was formerly a Global Lead for Governance Risk and Compliance, a National Lead Partner for Risk and Controls Solutions, and a Service Team Leader for Performance Improvement. Ms Birkensleigh holds several directorships and is chair of the audit committees for most of the organisations listed below. She is a qualified chartered accountant, a member of Chartered Accountants Australia and New Zealand and a member of the Australian Institute of Company Directors. In February 2020, Ms Birkensleigh was reappointed to the Audit Committee for a further three years.

Other roles

Chair and Non-executive Director, Audit Committee Member and Remuneration Committee Member – Auswide Bank Limited
Non-executive Director, Audit and Risk Committee Chair and Remuneration and Nominations Committee Member – Adore Beauty Limited
Non-executive Director, Audit Committee Chair and Risk and Remuneration Committee Member – Horizon Oil Limited
Non-executive Director, Audit Committee Chair, Risk Committee Member and People and Remuneration Committee Member – MLC (Insurance) Limited

Non-executive Director, Audit Committee Chair, People and Remuneration Committee Member – National Disability Insurance Agency
Non-executive Director, Risk Committee Chair and Strategy Committee Member – 7-11 Holdings Limited and its subsidiaries
Non-executive Director, Audit Committee Chair – The Tasmanian Public Finance Corporation

Rahoul Chowdry

BCom (Hons) (Calcutta)

Member

Member since 14 February 2018
Term ends 13 February 2023

Rahoul Chowdry has extensive experience in the professional services industry, which enabled him to build a reputation as a leading adviser on governance, regulation and risk to major banks and other large financial institutions in Australia and Canada. Until the end of 2017, Mr Chowdry was the Global Banking and Capital Markets Assurance Leader at PricewaterhouseCoopers and a partner for almost 30 years in the firm's financial services practice. He is a qualified chartered accountant and a fellow of the Institute of Chartered Accountants in Australia and New Zealand.

Other roles

Senior Advisor – MinterEllison
Member – Audit & Risk Committee, MinterEllison Board of Partners
Non-executive Director, Risk Committee Chair, Audit Committee member, Nominations Committee Member and Remuneration Committee Member – AMP Limited
Non-executive Director, Risk Committee Chair and Audit Committee Member – AMP Bank Limited

Alison Watkins AM

Member

Member since 3 February 2021
Term ends 16 December 2025

See above for Ms Watkins' professional details.

Payments System Board

The Payments System Board comprises up to eight members: the Governor; a representative of the Reserve Bank (currently, the Deputy Governor; a representative of the Australian Prudential Regulation Authority (currently the Chair); and up to five 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 Payments System Board and the Reserve Bank, members have adopted a Code of Conduct, which is published on the Bank's website.[1]

August 2022

Philip Lowe

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

Governor and Chair

Governor since 18 September 2016
Present term ends 17 September 2023

Philip Lowe's appointment as Governor took effect in September 2016. Prior to that, he was Deputy Governor from February 2012 and held various senior positions at the Reserve Bank, including Deputy Governor, 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 at the Bank for International Settlements working on financial stability issues. Mr Lowe has authored numerous papers, including on the linkages between monetary policy and financial stability. He is a signatory to The Banking and Finance Oath.

Other roles

Chair – Reserve Bank Board
Chair – Council of Financial Regulators

[1] See RBA (2021), 'Code of Conduct for Payments System Board Members', August.

Chair – Bank for International Settlements Committee on the Global Financial System
Chair – Financial Markets Foundation for Children
Member – Financial Stability Board
Member – Trans-Tasman Council on Banking Supervision
Director – The Anika Foundation

Michele Bullock

BEc (Hons) (UNE), MSc (LSE)

Deputy Governor and Deputy Chair

Deputy Chair since 29 October 2016
Present term as Deputy Governor ends 1 April 2027

Michele Bullock was appointed as Deputy Governor on 2 April 2022. She is Deputy Chair of the Reserve Bank Board and Deputy Chair of the Payments System Board. Prior to her current role, Ms Bullock was Assistant Governor (Financial System), responsible for the Bank's work on financial stability and oversight of the payments system. Ms Bullock has also held a variety of senior management positions in the Bank. She was Assistant Governor (Business Services), Assistant Governor (Currency), Adviser for the Currency Group and, prior to that, Head of Payments Policy Department. Ms Bullock is a signatory to The Banking and Finance Oath.

Other roles

Deputy Chair – Reserve Bank Board

Wayne Byres

BEc (Hons), MAppFin (Macquarie)

APRA-appointed member

Chair, Australian Prudential Regulation Authority

Member since 9 July 2014
Present term ends 30 October 2022, upon resignation as Chair of APRA.

Wayne Byres has brought a wealth of experience and knowledge of prudential supervision and banking practices. He was appointed as a Member and Chair of APRA from 1 July 2014 for a five-year term, and was subsequently reappointed on 1 July 2019 for a further five-year term. His early career was at the Reserve Bank, which he joined in 1984. He transferred to APRA on its establishment in 1998 and held a number of senior executive positions in the policy and supervisory divisions. In 2004, Mr Byres was appointed Executive General Manager, Diversified Institutions Division, with responsibility for the supervision of Australia's largest and most complex financial groups. He held this role until the end of 2011, when he was appointed as Secretary General of the Basel Committee on Banking Supervision, based at the Bank for International Settlements in Basel. Mr Byres is a Senior Fellow of the Financial Services Institute of Australia and is a signatory to The Banking and Finance Oath.

Other roles

Member – Basel Committee on Banking Supervision
Member – Bank for International Settlements Group of Governors and Heads of Supervision
Member – Council of Financial Regulators
Member – Trans-Tasman Council on Banking Supervision

Gina Cass-Gottlieb

BEc (Hons), LLB (Hons) (Sydney), LLM (Berkeley)

Non-executive member

Member from 15 July 2013 to 14 July 2018

Reappointed from 1 August 2018
Present term ends 31 July 2023

Gina Cass-Gottlieb has extensive expertise in competition law and economic regulatory advice and in the regulation of payments in Australia. Ms Cass-Gottlieb was appointed Chair, Australian Competition and Consumer Commission on 21 March 2022. Prior to this, Ms Cass-Gottlieb was a senior partner in Gilbert + Tobin's competition and regulation practice, advising and representing corporations, industry associations, government and non-government agencies. She has over 25 years' experience, including advising in relation to access arrangements in a range of sectors across the economy. Ms Cass-Gottlieb attended the University of California, Berkeley, as a Fulbright Scholar.

Other roles

Chair – Australian Competition and Consumer Commission
Director – Sydney Children's Hospitals Foundation

Scott Farrell

BEc (USyd), LLB(Hons) (USyd), PhD (UNSW)

Non-executive member

Member since 23 March 2022
Present term ends 22 March 2027

Scott Farrell has more than 25 years' experience in financial markets and financial systems law. In 2016, Dr Farrell was appointed to the Australian Government's FinTech Advisory Group at its formation and in 2018 was appointed to be co-Chair. Dr Farrell has led a number of reviews for the Australian Government, including the Review into Open Banking in Australia in 2017, the Inquiry into Future Directions for the Consumer Data Right in 2020 and the Review of the Australian Payments System in 2021.

Other roles

Partner – King & Wood Mallesons
Adjunct Professor – School of Private and Commercial Law, University of New South Wales
Member – Industry, Innovation and Science Australia
Member – Ministerial Advisory Council on Free Trade Agreement Negotiations

Deborah Ralston

BEc, Dip Fin Mgt, MEc (UNE), PhD (Bond)

Non-executive member

Member since 15 December 2016
Present term ends 14 December 2026

Deborah Ralston has more than 25 years of board-level experience in education, banking, superannuation and fintech sectors. Dr Ralston has held senior leadership and research roles in Australian universities, most recently as the Executive Director of the Centre for Financial Studies. Her expertise in public policy is reflected in appointments to the federal government's Retirement Income Review Panel, the Comprehensive Income Products for Retirement Framework Advisory Committee and as inaugural Chair of the Australian Securities and Investments Commission's Digital Finance Advisory Board. Dr Ralston is currently a Professorial Fellow at Monash University Business School, with research interests in financial regulation and superannuation and is a Fellow of CPA Australia and the Australian Institute of Company Directors.

Other roles

Professorial Fellow – Monash University
Chair – Advisory Board, Household Capital
Director – SuperEd Pty Ltd
Director – SMSF Association
Member – Advisory Board, Connexus Institute
Member – Future Fund Board of Guardians

Greg Storey

Non-executive member

Member since 1 August 2018
Present term ends 31 July 2023

Greg Storey is an experienced cards and payments industry professional, with specialist knowledge in the evolution and operation of debit cards, credit cards and payments systems. He was Vice-President and Head of Visa Checkout, Asia Pacific from 2012 to 2016. Mr Storey had over 20 years' experience with Visa, spanning the rollout of numerous VisaNet-related solutions and services, product and strategy, micropayments solution (Payclick) and Visa Checkout (and V.me) products across the Asia Pacific region. Prior to his roles at Visa, Mr Storey worked at St. George Bank in various cards and payments roles, as CIO of an independent payment solution provider, and established and oversaw merchant point of sale and ATM switching operations.

Catherine Walter AM

LLB (Hons), LLM, MBA (Melbourne)

Non-executive member

Member since 3 September 2007
Present term ends 2 September 2022

Catherine Walter brings substantial experience and expertise in financial services and corporate governance across many industry sectors, including banking, insurance, funds management, health services, medical research, education, telecommunications and resources. Mrs Walter is a solicitor and company director, who practised banking and corporate law in major city law firms, culminating in a term as Managing Partner of Clayton Utz, Melbourne. She was a Commissioner of the City of Melbourne and for more than 20 years has been a non-executive director of a range of listed companies, government entities and not-for-profit organisations. Mrs Walter was awarded a Centenary Medal in 2001 for her service to Australian society in business leadership. In the 2003 Australia Day Honours, she was awarded a Member of the Order of Australia for her service to business, particularly as a director of a range of public companies, to the arts, to the law, and to the community through the Melbourne City Council. Mrs Walter is a Fellow of the Australian Institute of Company Directors.

Other roles

Chair – Helen Macpherson Smith Trust
Chair – Melbourne Genomics Health Alliance
Director – Australian Foundation Investment Company
Director – Barristers' Chambers Limited
Non-executive Member – Export Finance Australia

Operational Structure

The Reserve Bank is managed by the Governor, Philip Lowe, and the Deputy Governor, Michele Bullock. It has five operational groups – Business Services Group, Corporate Services Group, Economic Group, Financial Markets Group and Financial System Group – and six supporting departments.

Business Services Group

Assistant Governor: Michelle McPhee

Business Services Group provides transactions-based services to the Reserve Bank's customers and other important stakeholders. In particular, it provides banking services and payments-related advice and assistance to the Australian Government and its agencies as well as to other central banks, and is responsible for the distribution of Australia's banknotes. It also provides payment settlement services to financial institutions. The group comprises three departments: Banking; Note Issue; and Payments Settlements.

Banking Department

Head: Michael Plumb
Deputy Head: Stephanie Connors

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: Melissa Hope
Deputy Head: Merylin Coombs

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 the capacity of Australian banknotes to provide a safe, secure and reliable means of payment and store of value. The Bank works with its wholly owned subsidiary, Note Printing Australia Limited, to design and produce banknotes. The Bank distributes banknotes to financial institutions, monitors and maintains banknote quality in circulation and withdraws unfit banknotes from circulation. It also monitors and analyses counterfeiting trends and conducts research into banknote security technology.

Payments Settlements Department

Head: Greg Johnston
Deputy Heads: Peter Gallagher, Sarah Harris

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 (RTGS). RITS includes the Fast Settlements Service, which Payments Settlements Department operates on an RTGS basis 24 hours a day, seven days a week for settlement of New Payments Platform transactions. 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: Susan Woods

Corporate Services Group is responsible for the delivery of technology services, facilities management services and data governance to support the day-to-day operations of the Bank. The group comprises: Information Technology Department; Workplace Department; and the Enterprise Data Office.

Information Technology Department

Chief Information Officer: Stephen Smith
Deputy Heads: Fuad Suljkanovic, Janet Mengel

Information Technology Department is responsible for developing and maintaining reliable, resilient and secure information technology to support the Reserve Bank's policy, operational and corporate functions. In fulfilling these responsibilities, the department delivers and maintains the Bank's technology systems and infrastructure, provides ongoing system quality assurance, and maintains the Bank's information security, including its cybersecurity defensive controls. The department supports technology planning for the Bank, which includes catering for emerging and future technology requirements. It also operates an Innovation Lab for experimentation with emerging technologies to assess their potential to support delivery of the Bank's charter and operational objectives.

Workplace Department

Head: Bruce Harries
Deputy Head: Ed Jacka

Workplace Department is responsible for management of the Reserve Bank's physical assets, the maintenance of its properties and building infrastructure, the delivery of workplace services, and the management and oversight of procurement activity, including strategic vendor management. Key activities include oversight of the provision of building services, asset infrastructure maintenance and upgrades, physical and protective security, and sustainability management and environmental risk management. These operations are undertaken for the effective operation of the Bank and the safety, security, amenity and wellbeing of staff.

Enterprise Data Office

Chief Data Officer: Roman Kovalenko

The Enterprise Data Office is responsible for the management of the Bank's data as an asset to enhance analytical capabilities and inform policy and operational decisions. This includes establishing modern tools and processes for using data, migrating data from legacy systems to strategic platforms, and training staff on tools and best practices for working with data.

Economic Group

Assistant Governor: Luci Ellis

Economic Group is responsible for analysis of economic trends, both domestic and overseas, forecasting and research relevant to the framing of policy in a number of areas of the Reserve Bank's responsibility. The Group comprises Economic Analysis Department and Economic Research Department.

Economic Analysis Department

Head: Marion Kohler
Deputy Heads: Lynne Cockerell, James Holloway, Tom Rosewall

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

The Reserve Bank maintains four state offices (in Adelaide, Brisbane, Melbourne and Perth) to conduct economic liaison across Australia. Staff in these offices hold regular discussions with individual firms and organisations in both the private and public sectors, and assist with communication to the wider community.

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

Economic Research Department

Head: John Simon
Deputy Head: Vacant

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: Christopher Kent

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 comprises Domestic Markets Department and International Department.

Domestic Markets Department

Head: Jonathan Kearns
Deputy Heads: Carl Schwartz, Vacant

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: Penelope Smith
Deputy Heads: Matthew Boge, Vacant

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 a number of major international financial and policymaking institutions.

Chief Representative in Europe: Michael Andersen
Chief Representative in New York: David Emery

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 offices monitor economic and financial developments in their respective local markets, and assist with the Reserve Bank's foreign exchange operations and investment of international reserves.

Financial System Group

Assistant Governor: Bradley Jones

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

Financial Stability Department

Head: Andrea Brischetto
Deputy Heads: Natasha Cassidy, Darren Flood

Financial Stability Department analyses the implications for financial system stability of developments in the economy, financial markets and the financial sector more generally, including 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 Reserve 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: Ellis Connolly
Deputy Heads: Adam Cagliarini, Chris Thompson

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, efficiency and competitiveness of the payments system. The department is also responsible for oversight of Australia's high-value payments, 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: Ross Tilly

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 Reserve Bank Board Audit Committee.

Finance Department

Chief Financial Officer: Emma Costello
Financial Controller: Sam Tomaras

Finance Department is responsible for the Reserve Bank's financial statements and taxation reporting obligations, prepares the Bank's budget and provides a range of support services, including corporate payments, payroll, procurement and travel. The department also manages the Bank's Enterprise Portfolio Management Office.

Human Resources Department

Head: Karlee Hughes

Human Resources Department provides a range of people-related services to support the Reserve Bank in maintaining a productive and engaged workforce. This includes attracting and retaining high-quality employees 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 information management framework, information governance, records management system and its archives. The department facilitates public access to Bank records and archival material. It also manages the Reserve Bank of Australia Museum and a program of public education, with particular focus on supporting economics students and educators.

Risk and Compliance Department

Head: Keith Drayton

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. 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 department is responsible for providing secretariat and coordination services and advice to the Risk Management Committee. The Head of Risk and Compliance Department reports to the Deputy Governor and the Reserve Bank Board Audit Committee.

Secretary's Department

Secretary: Anthony Dickman
Deputy Secretary: David Jacobs
General Counsel: Catherine Parr
Deputy General Counsel: James Greenwood

Secretary's Department provides secretariat and coordination services and advice on governance matters for the Governors, the Reserve Bank Board and its Audit and Remuneration committees, the Payments System Board and the Executive Committee. It is responsible for the Reserve Bank's communication, including preparing and publishing Reserve Bank information, maintaining the Bank's websites and managing enquiries from the media and general public. In addition, the department provides legal services to the Bank through the General Counsel (who reports directly to the Deputy Governor), coordinates a range of contacts with government, parliament, other central banks and international organisations, and arranges programs for international visitors.

Wholly owned subsidiary: Note Printing Australia Limited (NPA)

NPA is a wholly owned subsidiary of the Reserve Bank. NPA operates under a charter reviewed and approved annually by the Reserve Bank Board. See chapter on 'Governance and Accountability' for further detail about the governance of NPA.

NPA's prime function is the efficient and cost-effective production of high-quality and secure Australian banknotes, in accordance with specifications and requirements set by the Reserve Bank. NPA also undertakes other activities, including developing and producing passports for the Department of Foreign

Affairs and Trade, producing banknotes for other issuing authorities and producing other security products from time to time.

NPA's Executive Committee, comprising its Chief Executive Officer and the heads of NPA's six business areas, is responsible for the operational and administrative management of NPA. As at the end of June 2022, NPA employed 237 permanent staff supplemented with temporary labour from time to time.

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

Senior Executive Leadership September 2022

Governor
Philip Lowe

Deputy Governor
Michele Bullock

Assistant Governor
Business Services
Michelle McPhee

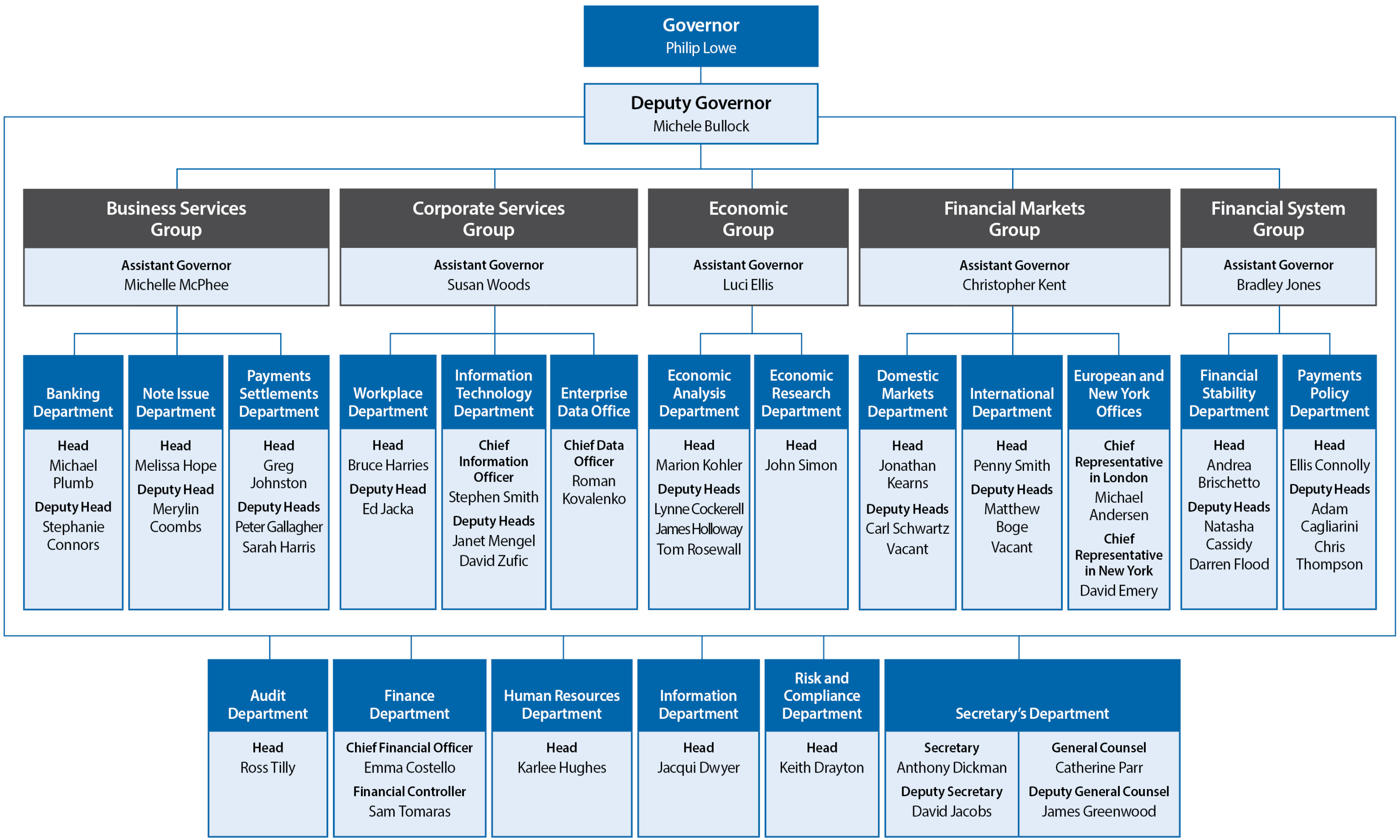
Assistant Governor
Corporate Services
Susan Woods

Assistant Governor
Economic
Luci Ellis

Assistant Governor
Financial Markets
Christopher Kent

Assistant Governor
Financial System
Bradley Jones

Operational structure September 2022



PART 2

Performance

Annual Performance Statement

I, as the accountable authority of the Reserve Bank of Australia, present the annual performance statement of the Reserve Bank for the 2021/22 reporting period, prepared under paragraph 39(1)(a) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). In my opinion, this annual performance statement accurately presents the performance of the Reserve Bank in the reporting period and complies with subsection 39(2) of the PGPA Act.

Philip Lowe
Governor, Reserve Bank of Australia
7 September 2022

Introduction

This performance statement outlines the key objectives of the Reserve Bank as set out in the 2021/22 Corporate Plan and provides an assessment of the Bank's performance in achieving those objectives. Where necessary, additional context is provided, including an analysis of significant factors that have contributed to the outcomes.

Price stability and full employment

Purpose

Under the *Reserve Bank Act 1959*, it is the duty of the Reserve Bank Board to ensure that the monetary and banking policy of the Reserve 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

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

In support of these objectives, the *Statement on the Conduct of Monetary Policy* confirms the Bank's continuing commitment to achieving consumer price inflation between 2 and 3 per cent, on average, over time. Achieving the inflation target preserves the value of money and facilitates strong and sustainable growth in the economy over the longer term. This assists businesses and households in making sound investment decisions, underpins the creation of jobs and protects the savings of Australians.

The Board's monetary policy decisions are implemented through the Bank's operations in domestic financial markets. Operations in financial markets are also undertaken to ensure the stable functioning of the financial system, including by ensuring that there is sufficient liquidity in the domestic money market every day.

The Bank's foreign reserves are held to give the Bank the capacity to intervene in the foreign exchange market, consistent with the objectives of monetary policy. In particular, the foreign reserves enable the Bank to address any apparent dysfunction in the foreign exchange market and/or a significant misalignment in the exchange rate. Such interventions occur rarely.

Results and Analysis

Performance Summary: Price Stability and Full Employment

Key Activities	Performance measures and targets	Results
Conduct monetary policy in a way that will best contribute to: • stability of the currency • maintenance of full employment • economic prosperity and welfare of the people of Australia	Flexible medium-term inflation target to achieve consumer price inflation of between 2 and 3 per cent, on average, over time	Consumer price inflation was 6.1 per cent over the year to the June quarter 2022, considerably above the target band and much higher than had been expected. Inflation is forecast to peak towards the end of 2022 and then decline to be back around the top of the 2 to 3 per cent target range by the end of 2024
	Foster sustainable growth in the economy	The Australian economy is resilient and has grown strongly over the past year, to be around 4½ per cent above its pre-pandemic level. The unemployment rate was 3.5 per cent in mid 2022, which is the lowest rate in nearly 50 years
Achieve cash rate consistent with the Reserve Bank Board's objectives	Keep the cash rate within the interest rate corridor around the cash rate target each business day. The very high Exchange Settlement account balances mean the cash rate is likely to range between the target and the remuneration rate on Exchange Settlement balances	The cash rate was within the interest rate corridor around the cash rate target each business day
Achieve April 2024 Australian Government bond yield target	April 2024 Australian Government bond yield consistent with the target at the close of each business day	The April 2024 Australian Government bond yield was consistent with the target at the close of each business day until late October 2021. It then rose sharply alongside a broader increase in yields globally, reflecting rising inflation expectations and expectations that central banks would begin to reduce stimulus earlier than previously expected. The yield target was discontinued on 2 November 2021 as it had become less effective and was inconsistent with the economic outlook. See Review of the Yield Target
Provide low-cost term funding to the banking system	Manage the Reserve Bank's Term Funding Facility (TFF), which, while closed to new drawdowns, will provide low-cost funding to June 2024	The Bank managed the TFF, undertaking collateral management and processing early repayments as required

Key Activities	Performance measures and targets	Results
Provide adequate liquidity to the financial system	Use open market operations to ensure financial institutions have access to sufficient liquidity	Financial institutions' use of Open Market Operations (OMO) has remained limited given the high level of liquidity in the banking system. The Bank made operational changes to its OMO (reducing the frequency from daily to weekly in October 2021 and adjusting tenor and pricing in March 2022) to ensure that OMO continued to provide liquidity to financial institutions consistent with the Bank's policy settings
Support the smooth functioning of government bond markets	Purchase government securities if required to support the smooth functioning of government bond markets as reflected in various measures of liquidity, including bid-offer spreads	The purchase of government securities, beyond those scheduled under the bond purchase program and those made in support of the yield target, was not required to support the smooth functioning of government bond markets in 2021/22. The Bank lent government bonds back into the market for short periods, adjusting pricing as required, to support the smooth functioning of government bond markets
Provide support for lower risk-free yields across the yield curve, thereby lowering funding costs for all borrowers through a government bond purchase program	Execute a program of government bond purchases in the secondary market as directed by the Reserve Bank Board	The Bank purchased government bonds in the secondary market as directed by the Board under the bond purchase program. The bond purchase program worked to lower longer-term government bond yields, complementing the other policy measures to lower the whole structure of interest rates in Australia, lowering borrowing costs and supporting confidence in the economy. In February 2022, the Board decided to cease further purchases under the bond purchase program given actual progress towards the Bank's goals and the likelihood of further progress.
Manage reserves to portfolio benchmarks	Reserves portfolio managed within permitted deviations around benchmarks for interest rate and currency risk	Deviations from the benchmarks were in line with pre-defined tolerances
Intervene in foreign exchange market as appropriate	Publish data and explanations of any intervention	No foreign exchange market intervention was conducted

Over 2021/22, the global and domestic economy was significantly more resilient than expected by the Reserve Bank and most other central banks. Inflation and employment have risen much more quickly than expected as downside risks to growth did not materialise.

At the time of the July 2021 Board meeting:

- The Australian economy was transitioning from recovery to expansion. GDP had increased to be almost 1 per cent above its pre-pandemic level. The unemployment rate had declined further and faster than had earlier been expected and was 5.1 per cent, according to the latest available data (which was for May 2021). The effect of virus outbreaks and the lockdowns had created uncertainty about the outlook, but the experience had been that the economy bounced back quickly once outbreaks were contained and restrictions eased.
- Inflation and wage outcomes remained subdued, despite the strong recovery. Headline and underlying inflation were 1.1 per cent in the year to March 2021 (the latest available data) and the

Wage Price Index (WPI) had increased by 1½ per cent over the year. A pick-up in inflation and wages growth was anticipated, but it was likely to be only gradual and modest.

- The cash rate target was 10 basis points and the interest rate on Exchange Settlement balances was zero per cent. There was a yield target of 10 basis points for the April 2024 Australian Government bond and the second $100 billion tranche of purchases under the bond purchase program was scheduled to be completed in September 2021. At the July meeting, a decision was made to extend the bond purchase program past September 2021, but at a reduced rate of $4 billon a week. The Board communicated that it would not increase the cash rate until actual inflation is sustainably within the target range. The Bank's central scenario for the economy was that this condition will not be met before 2024 and that meeting it would require the labour market to be tight enough to generate materially high wages growth.

By early-August 2022:

- The latest available data indicated that the level of GDP had increased to be around 4½ per cent higher than prior to the COVID-19 pandemic. Conditions in the labour market were the tightest they had been in decades. The unemployment rate had declined to 3.5 per cent in mid 2022, its lowest rate in nearly 50 years.
- Consumer price inflation increased significantly over 2021/22. While inflation is lower than in most other advanced economies, it was much higher than earlier expected. Headline inflation was 6.1 per cent over the year to the June quarter 2022. Underlying inflation was 4.9 per cent.
- The cash rate had been increased to 1.85 per cent and the interest rates on Exchange Settlement balances had increased to 1.75 per cent, with increases at each Board meeting from May 2022 to August 2022. The yield target had been discontinued at the November 2021 meeting. The Board had decided to cease further purchases under the bond purchase program at its February 2022 meeting.

Inflation has increased strongly in many advanced economies over the past year, to be at the highest levels in decades. During the pandemic, global supply chains were interrupted, delivery times increased and firms' costs of production rose. All have contributed to higher prices for consumers. Furthermore, Russia's invasion of Ukraine caused major disruptions to the global markets for energy and food. As a result, oil prices have increased substantially and global food prices, including the prices of wheat and vegetable oils, have increased sharply. These events have occurred alongside strong growth in demand globally, supported by the stimulatory fiscal and monetary policy settings put in place to respond to the pandemic.

Headline inflation in Australia has risen to its highest level in many years, although it remains below that of most other advanced economies. In addition to powerful global influences on inflation, domestic factors have also contributed to the upward pressure on prices. The capacity of the economy to meet the demand for goods and services has been tested by disruptions to global supply, domestic disruptions (such as the east coast floods), a tight labour market and strong growth in domestic spending. In the labour market, measures of spare capacity have declined to their lowest levels in several decades. Given the tight labour market and increase in job mobility, more firms have had to pay higher wages to attract and retain staff. Wages growth has picked up and a period of faster growth in overall labour costs for the year ahead is forecast.

The increase in domestic and global inflation has been much stronger than was expected by most forecasters even six months ago. This is partly because of unforeseen events such as Russia's invasion of

Ukraine and the subsequent increase in global energy and food prices. But the combination of strong growth in demand globally, supported by stimulatory fiscal and monetary policy, and constrained supply chains due to the effects of the pandemic have had a much larger impact on inflation than had been expected. Some of the pandemic-related supply-side problems in the global economy are gradually being resolved. Higher interest rates will also help to create a more sustainable balance between the demand for goods and services and the ability of economies to meet that demand.

The Board is committed to doing what is necessary to ensure that inflation returns to the 2 to 3 per cent target range over time. It is seeking to do this in way that maintains the economy on an even keel, but recognises that the path ahead is a narrow one and clouded in uncertainty.

The recent strength in inflation follows a period of heightened uncertainty about the global economic outlook. Following the onset of the COVID-19 pandemic, measures implemented to contain the spread of the virus resulted in very large economic contractions in most economies over the first half of 2020. The sharp contraction in activity came at a time when inflation pressures were already subdued. The outlook for the global economy deteriorated significantly and involved a high degree of uncertainty. Even as the recovery in global and domestic activity got under way in the second half of 2020 and in to 2021, the outlook for activity and inflation remained highly uncertain.

In Australia, the high degree of uncertainty about the outlook extended well in to 2021. Outbreaks of the Delta variant of COVID-19 led to long lockdowns in parts of Australia affecting a large share of economic activity. The setback to the economy from this outbreak was significant; GDP contracted by around 2 per cent in the September quarter 2021 – one of the largest quarterly declines on record. The labour market was also materially affected by the lockdowns in response to the Delta variant. The Australian economy staged a strong recovery in late 2021 and economic activity remained quite resilient to the disruptions caused by the outbreak of the Omicron variant and the east coast floods in 2022.

Underlying inflation was 1½ per cent over the year to June 2021, just prior to the Delta outbreak. Inflation picked up in the second half of 2021, but large price movements in a small number of components accounted for a significant share of the increase in headline inflation. At the time it was difficult to disentangle the contribution to inflation from temporary disruptions from the Delta lockdowns from more persistent trends. Wages growth had remained subdued through the second half of 2021; growth in the Wage Price Index was 2.3 per cent over 2021, well below the rate consistent with inflation being sustainably in the Bank's target range.

Prior to the COVID-19 pandemic, consumer price inflation had been below the Bank's target for a number of years. Low inflation had also become the norm internationally during this period, with many advanced economies recording average inflation outcomes below 2 per cent. Several factors contributed to low inflation in Australia and internationally. Many countries experienced a prolonged period of spare capacity in the labour market. In Australia, the unemployment rate was relatively low by historical standards, but the unemployment rate that would typically generate meaningful upward pressure on wages growth was likely to have been lower than in the past. Additionally, globalisation and advances in technology affected the level of prices in many countries for much of the past decade. This occurred through increased competition for a wide range of goods and services and reductions in the cost of production.

The package of monetary policy measures the Bank put in place in response to the pandemic has supported the economy to recover from the pandemic and transition to strong durable growth with low unemployment and a pick-up in wages growth from low levels observed in the years prior to the pandemic. These actions were taken to support a transition to a strong and durable expansion characterised by the Bank's goals of full employment and price stability in the economy, with inflation consistent with the target over time.

The Bank's use of unconventional monetary policy measures allowed the Bank to provide significant monetary policy support to the economy in the wake of the pandemic despite the already low level of the Bank's main policy tool, the cash rate. At the same time, lessons can be drawn from Australia's evolving experience with using these policy measures.

- While the time-based forward guidance implied in the yield target helped to ease financial conditions at the height of the pandemic, this feature meant the yield target was not well-suited to respond to changing conditions and eventually became ineffective as the economic recovery progressed.
- The Bank discontinued the yield target when it was assessed to be inconsistent with the Bank's policy aims. In the event, the exit was disorderly and associated with bond market volatility and some dislocation in the market, as market participants interpreted the Bank's actions in real time, ahead of communication from the Bank following the subsequent Board meeting. Following this experience, the Board decided to strengthen the way it considers the full range of scenarios when making policy decisions, taking into account the flexibility of policy to respond to changing circumstances and the associated operational and communication challenges.
- Compared with the yield target, the bond purchase program provided more flexibility to respond to evolving economic circumstances. The fairly short-time frames of each of the various stages of the bond purchase program to which the Board committed facilitated a timely and relatively smooth end to purchases under the program. However, the program is expected to entail a sizeable financial cost to the Bank, although there are some offsetting financial benefits for the broader public sector balance sheet. In light of this experience, the Board remains of the view that it is appropriate to consider use of a bond purchase program only in extreme circumstances. The Board has also noted the importance of evaluating any potential future use of a bond purchase program against other policy options at the time, taking into account the costs of the bond purchase program under a full range of scenarios. A review of the bond purchase program will be published on the Reserve Bank's website.

The Bank has implemented the policy measures as directed by the Board and remained flexible in the course of achieving its operational targets as set by the Board in the changing environment. This included: adjusting the operational details of the Bank's regular open market operations so that they remain fit for purpose as liquidity conditions, the economic outlook and the Bank's monetary policies evolve; and adjusting the Bank's securities lending activities as required to support the smooth functioning of government bond markets.

The challenge now is to return inflation to the 2–3 per cent inflation target over time.

The stability of the financial system

Purpose

The Reserve Bank has a responsibility for fostering overall financial stability in Australia. Given the serious damage to employment and economic prosperity that can occur in times of financial instability, the Bank has long had an implied mandate to pursue financial stability. The Bank's longstanding responsibility for financial system stability is recorded in the *Statement on the Conduct of Monetary Policy*.

The Bank works with other regulatory bodies to foster financial stability. The Governor chairs the Council of Financial Regulators (CFR), which brings together the Reserve Bank, the Australian Prudential Regulation Authority (APRA), the Australian Securities and Investments Commission (ASIC) and the Australian Treasury. The CFR is a non-statutory body whose role is to promote the stability of the Australian financial system and support effective and efficient regulation by the financial regulatory agencies. The CFR draws on the expertise of other non-member government agencies where appropriate, and meets jointly with the Australian Competition and Consumer Commission (ACCC), AUSTRAC and the Australian Taxation Office at least annually to discuss broader financial sector policy. 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 and Analysis

Performance Summary: Financial System Stability

Key activities	Performance measures and targets	Results
Support overall financial stability	A stable financial system that is able to support the economy	The financial system has remained resilient despite the ongoing effects of the pandemic. The Bank's expansionary monetary policy measures supported the economic recovery through further COVID-19 waves by providing low-cost funding throughout the economy. Higher-than-expected inflation and rising interest rates have the potential to pose a risk to the financial system. The Bank's assessment is that household and business balance sheets are well placed to manage the rise in interest rates. CFR agencies continue to monitor potential risks to financial system stability, and stand ready to respond as necessary
	Work with CFR agencies and international bodies to identify and appropriately address evolving systemic risks	The CFR closely monitored the impact of pandemic-related lockdowns and disruptions on the economy and financial institutions. It also continued its ongoing focus on housing-related risks, supporting APRA's decision in October 2021 to increase the interest rate serviceability buffer on residential mortgages. Later in 2021/22, there was a major focus on Russia's invasion of Ukraine and risks arising from increasing interest rates and higher inflation. Other areas of attention included the regulation of crypto-assets and risks associated with climate change and cyber attacks. The CFR issued quarterly statements that outlined its discussions and assessments of these and other areas of focus
	Assess and communicate risks to financial stability, including through the Bank's half-yearly *Financial Stability Review*	The Bank uses a wide set of data and information sources to identify and assess emerging vulnerabilities in the Australian financial system, as well as potential cross-border channels of risk. The Bank communicates its assessments of these and other risks primarily through the half-yearly *Financial Stability Review* but also through *Bulletin* articles and speeches

The Australian financial system has remained resilient throughout the year. With banks at the core of the financial system, their underlying financial health (with high capital levels and strong profitability) and high asset quality (evidenced by low and declining arrears rates) enabled them to continue supporting the economic recovery from the pandemic via ongoing lending to households and businesses. The implementation of G20 financial sector reforms after the global financial crisis (such as Basel III), APRA's robust domestic regulatory and supervisory framework, and input on emerging trends and systemic risks by the Bank and other CFR agencies helped to achieve these outcomes.

Both capital levels and arrears rates improved further during 2021/22, reflecting regulatory requirements (such as 'unquestionably strong' capital ratios), prudent risk management by institutions and the overall healthy position of household and business balance sheets going into the second year of the pandemic. The latter in turn was due to several factors, including the cumulative effects of substantial fiscal payments by governments (which boosted incomes and savings), and other measures such as loan repayment deferrals and a pause on insolvency proceedings. The accommodative policies of the Bank also supported the expansion, with a stimulatory setting of the cash rate target and the provision of low-cost funding for the banking system.

The experience with the COVID-19 pandemic highlighted the benefits of the CFR framework. While each CFR member has its own mandate, the forum allowed the CFR agencies to share insights and draw on each other's expertise in assessing and responding to developments. The CFR provides the Bank, jointly with the other members, an important 'tool' for meeting its financial stability mandate via its communications. The CFR's public statements during the year helped present a consistent cross-agency view on a range of developments affecting the financial system, thereby both informing public debate and enhancing confidence. CFR quarterly statements complemented the assessments issued by the Bank in its semi-annual *Financial Stability Review* – the main way in which the Bank expresses its views on trends and emerging risks in the financial system.

The Bank's analysis of financial stability trends and risks during the year depended heavily on databases and other information available to the Bank. The Bank continued to make use of existing databases, in particular the individual financial institution regulatory data it receives from APRA. While the Bank does not regulate individual banks, insurers or pension funds, the APRA data are central to the Bank's assessment of risks in parts of the financial system. New data providing additional insights were also used, as was the case for a September 2021 *Bulletin* article on the potential impact of climate change on Australian banks.

Highly disaggregated (or 'unit record') databases were also critical for analysing the financial stability risks facing households and businesses given risks emanate from individual borrowers. For these sectors, survey data such as those contained in the Household, Income and Labour Dynamics in Australia (HILDA) and Survey of Income and Housing (SIH) surveys of the Australian Bureau of Statistics (ABS), allowed pockets of vulnerability (such as higher-risk borrowers) to be identified by 'drilling down' into the data. The Bank has also made increasing use of the loan-level data contained in the Securitisation Dataset and the disaggregated business level data available in the Business Longitudinal Analysis Data Environment (BLADE) of the ABS, with both featuring heavily in analysis presented in issues of the *Financial Stability Review*. As interest rates increased in the face of high inflation overseas and also domestically, the Bank used applied scenario analysis to analyse the impact of higher interest rates on indebted households and businesses, and on financial institutions. The results, which were published in the April 2022 *Financial Stability Review*, were a timely contribution to the public discussion about possible effects of interest rate increases. Models in this case, and also its bank stress-testing framework, were important tools used by the

Bank during the year to estimate potential effects of certain events or triggers. Results from the Bank's stress tests were published in the October 2021 *Financial Stability Review*, which indicated that banks' capital levels would remain above minimum requirements even in a severe economic contraction.

The participation by the Bank in global bodies also provided an important source of intelligence and insights, both in terms of established work areas such as ongoing financial vulnerabilities assessment, but also regarding the shock created by Russia's invasion of Ukraine. In terms of the latter, this enabled a more comprehensive analysis of the financial consequences of the war by Australian regulators, including of the effect on Australia's economy and financial system. The Bank places a high priority on these international forums, which also allow Australian perspectives to be provided when these bodies develop global assessments of risks and relevant international policy responses.

A secure, stable and efficient payments system

Purpose

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

In relation to the Bank's policymaking role, it is the duty of the Payments System Board to ensure that the Reserve Bank's payments system policy is directed to the greatest advantage of the people of Australia, and 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
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 Reserve 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. These powers and functions relate to the supervision of central counterparties and securities settlement facilities, which are key components of the infrastructure that supports financial markets. The Bank's payments policy area also acts as overseer of Australia's high-value payment system, the Reserve Bank Information and Transfer System (RITS).

The Bank's operational role in the payments system is effected through its ownership and management of RITS (including the Fast Settlement Service (FSS)), which is used by banks and other approved institutions to settle their payment obligations efficiently on a real-time, gross settlement basis. This ensures that there is no build-up of settlement obligations associated with high-value transactions and thereby promotes the stability of Australia's financial system.

Results and Analysis

Performance Summary: A Secure, Stable and Efficient Payments System

Key activities	Performance measures and targets	Results
Support competition and efficiency in the payments system and financial system stability	Monitor the outcomes for consumers and businesses following past reviews of the regulatory framework for card payments. Undertake policy work focusing on the strategic priorities identified by the Payments System Board (including supporting the shift to low-cost, convenient, inclusive and reliable digital payments, and responding to any access, competition or efficiency issues associated with new technologies and participants in the payments system) and any issues of competition, efficiency or risk identified in liaison with stakeholders	In 2021/22, the Bank focused on: • least-cost routing (LCR) functionality, where merchants can choose to route transactions on dual-network debit cards to the lowest-cost processing network • progress on the delivery of real-time payments services for consumers and businesses • policy issues associated with the rise of 'buy now, pay later' services and large technology companies in payments
	Complete work on the comprehensive Review of Retail Payments Regulation, which commenced in late 2019. Monitor compliance with the Bank's card payments regulations	This work is complete. The Bank published a conclusions paper (and associated draft standards) and worked on implementing the conclusions of the Review in the first half of 2022
	Respond to any recommendations on the Bank's regulatory framework for payments stemming from the Treasury Payments System Review	The Bank provided support to the Treasury on implementing the recommendations from the Review. This work has focused on modernising the Bank's regulatory framework under the *Payment Systems (Regulation) Act 1998* and introducing a licencing regime for payment service providers. As part of a future licencing regime, the Bank is developing common payment system access requirements and a new authorisation regime for industry standard-setting bodies, in consultation with the payments industry
	Prepare for and design the latest triennial Consumer Payments Survey (CPS)	Staff have worked on the design of the survey and a tender for the provision of the CPS will be conducted in late 2022
	Undertake research and work with industry on policy issues relating to both legacy and emerging payment methods, including work to support the ongoing provision of cash services, monitoring the wind-down of the cheques system and planning for the eventual closure of the direct entry system, and research on the possible issuance of CBDC and other innovations in payment systems	In 2021/22, this work focused on: • analysing policy issues associated with the emergence of digital wallets and 'buy now, pay later' services • overseeing industry efforts on the future of the cheques and direct entry systems • research on the case for, and implications of, issuing CBDC

Key activities	Performance measures and targets	Results
	Support work being undertaken as part of the G20 roadmap on enhancing cross-border payments	The Bank participated in work on cross-border payments as part of the G20 Roadmap
	Work through the CFR to review the regulatory framework for stablecoin arrangements. Work with the Australian Government and other CFR agencies to implement the changes to the regulatory framework for stored-value facilities stemming from the recommendations in the CFR's 2019 report to the government	The Bank has been assisting Treasury with implementing the Government's reforms to the payments licensing framework, including for stored-value facilities. The Bank has also contributed to CFR work on incorporating stablecoins used for payments into this regulatory framework
	Work with industry to modernise payment messaging standards via participation in the ISO 20022 migration project	This work is ongoing. It is being coordinated by AusPayNet's 20022 Program Management Office and overseen by an Industry Migration Steering Committee. Full migration of the Australian high value payments system is expected by the end of 2024
	Implement the new reporting and disclosure framework for retail operational performance	This work is complete. Data on the reliability of retail payment services provided to households and businesses are being published on the websites of the individual payment service providers. The list of providers and their URLs can be found on the RBA website at: https://www.rba.gov.au/payments-and-infrastructure/resources/reliability-disclosures.html
	Work by the Bank's Innovation Lab and with external partners to research the case for, and implications of, CBDCs	The Bank completed: • a proof-of-concept with industry partners on the use of CBDC to improve the settlement of tokenised syndicated loans (Project Atom) • a proof-of-concept with other central banks and the BIS Innovation Hub on the potential for a common international platform that could be used to settle transactions in CBDCs across different jurisdictions and currencies (Project Dunbar). This work also formed part of the Bank's contribution to supporting the G20 roadmap on enhancing cross-border payments • other research into the merits of issuing CBDC, and the potential forms it could take
Promote the safety and resilience of FMIs	Assess RITS and licensed clearing and settlement (CS) facilities against relevant standards. The frequency, scope and level of detail of a compliance assessment is proportional to the systemic importance of a CS facility to the Australian financial system. Establish recommendations and regulatory priorities as appropriate for each high-value payment system and CS facility based on these assessments	Assessments were published for the ASX clearing and settlement (CS) facilities in September 2021 and for LCH Limited's SwapClear service in December 2021. In these assessments, the Bank judged that the entities had conducted their affairs in a way that causes or promotes overall stability in the Australian financial system, and had made progress against regulatory priorities set by the Bank. The Bank also set out a series of regulatory priorities for each of the facilities for the subsequent year. In June 2022, the Bank published its assessment of RITS against the Principles for Financial Market Infrastructures, concluding that RITS observed all relevant

Key activities	Performance measures and targets	Results
		principles other than the principle on operational risk, which RITS was assessed to be broadly observed
	Undertake reviews as appropriate to determine whether additional FMIs should be subject to supervision or oversight by the Bank	Following the most recent review, RITS and CLS remain the only payments systems subject to ongoing oversight by the Bank at this stage The Bank assisted the Department of Home Affairs with the application of the Government's critical infrastructure reforms to the operators of payment systems specified as critical in Australia
	Work with the Australian Government on implementing the reforms to the regulation of FMIs, including crisis management powers over Australian CS facilities. Develop operational plans to execute any powers granted under the regime	The Bank continued work preparing for the implementation of the reforms
	Contribute to international policy work on FMI resilience and crisis management	Bank staff participated in international policy development and implementation on crisis management and the resilience of FMIs
	Adapt domestic regulatory standards in response to international developments. Support international supervisory cooperation	No changes to domestic regulatory standards were required. In February 2022, the Bank and ASIC agreed a revised Memorandum of Understanding on supervisory cooperation with the European Securities and Markets Authority, in order to align with recent changes to the EU regime for recognition of non-EU central counterparties
Ensure the regulatory framework for payment systems and FMIs is consistent with the Australian Government's principles of regulator best practice	Actively engage with stakeholders and conduct research to understand emerging issues affecting the environment in which regulated entities operate	The Bank surveyed CS facilities and participants in the retail payments system to obtain on feedback on its regulatory performance. The feedback was generally positive. Some entities encouraged the Bank to devote more effort to scanning the environment to understand the latest developments Respondents generally reported that the Bank's Review of Retail Payments Regulation was carried out well, and suggested some areas for improvement including by giving stakeholders more time to provide submissions. A few entities suggested that the Bank could provide more updates during the final phase of regulatory reviews to allow stakeholders a final opportunity to provide feedback and plan earlier for any changes that might be needed Respondents generally reported that the Bank's regulatory requirements were streamlined and proportionate to the risks involved. In order to minimise ad-hoc requests, some stakeholders noted there would be benefits in the Bank further automating its reporting requirements and providing greater clarity and context around how some information reported to the Bank is used
	Ensure regulatory requirements are streamlined, proportionate to risks and coordinated with	Survey feedback on cooperation between the domestic regulators has been positive and also highlighted that the Bank's engagement with,

Key activities	Performance measures and targets	Results
	other regulators, and build capability in data analysis to efficiently monitor compliance	and reliance on, overseas home regulators of FMIs helps to minimise regulatory duplication The Bank has enhanced its capacity for data analysis, with the first group of CS facilities commencing regular reporting as part of the FMI data project. This project introduced modern data delivery methods, which also provides an opportunity for FMIs to rationalise and automate their reporting processes
	Communicate with regulated entities in a timely, clear and consistent way, including on regulatory priorities	Survey feedback generally characterised the Bank's communications as timely, clear and consistent. A few stakeholders noted that they found the Bank's published material on its regulatory priorities very useful (for example in speeches by staff) and that receiving more regular updates about the Bank's payments priorities would help them plan more effectively to meet the Bank's expectations
Ensure the operational reliability of RITS	RITS availability at 99.95 per cent during core hours	RITS availability was 99.985 per cent during core hours in 2021/22
	RITS FSS availability at 99.995 per cent on a 24/7 basis, with most transactions processed in less than one second	FSS availability was below target at 99.990 per cent due to a vendor software issue that occurred in April 2022
	Complete a refresh of FSS infrastructure by mid 2023	The Bank has completed the detailed design and commenced building the non-production environments. The project is on track to finish in mid-2023
	Develop enhancements to RITS, and related back office systems, to support ISO 20022 readiness for testing by the first quarter of 2022	The Bank is actively involved in the industry-led migration to the ISO 20022 standard as both an operator and participant of related payments infrastructure. The project has now entered the industry testing phase. The Bank has also continued work in preparation for the migration of legacy messages used by some batch administrators as well as the RITS Automated Information Facility (AIF) to the ISO 20022 standard. To minimise the disruption of migration to members, the new message standards will be introduced in phases, including an industry-agreed coexistence phase
Ensure the cyber security of RITS	Ongoing investment and regular reviews and testing to support cyber resilience. In 2021/22, this will include completion of the Bank's role in supporting the testing of RITS as part of the CFR-sponsored pilot 'red team' exercise for financial institutions	The Bank's ongoing program of cyber resilience work helped underpin the reliable operation of RITS in 2021/22. In July 2021, the Bank's payment settlement systems were recertified under the ISO 27001 standard for Information Security Management and, in November 2021, the Bank completed its independently assessed compliance attestation to the SWIFT Customer Security Controls Framework, with full compliance to all mandatory controls. During the period, RITS was part of a CFR sponsored threat intelligence exercise, testing the cyber maturity and resilience selected of institutions and market infrastructures. This confirmed the strength of the Bank's current RITS security controls while highlighting some areas for further improvement
	Complete the implementation	The Bank has updated its RITS member security

Key activities	Performance measures and targets	Results
	of updated RITS member end point security requirements	requirements in line with an independent risk assessment conducted in late 2020. Members are required to comply with these standards by the end of 2022. The Bank is also in the process of updating the equivalent security standards applicable to RITS feeder system operators

The Reserve Bank's work in the payments area in 2021/22 occurred in an environment that was continuing to change rapidly. There has been an ongoing shift in consumer payments away from the use of cash and cheques and towards cards and other electronic means of payment. There has also been rapid technological change and innovation, with new payment products and services being adopted, and the entry of new players into the payments system. These changes can improve the convenience and security of payments to end users, but can bring particular risks and competitive issues into sharper focus.

The Bank considers that the existing regulatory arrangements for the payments system in Australia have worked well and have helped shape a payments system that generally provides high-quality services for Australian households and businesses. However, the payments ecosystem is now more complex than when the current regulatory arrangements were put in place in the late 1990s. Given this, the Bank welcomes the Government's proposed payments regulatory reforms, including the development of a strategic plan for the payments ecosystem and measures to modernise the Bank's regulatory powers.

The Bank supports the Government proposed reforms to the regulation of FMIs. The aim of the reforms is to ensure that the Australian financial system is supported by resilient, efficient and stable FMIs. The reforms include enhancements to the licensing regimes for clearing and settlement (CS) facilities and stronger supervision and enforcement powers for ASIC and the Reserve Bank. The reforms also include crisis management powers over Australian CS facilities.

To ensure the Bank does not unnecessarily impede the efficient operation of CS facilities, the Bank's regulatory framework is closely aligned with international standards. The Bank is committed to making sure the frequency, scope and level of detail of assessments appropriately aligns with each CS facility's systemic importance to the Australian financial system. This 'graduated' approach is set out in the Bank's Approach to Supervising and Assessing Clearing and Settlement Facility Licensees, which is published on the Bank's website.

The delivery of efficient and effective banking services to the Australian Government

Purpose

Insofar as the Commonwealth of Australia requires it to do so, the Reserve Bank must act as banker for the Commonwealth. The Reserve Bank's banking services fall into two categories: those services provided in its capacity as the central bank; and those transactional banking services it provides to Australian government agencies. In common with many other central banks, the Bank also provides banking and custody services to a number of overseas central banks and official institutions. The banking services offered to the Australian Government and other central banks include payments and collections, as well as general account maintenance and reporting services.

Results and Analysis

Performance Summary: Deliver Efficient and Effective Banking Services

Key activities	Performance measures and targets	Results
Ensure central banking services remain fit for purpose	Work with key stakeholders to maintain and improve, where possible, the central banking services provided to the Commonwealth of Australia	As the provider of the Commonwealth's Official Public Account, the Bank works closely with both the Department of Finance (Finance) and the Australian Office of Financial Management (AOFM) to ensure the services associated with management of this account remain fit for purpose. Following the implementation of new cash management arrangements in 2020/21, the Bank maintained its engagement with Finance and the AOFM to identify opportunities for further improvement. The Bank also worked with Finance and a third party payments provider to ensure compliant payment services can be provided to Australian Government agencies
Satisfy financial performance benchmarks	Minimum return on capital for transactional banking business equivalent to the yield on 10-year Australian Government Securities plus a margin for risk	The Bank's banking services achieved the minimum required return in 2021/22. Pro forma accounts for the transactional banking business can be viewed in the chapter on 'Banking and Payment Services'
Progress on activities to deliver convenient, secure, reliable and cost-effective banking services to customers	Provision of high-quality, cost-effective banking services to government and other official agency customers and, in turn, the public, including:	The Bank extended service provision to several new customers during 2021/22, while retaining all existing agency customers
	• continued development of banking services and systems, including NPP capabilities	The Bank continued to work with the industry to develop new NPP capabilities, particularly a new way to pre-authorise payments, known as PayTo. The first phase of this service was completed in June 2022 and will enable the Bank's customers to enter into a PayTo payment agreement with a creditor for the payment of goods or services. This could be a one-off or recurring payment arrangement. The next phase of PayTo will enable the Bank's customers to establish PayTo payment agreements with debtors
	• supporting agency customers as they migrate payments from legacy payment systems to new systems	The Bank: • assisted Services Australia in processing and delivering COVID-19 and disaster recovery payments on a 24 hour/7 day basis • supported agency customers with their planning and system implementation of new payment and data capabilities

As the COVID-19 pandemic continued into 2021/22, the Bank maintained its focus on service delivery, supporting the Australian Government's business-as-usual and COVID-19 payment programs. In collaboration with Services Australia, the Bank leveraged its real-time fully integrated payment capabilities for the processing and delivery of COVID-19 support payments to the Australian public. This comprised a range of payments to businesses and consumers affected by the pandemic and included almost 700,000 payments distributed via the NPP on Sunday 15 August 2021. The NPP was also used to ensure the rapid delivery of payments to those in need as a result of catastrophic flooding in NSW and Queensland. As with 2020/21, this was achieved with the majority of the Bank's staff working remotely.

Delivery of these large-scale payment programs via the NPP demonstrated the maturity of the NPP in terms of account reach and highlighted the importance of 24/7 reliability.

Notwithstanding the continued focus on delivery of government payments and other related effects of the pandemic, significant progress was made on new payment initiatives, culminating in the delivery of NPP PayTo Payer services in June 2022. The Bank continues to work on a large number of multi-year payment related initiatives, encompassing NPP related services, participating in the industry migration of cross-border and domestic payments traffic to ISO 20022 international messaging standards, and upgrading of its underlying banking technology services. During 2021/22, the Reserve Bank continued to ensure it remained in a position to respond appropriately to the Australian Government's needs with convenient, secure, reliable and cost-effective central banking and transactional banking services.

The provision of secure and reliable banknotes

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 the capacity of Australian banknotes to provide a safe, secure and reliable means of payment and store of value. The Bank works with its wholly owned subsidiary, Note Printing Australia Limited (NPA), to design and produce banknotes. NPA also produces banknotes for other countries and Australia's passports. The Bank distributes banknotes to financial institutions, monitors and maintains banknote quality in circulation and withdraws unfit banknotes from circulation. It also monitors and analyses trends in cash usage and counterfeiting, and conducts research into banknote security technology.

Results and Analysis

Performance Summary: Provide Secure and Reliable Banknotes

Key activities	Performance measures and targets	Results
Ensure Australian banknotes provide a safe, secure and reliable means of payment and store of value, as follows:	Maintain or improve public perceptions of Australian banknotes, as measured in the Reserve Bank survey	The Bank conducted a survey on perceptions, usage and behaviour related to Australia's banknotes. The results show that public perceptions of Australian banknotes have remained favourable, with 69 per cent of respondents perceiving the NGB series to be sufficiently secure against counterfeiters, similar to the 2020 results. In addition, 76 per cent of respondents noted that they liked the new banknotes, largely unchanged from the previous year's results
Meet banknote demand	More than 95 per cent of banknote orders from commercial banks fulfilled by the Bank within three days of request	The target was met. All transactions were fulfilled on the same day as requested with the exception of one transaction in September 2021, which was deferred by one day. This was as a result of necessary precautionary measures after both the National Banknote Site (NBS) and the Bank's contingency site in Craigieburn were identified as potential COVID-19 exposure sites. Liaison with the commercial bank concerned confirmed there was no material impact resulting from the delay as there was sufficient banknote stock on

Key activities	Performance measures and targets	Results
		hand to meet immediate demand
Ensure Australian banknotes remain secure, durable and cost effective	Monitor actual and emerging counterfeiting trends	Australian banknote counterfeiting rates, remained low by historical and international standards. The estimated counterfeiting rate was 8 counterfeits per million banknotes in circulation in 2021/22, down from a peak of around 31 counterfeits per million banknotes in 2014/15. The Bank also continued to monitor international developments in counterfeiting, including through engagement with other central banks and international organisations
	Evaluate and develop security features that could be deployed on Australian banknotes to combat counterfeiting threats, extend circulation life and/or reduce production costs	The Bank's key initiative to enhance banknote security has been the release of the new banknote series with upgraded security features. Work on the Next Generation Banknote (NGB) program concluded in 2020/21, with the new $100 banknote entering circulation on 29 October 2020. In addition the Bank operates an R&D program to develop and test security features for future Australian banknotes, along with testing and implementing solutions to reduce costs and increase circulation life
Ensure high-quality banknotes	Banknote production orders by the Bank to be met by NPA within agreed quality parameters	NPA met 95 per cent of the Bank's orders for new series banknotes to the required quality standard and as per the initial annual delivery schedule. The shortfall of 5 per cent was the result of minor production delays owing to the pandemic. These banknotes will be delivered as part of the 2022/23 order. This shortfall in the banknote order did not compromise the Bank's ability to meet public demand or jeopardise its target contingency stock of banknotes
	Maintain quality of banknotes in circulation above the minimum quality standard agreed with industry	The measurement of the quality of banknotes in circulation was interrupted by the COVID-19 pandemic, but the introduction of virtual sampling (using video-conferencing technology) allowed normal sampling to resume. From the sample of banknotes obtained, quality remains good. The update of standards to include NGB security features has been delayed due to the Review of Banknote Distribution Arrangements

While the proportion of payments made using banknotes is declining relative to electronic payments, the value of banknotes on issue increased at an above average pace over 2021/22. This increase was driven by fewer banknotes being returned to the Bank from circulation, as well as ongoing demand for high-denomination banknotes, which is likely to reflect the importance of cash as a store of value in times of uncertainty and dislocation. The Bank has continued to meet demand for banknotes by ensuring orders are fulfilled. The release of the new series of banknotes with upgraded security features has supported public confidence in banknotes. Australia's level of counterfeiting remains low by international standards.

Operations in Financial Markets

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

During 2021/22, in response to the strong recovery of the Australian economy, the Reserve Bank took a number of steps to taper and then begin to withdraw the extraordinary monetary support that was put in place to support the Australian economy during the COVID-19 pandemic. This included discontinuing a number of unconventional monetary policy measures adopted in the wake of the pandemic, as well as increases in the cash rate target.

In November 2021, the yield target on the April 2024 government bond was discontinued, as was the time-based element of the Bank's communication that, in the central scenario, policy interest rates were unlikely to be increased until 2024. The rate of bond purchases under the bond purchase program was reduced from September 2021, and new purchases ceased in February 2022. In May 2022, the Reserve Bank Board stated that it would allow the Bank's bond portfolio to gradually roll off as those bonds matured; it also noted that it was currently not planning on selling those bond holdings. This meant that the contribution of the Bank's bond holdings to lower bond yields would slowly diminish over time as the bonds mature. These actions over 2021/22 followed the closure of the Term Funding Facility (TFF) to new drawdowns at the end of June 2021.

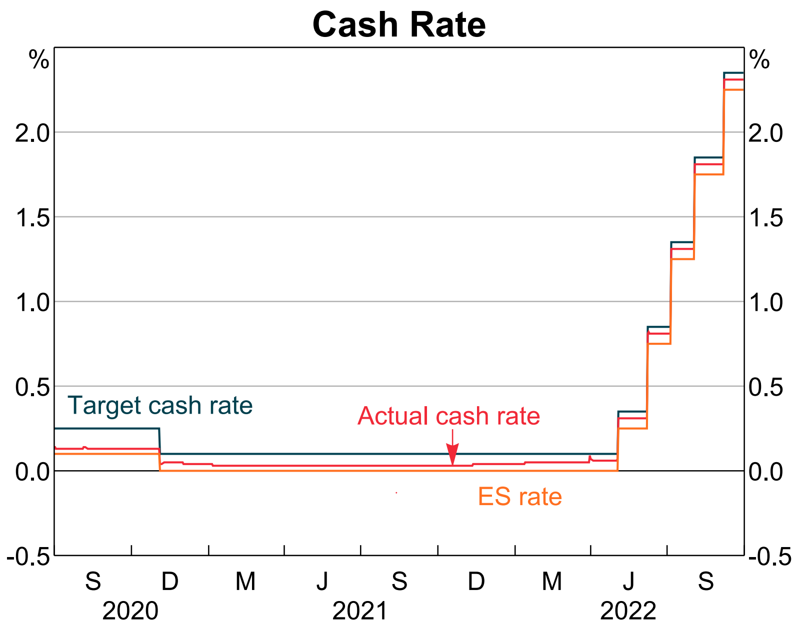
In response to rising inflationary pressures in the economy, in May 2022 the Board began withdrawing monetary policy stimulus by increasing the cash rate target and the interest rate paid on Exchange Settlement (ES) balances. It increased these policy rates by 25 basis points at its May meeting and by 50 basis points at each of its June, July, August and September meetings.

As expected, financial conditions have become less expansionary alongside expected and actual increases in the cash rate. Banks' funding costs have risen from historical lows, as have housing and business interest rates. The Reserve Bank's balance sheet remains much larger than historically as a result of the various unconventional policy measures, although it is expected to decline significantly over the following couple of years as funding provided to banks under the TFF matures and as government bonds held by the Bank gradually mature.

Monetary policy implementation

As a result of steps taken to reduce the stimulus being provided from the unconventional monetary policy measures over time, the Reserve Bank's balance sheet will decline in a predictable way over coming years. The higher system liquidity that has resulted from these monetary policy measures will also decline.

While these changes will contribute to the gradual withdrawal of monetary policy stimulus, the Reserve Bank Board's main operational target for adjusting monetary policy is the cash rate. This is the rate at which banks borrow and lend to each other on an overnight, unsecured basis. The Board increased the cash rate target at every meeting between May and September 2022, taking it from 0.10 per cent to 2.35 per cent, alongside corresponding increases in the rate paid to banks on ES balances, from zero per cent to 2.25 per cent.



Source: RBA

The substantial increase in the amount of liquidity in the banking system arising from the package of policy measures introduced during the pandemic has continued to affect money markets as expected. In particular, activity in the cash market remains lower than in the period preceding the pandemic because most banks have ample liquidity to settle their payments and little need to borrow more in the overnight market. Also, the cash rate continues to trade below the cash rate target but above the interest rate paid on ES balances, with the spread between the cash rate and the interest rate on ES balances reflecting a small credit premium and transaction costs. The Board has kept the spread between the cash rate target and the interest rate on ES balances at 10 basis points, such that the actual cash rate remains close to the cash rate target. In comparison, the interest rate on ES balances was 25 basis points below the cash rate target before the pandemic.

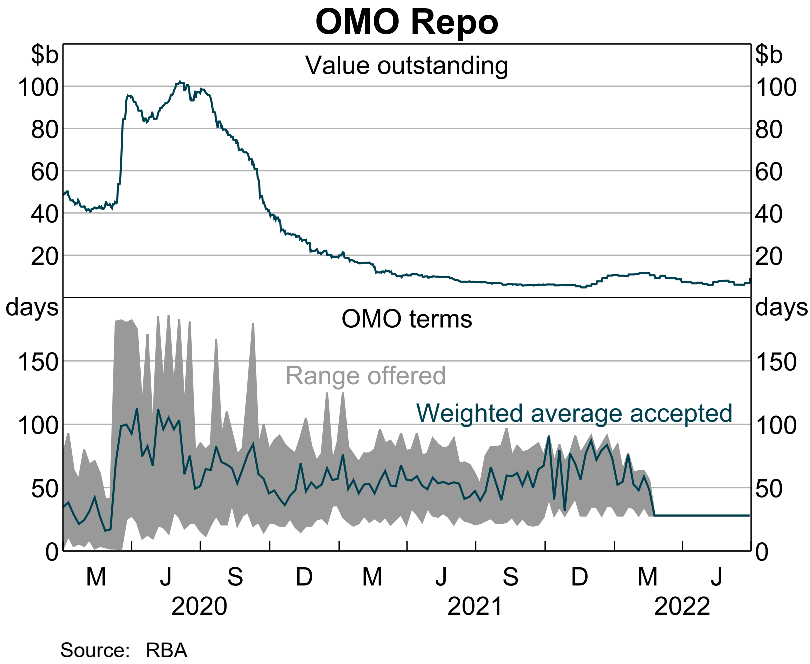
The funds traded in the cash market are the balances held by financial institutions in their Exchange Settlement Accounts (ESAs) at the Reserve Bank. These accounts are held by around 100 financial institutions and are used to settle payment obligations between these institutions. The aggregate level of

ES balances changes as a result of payments made or received by customers of the Bank (principally the Australian Government) and ESA holders, and as a result of transactions undertaken by the Bank on its own behalf. These include undertaking repurchase agreements (repos) collateralised with eligible securities, buying or selling government securities on an outright basis, or using foreign exchange (FX) swaps involving Australian dollars.

Open Market Operations

The Reserve Bank undertakes transactions in domestic financial markets to implement the policy decisions of the Reserve Bank Board and facilitate the smooth functioning of the payments system. Historically, this has principally involved the Reserve Bank transacting in domestic financial markets in its open market operations (OMO) to keep the cash rate consistent with the cash rate target set by the Board. A key class of transaction that the Bank has historically used to achieve this has been repos contracted as part of its regular morning OMO. Repos involve the purchase of high-quality collateral securities where the Bank acquires the securities for a period of time in exchange for cash (i.e. funds deposited into an ESA). The Bank also requires the value of the securities to exceed the cash lent by a specific margin (see below). As a result, there is very little risk of the Bank incurring financial loss from these transactions. The securities accepted by the Bank include securities issued by the Australian Government (AGS), the Australian states and territories (semis), and certain approved international sovereign and supranational issuers. Securities issued by banks, asset-backed securities and corporate bonds that meet certain criteria are also eligible for repo in the Reserve Bank's OMO. FX swaps are another type of transaction that the Bank has used in the past to manage system liquidity; swapping Australian dollars for foreign currencies increases the supply of ES balances in the same way as a repo transaction.

As discussed above, the large increase in surplus ES balances has meant that the cash rate has traded between the cash rate target and the interest rate on ES balances. The ample system liquidity meant that the Reserve Bank no longer targeted a specific level of ES balances every day, as it had done previously in order for the cash rate to trade as close as possible to the cash rate target. Moreover, the demand for OMO funding decreased as banks had less need to obtain short-term funds and a much greater capacity and willingness to lend funds for short terms to other banks. As a result, the role of OMO has changed, but they remain an important part of the Bank's policy framework. In particular, OMO can help to relieve pressures in short-term money markets in the event of an unforeseen tightening in liquidity conditions. Reflecting these benefits, the Bank continued to conduct OMO during 2021/22. On average, around $7½ billion in OMO repos was outstanding during 2021/22, significantly below the 2020/21 average of around $30 billion and the pre-pandemic average of around $50 billion. In this environment, FX swaps were not needed for liquidity management purposes.



However, consistent with the changing role of OMO, the Reserve Bank changed its operations in a number of ways. Reflecting the decline in demand for OMO over the past two years, in October 2021 the frequency of scheduled OMO was reduced from daily to weekly. In March 2022, the maximum typical term for OMO repos was shortened from around three months to four weeks. The Bank may conduct additional unscheduled OMO dealing rounds and/or offer OMO repo terms longer than four weeks if warranted by market conditions; however, since the operational changes made to OMO, this was not required in 2021/22.

Because the Reserve Bank no longer sets the supply of ES balances to keep the cash rate close to the target, OMO no longer targets a fixed quantity to deal. Instead, the Bank sets a repo rate (or hurdle rate) at which banks can obtain funds via OMO, and any reasonable bids received at or above this rate are allocated in full. For most of 2021/22, the hurdle rate was the cash rate target. However, such an arrangement would not have been appropriate when markets expect the cash rate to rise. In that case, other short-term money market rates would be above the cash rate target. Accordingly, in March 2022 the hurdle rate was changed to be based on term-matched overnight indexed swap rates plus a spread. This spread has been around 5 basis points, but the Bank can change this depending on market conditions. At the same time, the Bank also announced plans to change the interest rate on OMO repos to a floating rate based on the cash rate target prevailing over the term of the repo. The Bank is in the process of gathering feedback from market participants and will allow for an appropriate transition period before adopting OMO repos with a floating rate.

As noted above, the Reserve Bank was targeting the yield on the April 2024 AGS until November 2021. The Bank was prepared to buy AGS when necessary to support the yield target. In 2021/22, the Bank conducted one operation to support the yield target, purchasing $1 billion of the April 2024 AGS in October 2021. Since adopting the yield target in March 2020, the Reserve Bank had purchased a total of $36 billion of AGS to support the yield target. The April 2024 Australian Government bond yield was consistent with the target at the close of each business day until late October 2021, when it rose sharply as the outlook for inflation and future policy rates increased in Australia and globally. The yield target was discontinued at the Board meeting on 2 November 2021 as it had become inconsistent with the economic outlook and less effective as a result. In June 2022, the Reserve Bank published a review of the yield target as part of a broader set of reviews the Board is undertaking of the monetary policy measures it adopted in response to the pandemic.[1] A high level summary of conclusions from this review are provided in the 'Annual Performance Statement'.

The Reserve Bank made purchases under the bond purchase program until it ended on 10 February 2022. The pace of purchases was $5 billion per week until early September 2021, and then $4 billion per week until the program ended. Purchases were conducted via competitive auction, with the Bank purchasing AGS on Mondays and Thursdays, and semis on Wednesdays. Purchases were of bonds of around five to 10 years' residual maturity. During 2021/22, the Bank purchased a total of $127 billion of government bonds under the bond purchase program, with AGS comprising 80 per cent of purchases and semis the remaining 20 per cent. The distribution of semis purchased across states and territories was broadly in line with the distribution of debt outstanding. In total, the Bank purchased $281 billion under the bond purchase program. As discussed above, the Board determined that the proceeds of maturing bond holdings will not be reinvested. The Board also stated that it did not currently plan to sell bonds from its portfolio.

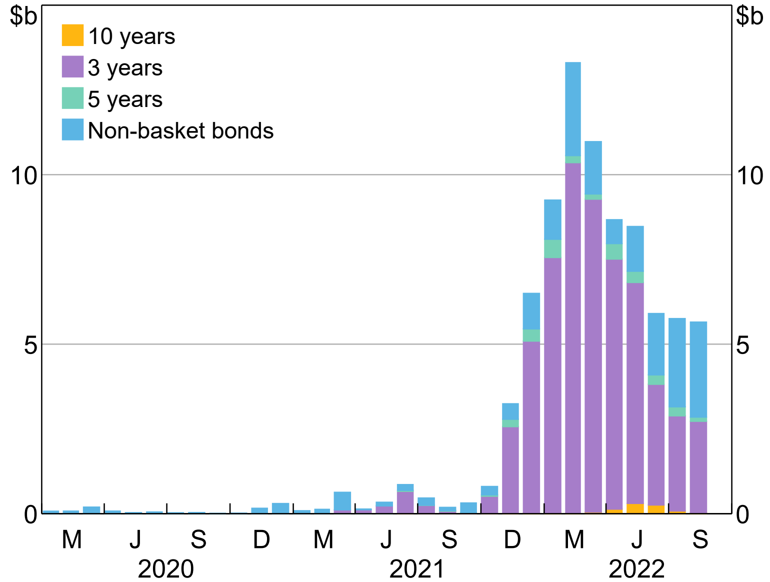
Over recent months, the Bank has undertaken a review of the bond purchase program, with the review to be published on the Bank's website. A high level summary of conclusions from this review are provided in the 'Annual Performance Statement'. As the recovery gathered pace, yields rose, and the Bank recorded significant valuation losses on its bond holdings. This is discussed under 'Balance Sheet' below and in the 'Earnings, Distribution and Capital' chapter.

To aid market functioning, the Reserve Bank is prepared to lend government securities that it owns in response to enquiries from eligible counterparties. The Bank also operates a Securities Lending Facility on behalf of the Australian Office of Financial Management. Between July and October 2021, securities lending activity was broadly similar to the 2020/21 financial year, with an average of around $400 million outstanding. However, activity rose significantly between November 2021 and February 2022, with the daily average of securities lending outstanding reaching $13 billion in February 2022. Since then, securities lending activity has decreased somewhat, but remains high by historical standards.

[1] RBA (2022), 'Review of the Yield Target'.

RBA and AOFM Securities Lending*

Daily average, by futures basket



* Face value.

Source: RBA

The Reserve Bank is also prepared to consider proposals from eligible counterparties to sell semi government bonds that it holds outright in exchange for offsetting (duration-neutral) purchases of other semi government bonds. In 2021/22, the Bank conducted around $12 billion of these switch transactions.

Term Funding Facility

The Reserve Bank had announced the Term Funding Facility (TFF) in March 2020 as part of the policy package to support the Australian economy in the wake of COVID-19. Although closed to new drawdowns since 30 June 2021, the TFF continues to provide funding to banks until the funds drawn down mature or the banks terminate the funding.

During 2021/22, five banks terminated TFF funding totalling $90 million (less than 1 per cent of total drawdowns). In addition to processing terminations, the Reserve Bank managed collateral substitutions and margin calls, and undertook administration related to bank mergers and consolidations. At 30 June 2022, 88 banks had $188 billion of funding outstanding through the facility. TFF funding is scheduled to begin maturing in April 2023, with the largest amounts scheduled to mature in the September quarter 2023 and the June quarter 2024.[2]

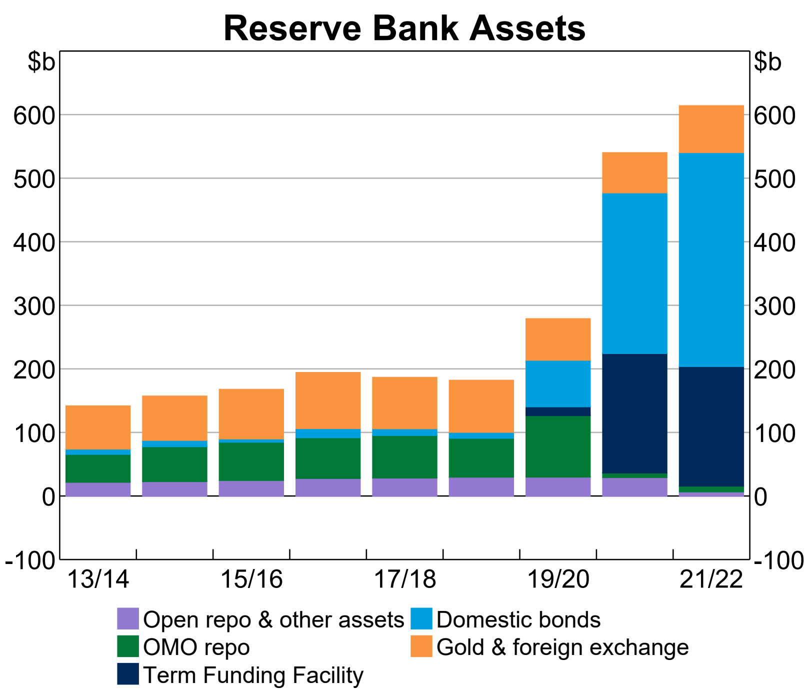
[2] See RBA (2021), 'Box C: Use of the Reserve Bank's Term Funding Facility', Statement on Monetary Policy, August.

Balance sheet

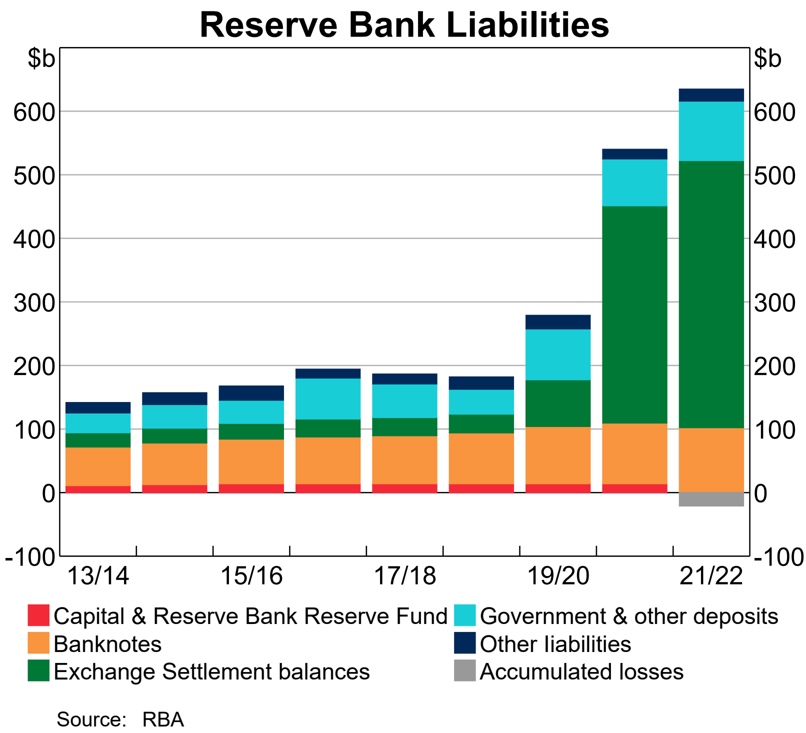
The Reserve Bank's balance sheet more than tripled in size between March 2020 and February 2022 as a result of the extraordinary monetary policy measures that were used to support the Australian economy during the pandemic.

Over the 2021/22 financial year, the balance sheet increased by $74 billion to $614 billion. Growth in assets reflected an increase in the Reserve Bank's government bond holdings, purchased under the bond purchase program. A noticeable decline in open repos reduced the growth of the balance sheet over 2021/22. This occurred because the Reserve Bank removed the requirement for some financial institutions to contract open repos to create liquidity buffers (discussed under 'Standing facilities' below). Growth in liabilities was primarily due to a large increase in ES balances, which resulted from the Bank's bond purchases. Government deposits also increased, as stronger tax revenue and the proceeds from net issuance of AGS exceeded government spending over the period.

The size of the Bank's balance sheet peaked at around $650 billion shortly after the bond purchase program ended in February 2022, but subsequently declined owing to large mark-to-market losses on these bond holdings as bond yields rose. These accounting losses were absorbed by underlying earnings, the unrealised profits reserve and the Reserve Bank Reserve Fund, with the remainder recorded as 'accumulated losses' on the Bank's balance sheet. The 'Earnings, Distribution and Capital' chapter discusses these issues in detail.



Source: RBA



RBA Balance Sheet

$ billion, 30 June

	2021	2022
Assets	540	614
Foreign	63	73
Domestic	477	541
– Outright bond holdings	253	337
– Term Funding Facility	188	188
– OMO repo	7	9
– Open repo & others	29	7
Liabilities	**540**	**614**
Deposits	416	514
– ES balances	342	420
– Government & other	74	94
Banknotes	95	102
Accumulated losses	0	–21
Other	15	18
Capital and Reserve Bank Reserve Fund	14	0

Source: RBA

Standing facilities

Separate from its OMO, the Reserve Bank also provides liquidity via repo through its standing facilities, where eligible counterparties temporarily exchange high-quality collateral for cash with the Reserve Bank. These facilities are designed to support the smooth functioning of the payments system. The most frequently used standing facilities are those for the provision of intraday liquidity to ESA holders, which carry no interest charge. In 2021/22, the Reserve Bank undertook an average of $2 billion per day of intraday repos, compared with an average of $3 billion per day in 2020/21. Occasionally, the Reserve Bank also enters overnight repos where an ESA holder faces a shortage in ES balances that cannot be borrowed from another financial institution; such funding is extended at an interest rate of 25 basis points above the cash rate target. During 2021/22, this facility was used on two occasions.

Open repos are used to provide ESA holders with liquidity to facilitate their payments, particularly those made outside of normal business hours. ESA holders with after-hours payment obligations – such as 'direct-entry' payments and transactions through the New Payments Platform (see chapter on 'Banking and Payment Services') – must hold sufficient ES balances at the close of each business day to settle these payments. Previously, the Reserve Bank required that these minimum ES balances were sourced via open repos. However, in September 2021 the Bank removed this requirement, because many ESA holders had sufficient ES balances from other sources in the current high-liquidity environment. Accordingly, over the 2021/22 financial year open repo positions with the Bank declined from $27 billion to $3 billion.

Committed Liquidity Facility

Banks subject to the Liquidity Coverage Ratio (LCR) under Basel III prudential standards are required to hold sufficient high-quality liquid assets (HQLA) (which, in the Australian context, consist of AGS, semis and ES balances) to meet outflows during a period of stress of 30 days. Historically, the relatively low levels of government debt outstanding in Australia have limited the amount of HQLA securities that banks could reasonably hold. To address this, since 2015 the Reserve Bank has provided some institutions with a contractual commitment to provide repo funding – the Committed Liquidity Facility (CLF) – subject to certain conditions. These conditions include a fee that financial institutions pay on the committed amount. In addition, any bank seeking to use the CLF must have positive net worth. The full terms and conditions of the facility are available on the Bank's website.[3]

The Reserve Bank administers the CLF, while the Australian Prudential Regulation Authority (APRA) determines which banks have access and the amount available (in aggregate and to each bank). Fourteen banks were provided with access to the CLF from July 2021 to January 2022; 13 banks had access in February 2022; and 12 banks had access from March 2022 to June 2022. The available CLF amounts for each of these banks is counted towards their LCR requirements. The aggregate size of the CLF is the difference between APRA's assessment of banks' overall LCR requirements and the Bank's assessment of the amount of HQLA securities that could reasonably be held by the banking system without unduly affecting market functioning. APRA also incorporates its projections of banks' holdings of banknotes and ES balances.

In determining the amount of HQLA securities that LCR banks on aggregate can reasonably be expected to hold, the Reserve Bank takes into account factors such as the total stock of HQLA securities, ES balances,

[3] See RBA (2019), 'Committed Liquidity Facility – Terms and Conditions'; RBA (2019), 'CLF Operational Notes'.

holdings of other market participants and the effect of LCR banks' holdings on the liquidity of HQLA securities in secondary markets. Since early 2020, the stock of AGS and semis outstanding has increased substantially as the federal, state and territory governments have issued bonds to finance the fiscal response to the COVID-19 pandemic. In addition, ES balances have increased owing to the Bank's policy response to the pandemic.

Reflecting the increased availability of HQLA (due to the large bond issuance and the growth in ES balances), the total size of the CLF was reduced to $66 billion by June 2022, down from $139 billion in June 2021. APRA has announced that, subject to financial market conditions, the CLF will be further reduced to zero by the end of 2022.[4]

Eligible securities

The Reserve Bank accepts a range of eligible Australian dollar collateral for its daily market operations, including: securities issued by the Australian Government and the states and territories; securities issued by ADIs and non-bank corporations with an investment-grade credit rating; and asset-backed and other securities with an average credit rating of AAA (for long-term securities) and A-1 (for short-term paper). To protect against a decline in the value of the collateral securities should the Bank's counterparty not meet its repurchase obligations, the Bank requires the value of the securities to exceed the cash-leg of the repo by a specific margin. These margins, which are listed on the Bank's website, are considerably higher for securities that are not issued by governments.[5]

In 2021/22, the Reserve Bank's repo collateral holdings decreased by around $28 billion owing to a large decline in outstanding open repo positions. As discussed above, in September 2021 the Bank relaxed the requirement for some ES account holders to maintain open repo positions. In response, most ES account holders with outstanding open repos decided to significantly reduce their positions or fully unwind them.

Participants in the Reserve Bank's market operations tend to be the fixed-income trading desks of banks and securities firms, as well as bank treasuries. Reflecting this, around half of the securities held by the Bank under repo (excluding those under open repo and the TFF) are government-related obligations.

The Reserve Bank's holdings of domestic securities are held in an account that the Bank maintains in Austraclear, the central securities depository operated by 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 OMO within ASX Collateral, a collateral management service. During 2021/22, 55 per cent of the value of securities the Bank held under repo in OMO was settled within ASX Collateral, up from around 50 per cent in 2020/21. The use of this system reduces the manual processing that would otherwise be required to manage this collateral, including marking it to market and maintaining margins.

Asset-backed securities form a significant share of the securities the Reserve Bank holds as repo collateral under the TFF. Around 90 per cent of the outstanding value of TFF repos is backed by self-securitised RMBS. (Self-securitised RMBS are not eligible as collateral for OMO repos.)

Asset-backed securities – particularly self-securitised RMBS – are also the major asset held as collateral by banks for the CLF (see above). APRA has provided guidance that it would be prudent for banks under the

[4] See APRA (2021), 'APRA Phases Out Reliance on Committed Liquidity Facility', Media Release, 10 September.

[5] See RBA (2020), 'Margin Ratios'.

LCR framework to continue to hold self-securitised RMBS, even after the CLF is reduced to zero, as a contingency for periods of stress. Given the importance of asset-backed securities to the Reserve Bank's operations, the Bank has mandatory reporting requirements for securitisations to remain eligible for repo. In 2021/22, the Bank received around 5,000 data submissions monthly on around 370 asset-backed securities from issuers or their appointed information providers. For eligible RMBS, this covers around 2.5 million underlying individual housing loans with a combined balance of around $730 billion, which is around one-third of the total value of housing loans in Australia. The required data include key information on the structure of the RMBS and the relationships among counterparties within the RMBS structure; the required data also include anonymised information on each of the residential mortgage loans and the underlying collateral backing the RMBS structures.

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

30 June

	2018		2019		2020		2021		2022	
	$ billion	per cent of total	$ billion	per cent of total	$ billion	per cent of total	$ billion	per cent of total	$ billion	per cent of total
AGS	49.9	48	36.5	37	47.4	31	5.6	2	2.8	1
Semis	8.7	8	12.7	13	25.2	16	8.1	3	6.5	3
Supranational	3.6	3	2.8	3	3.4	2	0.7	0	0.9	0
ADI issued	8.1	8	12.9	13	27.8	18	11.2	4	15.9	6
Corporate issued	0.0	0	0.0	0	0.3	0	0.5	0	0.9	0
Asset-backed securities	32.7	32	33.5	34	50.0	32	260.2	91	231.3	89
– Of which: for open repo	32.3	31	32.4	33	32.4	21	31.5	11	0.7	0
– Of which: for TFF	0.0	0	0.0	0	14.7	9	227.8	80	229.1	89
Other	0.6	1	0.4	0	1.1	1	0.2	0	0.1	0
Total	103.7	100	98.8	100	155.2	100	286.3	100	258.4	100
– Of which: for open repo	34.2	33	34.5	35	35.3	23	34.3	12	3.1	1
– Of which: for TFF	0.0	0	0.0	0	17.7	11	244.6	85	246.1	95
– Of which: for OMO	69.5	67	64.3	65	102.2	66	7.4	3	9.2	4

(a) Market value of securities before the application of margins; includes securities held under triparty repurchase agreements.

Source: RBA

Reflecting the Reserve Bank's interest in promoting transparency for investors in asset-backed securities, issuers are also required to make securitisation 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 particular fields where the information poses a potential risk to privacy obligations and provide aggregated data instead. The mandatory reporting requirements allow the Bank (and other investors in RMBS) to analyse in detail the underlying risks in asset-backed securities and to price and manage risk for such securities accurately.

The cash rate

The Reserve Bank is the administrator of the cash rate, which is a significant financial benchmark referenced in overnight indexed swaps and the ASX's 30-day interbank cash rate futures contracts, as well as in securities and transactions requiring a (near) risk-free reference rate (RFR). The cash rate is also known as AONIA ('AUD Overnight Index Average'). As the RFR for the Australian dollar, it forms the basis of the fallback to BBSW (calculated as AONIA plus a spread) under International Swaps and Derivatives Association (ISDA) definitions published in 2020.[6] These definitions were developed in the context of global benchmark reforms, which have included identifying alternatives to credit-based rates for use in securities and transactions.[7] The 'Cash Rate Procedures Manual' sets out the Bank's arrangements for administering the cash rate and the procedures for handling errors and complaints.[8]

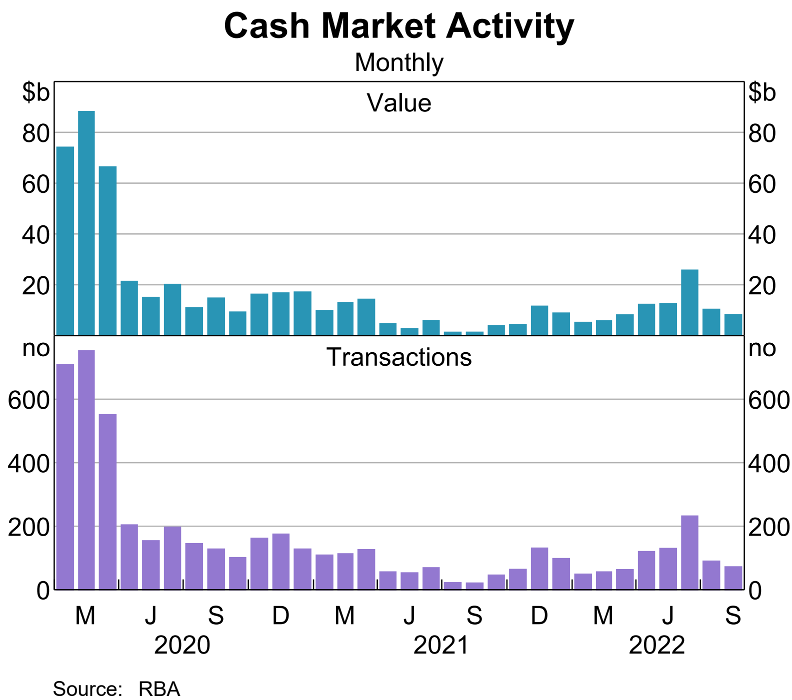
As discussed above, activity in the cash market over 2021/22 remained lower than prior to the pandemic owing to the high level of ES balances. Consequently, on around 70 per cent of days activity was below the thresholds required to calculate the cash rate based on market transactions. In accordance with the published fallback procedures, the published cash rate on these days was the last cash rate published based on sufficient transactions (173 occasions), or another rate that reflected the interest rate relevant to unsecured overnight funds for cash market participants as determined by the cash rate administrator, in its expert judgement and based on market conditions (one occasion). Activity in the cash market increased in the June quarter of 2022, such that fallback procedures were required only around 25 per cent of the time.

The cash rate remained between the cash rate target and the interest rate on ES balances during 2021/22. Until mid-November 2021, the cash rate was 3 basis points compared with a target of 10 basis points. The cash rate gradually increased in subsequent months to 6 basis points, despite no change in the cash rate target or interest rate on ES balances. Between May and September 2022, the cash rate increased in line with the increases in the cash rate target and the interest rate on ES balances, such that the cash rate generally remained around 6 basis points above the interest rate on ES balances and 4 basis points below the cash rate target. The cash rate trading between the target and the interest rate on ES balances was an expected consequence of large ES balances. This is consistent with the experience of other central banks that have pursued programs that significantly increased cash reserves in the banking system.

[6] See ISDA (2020), 'Amendments to the 2006 ISDA Definitions to Include New IBOR Fallbacks', 23 October.

[7] See chapter on 'International Financial Cooperation' for details of the Financial Stability Board's work on reforming interest rate benchmarks globally.

[8] See RBA (2022), 'Cash Rate Procedures Manual'.



Foreign exchange operations

The Reserve Bank transacts in the foreign exchange market on almost every business day. The majority of these transactions are associated with providing foreign exchange services to the Bank's clients, the most significant of which is the Australian Government.

The Reserve Bank typically purchases the necessary foreign currency in the spot market. During 2021/22, the Bank bought A$15 billion in the spot market to facilitate its customer business. However, the Bank retains the option – especially during periods of market stress – to 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, at which time global financial market functioning was significantly impaired. Similarly, the Bank has not intervened in the foreign exchange market since 2008. The Bank nevertheless retains the discretion to intervene in the foreign exchange market to address any dysfunction and/or a significant misalignment in the value of the Australian dollar. At the time each Annual Report is published, intervention data for the year under review are published on the Bank's website.[9] During 2021/22, the Bank's assessment was that trading conditions in the market were sufficiently orderly that it was not necessary to support liquidity in the market through its own transactions.

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 tightly managed against a benchmark. To maintain the portfolio at these benchmark weights, or to accommodate discrete changes in the weights, the Bank transacts in spot foreign exchange markets. The

[9] See RBA, 'Statistical Table A5: Daily Foreign Exchange Market Intervention Transactions'.

final settlement of these rebalancing flows may be deferred for a short period of time 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 within the reserves portfolio. During 2021/22, the Bank generally maintained around A$25 billion in swaps for these purposes.

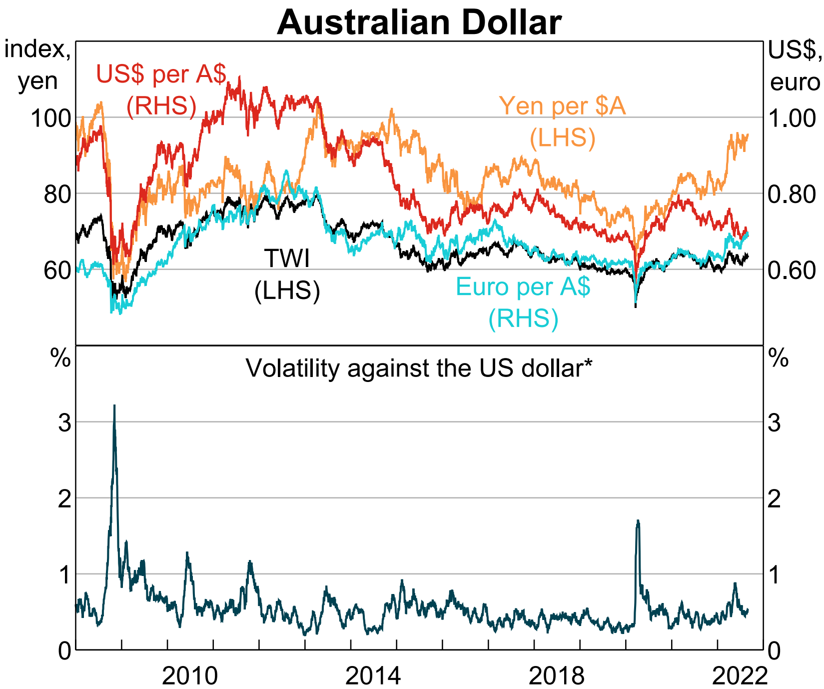
The Bank also executes long-term foreign exchange swaps against Australian dollars for terms of up to five years. As discussed below, these longer term transactions are used to obtain foreign currency to meet Australia's commitments as a member of the International Monetary Fund (IMF), such as providing foreign currency to the IMF to support its lending activities.[10] These swaps do not affect the exchange rate. The Bank had A$8.6 billion in long-term swaps outstanding at the end of June 2022.

The Bank's forward foreign exchange positions with each of its counterparties are marked to market daily and collateral is held against net exposures. The terms under which collateral is exchanged are defined in two-way credit support annexes to the ISDA Master Agreements that the Bank has executed with each of its counterparties (see chapter on 'Risk Management').

The Reserve Bank's activities in the foreign exchange market are conducted in a manner consistent with the principles of the FX Global Code. Following revisions to the Code, a renewed 'Statement of Commitment to the FX Global Code' was signed on behalf of the Bank in December 2021.[11] The Bank only transacts in the foreign exchange market with counterparties that have also signalled their adherence to the updated Code by renewing their Statement of Commitment.

[10] See Kent C (2021), 'FX Markets Around the Turn of the Year', Speech to the Australian Corporate Treasury Association FX Roundtable, Webinar, 17 February.

[11] See RBA (2021), 'Statement of Commitment to the FX Global Code', 8 December.



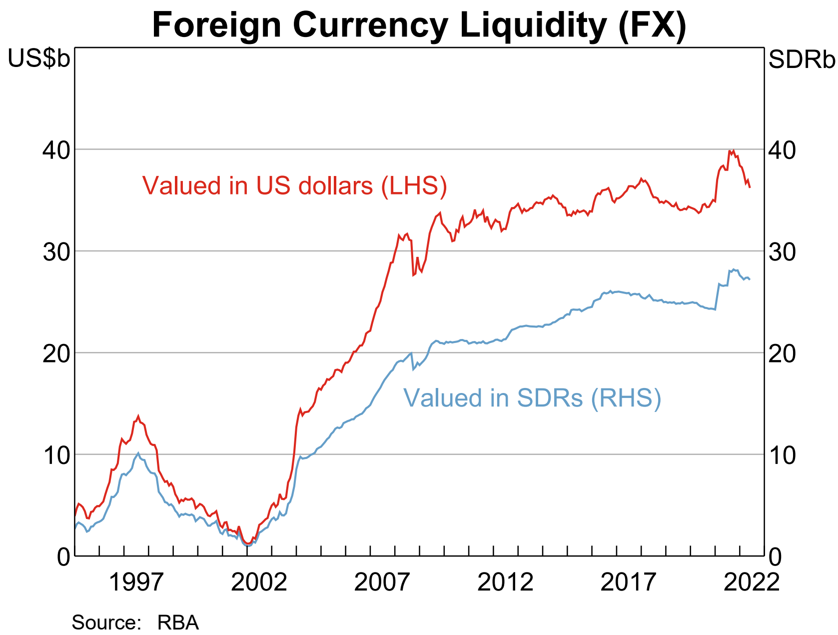
* Daily absolute percentage change, 22-day rolling average.
Sources: RBA; Refinitiv

Reserves management

Australia's official reserve assets include foreign currency assets, gold, Special Drawing Rights (SDRs) (an international reserve asset created by the IMF) and Australia's reserve position in the IMF. At 30 June 2022, these assets totalled A$79.9 billion. Most of these assets are owned and managed by the Reserve Bank. The Australian Government owns Australia's reserve position in the IMF and the bulk of Australia's SDR holdings.

Official reserve assets are held by the Reserve Bank to facilitate various policy operations, including in the foreign exchange market (described above) and to assist the Australian Government in meeting its commitments to the IMF. One gauge of the Bank's capacity to undertake such operations is measured by the Bank's foreign currency assets net of any short-term forward commitments (such as an obligation to deliver foreign currency on the maturity of a swap against Australian dollars). As at 30 June 2022, these assets – referred to as 'foreign currency liquidity (FX)' – were SDR27.2 billion or US$36.2 billion. In US dollar terms, foreign currency liquidity (FX) decreased by US$1.8 billion from 30 June 2021. The reduction reflected valuation effects because the US dollar appreciated against other reserve currencies over this period. This more than offset the small addition to liquidity from further purchases of foreign currency under long-term swaps.

The foreign assets held by the Reserve Bank can expose it to market, liquidity and credit risk, which the Bank seeks to mitigate where possible – for example, by holding a diversified portfolio and investing only in assets of high credit quality and appropriate liquidity (see chapter on 'Risk Management').



Foreign Assets

30 June 2022

	A$m
Official reserve assets	
Foreign currency	50,003
Gold	6,262
SDRs	18,580
Reserve position in the IMF	3,704
Other reserve assets	1,392
Other foreign currency assets	291
Net forward foreign currency commitments: Short-term	
Foreign currency	1,260
Gold loans and swaps	510
Net forward foreign currency commitments: Long-term	–6,351
Memo item:	
Foreign currency liquidity (FX)[(a)]	*52,540*

(a) Foreign currency liquidity (FX) includes foreign currency holdings and other foreign currency assets, net of short-term foreign currency forward commitments (commitments with less than 12 months to maturity).

Source: RBA

Net of forward commitments against the Australian dollar, the composition of the Reserve Bank's foreign currency reserve holdings is managed against an internally constructed benchmark that reflects the Bank's need to maintain effective intervention capacity. Subject to this constraint and the Bank's overall risk tolerance, the benchmark is assessed to be the combination of foreign currencies and foreign currency assets that maximises the Bank's expected returns over the long run.

The structure of the benchmark is reviewed periodically and in response to significant changes in market conditions. The existing structure of the benchmark portfolio was most recently assessed as remaining suitable for the Reserve Bank's needs. Within the portfolio, the largest allocation is to the US dollar (55 per cent), reflecting the significant liquidity in US dollar currency and asset markets.

Given the low level of global interest rates in recent years, duration targets have been set to be relatively short for most of the foreign currency portfolios. This has limited any capital losses associated with increasing global yields during 2021/22.

Investments in the benchmark currencies are limited to deposits at official institutions (such as central banks) and debt instruments issued (or guaranteed) by sovereign entities, central banks and supranational agencies. Debt instruments issued by quasi-sovereign entities can also be accepted as collateral under reverse repos.

Sovereign credit exposures are currently limited to the United States, Germany, France, the Netherlands, Japan, Canada, China, the United Kingdom and South Korea.

Benchmark Foreign Currency Portfolio

30 June 2022

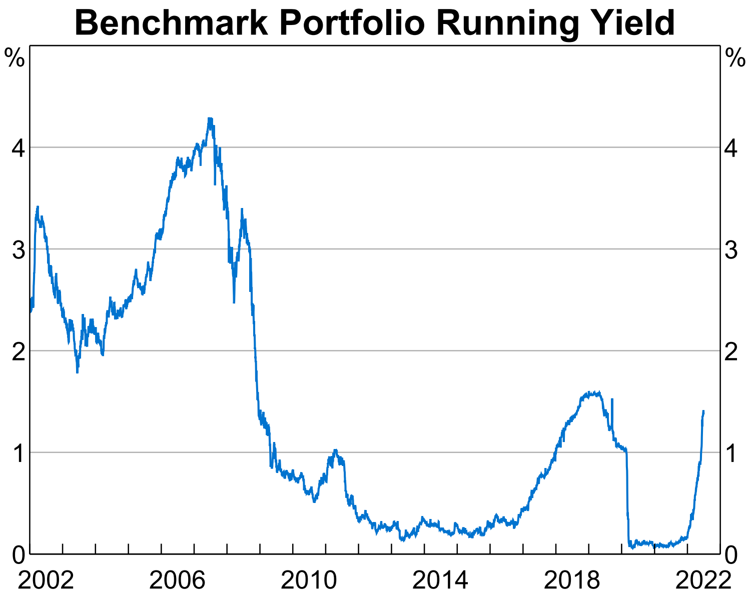
	US dollar	Euro	Japanese yen	Canadian dollar	Chinese renminbi	UK pound sterling	South Korean won
Currency allocation (per cent of total)	55	20	5	5	5	5	5
Duration (months)	6	6	<3	6	18	3	18

Source: RBA

As has been the case for some years, when the cost of hedging currency risk is taken into account, yields on short-dated Japanese and South Korean investments have generally exceeded those available in the other currencies in the Reserve Bank's portfolio. Reflecting this, the Bank has swapped other currencies in its foreign exchange reserves portfolio against the Japanese yen and South Korean won to enhance returns. As a consequence, while the Bank's exposure to changes in the value of the yen and won remains small (allocations in the benchmark to each of these currencies were A$2.3 billion), an additional A$23.8 billion of yen and A$1.1 billion of won was held at the end of June 2022 as a result of swaps against other foreign currencies in the portfolio.

A small component of the Reserve Bank's foreign currency risk is managed outside the benchmark framework. The Bank invests in a number of Asian debt markets through participation in the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) Asian Bond Fund Initiative. This initiative was established following the Asian currency crisis in the late 1990s to assist in the development of bond markets in the region. At the end of June 2022, the total allocation of the Bank's reserves to these funds was A$712 million. In SDR terms, there was a return of –3.5 per cent on these investments over the year to June 2022, reflecting the depreciation of Asian currencies and capital losses on Asian government bonds as yields rose.

Measured in SDRs, the overall return on the Reserve Bank's foreign currency assets over 2021/22 was 1.9 per cent. This was higher than returns observed in 2020/21 and reflected gains due to exchange rate movements that offset capital losses as yields rose on longer term securities. The average running yield on the benchmark portfolio increased from 0.1 per cent to 1.4 per cent over 2021/22, reflecting increases in yields across most individual currency portfolios.



Source: RBA

The Reserve Bank's holdings of SDRs at 30 June 2022 amounted to A$6.4 billion – A$0.9 billion higher than the previous year – mainly reflecting net purchases of SDRs over the year. 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 will typically replenish foreign currency sold in exchange for SDRs by purchasing foreign currency in long-term swaps against Australian dollars. At 30 June 2022, the Australian Government's holdings of SDRs amounted to A$12.2 billion.

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 30 June 2022, Australia's reserve position in the IMF was A$3.7 billion – A$0.3 billion larger than a year earlier – reflecting the provision of more foreign currency to the IMF. As noted above, Australia's reserve position in the IMF is not held on the 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. As with SDR transactions, the Bank will typically replenish the foreign currency sold to the Treasury by purchasing foreign currency in long-term swaps against Australian dollars.

Foreign Currency Assets[(a)]

A$ million, 30 June 2022

					Forward FX commitments[(c)]			
Currency	**Securities held outright**	**Securities lent under repurchase agreements**	**Deposits at official institutions[(b)]**	**Total (gross)**	Against A$	Against other currencies	Other	**Total (net)**
US dollar	15,633	−2,610	892	13,915	−9,543	17,700	2,828	24,900
Euro	2,625	−1,044	1,271	2,851	−46	5,402	1,044	9,252
Japanese yen	14,719	–	11,291	26,010	–	−23,793	–	2,217
Canadian dollar	1,045	–	4	1,049	−1	1,252	–	2,300
Chinese renminbi	1,618	–	703	2,321	–	–	–	2,321
UK pound sterling	506	–	6	512	−118	1,803	–	2,197
South Korean won	3,331	–	15	3,345	–	−1,062	–	2,283
Total	39,477	−3,654	14,182	50,003	−9,708	1,303	3,872	45,470

(a) Excludes gold, SDRs, the reserve position in the IMF, investments in the Asian Bond Fund, balances with overseas banks, futures margins and non-reserve currency holdings.

(b) Includes deposits at foreign central banks and the Bank for International Settlements.

(c) In accordance with IMF guidelines, 'forward commitments' reflect notional values of unsettled spot and forward transactions, converted to Australian dollars at the prevailing forward exchange rate. Other forward commitments largely reflect cash lent under repurchase agreements. This excludes forward commitments for non-reserve currencies and gold on loan.

Source: RBA

Gold holdings (including gold on loan) at the end of June 2022 were around 80 tonnes, unchanged since 1997. Gold prices increased by 11.9 per cent in Australian dollar terms over 2021/22, increasing the value of the Reserve Bank's holdings of gold by around A$0.7 billion to A$6.8 billion. The Bank also seeks to earn income on its holdings by lending gold. Any gold lending by the Bank has the benefit of a government guarantee on the borrower's payment obligations to the Bank or is structured as a gold swap, such that the loan is fully collateralised by cash (either foreign currency or Australian dollars). Returns from these activities totalled A$0.7 million in 2021/22, lower than the previous financial year. The lower returns were mostly due to decreased activity. As at 30 June 2022, the Bank had outstanding gold loans amounting to 6 tonnes. Gold that has not been lent is held by the Bank in an allocated account at the Bank of England and comprises bars that meet the London Bullion Market Association's 'Good Delivery' standards. The Bank's gold holdings at the Bank of England were verified by a Reserve Bank Audit conducted in April 2022.[12] All gold bars selected were satisfactorily verified with no discrepancies or inconsistencies identified during the weighing checks. The Bank's activities in the gold market are conducted in a manner consistent with the principles of the Global Precious Metals Code, and a 'Statement of Commitment to the Global Precious Metals Code' has been signed on behalf of the Bank.[13]

[12] See RBA (2022), 'Gold Audit Summary Report', June.

[13] See RBA (2019), 'Statement of Commitment to the Global Precious Metals Code', 27 September.

Bilateral currency swaps

The Reserve Bank has bilateral local currency swap agreements with the People's Bank of China, the Bank of Japan, the Bank of Korea and Bank Indonesia. 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. Over the past year, the agreements with the Bank of Japan and Bank Indonesia were both renewed for a further three years. ✠

RBA Bilateral Local Currency Swap Agreements
September 2022

	Expiry	Size (A$ billion)
People's Bank of China	July 2026	41
Bank of Japan	March 2025	20
Bank of Korea	February 2023	12
Bank Indonesia	February 2025	10

Source: RBA

Banking and Payment Services

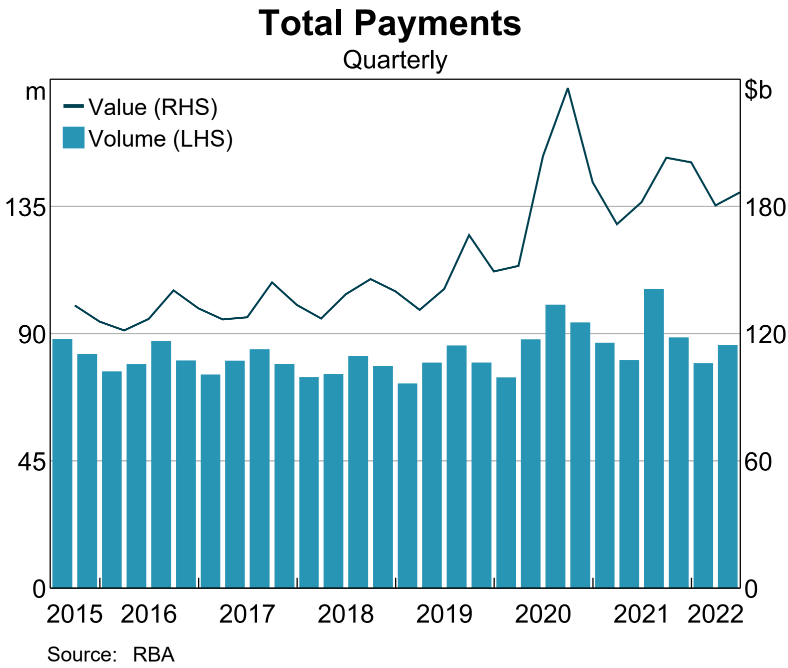
The Reserve Bank provides banking and payment services to meet the needs of the Australian Government and to support an efficient and stable Australian financial system. These services support the government's measures to provide financial assistance to Australian households and businesses, including during the COVID-19 pandemic and natural disasters, by ensuring that payments are processed quickly and reliably. In addition to operating Australia's real-time gross settlement (RTGS) system, the Bank operates national infrastructure to support the settlement of real-time payments by households and businesses on a 24/7 basis. These services provide the Australian Government with access to 24/7 payment capabilities, and are consistent with the Bank's strategic goal of providing innovative, high-quality banking and payment services to the Australian Government, its agencies and, in turn, the Australian public.

Transactional banking services

The provision of transactional banking services to the government is consistent with the Reserve Bank's responsibilities under the *Reserve Bank Act 1959*, which requires the Bank, insofar as the government requires, to act as the Commonwealth's banker and financial agent. The Bank aims to deliver secure, reliable, cost-effective banking and payment services to the Australian Government and its agencies. These services enable the government, through its agencies, to make payments and collect revenue. A large proportion of government payments are made by Services Australia and relate to welfare and age pension payments. The Bank recognises the importance of these critical payment services and resources them accordingly.

During 2021/22, the Reserve Bank retained its existing customer base and on-boarded a number of new customers. Currently, the Bank provides transactional banking services to more than 100 Australian Government agencies.

The Reserve Bank provides a broad range of payment and collection services to its customers. The majority of payments processed by the Bank are delivered using low-value, cost-effective, direct entry systems, both domestically and overseas. Other payment methods offered and utilised by our customers during the reporting period included the New Payments Platform (NPP), RTGS, cheque and BPAY. For the collection of government revenue, payments were received by BPAY, card (either over the phone or via an online service), cheque, eftpos and, to a lesser extent, cash.



The Reserve Bank distributed an above-average volume of payments in 2021/22, comprised of around 357.9 million domestic and 1.1 million international payments, totalling $753.2 billion and $17.6 billion, respectively.

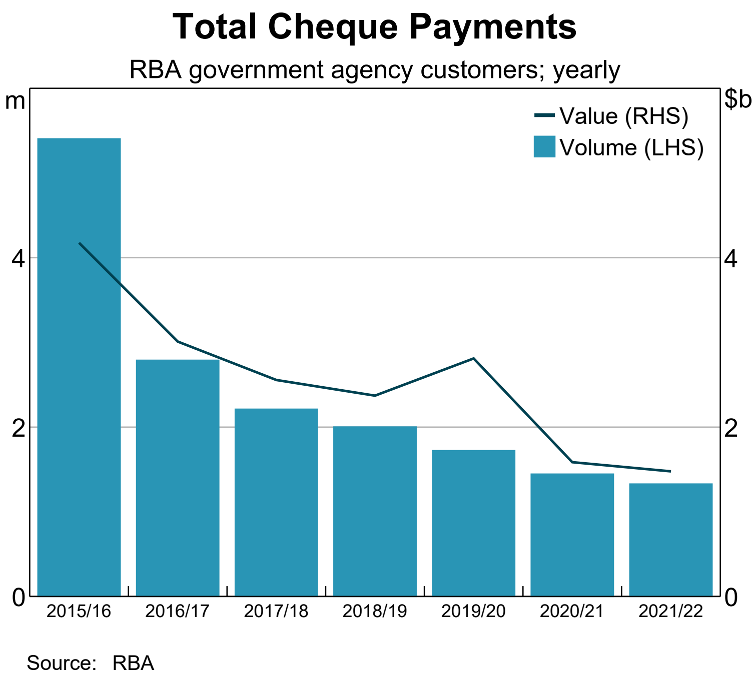
The increase in payment volume mostly related to the delivery of Emergency Welfare Payments and Disaster Recovery Payments made by Services Australia to households and businesses affected by the COVID-19 pandemic and other emergencies, such as the major flooding events on Australia's east coast in early 2022. The majority (96 per cent) of these support payments were made using the NPP. On Sunday, 15 August 2021, an unprecedented number of almost 700,000 COVID-19 support payments were processed and received by Australians. The capability to significantly upscale the delivery of near real-time NPP payments is built on work undertaken in previous years by the Reserve Bank and Services Australia to ensure the timely delivery of Disaster Recovery Payments. Overall, more than 60 per cent of NPP payments were made outside of normal business hours (i.e. after-hours or on weekends), allowing delivery of payments to recipients irrespective of the time or day. The delivery of COVID-19 and flood-related Disaster Recovery Payments via the NPP resulted in a significant increase in the total number of payments made by the Bank via the NPP; volumes were more than 20 times higher in 2021/22 compared with the previous year.

In addition to processing payments, the Reserve Bank provides Australian Government agencies such as the Australian Taxation Office with a number of services through which they can collect money owed from both domestic and international payers. The easing of restrictions on activity related to the COVID-19 pandemic saw an overall increase in government collections throughout 2021/22. Collection volumes were variable over the course of the year because of differing levels of COVID-19 restrictions throughout Australia. Overall, the Bank processed 44.6 million collections-related transactions for the Australian Government in 2021/22, amounting to $769.8 billion. Card-based payments are a popular and convenient method by which individuals and businesses pay their debt obligations to government agencies. As part of the Bank's commitment to providing cost-effective collection methods and to ensure the government's options for collecting revenue meet the needs of today's users, the Bank has prepared for a renewal of its third-party supply arrangements for card acquiring and payment gateway services. The Bank's current arrangements have been in place for a number of years and, given ongoing technological change and industry consolidation, the Bank is looking to enhance its current service offerings.

The nature of transactional banking services offered by the Reserve Bank is continually evolving alongside changes in payments technology and business processes. The Bank continues to support its government customers in the transition away from less efficient and more costly services (e.g. cheques) to newer technologies and processes. The Bank also continues to work with industry in preparation for significant changes in the payment landscape. Bank staff contribute to industry discussions, representing the interests of government as a significant user of payment services.

During 2021/22, the Reserve Bank contributed to the ongoing industry discussions and consultation processes to plan for the future closure of the Bulk Electronic Clearing System (BECS), which is used for the delivery of direct entry payments. Notwithstanding new payment alternatives such as the NPP, which provides 24/7 real-time delivery of data-rich payments, the Bank is mindful that the significant payment volumes of the Australian Government require careful engagement of BECS end-users to ensure ongoing security, reliability and cost-effectiveness of payment services.

The Reserve Bank has continued to work with its customers to reduce their usage of cheques, substituting more efficient and cost-effective means of payment. In line with industry trends, the annual cheque payment volume for government customers fell by a further 8.1 per cent in 2021/22. The Australian Government accounted for less than 5 per cent of all cheques issued in Australia in 2021/22.



In 2021/22, the Reserve Bank commenced implementation of PayTo services. PayTo is an industry-wide initiative being built in conjunction with the New Payments Platform Australia (NPPA), using the NPP infrastructure. PayTo will allow households and businesses to authorise third parties to initiate NPP payments from their accounts. Over time, PayTo is expected to replace the direct debit system; it will address many of the limitations of the current system by allowing for real-time receipting of payments as well as greater visibility and portability of agreements for all parties. The first phase of PayTo services – PayTo Payer – has been implemented by the Bank and will enable the Bank's government customers to enter into payment agreements with their creditors. The Bank will work with its customers in 2022/23 to assess requirements and commence the build of PayTo Payee services. Once complete, the Bank's government customers will be able to use this method to request payments from debtors.

Pro forma business accounts

The Reserve Bank's transactional banking services are subject to the Australian Government's competitive neutrality guidelines. The Bank delivers these services in competition with commercial financial institutions, including bidding for business at tenders. The Bank must cost and price the services separately from its other activities and meet a prescribed minimum rate of return. The Bank achieved its competitive neutrality target rate of return in 2021/22.

The following sets of pro forma business accounts for the Reserve Bank's contestable businesses have been prepared in accordance with competitive neutrality guidelines. These accounts do not form part of the audited financial statements.

After-tax earnings from the Reserve Bank's transactional banking services were $4.7 million in 2021/22, $1.1 million higher than in the previous year.

Transactional Banking

$ million

	2021/22	2020/21
Revenue		
– Service fees	108.1	95.0
– Other revenue	1.6	0.5
Total	109.7	95.5
Expenditure		
– Direct costs	102.8	90.7
– Indirect costs	0.0	0.0
Total	102.8	90.7
Net profit/(loss)	6.9	4.8
Net profit/(loss) after taxes[a]	4.7	3.6
Assets[b]		
– Domestic markets investments	2,739.2	4,205.1
– Other assets	21.6	25.2
Total	2,760.8	4,230.3
Liabilities[b]		
– Capital & reserves	25.0	25.0
– Deposits	2,717.5	4,188.3

	2021/22	2020/21
– Other liabilities	18.3	17.0
Total	2,760.8	4,230.3

(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 2021.

Source: RBA

Central banking services

As part of its central banking services the Reserve Bank provides to the Australian Government, the Bank manages the overnight consolidation of Australian Government agency account balances. This requires the movement of agency account balances, held with commercial financial institutions and with the Reserve Bank, into the Official Public Account (OPA). Daily payment instructions from the Department of Finance are processed to move funds from the OPA to agency bank accounts to meet their payment obligations.

While the Reserve Bank manages the consolidation of the government's accounts, the Australian Office of Financial Management (AOFM) has responsibility for ensuring that there are sufficient cash balances to meet the government's day-to-day spending commitments and for investing excess funds in approved investments. A cash management account offered by the Bank assists the AOFM in this regard. The Bank also provides a very limited short-term overdraft facility to cater for occasions when there is unexpected demand for government cash balances. This overdraft facility is used infrequently and was not used during the reporting period.

The Reserve Bank also provides banking services to overseas central banks and registry services to supranational organisations issuing Australian dollar-denominated securities. Eight organisations currently use registry services, with this number having been relatively steady over recent years.

Settlement services

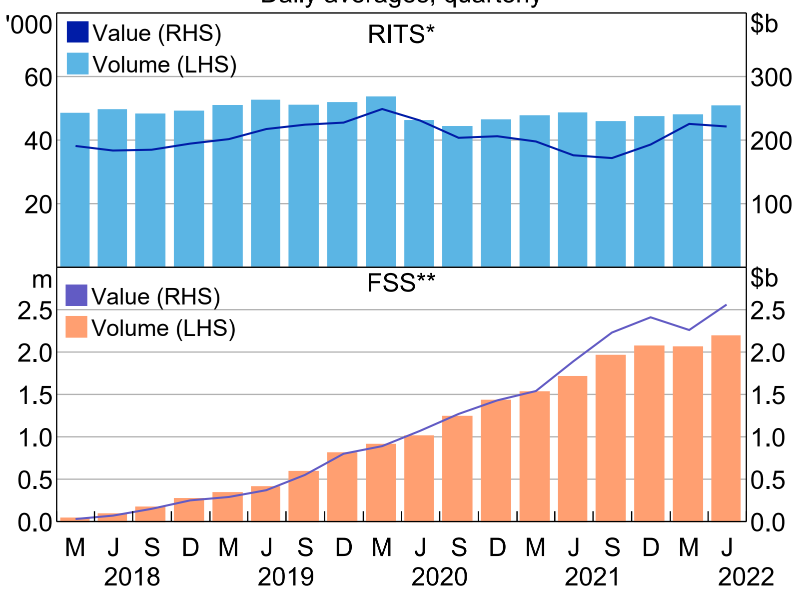
Australia's interbank settlement system, the Reserve Bank Information and Transfer System (RITS), is owned and operated by the Reserve Bank. This system performs final and irrevocable settlement of payment obligations between financial institutions, which arise from non-cash transactions including card transactions, direct entry ('pay anyone') payments, cheques and high-value payments. Obligations are settled through the debiting and crediting of Exchange Settlement Accounts (ESAs), which are at-call accounts held at the Reserve Bank on behalf of RITS member institutions.

RITS settles most high-value transactions individually on a real-time gross settlement (RTGS) basis. These 'wholesale' transactions include customer, corporate and institutional payments, wholesale debt market transactions and the Australian dollar leg of foreign exchange transactions. In 2021/22, RITS settled an average 48,000 of these transactions worth $202 billion per day. Transaction value has recovered strongly following a period of subdued activity relating to the COVID-19 pandemic, increasing by around 24 per cent over the past 12 months to be around $227 billion per day as at June 2022. Transaction volumes have also recovered to around pre-COVID-19 levels over the same period.

RITS also provides the Fast Settlement Service (FSS), a RTGS service to support the NPP. The FSS typically settles lower value payments in real-time on a 24/7 basis. Payments can be identified using unique identifiers (PayIDs), such as phone numbers, ABNs and email addresses, in addition to traditional account and BSB numbers. Compared with the previous financial year, transaction volumes grew by around 40 per cent and values by around 54 per cent, reaching an average of 2.2 million transactions worth $2.6 billion per day in the June quarter. Transaction values declined briefly in early 2022 largely reflecting seasonal effects, but then recovered strongly in the June quarter. Growth in transaction volumes, while still strong, appears to have slowed slightly in the past year, and may be a reflection of most transaction accounts now being reachable by the NPP. Future transaction volume growth is likely to be driven by: a managed migration from other clearing systems; new functionality such as PayTo, which allows households and businesses to authorise third parties to initiate NPP payments from their accounts; or new uses for the NPP. For example, financial technology (fintech) firms are a growing source of transactions in FSS, and now process around 2 per cent of transaction volume, up from 0.01 per cent in 2019.

Real-time Gross Settlement

Daily averages, quarterly



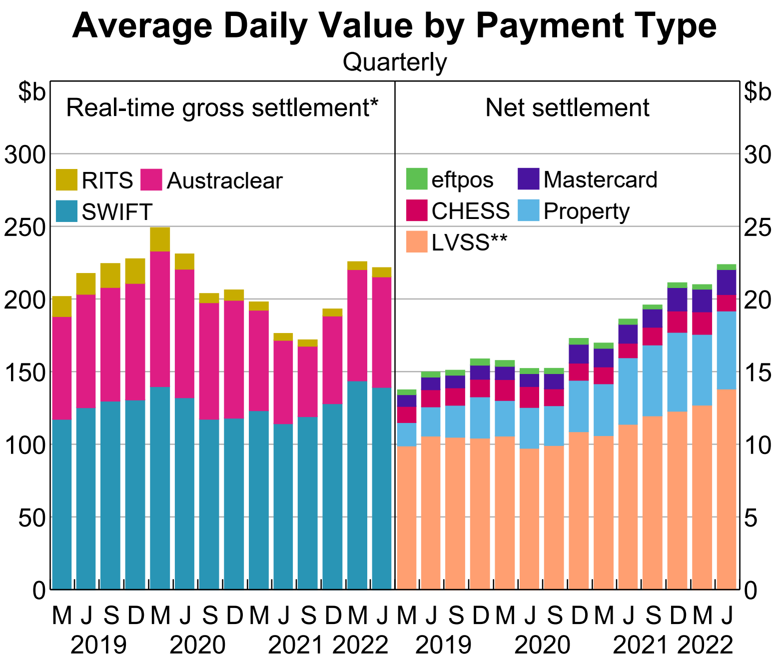
* Excluding FSS transactions.

** Excluding intrabank transactions.

Source: RBA

While FSS transaction volumes have grown rapidly in recent years, the majority of low-value payments continue to be settled on a net deferred basis in RITS via the RITS Low Value Settlement Service (LVSS). The LVSS collates interbank obligations, which arise from cheques, some debit and credit cards, BPAY, ATMs and direct entry payments that have not yet migrated to the NPP. RITS settles these obligations in five intraday settlement runs or at 9:00 am on the next business day. LVSS net settlements totalled $12.7 billion per day in 2021/22, up around 19 per cent compared with the previous financial year. Net LVSS transaction values grew strongly in 2021/22 as a result of growth in underlying transactions and some loss of netting efficiency as the composition of transactions in the different settlement runs changed.

RITS also settles obligations submitted by external batch administrators on a net settlement basis. The batch administrators are external entities that net electronic transactions from upstream business operators and then submit a 'batch' to RITS for simultaneous settlement. These batch arrangements settle obligations arising from eftpos and Mastercard payments, equities transactions processed by the ASX Clearing House Electronic Sub-register System (CHESS), and electronic property settlement transactions processed by Property Exchange Australia (PEXA) and Sympli Australia. Growth in property settlements in RITS has been strong in recent years as electronic conveyancing ('eConveyancing') replaces traditional paper-based methods of completing property transactions. Net value settled in the two property batches has grown by approximately 43 per cent compared with the previous financial year, reaching an average of around $5.4 billion per day in the June quarter 2022.



* Excluding FSS transactions.

** RITS Low Value Settlement Service, including cheque, direct entry, ATM and Visa settlements.

Source: RBA

Given its critical role in the Australian financial system, the Reserve Bank continually works to ensure that RITS remains secure, resilient and fit for purpose. The Bank has recently completed work to establish a third-site data bunker, helping to minimise the risk of data loss or corruption in the case of a major disruption to the Bank's settlement systems. Also, following a successful multi-year refresh of the RITS core infrastructure, the Bank has commenced work on a refresh of infrastructure supporting the FSS. The detailed design for this was completed in early 2022 and the build of new infrastructure is underway, with a production target date of mid-2023.

The Bank continues to support the industry-wide program for the migration of AusPayNet's High Value Clearing System to the ISO 20022 messaging standard – a modern and open messaging standard that encourages payments innovation through richer data and better interoperability. The program is currently in the testing phase, with the industry due to start migrating to the ISO 20022 messaging standard in November 2022. Complete migration to the new standard is due in November 2024. For the Bank, the project involves upgrading back-office payments processing systems and migrating messages currently used by RITS onto the ISO 20022 messaging standard.

The Bank has continued its engagement in international payments initiatives, facilitating the Financial Stability Board's updated cross-border payments roadmap through participation in various working groups discussing the linkage of domestic fast payment systems. This international initiative aims to address the cost, speed, transparency and access issues that characterise existing cross-border payment arrangements.

The Reserve Bank's Payments Policy Department performs an annual assessment of RITS against the Principles for Financial Market Infrastructure, which are international standards set by the Committee on Payments and Market Infrastructures and the Technical Committee of the International Organization of Securities Commissions. The 2022 assessment found that RITS observes all principles except for operational risk, which is 'broadly observed'. In order to have operational risk as an 'observed' principle, the Bank needs to complete work currently underway to implement revised metrics to measure the operational resilience and stability of IT systems supporting RITS. These metrics will facilitate an assessment of whether initiatives implemented through the Bank's Technology Stability Improvement Program have delivered the outcome of reducing risks to the stability of RITS. The participant-default risk principle has returned to being 'observed' from 'broadly observed' in the 2021 assessment, as the Bank completed work on its framework for making decisions to suspend or terminate RITS members. A key area of oversight focus in 2022 will be monitoring the impact of staff resourcing challenges on RITS and how operational risks associated with staff turnover and difficulty in recruiting staff with the appropriate skills in the current tight labour market are identified and mitigated.

Staffing arrangements have also been a focus as the Bank continued to adjust its mix of work-from-home and on-site staff for critical operations in response to the changing pandemic situation. Following a rollback of government pandemic restrictions in early 2022, the Bank has returned to more normal working arrangements for the operation of RITS.

The Reserve Bank has availability targets of 99.95 per cent for RITS and 99.995 per cent for FSS. In 2021/22, RITS availability exceeded target with an uptime of 99.985 per cent. FSS availability was below target at 99.990 per cent, due to an incident that occurred in April 2022.

In 2021/22, three new institutions were approved as RITS members and five members resigned, bringing the total number of RITS members to 165, of which 101 hold ESAs. Of these, 93 members are authorised deposit-taking institutions. Members without ESAs hold RITS membership in order to participate in the Reserve Bank's open market operations or administer batches in RITS.

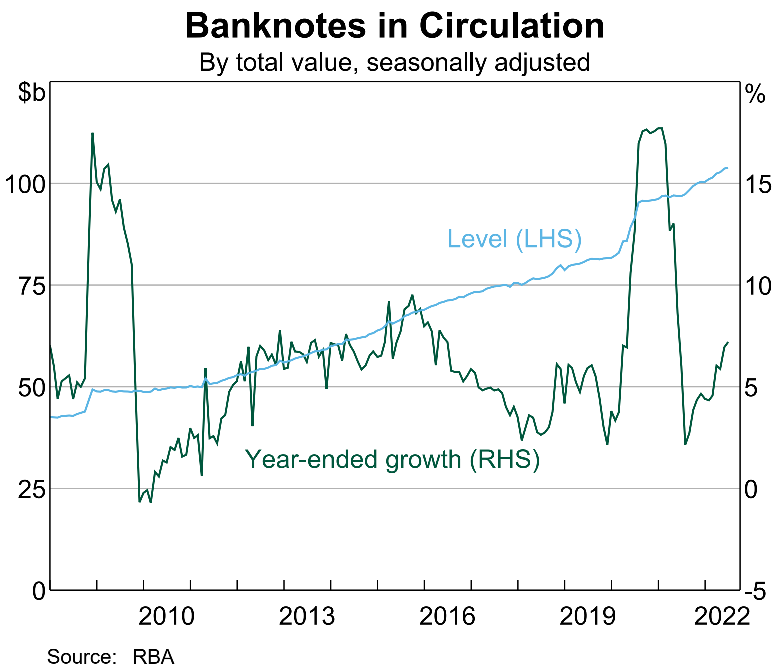
The Reserve Bank offers correspondent banking services to other central banks and official institutions overseas to allow for settlement of certain Australian dollar payments; it also provides safe custody services to these overseas agencies. The face value of securities held in custody by the Bank in this capacity was around $107 billion at the end of June 2022. The Bank also provides settlement services for banknote lodgements and withdrawals by commercial banks.

Banknotes

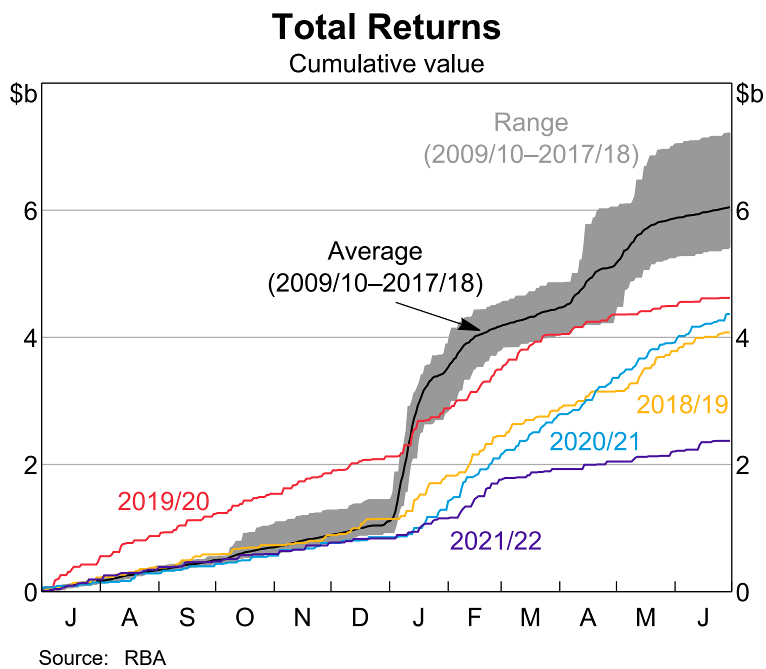
The Reserve Bank is responsible for producing and issuing Australia's banknotes. In this role, the Bank ensures that banknotes in circulation are of high quality and that the threat of counterfeiting is low. In late 2021, the Bank announced it was conducting a review of banknote distribution arrangements to determine what changes may be required to ensure that distribution is effective, efficient, sustainable and resilient – both now and into the future.

Circulation

The value of banknotes in circulation reached $102.3 billion at the end of June 2022, equivalent to around 4½ per cent of nominal GDP. Growth over 2021/22 was 7.2 per cent, marginally higher than its 10-year average, but below the growth rates seen during the pandemic in 2020 and 2021. Much of the increase in circulating banknotes during 2021/22 reflected a more subdued pace of banknotes being returned to the Reserve Bank, rather than additional banknote purchases. Overall, there were a little under 2 billion banknotes in circulation.



Banknotes returned to the Reserve Bank are deemed 'out-of-circulation'. Banknotes can be returned because they are either poor-quality banknotes no longer fit for circulation (unfit banknotes) or good-quality banknotes no longer required due to the normal seasonal fluctuations in banknote demand (surplus fit banknotes). Over the past year, around $2.1 billion of unfit banknotes were returned, which was the lowest value of unfit returns since the commencement of the Next Generation Banknote (NGB) program in 2016/17. The return of surplus fit banknotes was also at historical lows. In comparison, banknote purchases by commercial banks were close to the historical average, with around $9.2 billion of banknotes being issued into circulation.



The growth in banknote demand was mostly driven by the higher denominations, highlighting a desire to hold cash for precautionary or store-of-wealth purposes. It also highlights the changing role of cash, with cash increasingly being used for such purposes rather than for transactions. The demand for the lower denominations partially recovered during 2021/22 as pandemic-related impacts on in-person transactions reduced somewhat. Nevertheless, it is expected that the pandemic will have had a lasting effect on cash usage, with a survey of households conducted in late 2021 by the Reserve Bank suggesting around one-quarter of respondents have permanently reduced their preference for cash use as a result of the pandemic.

Banknotes in Circulation

Annual growth; by value

	$5 per cent	**$10** per cent	**$20** per cent	**$50** per cent	**$100** per cent	**Total** per cent
FY2021/22	1.6	1.0	5.9	7.4	7.4	7.2
10-year average[(a)]	3.7	3.2	2.5	6.7	7.4	6.7

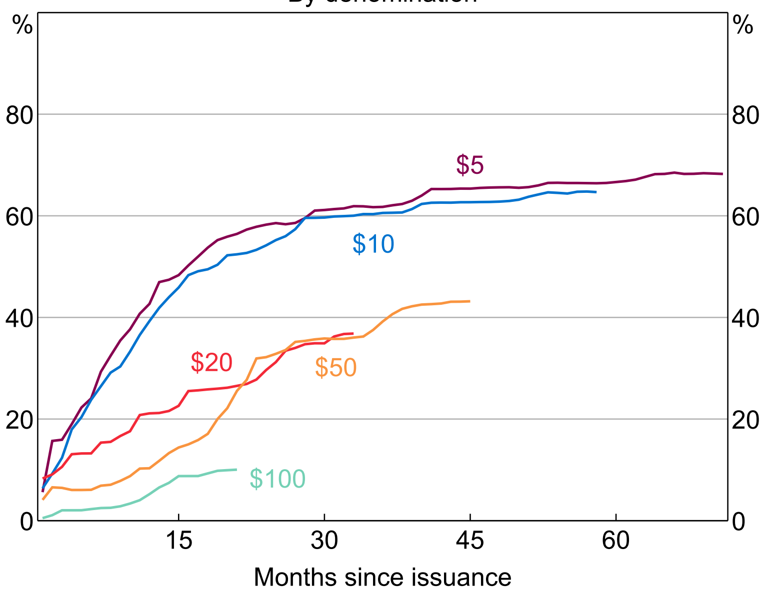
(a) Financial years up to June 2021.

Source: RBA

An increasing proportion of banknotes in circulation are those of the new NGB series. The proportion of NGB banknotes relative to all banknotes in circulation (the 'saturation rate') increased over 2021/22 for all denominations. The NGB $100 banknote now makes up around 10 per cent of all $100 banknotes, up from 2.8 per cent in the previous year. Saturation for the new $20 and $50 banknotes increased by similar amounts, to around 37 per cent and 43 per cent, respectively. The two lower denominations, on the other hand, saw only small increases in their saturation rates. Saturation of new $5 and $10 banknotes are unlikely to rise substantially from their current rates, reflecting the fact that many of the earlier series banknotes are stored, lost or held abroad, and so are unlikely to be returned to the Reserve Bank in the near term.

Saturation Rates of NGB Series*

By denomination



* Saturation rate – proportion of second polymer series banknotes to total banknotes in circulation.

Source: RBA

The Reserve Bank also continues to monitor cash access and merchant cash acceptance. While overall access to cash – measured by the distance people need to travel to ATMs or bank branches – remains good and has been little changed in recent years, vulnerabilities are emerging. These risks are particularly pertinent in regional and remote parts of Australia, where an increasing number of localities have no or only a few cash access points nearby. In terms of merchant acceptance of cash, a Bank survey of merchants in June 2022 found 94 per cent of retail businesses accepted cash. This is a slight decline compared with the previous survey in 2020.

The declining use of cash for payments has placed pressure on the cash distribution system. In November 2021, the Reserve Bank launched a review of the arrangements for banknote distribution in order to examine how the system can remain effective, efficient, sustainable and resilient in the face of declining cash use. The Bank will continue to work with the cash distribution industry to ensure it is able to continue to support cash being available for those who want or need to use it.[1]

Distribution, quality and storage

The Reserve Bank operates as a wholesaler of banknotes and has distribution agreements in place with a number of commercial banks, which provide those banks with access to banknotes; these agreements were renegotiated in 2021/22 in line with the regular cycle of renewal. The commercial banks, in turn, have arrangements in place to distribute banknotes around the country to meet the demands of their customers.

As noted above, the volume of fit banknotes returned to the Reserve Bank by commercial banks has been relatively low in recent years. As a result, almost all of the issuance by the Bank in 2021/22 were new banknotes; around 7 per cent of the $9.2 billion issued to commercial banks in 2021/22 were banknotes that were previously in circulation but had since been returned to the Bank and were deemed fit for reissue.

The purpose-built National Banknote Site (NBS) at Craigieburn, Victoria is the primary centre for the Reserve Bank's processing, distribution and storage of banknotes. The Bank retains contingency distribution sites in Sydney and Craigieburn to ensure it can continue to meet public demand for banknotes in the event distribution cannot occur from the NBS. In 2021/22, the vast majority of transactions were carried out from the NBS. There were only a couple of days during the year when transactions either needed to be relocated to the Craigieburn contingency site or deferred by one day as a result of COVID-19 inhibiting the ability of the NBS to operate.

The Reserve Bank aims to have only high-quality banknotes in circulation as these are more readily handled by machines and make it more difficult for counterfeits to be passed. Accordingly, the Bank has arrangements that encourage the cash-in-transit companies and the commercial banks that are part of the Bank's wholesale banknote distribution arrangements to sort the banknotes they handle to agreed quality standards. Based on this sorting, banknotes that remain fit for circulation are redistributed, while those that are deemed unfit are returned to the Bank. There are two core features of the quality sorting framework:

1. Different levels of 'quality' for banknotes are defined by the Reserve Bank, based on the absence or presence of defects such as tears, folds and inkwear. This allows banknote quality to be measured and guidance is provided to the banks about whether a banknote can be recirculated or returned to the Bank for destruction. Once returned to the Bank, these unfit banknotes are assessed to confirm their authenticity and quality; they are then destroyed and recycled into other plastic products.
2. The commercial banks involved in wholesale banknote distribution are paid according to how well they sort to the quality standards. To do this, the Reserve Bank samples quality-sorted 'fit' banknotes at cash depots and makes payments to the banks based on the assessed quality score of the worst 15 per cent of the banknotes sampled. The maximum payment the banks can collectively receive is capped at $15 million per annum.

In 2021/22, the Bank received $2.1 billion worth of banknotes deemed unfit for recirculation and paid just over $13 million to the commercial banks involved in wholesale distribution for quality sorting under the quality-sorting framework.

Another way the Reserve Bank incentivises the industry to quality-sort banknotes is through payments to those commercial banks involved in wholesale distribution for the banknotes they store in private cash

[1] See RBA (2021), 'Review of Banknote Distribution Arrangements: Issues Paper', November.

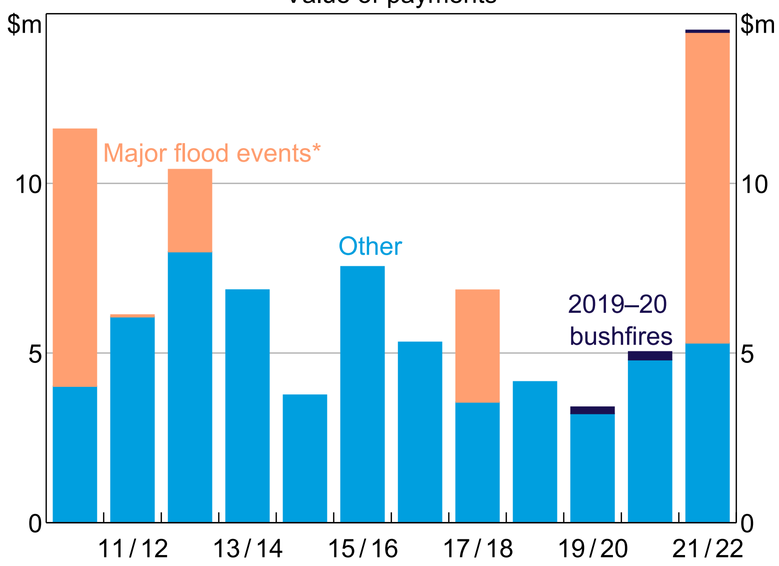
depots. This arrangement, which involves the Reserve Bank paying interest on these amounts, is only paid for banknotes that have been quality sorted. In 2021/22, the amount of interest payments to the banks for this purpose was very low, reflecting the low interest rate environment. That said, the opportunity cost of holding banknotes has also fallen in line with low interest rates.

The Reserve Bank also removes banknotes from circulation through its Damaged Banknotes Facility. The facility is offered to holders of Australian banknotes who have unwittingly come into possession of damaged banknotes or whose banknotes are accidentally damaged. Claims that meet the requirements set out in the Bank's Damaged Banknotes Policy are paid based on their assessed value.[2] In 2021/22, the Bank updated the Damaged Banknotes Policy to provide more clarity about the claims process and the basis on which certain claims might be rejected.

During 2021/22, the Damaged Banknotes Facility processed around 8,400 claims and made $14.5 million in payments. Of these, around 100 claims worth around $9.2 million involved banknotes that were damaged during the 2022 Queensland and NSW floods, mainly from businesses and financial institutions. Due to longevity and widespread devastation of the floods, the Reserve Bank continued to receive flood claims several months after the events. As at the end of June 2022, around half of the volume of claims received from the floods had been assessed. To increase awareness of the Damaged Banknotes Facility within communities affected by the floods, the Bank shared information about how to lodge claims for flood-affected banknotes through its website and industry liaison.

Damaged Banknote Claims

Value of payments



* Only major flood events with significant volume of flood claims received are identified. Assessment of claims from the 2022 Queensland and NSW floods is still in progress.

Source: RBA

[2] See Burton A and H Winata (2022), 'What Can You Do With Your Damaged Banknotes?', RBA *Bulletin*, June.

Reserve Bank staff processing contaminated banknote claims from the 2022 Queensland and New South Wales floods. Banknotes were washed and counted prior to destruction.

Photographs of banknotes damaged by the 2022 Queensland and New South Wales floods.
(Left) Banknotes covered in mud; (Right) Mouldy banknotes.

Counterfeiting rates

The level of counterfeiting in Australia remains low compared with historical norms. In 2021/22, around 12,000 counterfeits, with a nominal value of $900,000, were detected in circulation. This corresponds to a counterfeiting rate of around six counterfeits detected per million genuine banknotes in circulation; however, this is expected to rise a little once the analysis of all counterfeits detected in 2021/22 has been completed. The low counterfeiting rate likely reflects a combination of the COVID-19-induced lockdowns, effective law enforcement activities and increased saturation of the NGB series of banknotes.[3] Counterfeiting of the $100 denomination remains elevated, with counterfeiters primarily targeting the previous polymer series, rather than the new NGB banknote series.

There have been very few detections of NGB counterfeits in circulation so far. Since the first NGB banknote was released in 2016, there have only been 81 NGB counterfeits detected, compared with just over 122,000 counterfeits of the previous series of banknotes. The average quality of the NGB counterfeits is also lower than the average quality of the previous series counterfeits for the same period. These figures indicate that the new banknotes are significantly more secure than the first polymer banknote series, as a result of their innovative new security features. This demonstrates that one of the key aims of the NGB program has been achieved, which was to improve the security of Australia's banknotes.

Counterfeit Banknotes in Australia[(a)]

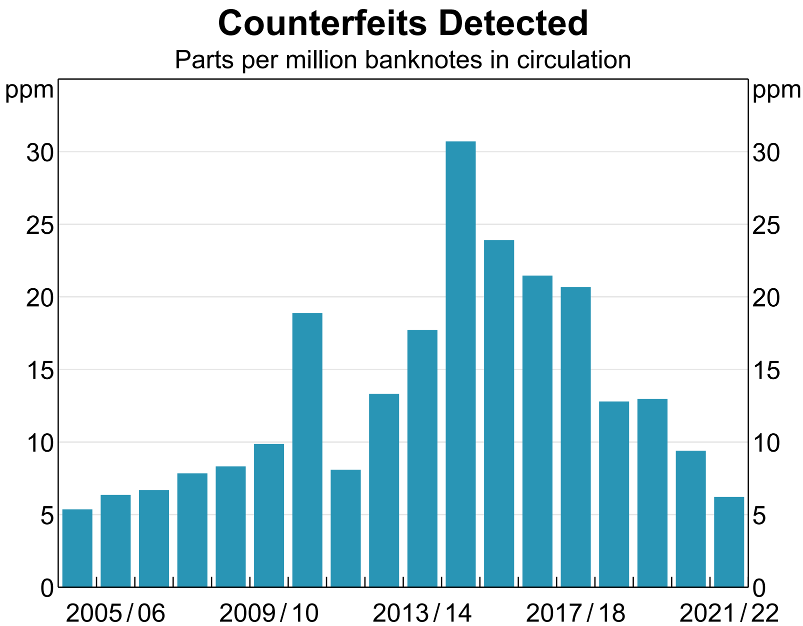
2021/22

	$5	$10	$20	$50	$100	Total
Total number	4	6	130	6,120	5,921	12,181
First Polymer series	1	5	128	6,059	5,914	12,107
NGB series	3	0	2	60	2	67
Paper series	0	1	0	1	5	7
Total nominal value ($)	20	60	2,600	306,000	592,100	900,780
Counterfeiting rate (counterfeits per million banknotes in circulation)	0.02	0.04	0.7	6.2	13.0	6.2

(a) Figures are preliminary and subject to upward revision because of lags in counterfeit submissions to the Reserve Bank.

Source: RBA

[3] See Mann L and S Roche (2022), 'Recent Trends in Banknote Counterfeiting', RBA *Bulletin*, June.



Source: RBA

Some of the poor quality NGB counterfeits received to date.

Law-enforcement efforts to investigate and prosecute counterfeiting operations play a significant role in managing the threat of counterfeiting.[4] The Reserve Bank supports court proceedings around Australia through the provision of information about counterfeit currency and expert witness statements. In 2021/22, the Bank completed 95 statements relating to 1,391 counterfeits. In addition, the Bank is aware of 20 court proceedings that occurred during the year relating to the possession, passing and making of counterfeit currency.

Banknote research and development

The Reserve Bank maintains an active banknote research and development program to develop cost-effective counterfeit-resistant security features and detection technologies for Australian banknotes. The primary purpose of this program is to ensure that Australia's banknotes remain durable and secure against counterfeiting and are easy to authenticate for a wide variety of users. This is achieved in part through collaboration with domestic and international experts from various external organisations, including universities, public and private companies, research institutes and other central banks.

Fundamental to this program is a continuing assessment of the vulnerability of banknotes to different forms of counterfeiting, the mechanisms by which banknotes wear in circulation, production capability, and how the public and banknote-processing machines use and authenticate banknotes. This work has been complemented by the design and manufacture of new instrumentation for quality assurance and damaged banknote assessment, and the development of testing methodologies for the assessment of banknotes. Over 2021/22, there was also a strong focus on potential product and process improvements for the NGB series in order to reduce costs and improve circulation life of banknotes.

Note Printing Australia Limited (NPA)

NPA is a wholly owned subsidiary of the Reserve Bank that produces banknotes and passports for Australia. It also prints banknotes and other security products for other countries. In 2021/22, NPA delivered 431 million Australian banknotes to the Bank, comprising 40 million NGB series $5 banknotes, 14 million NGB series $20 banknotes, 221 million NGB series $50 banknotes, and 156 million NGB series $100 banknotes. In comparison, in 2020/21, a total of 234 million Australian banknotes were delivered to the Bank by NPA. For more details about NPA, see the chapters on 'Governance and Accountability' and 'Operational Structure'.

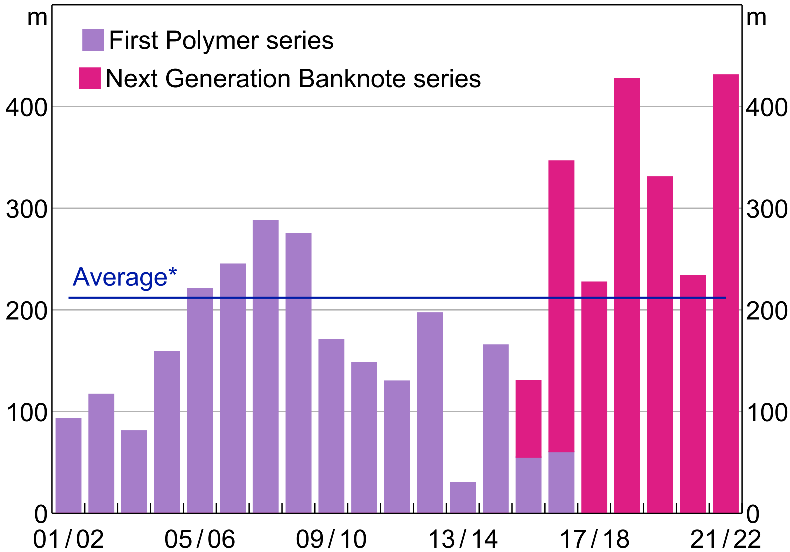
The total amount paid by the Reserve Bank to NPA in 2021/22 for the supply of banknotes and related services was $121 million, compared with $74 million in the previous year.

NPA also provided printing services to other Australian Government agencies and overseas central banks in 2021/22. In particular:

- NPA produced around 371,000 P Series passports and 73,000 new R series passports for Australia's Department of Foreign Affairs and Trade.
- NPA printed 1.1 million Births, Deaths and Marriages Certificates for all state governments in Australia.
- NPA delivered 12.5 million banknotes under contract to Singapore, Solomon Islands and the Philippines, dealing directly with the central banks in those countries.

[4] See Miegel K and K Symeonakis (2020), 'A Counterfeit Story: Operation Gridline', RBA *Bulletin*, December.

Banknote Purchases



* Average banknote purchases over displayed time period.

Source: RBA

International Financial Cooperation

The Reserve Bank participates in international efforts to address the challenges facing the global economy and financial system, and improve the international financial architecture. It does so through its membership of global and regional forums and its close bilateral relationships with other central banks. Over the past year, the COVID-19 pandemic, the war in Ukraine, inflationary pressures and macroeconomic policy settings have been at the forefront of international discussions on the global economic and financial outlook. The year has also seen continued international efforts to progress work on a range of issues, including digital currencies, risks arising from non-bank financial intermediation, cross-border payments and climate-related risks.

Group of Twenty (G20)

Purpose

The G20 is a forum for cooperation on economic, financial and other policy issues among 20 of the world's largest economies, including Australia. International organisations, such as the International Monetary Fund (IMF), also participate. The G20 was chaired by Italy from December 2020 to November 2021, and has been chaired by Indonesia since December 2021.

Reserve Bank involvement

The Governor and Assistant Governor (Economic) represent the Bank at high-level meetings of the G20, while other senior staff participate in G20 working groups and contribute to the G20's work on financial sector issues.

The G20 serves as a key forum for members to discuss major risks to the economic outlook, share experiences on economic and financial policy measures, and explore ways collectively to address global challenges. The main focus of Indonesia's presidency has been to promote a strong, sustainable, balanced and inclusive global recovery from the COVID-19 pandemic through enhanced international cooperation. The war in Ukraine and its economic effects was also factored into G20 discussions over the latter part of the year in review.

To help support vulnerable countries affected by the pandemic, the G20 has announced a global goal to channel a total of US$100 billion worth of Special Drawing Rights (SDRs) to countries most in need.[1] In addition, material progress has been made on improving the capacity to prevent, prepare for and respond to future pandemics. Together with the Organisation for Economic Co-operation and Development (OECD), the G20 helped secure a historic agreement on international tax reforms. The reforms involve establishing a global minimum corporate tax rate and requiring multinational corporations to reallocate their profits, for tax purposes, to countries based on where those profits were generated.

Reserve Bank staff participated in three G20 working groups during 2021/22:

- *The Framework Working Group:* This group has focused on identifying and monitoring risks to the economic outlook – including the macroeconomic impacts of climate change, the war in Ukraine, rising inflationary pressures and global supply chain issues – as well as considering macroeconomic policy settings.[2] It has also focused on analysing appropriate strategies to exit from emergency COVID-19 policy settings and addressing scarring effects from the pandemic.
- *The International Financial Architecture Working Group:* This group has focused on strengthening support to vulnerable countries. Following the IMF's general allocation of around US$650 billion worth of SDRs in August 2021, the group has worked on developing options for advanced economies to channel a share of their new SDRs to countries most in need. In addition, to help support effective, timely and coordinated debt restructuring in countries facing debt distress, the group has worked to improve the G20's Common Framework for Debt Treatments. Members have also continued their efforts to understand the drivers of capital flows in emerging market economies and the relative effectiveness of the various policy tools available to manage the vulnerabilities that can arise from these flows.
- *The Sustainable Finance Working Group:* This group released a multi-year Sustainable Finance Roadmap in 2021, which outlines a set of actions to identify and address barriers to finance that support climate and sustainability goals. The group will report on progress on an annual basis. In 2022, the group has focused on three priority areas: developing a framework for transition finance and improving the credibility of financial institutions' net zero commitments; scaling up sustainable finance instruments; and discussing policy levers that incentivise financing that supports the transition.

[1] SDRs are an international reserve asset used to settle transactions between countries and help balance international liquidity. As part of the global policy response to address the economic challenges associated with the COVID-19 pandemic, in August 2021 the IMF allocated around US$650 billion worth of SDRs to its members. This provided a significant boost to global liquidity and allowed scope for the SDR reallocation goal agreed by the G20.

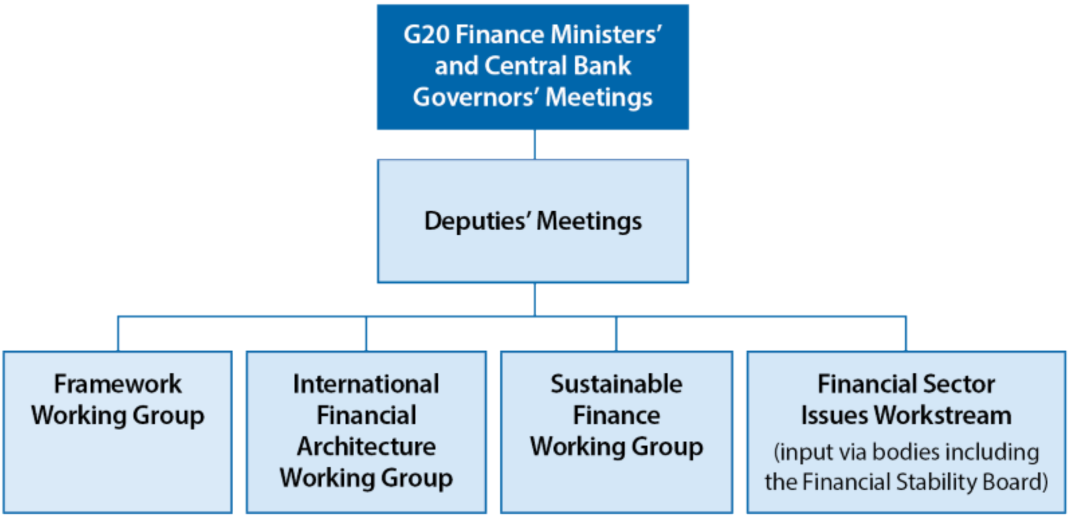
[2] The Framework Working Group helps to implement the G20's 'Framework for Strong, Sustainable and Balanced Growth'.

Governor Philip Lowe speaking virtually at G20 Finance Ministers and Central Bank Governors meeting in February 2022

Russia's invasion of Ukraine led to a prompt focus on its possible broad financial effects, as well as the wider implications for the G20's financial sector agenda. The invasion led to isolated financial stress, price fluctuations and supply problems in certain markets, especially commodities. The Financial Stability Board (FSB) worked with other bodies to assess the effects on financial institutions and markets (see below).

Global bodies continued to work on other G20 focus areas over 2021/22, with pandemic-related issues remaining a key focus. Other work areas globally over the year included: developing a better understanding of and responding to the financial risks arising from climate change; improving cross-border payments; and ongoing efforts to address the risks posed by non-bank financial intermediation (NBFI). As discussed below, the Reserve Bank and other Council of Financial Regulators (CFR) agencies are involved with some of this work, given the CFR's mandate to promote financial system stability and support effective and efficient financial regulation.

Reserve Bank Involvement in 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 develop strong regulatory, supervisory and other financial sector policies. It also plays a central role in assessing new and evolving global trends and risks.

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

Reserve Bank involvement

The decision-making body of the FSB is the Plenary. The Governor is a member of the Plenary, as well as the Steering Committee and the Standing Committee on Assessment of Vulnerabilities.

Senior Bank staff, mainly from the Financial Stability and Payments Policy departments, participate in meetings of various FSB groups, including:

- the Analytical Group on Vulnerabilities, which supports the work of the Standing Committee on Assessment of Vulnerabilities
- the Financial Innovation Network
- the Climate Vulnerabilities and Data Group
- the Official Sector Steering Group
- the Working Group on Regulatory Issues of Stablecoins.

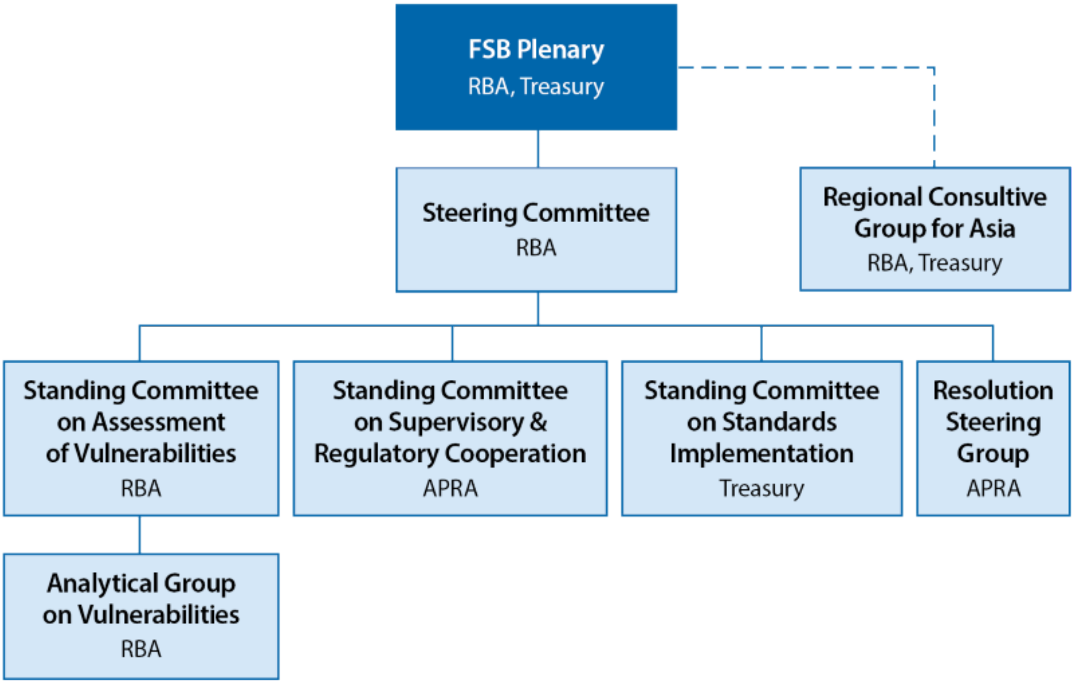
As with the pandemic, Russia's invasion of Ukraine highlighted the FSB's key roles of: (i) monitoring global financial system developments and vulnerabilities; and (ii) coordinating international responses to threats to financial stability. The FSB's Standing Committee on Assessment of Vulnerabilities focused on the financial implications of the invasion, given the significant effects on commodity markets, falls in major equity indices and heightened volatility in bond and other markets. Volatility in commodity markets led to large margin calls for commodities derivatives, which placed strains on a number of market participants. Beyond these direct effects, the FSB assessed that the stress also highlighted, and could crystallise, underlying vulnerabilities in the financial system, such as high debt levels and stretched valuations. The Reserve Bank participated in several meetings held by the FSB on these developments over the latter half of the year. The FSB continues to monitor the effects of the war and provides regular updates to the G20. In addition, it is working with other bodies on addressing the fault-lines exposed by the stresses that have arisen, in particular in commodity markets and margining practices.

With health outcomes and access to vaccines still varying across some countries, under the Indonesian G20 presidency there had continued to be a focus on the economic and financial effects of the pandemic. Nonetheless, the improved situation overall in relation to the pandemic has meant the FSB and other bodies continued their work on assessing medium-term effects and implications of the pandemic. In particular, the FSB is examining ways to address the problem of COVID-19 'scarring' effects on the economy and financial system, in order to 'support a more even, sustainable and inclusive global recovery'.

Addressing the effects of climate change on the financial sector has been a major focus of global bodies over the year. International work in this area has largely been part of the FSB Roadmap for Addressing Climate-related Financial Risks. Key strands of this work include analysis of vulnerabilities and addressing data gaps in relation to climate risk. The Reserve Bank is co-leading an FSB workstream to develop a framework to monitor and assess vulnerabilities in this area.

Another ongoing focus of the FSB has been to strengthen the resilience of the NBFI sector and address systemic risks arising from NBFIs. A recent focus has been money market funds and other funds given the turmoil experienced during the peak of the pandemic. The Reserve Bank contributes to this work through its ongoing membership of the FSB's Non-bank Monitoring Experts Group.

Australian Involvement in Key FSB Committees



The Reserve Bank participates in a number of other FSB groups, including:

- The *Financial Innovation Network*, which monitors and assesses the financial stability implications of financial innovation, including financial technology ('FinTech'). Recent focus areas have included crypto-assets and decentralised finance (DeFi).
- The *Working Group on Regulatory Issues of Stablecoins*, which has been examining evolving approaches to the regulation, supervision and oversight of global stablecoin arrangements.
- The *Cross-border Crisis Management Group for Financial Market Infrastructures* (a sub-group of the *Resolution Steering Group*), which has been working on resolution arrangements for central counterparties (CCPs). Recent work has focused on assessing the adequacy of financial resources available for CCP resolution.
- The *Official Sector Steering Group*, which is progressing reforms of interest rate benchmarks, including coordinating the transition away from the London Inter-Bank Offered Rates (LIBOR) towards alternative interest rate benchmarks. The end of 2021 marked a major milestone in this transition as most LIBOR tenors ceased without any significant disruptions. A key focus of this group is to ensure a smooth transition away from the remaining USD LIBOR settings, which will continue until the end of June 2023 to support the run-off of a substantial portion of legacy contracts.

The FSB is also progressing international policy work to enhance cross-border payments. In October 2020, the G20 endorsed a 'Roadmap' developed by the FSB, in coordination with the Committee for Payments and Market Infrastructures (CPMI) and other international bodies, to make cross-border payments cheaper, faster, more transparent and more inclusive. The Roadmap includes a set of quantitative global targets for cost, speed, transparency and access in the cross-border payments market, to aid momentum and accountability around overall outcomes. The G20 has asked the FSB to monitor progress, including with respect to the targets, and report annually – the first progress report was provided in October 2021. Reserve Bank staff were involved in the development of the Roadmap, and are participating in a number of international working groups that deal with aspects of the Roadmap work, including an FSB working group assessing the issue of 'know-your-customer' and identity information sharing (see below under 'CPMI').

Additionally, the FSB is engaged in other ongoing work areas, including enhancing cyber resilience and better reporting of cyber incidents, resolution and crisis management frameworks, and assessing and addressing the risks posed by crypto-assets for financial stability. More broadly – and as was the case with the global financial crisis, the pandemic and now the invasion of Ukraine – the FSB will continue to play a central coordinating role for the G20 in the face of any emerging risks and issues affecting the global financial system in the period ahead.

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. They do 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 63 central banks and monetary authorities holding shares in the BIS. The Governor or Deputy Governor participate in the bimonthly meetings of governors and in meetings of the Asian Consultative Council. The Governor chairs the Committee on the Global Financial System (CGFS), and the Assistant Governor (Financial Markets) is a member of the Markets Committee and the CGFS.

The CGFS seeks to identify potential sources of stress in the global financial system and promotes the development of well-functioning and stable financial markets. The Markets Committee considers how economic and other developments, including regulatory reform and technological change, may affect financial markets, particularly central bank operations.

These committees have been monitoring the challenges for financial systems and markets from the COVID-19 pandemic and the war in Ukraine. They also provide an important means for central banks to share perspectives on the evolving economic recovery and their policy responses. Areas of focus have included: global financial vulnerabilities, including the effects of inflation and monetary tightening on long-term yields, risks to the future resilience of the banking system and the rapid rise in housing prices during the pandemic; liquidity conditions in government bond markets; and the effectiveness of policy measures to support bank lending during the pandemic.

These committees also carried out work on a number of longer term topics through the year. During 2021/22, Reserve Bank staff participated in a number of committee sub-groups, including:

- a CGFS working group on debt and financial stability, examining drivers of aggregate debt and its main trends, the relationship between household and corporate debt and financial stability, and how policymakers can manage risks to financial stability, with the final report published in May 2022
- a CGFS working group examining the use of asset purchases by central banks for monetary policy purposes during the pandemic, and the lessons learned from this experience
- a Markets Committee working group on market functioning, looking at the tools available to central banks to respond to market dysfunction in core local currency markets, the efficacy of those tools in different scenarios and market structures, and their potential benefits and costs
- an Asian Consultative Council study group on foreign exchange markets in the Asia-Pacific region, looking at market monitoring by central banks, the foreign exchange ecosystem and hedging markets, and links between foreign exchange markets, capital flows and domestic financial conditions.

The Reserve Bank also participated in the BIS Innovation Hub's Project Dunbar. The project developed prototypes for a shared platform that could enable international settlements using digital currencies issued by multiple central banks. In addition, the Reserve Bank co-chairs a BIS Innovation Network working group exploring the application of emerging supervisory and regulatory technologies to common challenges facing member central banks.

Basel Committee on Banking Supervision (BCBS)

Purpose

The BCBS is hosted by the BIS and is the primary international standard-setting body for the banking sector. It provides a forum for regular cooperation on banking supervisory matters among its 28 member jurisdictions. It 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, which is the oversight body for the BCBS. The Assistant Governor (Financial System) is a member of the BCBS.

As with other global bodies, the BCBS's work over the year was a mixture of ongoing work and, in the latter half, monitoring the financial effects of Russia's invasion of Ukraine. Given its focus on banks, the BCBS has been a key forum for discussing risks to the global banking system arising from the war. Banks' direct financial exposures to the key countries involved were relatively limited and manageable. The BCBS also examined other channels by which banking systems could be affected by the war, such as through developments in commodity markets, banks' operational resilience while processing sanctions and dealing with an increase in cyber threats, and risks stemming from a worsening macroeconomic outlook. The Reserve Bank participated in the discussions on these matters, along with the Australian Prudential Regulation Authority (APRA).

Managing climate-related financial risks has been a major focus over the year. In June 2022, the BCBS released principles for both banks' risk management and supervisors' practices related to these risks. The principles cover corporate governance, internal controls, risk assessment and management monitoring and reporting.

Following feedback on preliminary proposals, the BCBS is working to finalise the prudential treatment of banks' crypto-asset exposures around the end of 2022. This work is particularly timely, given the volatility seen in the crypto-asset 'ecosystem' around mid-2022 and hence the need to have a global minimum prudential framework to mitigate risks from crypto-assets. Other work areas over the year included possible adjustments to the framework for global systemically important banks and banks' operational resilience, including the reliance on third- and fourth-party service providers and the need for banks to improve their resilience in the face of cyber threats.

Committee on Payments and Market Infrastructures (CPMI)

Purpose

The CPMI is hosted by the BIS. It serves as a forum for central banks to monitor and analyse developments in payment, clearing and settlement infrastructures, and sets standards for these facilities. The CPMI has 28 member institutions.

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

Reserve Bank involvement

Staff from the Payments Policy Department are members of the CPMI, the CPMI-IOSCO Steering Group, the CPMI-IOSCO Implementation Monitoring Standing Group and the CPMI-IOSCO Policy Standing Group.

Staff members from the Payments Policy and Payments Settlements departments are participating in a number of CPMI workstreams contributing to the G20 Roadmap to enhance cross-border payments, including groups looking at improving cross-border payment providers' access to payment systems, harmonising cross-border payment message formats and data protocols, and exploring issues involved in possible new infrastructure for cross-border payments (such as global stablecoins and central bank digital currencies).

The CPMI published a number of reports during the year to which Payments Policy Department staff contributed. These included reports on how the Principles for Financial Market Infrastructures apply to stablecoins, default management auctions used by central counterparties, and central counterparty access and client clearing arrangements. Staff members also contributed to CPMI-IOSCO implementation monitoring reports.

Cooperative oversight arrangements

Purpose

The Reserve Bank participates in several multilateral and bilateral arrangements to support its oversight of foreign-headquartered FMIs that play an important role in the Australian financial system.

Reserve Bank involvement

Over 2021/22, staff from the Payments Policy Department 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 and a crisis management group for LCH Limited, both chaired by the Bank of England
- an information-sharing arrangement with the US Commodity Futures Trading Commission, in relation to CME Inc
- the Society for Worldwide Interbank Financial Telecommunication (SWIFT) Oversight Forum, chaired by the National Bank of Belgium (NBB)
- the Multilateral Oversight Group for Euroclear Bank, chaired by the NBB.

International Monetary Fund (IMF)

Purpose

The IMF oversees the stability of the international monetary system via:

- bilateral and multilateral surveillance, which involves monitoring, analysing and providing advice on the economic and financial policies of its 190 members and the linkages between them; Article IV consultations, which are a key means to do this, are conducted for Australia every year
- the provision of financial assistance to member countries experiencing actual or potential balance of payments problems.

Reserve Bank involvement

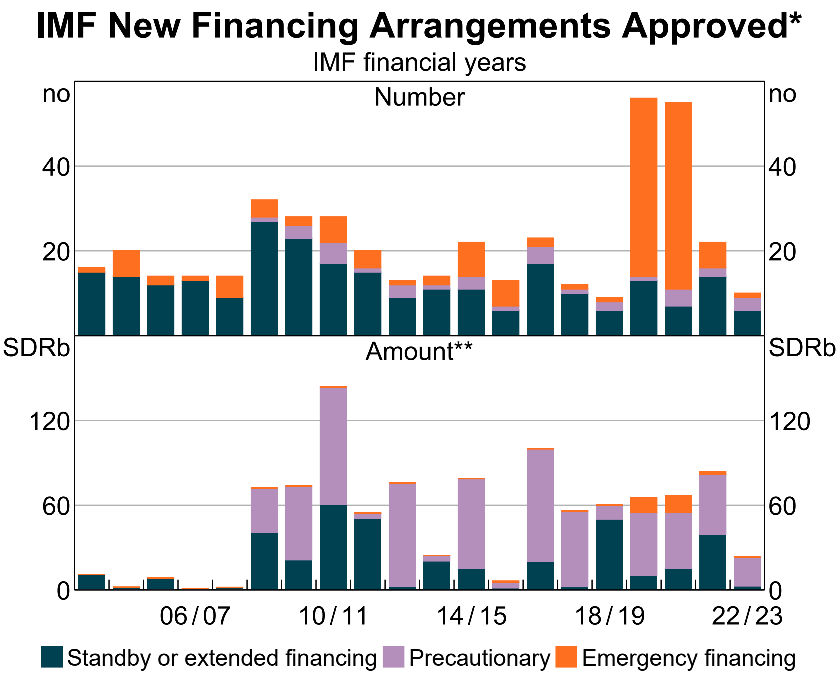
Australia holds a 1.38 per cent quota share in the IMF and is part of the Asia and the Pacific Constituency, which is represented by one of the IMF's 24 Executive Directors. Australia also contributes to the IMF's supplementary borrowed resources, including the Poverty Reduction and Growth Trust (PRGT). The Reserve Bank supports the Constituency Office at the IMF by seconding an advisor with expertise in economic and financial sector matters; the Bank also works with the

Australian Treasury to provide support to the Constituency Office on matters discussed by the IMF's Executive Board.

During 2021/22, the IMF continued to provide financial assistance to vulnerable member countries to support their recovery from the COVID-19 pandemic. It has also worked to mitigate spillovers from the war in Ukraine. IMF lending at the beginning of the pandemic was largely in the form of emergency financing arrangements that were quickly disbursed and did not have conditionality attached once the funds were lent. Since then, IMF lending has transitioned to longer term programs that are conditional on economic reforms being undertaken by the borrower and precautionary arrangements that can be called upon when needed. In the 12 months to June 2022, 18 non-emergency financing arrangements were approved, with a total value of SDR86.1 billion. This included four precautionary arrangements with a combined value of SDR49.3 billion, a SDR31.9 billion program for Argentina, and 13 other programs with a combined value of SDR4.9 billion. IMF total credit outstanding increased by around 3.9 per cent over 2021/22 to SDR109.2 billion.

As noted above, in August 2021 the IMF made a general SDR allocation worth around US$650 billion to support the global recovery from the pandemic. A general allocation of SDRs is distributed across IMF member countries in proportion to their quota share in the IMF. Australia received SDR6.3 billion (US$8.9 billion at the date of the general allocation). Member countries can exchange their SDRs for 'hard currency' such as US dollars. This 'hard currency' can then be used as the country chooses – for example, to meet balance-of-payments needs or finance health-related expenditures. The Bank helps to facilitate trade in SDRs via Australia's voluntary trading arrangement with the IMF (see chapter on 'Operations in Financial Markets').

The IMF has also been exploring a number of options for members with strong external positions to channel their SDRs to help support the financing needs of developing or emerging economies. Some members have made pledges to channel SDRs to the IMF's existing PRGT, which provides concessional financial support to low-income countries. The IMF also agreed in April 2022 to establish a new Resilience and Sustainability Trust (RST), which will provide longer term financing for eligible members to address deeper structural issues that pose risks to prospective balance-of-payments stability. The RST is expected to commence operations later in 2022, and initially will be focused on supporting reforms relating to climate change and pandemic preparedness. The Australian Government has pledged to rechannel SDR1.26 billion to the PRGT and RST lending facilities to support vulnerable countries, which equates to 20 per cent of Australia's newly allocated SDRs. The government will also lend an additional SDR1.1672 billion (19 per cent of its 2021 allocation) to provide subsidy and reserve resources for these trusts.



* IMF financial year runs from May to April; the observation for 2022/23 is for May to August 2022.

** Augmentations included at time of original financing arrangement approval.

Sources: IMF; RBA

The IMF periodically undertakes Financial Sector Assessment Program (FSAP) reviews of its members' financial systems and regulatory frameworks. The Reserve Bank and other CFR agencies have continued to implement the 2018 FSAP review's recommendations, as appropriate. This has included work on a resolution regime for clearing and settlement facilities and to strengthen supervisory and enforcement powers. Proposals in this area were provided to the Australian Government by the Bank and the Australian Securities and Investments Commission, as joint regulators for clearing and settlement facilities, before the then Government announced it would proceed with these reforms. The resolution regime would allow the Bank to intervene in a distressed clearing and settlement facility in order to ensure that the facility's critical services continue to operate. Relevant legislation implementing these changes has yet to be introduced into the Parliament. The IMF also recommended that the Bank formalise its emergency liquidity assistance (ELA) framework. In September 2021, the Bank published guidance on ELA, including its assessment criteria and the expectations towards eligible counterparties applying for ELA. Australia's next FSAP review is likely to take place in the next few years.

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

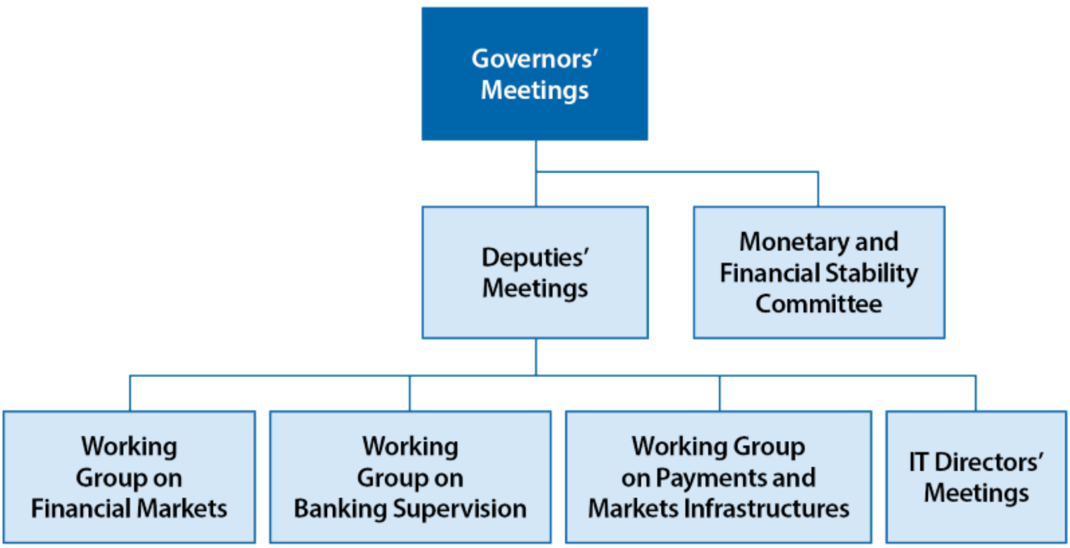
Purpose

EMEAP brings together central banks from 11 economies in the east Asia-Pacific region – Australia, China, Hong Kong SAR, Indonesia, Japan, Malaysia, New Zealand, the Philippines, Singapore, South Korea 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, including at the Governor and Deputy Governor levels. In July and August 2021, the Bank chaired the EMEAP Governors' Meeting and a meeting of EMEAP Governors and Heads of Supervisory Authorities. In 2021/22, the Deputy Governor continued to be the Chair of the EMEAP Monetary and Financial Stability Committee. Staff also participate in the EMEAP Working Groups on Financial Markets, Banking Supervision, and Payments and Market Infrastructures, and in meetings of Information Technology Directors. These groups maintain close relationships with other international institutions, such as the IMF and the BIS, through regular dialogue on topical issues.

Reserve Bank Involvement in EMEAP



EMEAP Governors meet annually to discuss key issues in the region. The 2021 EMEAP Governors' meeting covered the asynchronous nature of the global recovery, recent COVID-19 outbreaks and developments in financial conditions, inflationary pressures across the region, as well as communication challenges faced by central banks during the pandemic. Governors also meet annually with Heads of Supervisory

Authorities in the region to discuss issues related to the financial system. These meetings were chaired by the Reserve Bank via videoconference in July and August 2021.

The EMEAP Monetary and Financial Stability Committee has provided an important forum to discuss current economic and financial market developments and the associated policy challenges for EMEAP members. In 2021/22, the Committee discussed topics including the reopening of member economies following the pandemic, rising inflationary pressures and the tightening in global financial conditions. The Committee met four times in 2021/22.

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. During the year, the group continued its work on developing local currency bond markets, through the Asian Bond Fund Initiative (see chapter on 'Operations in Financial Markets'). Areas of focus in 2021/22 also included the green bond market in Asia, financial benchmark reform and bond market functioning following the onset of COVID-19.

The Working Group on Banking Supervision (which also includes representatives of EMEAP members' prudential regulators, including APRA) meets to share information, discuss banking supervision issues and conduct joint work on relevant topics. In 2021/22, the group shared information on financial system and regulatory developments, including on macroprudential policies used during the pandemic and discussed policy matters of interest to members.

The EMEAP Working Group on Payments and Market Infrastructures is a forum for sharing information and experiences relating to the development, oversight and regulation of retail payment systems and FMIs. During 2021/22, discussions in the group focused on a number of issues, including: initiatives to enhance the speed, cost and transparency of cross-border payments; access arrangements for payment systems; market and regulatory developments related to stablecoins and crypto-assets more broadly; and evolving views and research into central bank digital currencies.

The Information Technology Directors' Meeting provides a forum for discussions on developments in information technology (IT) and its implications for central banks. Topics discussed during 2021/22 included: cybersecurity and cloud adoption; building IT staff capacity and technology support for hybrid workplaces; digital operating models and use of common platforms; and increased investments in data management and governance.

Network for Greening the Financial System (NGFS)

Purpose

The NGFS is a group of central banks and supervisors whose purpose is to share best practices, contribute to the development of climate and environment-related risk management in the financial sector, and mobilise mainstream finance to support the transition towards a sustainable economy. By the end of June 2022, the Network had grown to 116 central banks and supervisors around the world.

Reserve Bank involvement

The Reserve Bank joined the NGFS in July 2018. Over 2021/22, the Bank actively participated in a number of workstreams, which published reports throughout the year. In November 2021, the Reserve Bank and APRA released a joint NGFS pledge that outlined the actions they are taking to ensure that financial institutions and the Australian financial system are prepared to respond to the financial risks of climate change.

One key contribution of the NGFS is the development of climate scenarios. These scenarios are intended to provide a common starting point for analysing climate risks to the economy and the financial system, and facilitate globally consistent analysis of risks by regulators and firms. In October 2021, the NGFS produced a report that surveyed members' recent experiences in using climate scenarios to assess climate-related risks in their own jurisdictions. APRA's Climate Vulnerability Assessment (CVA) was one example featured in the report. The Reserve Bank has assisted APRA with the elements of the CVA, which seeks to assess the nature and extent of the financial risks that large banks in Australia may face due to climate change.

The NGFS produced several other reports in 2021/22, including: an assessment of progress made by supervisors on integrating climate-related and environmental risks into their supervisory frameworks; an overview of trends in climate-related litigation and ways to address associated risks; a guide on climate-related disclosure for central banks; a report on enhancing market transparency in green and transition finance; a study on how climate-related risks are reflected in credit ratings from a monetary policy perspective; and a summary of efforts to quantify potential credit risk differentials between green and non-green assets and activities.

Global Foreign Exchange Committee (GFXC)

Purpose

The GFXC brings together central banks and private sector participants in the wholesale foreign exchange market. The GFXC promotes a robust and liquid market. One means by which it does this is through the maintenance of the FX Global Code as a set of principles of good practice for market participants.

Reserve Bank involvement

The Reserve Bank sponsors the Australian Foreign Exchange Committee (AFXC) – one of the 20 regional committees that comprise the membership of the GFXC. The Assistant Governor (Financial Markets) is Chair of the AFXC and the Bank's representative on the GFXC. Former Deputy Governor Guy Debelle's term as Chair of the GFXC ended in December 2021.

An updated version of the FX Global Code was published in mid-2021. Since that time, the GFXC has focused on publicising and explaining the Code changes to industry participants and encouraging firms to renew their Statement of Commitment to the Code. The Bank renewed its Statement of Commitment to the Code in December 2021. The Committee has also continued to discuss evolving trends in foreign exchange settlement methods and ways for participants to reduce their settlement risk.

Organisation for Economic Co-operation and Development (OECD)

Purpose

The OECD is an international organisation of 38 countries that promotes policies to improve the economic and social wellbeing of people worldwide. It provides a forum in which governments can work together to share experiences and seek solutions to the economic, social and governance challenges they face.

Reserve Bank involvement

On behalf of the Australian Treasury, the Reserve Bank's Chief Representative in Europe participates in the OECD's Committee on Financial Markets and the Advisory Task Force on the OECD Codes of Liberalisation.

The OECD Committee on Financial Markets examines a range of financial market issues and aims to promote efficient, open, stable and sound financial systems, based on high levels of transparency, confidence and integrity, so as to contribute to sustainable and inclusive growth. Key focus areas for the Committee in 2021/22 were: environmental, social and governance (ESG) investment and climate transition risks; the economic and financial impact of the war in Ukraine; and the provision of financing to small and medium-sized enterprises from marketplace lending platforms. The Committee also continued to review and contribute to the OECD's work on blockchain, asset tokenisation, digitalisation and financial literacy.

The OECD's Codes of Liberalisation promote the freedom of cross-border capital movements and financial services. In particular, the Codes provide a balanced framework for countries progressively to remove barriers to the movement of capital, while providing flexibility to cope with situations of economic and financial instability. The Advisory Task Force meets to address questions and discuss policy issues related to the Codes, and examines specific measures by individual adherents with relevance to their obligations under the Codes.

Technical cooperation and bilateral relations

Australia Indonesia Partnership for Economic Development (Prospera)

The Bank participates in the Australian Government's 'Prospera' Program to build up the capacity of institutions in Indonesia. Under the Prospera Program, the Reserve Bank engages with Bank Indonesia on a broad range of activities undertaken by central banks. In 2021/22, Reserve Bank staff met with Bank Indonesia staff to discuss issues relating to the digitalisation and automation of cash management, accounting treatment of central bank foreign exchange transactions, and lessons from the Reserve Bank's digital transformation program.

Engagement in the South Pacific

The Reserve Bank fosters close ties with South Pacific countries through participation in high-level meetings, staff exchanges and the provision of technical assistance across a wide range of central banking issues.

In November 2021, the Reserve Bank attended the annual meeting of the South Pacific Central Bank Governors. The Governors discussed recent economic and financial developments and the work under way to jointly develop a regional electronic 'know-your-customer' (eKYC) facility to support the provision of remittances services to the South Pacific. The Governors held an additional meeting in June 2022 to discuss the final report from the steering committee for the eKYC Project. It was determined that South Pacific central banks will each prioritise developing strategies for their own national eKYC capability. The development of a regional eKYC facility may be considered as a possible extension of national eKYC capabilities in the future.

The Reserve Bank also provides financial support for an officer of the Bank of Papua New Guinea to undertake postgraduate studies in economics, finance or computing at an Australian university. This support is provided via the Reserve Bank of Australia Graduate Scholarship, which was first awarded in 1992. The most recent scholar completed studies at the University of Queensland in July 2020 and has since returned to Papua New Guinea. The continuing COVID-19 pandemic has delayed selection of the next scholar; however, the Reserve Bank and the Bank of Papua New Guinea intend to resume the program as soon as practicable and are aiming for the second half of 2022.

International visitors and secondments

The COVID-19 pandemic continued to hamper international visits to the Reserve Bank throughout the year, but they have slowly resumed in 2022. A delegation from the Bank of Papua New Guinea in May 2022 was the first international delegation welcomed since the start of the pandemic, and two scholars (also from Papua New Guinea) visited the Bank under the auspices of the Archer Leadership Program in June.

Assistant Governor (Financial Markets) Christopher Kent (far left), Assistant Governor (Business Services) Michelle McPhee (third from right) and Governor Lowe (fourth from right) meet with Acting Governor Benny Popoitai (fourth from left) and delegates from the Bank of Papua New Guinea in May 2022.

Over 2021/22, the Bank hosted secondees from the Bank of England and Reserve Bank staff were seconded to other central banks and international organisations, including the Bank of England, the IMF and the BIS. These arrangements facilitate a valuable exchange of skills and expertise between the Bank and the broader global economic and financial policymaking community.

Communication and Community Engagement

The Reserve Bank is committed to being open, transparent and accountable in all its communication. The Bank's staff across Australia work to understand community priorities and concerns and, in turn, explain the Bank's policies and decisions. The Bank engages with the community in a range of ways, including via a longstanding regional and industry liaison program and a public education program. It consults with businesses, consumer groups and payments industry participants on issues in payments policy. The Bank communicates its policy decisions, and the context in which these are made, through publications and speeches. The Bank participates in parliamentary hearings and responds to public enquiries. It supports academic research, publishes a broad range of statistics and operates a museum where visitors can discover the history of Australia's banknotes and economic development.

Publications and speeches

The Reserve Bank's communication about its policy decisions, analysis and operations is primarily through publications (including media releases) and speeches. Announcements about monetary policy decisions are made shortly after each Reserve Bank Board meeting and minutes are released two weeks later. A media release is published following each Payments System Board meeting, outlining issues discussed at the meeting and foreshadowing any documents to be released by the Bank.

Public appearances provide an opportunity to communicate the Bank's analysis of economic and financial developments and how they have influenced monetary policy decisions, as well as to respond to questions in a public forum. During 2021/22, the Governor spoke at a number of public events to provide an update on monetary policy and answer questions from the media and financial markets participants. In addition, there were two media and market briefings held on the days of the Board meeting when there was significant new information to communicate. The first was in November 2021 when, it addition to providing an update on the economy and monetary policy, the Governor explained the Reserve Bank Board's decision to discontinue the yield target and the nature of the Bank's forward guidance. Following the May 2022 Board meeting, the Governor explained why the Board had decided to increase the cash rate target from the emergency settings that were put in place to support the Australian economy during the COVID-19 pandemic. In June 2022, the Governor appeared on the ABC's *7.30* program to further explain the Board's decisions and the economic and financial outlook.

As is the case for all of the Governor and Deputy Governor's public appearances, audio of each address was broadcast live, including the question and answer sessions with participants, and transcripts were published on the Bank's website.

Media and market briefing, May 2022

In addition to the above, during 2021/22 the Governor, Deputy Governor and other senior staff gave 39 public speeches on various topics. The gradual lifting of restrictions in place during the pandemic saw speeches increasingly being given in person as well as online. Senior staff also participated in public panel discussions and a number of parliamentary hearings. There were speeches on monetary policy, the changing economic outlook, payments and climate change. These speeches, the associated question and answer sessions and the panel discussions were published on the Bank's website in audio and text to facilitate transparency and accessibility.

The Reserve Bank explains its analysis through a number of regular publications:

- the quarterly *Statement on Monetary Policy* provides information about the Bank's assessment of current economic and financial conditions, along with the outlook for economic activity and inflation in Australia
- the *Financial Stability Review*, published semi-annually, provides a detailed assessment of the condition of Australia's financial system and potential risks to financial stability
- the quarterly *Bulletin* contains analysis of a broad range of economic and financial issues, as well as aspects of the Bank's operations; during 2021/22, 33 articles were published in the *Bulletin*.

The Reserve Bank publishes information on its website, which continued to provide new and refreshed content. Followers of the Bank's social media accounts on Twitter, LinkedIn, Facebook and Instagram have grown to over 179,000, while the number of subscribers to a new email alert service is around 14,600. Visitors to the Bank's website also made use of the RSS feeds, which provide alerts about data updates, media releases, speeches, research papers and other publications, including those related to Freedom of Information requests.

Regional and industry liaison

Staff in the Reserve Bank's regional and industry liaison team – which operates from four state offices around Australia (in Adelaide, Brisbane, Melbourne and Perth) and the Bank's Head Office in Sydney – work together to conduct the Bank's liaison program. Liaison staff meet regularly with businesses from all sectors of the economy, associations, governments and community organisations from across the country, including in regional areas. Around 780 liaison meetings were conducted in 2021/22. While staff were limited in their ability to visit contacts in person over much of the past year, engagement continued via telephone and videoconference meetings. However, towards the end of the year, there was a return to more face-to-face meetings; liaison staff also took the opportunity to visit a few regional centres, with additional regional visits undertaken in the early part of 2022/23.

Timely information provided by liaison contacts helps the Bank to monitor trends in the Australian economy, industry-specific developments and assess the effect of unusual events, such as the COVID-19 pandemic and natural disasters. This information is used in conjunction with data from official and other sources, allowing the Bank to better understand the issues affecting businesses and the economy in general.[1] The timeliness of information gathered from the Bank's liaison program has been particularly valuable during the COVID-19 pandemic, enabling the Bank quickly to assess the impact of containment measures and other disruptions to the Australian economy prior to it being reported in official data sources. The liaison program has also provided valuable information about the effect of the pandemic on businesses and households and their responses, the nature and evolution of the economic recovery, and the effectiveness of monetary and fiscal support measures. Summary de-identified messages from liaison about the impact of the pandemic are regularly shared with the Reserve Bank Board, senior management and other government agencies.

Broad messages from liaison inform the Reserve Bank Board's policy decision-making and are communicated to the public through the Bank's regular statements and reports, as well as speeches by senior staff. Liaison information is also regularly drawn upon in the *Bulletin* and the *Statement on Monetary Policy*. In 2021/22, this included the availability of labour and wage-setting behaviour, supply chain disruptions, conditions in the commercial property and construction sectors. A regular dedicated summary of liaison messages will be included in the *Statement on Monetary Policy* from the November 2022 publication.

Staff in the state offices play an important role in the Bank's communication with members of the public, as they are well positioned to hold discussions with a broad cross-section of the community. In 2021/22, state office staff gave around 10 presentations to members of the community, including at schools, business roundtables and regional chambers of commerce. In addition, Bank employees presented summaries of the *Statement on Monetary Policy* and the *Financial Stability Review* during the year to around 250 participants in the liaison program. All of these presentations were conducted virtually, enabling contacts from both metropolitan and regional areas to attend.

As noted in the chapter on 'Governance and Accountability', the Reserve Bank Board would usually meet in state capitals other than Sydney on a regular basis, and a dinner would be held with members of the local community, including representatives and leaders from politics, business, the public sector, and educational and community organisations. However, in 2021/22 no community dinners were held owing to the containment measures and domestic travel restrictions associated with COVID-19. Planning for the

[1] See Dwyer J, K McLoughlin and A Walker (2022), 'The Reserve Bank's Liaison Program Turns 21', RBA Bulletin, September.

Board to meet in state capitals other than Sydney is under way for 2022/23, with the first of these meetings to be held in Hobart in November 2022.

The Reserve Bank convened its annual Small Business Finance Advisory Panel in July 2022. The Panel, which was established in 1993, discusses 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. An article drawing on the Panel's discussions in 2021 and other sources of information on small business finance appeared in the September 2021 *Bulletin*,[2] and the latest panel discussion and sources of information is covered in the September 2022 *Bulletin*.[3]

Consultations and public enquiries

The Reserve Bank maintains engagement with a wide variety of groups to inform its policy and operational activities. Senior Bank staff meet regularly with representatives of various domestic and international official agencies, business groups and financial market participants to discuss economic, financial and industry developments.

In October 2021, the Bank published the conclusions paper from the comprehensive Review of Retail Payments Regulation, which began in late 2019.[4] The paper set out various policy actions decided by the Payments System Board, which are expected to contribute to a more efficient and competitive payments system. The Bank consulted extensively with a wide range of stakeholders throughout the Review.

The Reserve Bank held two meetings of its Payments Consultation Group in 2021/22. The Group, which was established in 2014, is a structured mechanism for representatives of various users of the payments system (consumers, merchants, other businesses and government agencies) to convey their views on payments system issues as an input to the payments policy formulation process. More details on the activities of this group are provided in the *Payments System Board Annual Report 2022*.

Staff from the Payments Settlements Department continued to conduct regular liaison meetings with Reserve Bank Information and Transfer System (RITS) members and industry groups, such as the Australian Payments Network (AusPayNet). Staff also participated in various industry forums, including AusPayNet's High Value Clearing System Management Committee. A senior staff member sits on the Board of AusPayNet and another senior staff member sits on the Board of New Payments Platform Australia Limited (NPPA), the company established to build and operate the NPP. Staff from the Payments Settlements and Banking departments represent the Bank on NPP operating committees. Participation in these groups, and a number of other industry forums, helps the Bank to remain well informed about developments in these areas and contribute to innovations in the banking and payments industry.

The Reserve Bank sponsors and provides the secretariat to the Australian Foreign Exchange Committee (AFXC). The AFXC is a member committee of the Global Foreign Exchange Committee (GFXC), of which former Deputy Governor Guy Debelle was the Chair until December 2021. During 2021/22, the AFXC sought to ensure the adoption of the updated FX Global Code within the Australian market and

[2] See Black S, K Lane and L Nunn (2021), 'Small Business Finance and COVID-19 Outbreaks', RBA *Bulletin*, September.

[3] McCowage M and L Nunn (2022), 'The Current Climate for Small Business Finance', RBA *Bulletin*, September.

[4] RBA (2021), 'Review of Retail Payments Regulation: Conclusions Paper', October.

contributed to further materials developed by the GFXC to promote wider adherence to the principles of the Code (see chapter on 'International Financial Cooperation').

During the year, the Reserve Bank received approximately 2,800 public enquiries on a broad range of topics, including monetary policy, the economy, financial markets and regulation of the payments system. Responses were provided to the majority of enquiries received by the Bank. Staff from Note Issue Department also continued their engagement with industry and members of the public in relation to the new banknote series (see chapter on 'Banknotes').

Research

The Reserve Bank publishes the results of longer term research conducted by staff in the form of Research Discussion Papers (RDPs), which stimulate 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 2021/22, seven RDPs were published on a range of topics in the Bank's areas of interest, including: Australian household liquidity and spending; limits on mortgage products; the effect of bond purchases; the effect of corporate sentiment on investment; and extensions to the Bank's Macroeconomic Model. Reserve Bank staff also published their research in various external journals, including the *Journal of Econometrics*, the *Australian Economic Review* and the *Econometrics Journal*.

Research undertaken at the Reserve Bank is frequently presented at external conferences and seminars. In 2021/22, Bank staff presented both in person and virtually at a number of conferences and institutions in Australia and overseas, including the International Association for Applied Econometrics Conference, the Bank for International Settlements, Macquarie University, Sydney Macro Reading Group, the IFC Workshop on Data Science in Central Banking, Boston University, the Monetary Authority of Singapore's Golden Jubilee Conference and the Australian Treasury Macroeconomic Group Seminar.

The Reserve Bank hosts regular conferences to foster interaction between academics, central bankers and other economic practitioners on topical policy issues. After a number of years of disruption owing to the COVID-19 pandemic, conferences returned to being held in person in 2022. The Bank's annual conference for 2022 was held in late June on the topic of 'The Causes, Challenges and Consequences of the Low Interest Rate Environment'. The annual Macroeconomic Workshop was held in May, following the reopening of the refurbished H.C. Coombs Centre. Draft papers from the conference and workshop are available on the Bank's website. The Bank also co-hosted a conference with the Australian Bureau of Statistics in March.

During 2021/22, the Reserve Bank hosted a number of policymakers from domestic and overseas institutions, such as the International Monetary Fund, the Bank of England and the Federal Reserve Bank of New York, as well as academics from a range of universities, including the University of Maryland, Harvard, Dartmouth, the University of Western Australia and the University of Melbourne. Due to the pandemic, the majority of these visitors presented seminars virtually at the Bank. International presenters of note included Lars Svensson and David Blanchflower.

The Reserve Bank sponsors 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 2021/22, the 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 to a quarterly survey of union inflation and wage expectations undertaken by the Australian Council of Trade Unions.

The Bank continued to contribute to funding the *International Journal of Central Banking*, whose primary objectives 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 also provides financial support to the Group of 30's program of research into issues of importance to global financial markets.

The Bank provides financial support to the Australian Research Council Centre of Excellence in Population Ageing Research (CEPAR), based at the University of New South Wales. A senior official of the Bank sits on the Advisory Board of CEPAR.

The Reserve Bank makes a financial contribution to a number of conferences in economics and closely related fields. In 2021/22, these conferences included the University of Wollongong's Labour Econometrics Workshop, the University of New South Wales' Australasian Finance and Banking Conference, the University of Sydney's First Women in Macroeconomics Workshop, Murdoch University's National Indigenous Business Summer School and the Economic Society of Australia's Australian Conference of Economists. The Bank continued its sponsorship of the Economic Society of Australia's Central Council for the third year. The three-year sponsorship helps to build and strengthen the profession and the debate on economic issues.

In addition, in 2021/22 the Reserve Bank renewed its corporate membership of the Centre for Independent Studies, the Committee for Economic Development of Australia, the Ethics Alliance, the McKell Institute and the Lowy Institute for International Policy. The Bank has provided in-kind support for the Grattan Institute by seconding a staff member to the Institute during 2021/22. The Bank is also an associate member of the South East Asian Central Banks Research and Training Centre.

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 staff member of the Bank and APRA. Two scholarships were awarded under this program in 2022. The cost to the Bank of this scholarship was $15,000.

The total value of support provided for research and education in 2021/22 was $364,397.

Education

A key part of the Reserve Bank's community engagement is our relationship with students and educators, with a dedicated team coordinating the efforts of staff across the Bank to deliver a public education program. The main focus of the program is economics education at senior high school, although educational activities are also undertaken for different stages of learning (both at school and university). The program is delivered in person and online, with additional online resources developed to cater for remote learning needs during the pandemic.

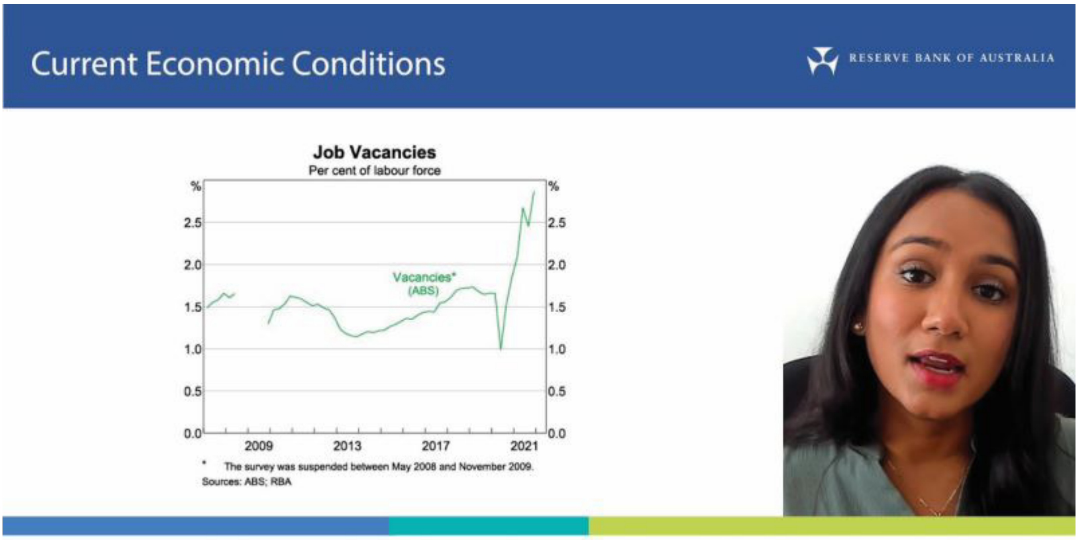
The Reserve Bank's commitment to economics education is motivated by the importance of economic literacy in the community and our concerns about the falling size and diversity of the economics student population. Nationally, the number of high school students studying economics in Year 12 has fallen by around 70 per cent since the early 1990s – with fewer schools (particularly government schools) offering economics. There has also been a significant fall in diversity over this period, with lower participation by females and students from schools that are culturally diverse or located in lower income areas. A similar pattern in economics enrolments is evident at university. To help address these issues, the Bank has been providing practical support by creating widely accessible resources that are aligned with curricula, giving presentations to students and offering professional development opportunities to educators. We have also been conducting research to identify how best to direct our efforts to increase engagement with economics and diversity among its student body.

A key feature of the education program is the delivery of talks to students by the Reserve Bank's Ambassadors – the nearly 50 Bank economists who are trained to engage directly with students. The Ambassadors work closely with staff in the Bank's state offices, who also participate in educational talks and help ensure they are available to students across the country. Talks are given to individual classes (in person and online) as well as at multi-school events in the form of webinars and in-person student conferences. The talks range from explanations of monetary policy, economic concepts and current economic conditions through to the benefits of studying economics. In total, around 7,900 students were reached during the year, of whom around 6,500 were high school students. Furthermore, using online delivery, presentations were given to students across the country, with greater geographic reach than in previous years – including to remote and regional areas.

Over the past year, the public education team expanded the school talks series to include talks for students in middle high school that introduce them to economics (as part of their commerce studies), so that they might choose economics in senior high school or university. These talks were accompanied by additional resources to support teachers in their delivery of economic content to these students.

Eighteen of the Bank's core education resources were revised during the year to account for recent changes to the way that monetary policy is implemented and the recovery of the economy from the COVID-19 downturn. New text-based resources were also created, including an Explainer on the Non-Accelerating Inflation Rate of Unemployment (NAIRU). Videos were prepared after each quarterly *Statement on Monetary Policy* to provide an accessible update on current economic conditions for students and teachers. These videos complemented the talks given directly to students on this topic.

In terms of advocacy of economics, a six-part Explore Economics video series was produced to provide role models for students at both high school and university. Bank Ambassadors discussed the 'big ideas' in economics, the benefits of studying economics and their own study and career paths. The videos were used by educators to assist students with subject selection and career planning.



A Reserve Bank economist in a recorded talk for students and teachers on current economic conditions.

A Reserve Bank economist prepares to be filmed for the Explore Economics video series.

This past year saw the return of large-scale careers fairs, after a hiatus for much of the past two years because of the pandemic. As a result, in 2021/22 Reserve Bank staff participated in events attended by nearly 40,000 students. This provided an important opportunity for a large audience to gain exposure to economics and the Bank. Importantly, it allowed direct face-to-face engagement with students, with over 1,000 substantive discussions conducted with individual students about their subject and career choices.

At the Western Sydney Careers Expo, students speak with Reserve Bank Ambassadors about studying economics.

The Reserve Bank continued to support educators through professional development activities. We hosted an online version of the Teacher Immersion Event, which included addresses by the Governor and Assistant Governor (Economic), presentations by Bank staff on core economic topics, practical sessions on how Bank content could be delivered in the classroom and a Q&A session with the Deputy Governor. Teachers from across the country attended – including, for the first time, teachers from as far afield as Broome in Western Australia and Charters Towers in Queensland. The Bank also continued its Topical Talks series, in which educators attend a lecture given by a senior Bank staff member on a topical economic issue relevant to Year 12 and undergraduate students. Key sessions of Bank-hosted professional development activities were filmed and made available on the Bank's website for a wider audience. In addition, Bank staff presented at various professional development events hosted by peak teaching bodies and other education service providers.

Further research was undertaken to guide the strategic direction of the public education program and evaluate its effectiveness. In particular, a randomised control trial was conducted of around 2,000 high school students to evaluate formally the effectiveness of the Bank's school talks. This research identified that the talks improved both perceived and actual understanding of key economic concepts, and increased the confidence of students, including those who are less socially advantaged. The results were published in the December 2021 issue of the *Bulletin*.[5] Drawing on data from the same trial, another piece of research explored differences between a student's perceived and observed proficiency in economics, finding that a significant 'confidence gap' existed for female students. This research was published in the March 2022 issue of the *Bulletin*, with the author invited to present at a number of external events.[6] In addition, there were ongoing surveys of teachers who participated in the Bank's education activities to

---

[5] Rickards P (2021), 'Do RBA Talks Improve Student Outcomes?', RBA *Bulletin*, December.

[6] Tan J (2022), 'Exploring the Confidence Gap', RBA *Bulletin*, March.

collect data for further research and program evaluation, as well as to identify their requirements for additional support.

The Educators Advisory Panel – which comprises external education experts who advise on the strategic direction of the Bank's public education program – met twice virtually during the year to review the education program's progress, with a particular focus on the lessons of the pandemic for future needs of students and educators.

Museum

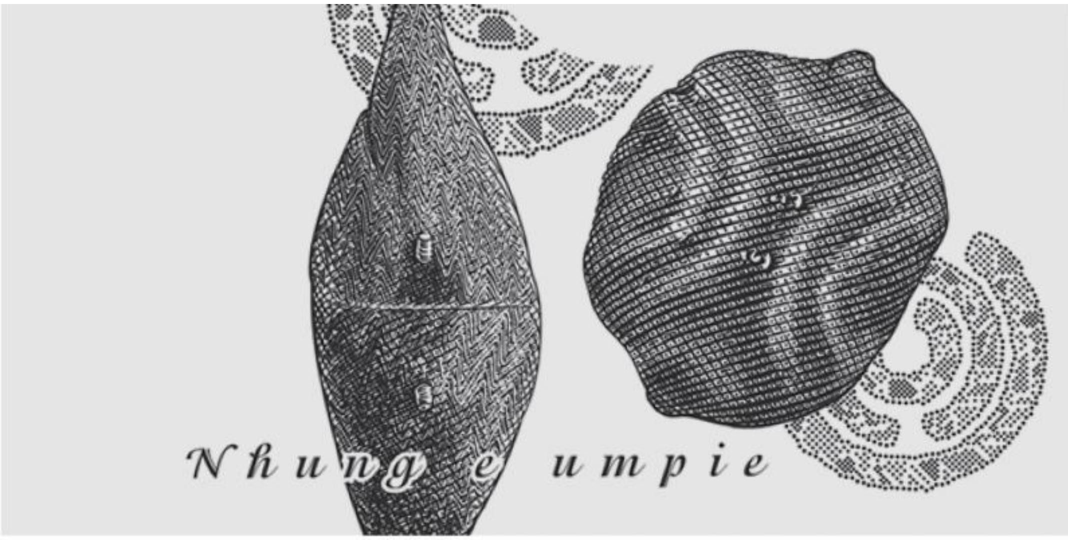
The Reserve Bank's Museum houses a permanent collection of artefacts and hosts periodic exhibitions. In the permanent collection, visitors can view the various types of money used in Australia before Federation through to the current innovative series of Next Generation Banknotes (NGB). Visitors can trace the evolution of the nation's identity as expressed through its banknotes. They can also see the artwork used in banknote design, learn about how banknotes are made and discover their security features.

However, the Museum was closed for most of the past year because of the pandemic and construction work elsewhere in the building, which impeded access. Consequently, there was a shift to sharing its collections virtually, with new online exhibitions added to the Museum website along with a subscriber service and Museum newsletter. To enhance users' engagement with the NGB series, an immersive audio experience – 'Microprinting' – was developed in which the microprint on each banknote was recited, with an accompanying soundscape, bringing its story to life.[7] While most readings were done by Museum staff, the audio format provided an opportunity to connect past and present histories through the voices of family members. The grandniece of David Unaipon read the microprint of the $50 banknote (on which he is represented), and the grandson of Sir John Monash read the microprint on the $100 banknote (on which he is represented).

Another online exhibition – 'First Nations Peoples and Australian Banknotes' – was devoted to the representation of First Nations peoples and culture on Australian banknotes.[8] It documented the transition from the depiction of First Nations peoples and culture as generic types towards awareness of their independent identities and histories. The exhibition addressed the issue of representation through the lens of banknotes – something most Australians use or see – to make a unique contribution to a neglected subject.

[7] RBA Museum, 'Microprinting'.

[8] RBA Museum, 'First Nations Peoples and Australian Banknotes'.



Detail of Ngarrindjeri shields and imagery related to Nhung e umpie, navel cord exchange, from the $50 banknote, 2018.

Additionally, a new feature on the representation of Queen Elizabeth II on Australia's banknotes was released on the occasion of the monarch's platinum jubilee.[9] As Queen Elizabeth II has been represented on each Australian banknote series issued during her reign, the exhibition highlighted the threads of continuity as well as progressive change that have characterised the evolution of the nation's banknote designs.

[9] RBA Museum, 'Queen Elizabeth II'.

Photograph portrait of Queen Elizabeth II as supplied for the design of the $1 banknote.
Reserve Bank of Australia Archive, NP-002567.

As well as adding online exhibitions, Museum staff conducted virtual school holiday activities in which younger students designed their own banknotes. The exercise introduced students to aspects of Australian history and financial literacy, to ensure they could understand the key features of the money they handle.

A Museum staff member explains how children can design their one banknote and what features it should include.

Archives

The Reserve Bank has a unique and rich archives collection. In addition to records about the Bank's own operations, the archives contain records about Australia's economic, financial and social history over nearly 200 years. The records predate the central bank as it is known today because the Reserve Bank had its origins in the original Commonwealth Bank of Australia, which had a central banking function and had absorbed other banks with a colonial history.

The Bank has been digitising its archival records and progressively releasing them to the public through our digital archive – Unreserved.[10] Unreserved enables users independently to research and download digital versions of archival records, learn about the nature and scope of the Bank's archival collection, and lodge requests for information or assistance from the archivists. Since the launch of Unreserved in March 2021, there have been over 37,000 views of individual records or volumes of records via this platform.

Two additional releases of digitised archival records occurred during the past year, including records about:

- *Reserve Bank Governors and senior personnel:* The records of the early Governors and executives, most of which are from 1912–1948 and capture their responsibilities during world wars, the Great Depression and the 1918 pandemic.
- *Research Department:* The early economic analysis conducted by the central bank over the period 1911–1970, including records that form the basis of today's Board papers and economic statements. Importantly, among these records is an unpublished book by Leslie Melville, the central bank's first economist.
- *Reserve Bank premises:* Documents and photos relating to the purchase, construction and management of Reserve Bank buildings between 1912 and 1959. The photographic records also

[10] RBA, 'Unreserved'.

capture the development of the built environment in Australian towns and cities, as banking branches became more prominent and widespread .

Along with the records, the Bank published guides that provided researchers with information about the content of the series released, their historic context and an explanation of their significance. To showcase the value of the archival records, a *Bulletin* article explored the remarkable contribution of the Reserve Bank's first economist to economics and public policymaking in Australia and abroad.[11]

While the pandemic has required the closure of the Reserve Bank's Archives repository and public research room, the archivists were able to support most requests for information remotely by accessing digital versions of records that were then shared with researchers using the Bank's secure external collaboration tool, RBA Box. They dealt with nearly 200 requests on a diverse range of topics, including family history, banknotes, sterling balances, colonial banking ledgers and images of Bank branches in the early 20th century. The archivists also continued to support the Bank's Historian, Associate Professor Selwyn Cornish of the Australian National University, who is at an advanced stage of documenting the 1975–2000 period of the Reserve Bank's official history.

From the Reserve Bank's archival photographic collection, an image of the construction of the Commonwealth Bank of Australia's head office premises titled 'Lend us your hammer Jim', December 1914; RBA Archives PN-000685

Charitable activities

During 2021/22, the Reserve Bank made its 20th annual contribution of $50,000 to the Financial Markets Foundation for Children, which is chaired by the Governor. In September 2022, the will Governor deliver his sixth address to the Anika Foundation's annual event to raise funds to support research into adolescent depression and suicide. This will be the 17th such event supported by the Bank.

The Reserve Bank supports several staff-led charitable initiatives, key among which involves dollar-matching staff payroll deductions (totalling $150,319 in 2021/22) organised by the Reserve Bank

[11] See Cornish S (2021), 'The Central Bank's First Economist', RBA *Bulletin*, December.

Benevolent Fund. The Fund supports a set of 15 recognised charities working in the areas of welfare, education, mental health, illness, disability, international medical aid and animal protection. The Bank also facilitates staff salary sacrificing under a Workplace Giving Program. Other staff-led initiatives over the year included:

- The Bank matched staff donations for the Benevolent Fund's Christmas appeal for Foodbank Australia and Barnardos Australia.
- In lieu of the staff's Children's Christmas Party, the Bank made a donation to The Salvation Army in December 2021.
- Following the devastating impact of floods in New South Wales and Queensland, Bank staff raised $6,600 for the Australian Red Cross – Queensland and NSW Floods Appeal in a fundraising initiative organised by the Benevolent Fund.
- Reserve Bank staff participated in two volunteering activities in 2021/22 with Foodbank NSW & ACT and Foodbank Victoria.

The Reserve Bank's contributions under these initiatives and other modest one-off donations in 2021/22 totalled $232,603.

PART 3

Management

Management of the Reserve Bank

This chapter outlines the management structure of the Reserve Bank and describes the Bank's approach to managing its finances, technology, data and facilities. The Bank is committed to discharging its policy and operational responsibilities in an efficient manner and invests in its people, technology, data, facilities and related capabilities essential for the Bank to achieve its strategic objectives. Subsequent chapters provide further information on the Bank's people, risk management and earnings.

Management structure

Under the *Reserve Bank Act 1959*, the Bank is managed by the Governor, with the support of two key management committees – the Executive Committee and the Risk Management Committee.

The Executive Committee is the key management committee of the Reserve Bank for matters of strategic or Bank-wide significance, including delivery of the Bank's strategic focus areas (see chapter on 'Our Role'). Its role is to support the Governor in managing the Bank. The Committee, which is chaired by the Governor and includes the Deputy Governor and the Assistant Governors, meets weekly. Other senior executives attend meetings of the Committee when required to provide specialist advice.

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 chaired by the Deputy Governor and comprises senior executives drawn mainly from the operational areas of the Bank. The Risk Management Committee met regularly during 2021/22 and kept the Executive Committee and the Reserve Bank Board Audit Committee informed of its activities. Details of the Bank's risk management framework are provided in the chapter on 'Risk Management'.

The Executive Accountability Framework (EAF) supports the Bank's high standards of executive accountability. The EAF outlines where accountability lies within the executive team for the Bank's functions and operations. It complements the Bank's broader governance framework, which is set out in legislation, charters of board subcommittees and Bank committees, and Bank policies. The EAF is available on the Bank's website.

Financial management

The Reserve Bank seeks to ensure its policy and operational objectives are met, while managing its spending and staffing levels. The Bank's budget is a key component of this accountability, covering the

Bank's resourcing and expenditure plans for the coming year. The Executive Committee supports the Governor in overseeing the Bank's budget.

The Reserve Bank has an Investment Committee, chaired by the Deputy Governor, to oversee the Bank's project portfolio. Its primary role is to support the Governor and the Executive Committee to prioritise spending to deliver outcomes consistent with the Bank's strategic objectives. The Investment Committee is supported by a project governance framework, which includes review and approval of business cases for proposed initiatives. Senior executive accountability is established via project steering committees. Projects report at least quarterly to the Executive Committee on their status, including the management of project-related risks.

Assistant Governors and Department Heads are responsible for managing expenditure within approved budgets. Support is provided by the Reserve Bank's Finance Department, which provides the Executive Committee with regular forward-looking updates to allow it to make timely decisions about priorities. Financial management is also supported by the Bank's expenditure and payment approval policy and its associated processes, which ensures appropriate oversight of expenditure and payments to the Bank's various suppliers of goods and services. Material spending commitments are approved by executive staff.

The Reserve Bank is a corporate Commonwealth entity 'prescribed' under section 30 of the *Public Governance, Performance and Accountability Rule 2014*, and is therefore required to apply the Commonwealth Procurement Rules (CPRs) when performing duties relating to certain procurements with an expected value exceeding $400,000 for non-construction services and $7.5 million for construction services. The CPRs require public reporting of certain activities on the Commonwealth's AusTender website. For the reporting period, the Bank notified the award of 25 contracts and 8 procurement opportunities for utilities, construction, and IT hardware, software and services. For other procurements, the Bank follows the principles contained in the CPRs. The broad objective is to ensure that goods and services are procured by the Bank in an efficient and economical manner and that effective process accountability and probity applies.

The Reserve Bank's costs arise from fulfilling its responsibilities and from investment that supports the delivery of the Bank's strategic objectives. Where appropriate, the Bank seeks to recoup operating costs associated with its operational responsibilities through fees and charges. This includes from the use of payment systems run by the Bank (such as the Reserve Bank Information and Transfer System and the Fast Settlement Service), and from transactional banking services provided to clients. The Bank also earned fee income of $227.6 million in 2021/22 from the provision of the Committed Liquidity Facility to eligible authorised deposit-taking institutions. Operating costs associated with the production, issuance and management of Australia's banknotes are indirectly funded by net interest income. This arises because holders of 'banknotes on issue' are not paid interest, while the Bank earns interest on the assets it holds, albeit at low rates. Further details on these services are provided in the chapters on 'Banking and Payment Services', 'Banknotes' and 'Operations in Financial Markets'.

Operating costs

The Reserve Bank's general operating costs were $429.8 million in 2021/22, a 4.2 per cent increase on the previous year. Staff costs – the largest component of the Bank's general operating costs – increased by 5.7 per cent and reflected, on average, higher employee numbers during the year supporting the Bank's data, technology and change initiatives, and from salary increases stipulated in the Reserve Bank's Workplace Agreement. Ensuring that staff levels remain appropriate to support the Bank's operations and delivery of our strategic priorities has been a key management focus. Operating expenditure on projects was higher in 2021/22, including commencement of the upgrade of the Reserve Bank's Head Office, and data and technology initiatives in support of the Bank's strategic focus areas.

General Operating Costs[a]
$ million

	2017/18	2018/19	2019/20	2020/21	2021/22
Staff costs	223.6	227.9	244.1	244.5	258.4
Technology costs	31.2	34.8	41.0	42.4	44.6
Premises costs	25.0	24.8	26.5	28.8	29.1
Other costs	28.6	29.5	29.5	34.4	33.1
General operating costs (excl. depreciation)	308.4	317.0	341.1	350.1	365.3
Depreciation	51.7	56.2	64.9	62.6	64.5
General operating costs	360.1	373.2	406.0	412.7	429.8
– Of which: Cost of projects	35.1	23.2	20.1	30.3	37.1
General operating costs by function[b]					
– Policy	80.9	82.6	89.7	89.7	90.2
– Business Services	95.8	100.1	100.9	90.8	87.6
– Executive and Corporate Support	183.4	190.5	215.4	232.2	252.0

(a) Excluding NPA and banknote management expenses, and costs directly linked with transaction-based revenue. Some prior period costs have been reclassified to align with the current basis of presentation.

(b) Costs by function shown above are on a direct rather than an allocated cost basis.

Source: RBA

Capital expenditure reflects the program of investment aimed at maintaining the value of the Reserve Bank's buildings and technology assets and supporting the delivery of new capabilities and services. Significant capital expenditure in 2021/22 was for the commencement of major works to upgrade the Bank's Head Office in Sydney and completion of an upgrade of the Bank's H.C. Coombs Centre training facility in Kirribilli (see below under 'Facilities') and projects to further strengthen the resilience of technology services (see below under 'Technology'). Capital expenditure is expected to rise in the coming year in view of the significant ongoing program to upgrade the Bank's Head Office and a refresh of technology infrastructure, including that supporting the Fast Settlement Service.

Capital Expenditure[a]
$ million

	2017/18	2018/19	2019/20	2020/21	2021/22
Capital Costs	45.7	36.5	43.6	62.0	49.3
– Of which: Cost of major projects[b]	39.5	31.7	19.0	44.1	29.2

(a) Excluding NPA.

(b) Projects on the Enterprise Master Schedule.

Source: RBA

The Reserve Bank engages consultants from time to time where it lacks specialist expertise or if independent research, review or assessment is required. Spending on consultancies decreased a little in

2021/22 and has been broadly stable over the past three financial years. In 2021/22, contributions to the Digital Finance Cooperative Research Centre to explore use cases for central bank digital currencies accounted for most of this expenditure. The next largest expenditure was a consultancy with UNSW's SMaRTCentre to help implement its technology for recycling waste materials from the Bank's Head Office refurbishment, including glass, textiles and concrete into new products that will be used in the refurbishment.

Spending on Consultancies[a]

$

Financial year	Spend
2011/12	535,000
2012/13	1,190,000
2013/14	387,000
2014/15	773,000
2015/16	622,520
2016/17	987,388
2017/18	596,157
2018/19	1,113,425
2019/20	485,896
2020/21	613,823
2021/22	599,759

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

Source: RBA

Technology

Information Technology (IT) systems and infrastructure play a key role in the Bank's ongoing operations and account for a significant proportion of the Bank's strategic investments. The Bank's technology environment comprises approximately 450 software applications, two highly available data centres and a highly resilient network infrastructure across multiple Bank sites.

A key focus in 2021/22 was the provision of technology services to support the Bank's response to the pandemic, including processing increased welfare and stimulus payments on behalf of the government and implementation of the Reserve Bank Board's monetary policy decisions.

Further improvements to the technology supporting hybrid working arrangements have also been implemented. Availability targets for critical business services were largely achieved, and business and technology continuity exercises were successfully conducted in November 2021 and March 2022 to validate system resiliency.

Major technology-related projects completed in 2021/22 included: the establishment of a modern data bunker facility; improved technology to promote greater collaboration and enhance the employee experience as part of the modernisation of the H.C. Coombs Centre for Financial Studies; the upgrade of key external publishing infrastructure supporting the financial markets services; and strengthening of our network-access controls.

Cybersecurity remains a key focus for the Reserve Bank, with continued investment in ensuring the security of the Bank's systems and information. This includes ongoing threat monitoring and detection of emerging security vulnerabilities to inform continuous security improvements, regular penetration testing of the Bank's systems and processes, and strong security governance over new technology solutions that are introduced into the Bank's IT environment. This is supported by a program of activities to build cybersecurity awareness among all Bank staff, and active intelligence-sharing within the financial services, government and central banking communities.

The Reserve Bank continues to pursue strategies to drive the efficiency, stability and resilience of its IT assets, including: automation of patching and release management; and utilising cloud computing and managed services where appropriate. The Bank has introduced a technology skills certification program to ensure staff working on highly available systems maintain the knowledge and experience required to do so, while also focusing on future skills needed to support the Bank's services. The past year also saw significant focus on activities to attract and retain high-quality staff to deliver IT services amid a tightening labour market.

The Reserve Bank operates an Innovation Lab to identify and evaluate the implications of emerging technologies and business trends relevant to both its charter obligations and its operations. In 2021/22, key innovation lab engagements included supporting the development of a potential electronic Know Your Customer (eKYC) model for the South Pacific region, supporting industry consultation and exploration of innovative solutions for the Bank's Cash-in-Transit (CIT) work, and establishment of an Innovation Academy to continue to grow the Bank's innovation capability.

Data

Harnessing the power of data is a strategic focus area for the Reserve Bank. The Enterprise Data Office (EDO) is responsible for the management and governance of the Bank's data as an asset in an external environment that is complex, data rich and rapidly changing. In 2021, the Bank appointed its first Chief Data Officer to lead the EDO and have the overall responsibility for growing technology, process and people capabilities for working with data.

A key focus over the course of 2021/22 was to continue the refresh of the Bank's strategic data platforms and the migration and consolidation of important data onto these platforms. This has been accompanied by an ongoing enterprise-wide training initiative to uplift and maintain the staff's proficiency with modern data analytics technologies and tools.

Following the consolidation of common data management and reporting activities in the EDO, work is under way to standardise, automate and industrialise these activities. Additionally, a Data Science Hub is now operational and using modern technology and techniques from machine learning and elsewhere to delivery policy and operational projects to support the Bank's functions.

These initiatives seek to reduce data-related risks, optimise data management activities to improve employee productivity and engagement, and enhance analytical outcomes through the use of modern data tools and methods, thereby harnessing the power of data.

Facilities

The Reserve Bank owns premises in locations where there is a business need to do so. The Bank's facilities include: the Head Office in Sydney; the H.C. Coombs Centre for Financial Studies in Kirribilli, Sydney; an office building in Canberra; facilities for the printing, processing, storage and distribution of banknotes at Craigieburn, north of Melbourne; and a Business Resumption Site in north-west Sydney. In addition to the buildings it owns, the Bank leases office space in Adelaide, Brisbane, Melbourne, Perth, Beijing, London and New York for staff based in these locations. Valuations are undertaken every second year. As at 30 June 2021, the value of the Bank's domestic property assets was estimated at $556 million. The next valuation will be undertaken by 30 June 2023.

Office space in the Reserve Bank's properties that is not required for the Bank's own business purposes is leased to external tenants. Net income from these leases amounted to $5.9 million in 2021/22.

During the year in review, the Reserve Bank commenced a large-scale renovation of the Bank's Head Office building and completed a major renovation of the H.C. Coombs Centre in Kirribilli. The renovations to the H.C. Coombs Centre have modernised the facility, which was built in 1984, and also expanded its capacity. The renovation of the Head Office building commenced in April 2022 after an extensive design phase and a competitive tender for a Head Building Contractor. These works will upgrade base building infrastructure that is at end-of-life and will ensure a safe, efficient and effective workplace to meet the long-term needs of the Bank, while preserving heritage features.

Works to increase the Bank's data centre infrastructure efficiency and capacity were also completed during 2021/22. Other improvements to the Bank's physical security infrastructure are under way across several sites as part of a periodic program to replace assets that are at end-of-life and no longer fit for purpose.

Ecologically sustainable development and environmental performance

The Reserve Bank is committed to improving the environmental performance of its operations. The Bank has developed policies and practices that are consistent with the principles of ecologically sustainable development (ESD) as set out in the *Environment Protection and Biodiversity Conservation Act 1999*. These policies and practices serve to minimise the impact of the Bank's activities on the environment by: increasing the use of renewable energy sources; undertaking continuous environmental improvement through more efficient energy utilisation and management of waste streams; and incorporating sustainability and environmental aspects in the Bank's building designs and operations. The ESD principles are captured in the Bank's Environmental Statement.[1]

Key waste management activities in this period included:

- initiatives to maximise the level of recycling, refurbishment and reuse of materials, furniture and equipment in the refurbishment of the Bank's Head Office building
- diversion of 1,258 tonnes of construction waste from landfill as a result of building waste disposal practices
- continued improvement in waste separation processes, including the introduction of a separate organics waste stream, increasing the Bank's diversion of waste from landfill
- ongoing reductions in single-use plastics, including use of alternatives to plastics for disposable cutlery and elimination of 30,000 plastic bin liners annually from landfill.

[1] See RBA (2019), 'Environmental Statement', December.

Initiatives to improve the performance of the infrastructure of the Reserve Bank's buildings and reduce carbon emissions in 2021/22 include:

- increasing the energy efficiency of the Bank's data centres by installing new, more energy-efficient electrical services, air-conditioning equipment and cold-air containment units; new monitoring systems were also installed to track and manage energy usage more effectively
- incorporating sustainable building solutions into the design and construction of the Head Office building and H.C. Coombs Centre, including rooftop solar panels, improved insulation, increased fresh air ventilation and rainwater harvesting; the designs also include improved sub-metering to manage electricity consumption more efficiently
- installing new energy-efficient cooling towers and chillers for the Craigieburn site, including elimination of ozone-depleting refrigerants and enhancements for the operational performance of the chilled water system
- improving humidity control for the Craigieburn site, with more efficient usage of electricity and water
- continued implementation of LED lighting across all Bank sites, replacing non-LED lighting to achieve improved environmental performance and reducing electricity consumption.

Electricity consumption at Bank-operated sites decreased by 5 per cent in 2021/22, compared with the preceding year. Operation of the solar panels at the Bank's Business Resumption Site delivered reductions in carbon emissions of 70.4 tonnes in 2021/22, equivalent to 6,652 trees. Gas consumption in 2021/22 was 1 per cent lower compared with the previous year, while water consumption in 2021/22 was 17 per cent lower. The reductions in electricity and water consumption are predominantly associated with improved efficiencies at the Craigieburn site as a result of the installation of more efficient cooling and humidification systems.

Our People

The Reserve Bank seeks to attract, develop and retain high-quality people with the technical skills and capabilities to achieve the Bank's strategic objectives, and behaviours that are consistent with the Bank's values.

Our values

The Reserve Bank's values are set out in the Bank's Code of Conduct. These values are designed to shape the Bank's culture and guide expectations and standards around workplace behaviour and professional conduct. The Bank's values 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. Excellence

We strive for technical and professional excellence.

3. 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.

4. Integrity

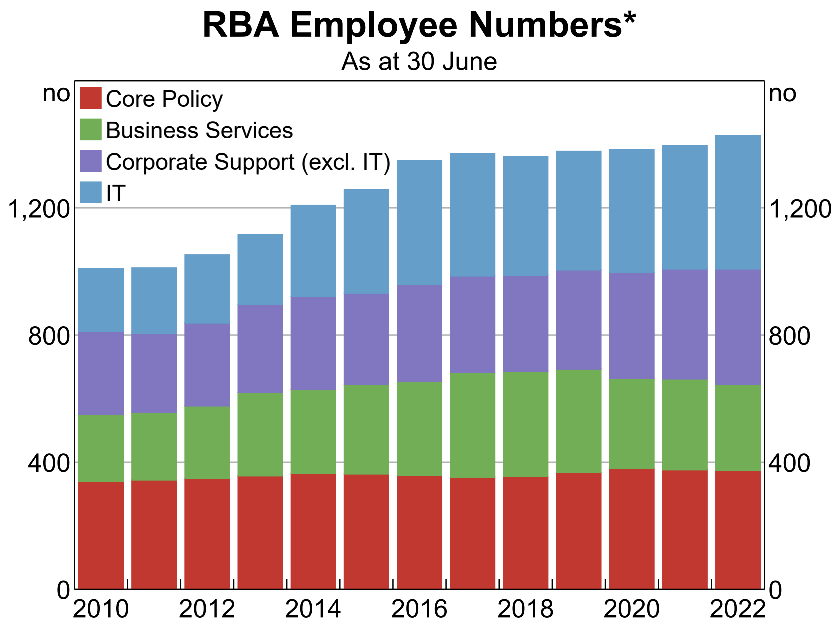
We are honest in our dealings with others within and outside the Bank. We are open and clear in our dealings with our colleagues. We take appropriate action if we are aware of others who are not acting properly.

5. Respect

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

2021/22 workforce profile

In June 2022, the Reserve Bank (excluding Note Printing Australia Limited) had 1,428 employees. With 7.8 per cent of employees working part time, the Bank's workforce comprised 1,393 full-time equivalent (FTE) employees. During the year, the Bank hired 285 employees, slightly more than half of whom were recruited on short-term contracts, mostly to undertake projects.



* Excludes NPA.
Source: RBA

Employees of the Reserve Bank(a)

Location	30 June 2021							30 June 2022						
	Male			Female				Male			Female			
	Full time	Part time	Total	Full time	Part time	Total	Total	Full time	Part time	Total	Full time	Part time	Total	Total
Australia														
Head Office, Sydney	689	21	710	437	80	517	1,227	722	14	736	463	86	549	1,285
H.C. Coombs Centre for Financial Studies, Sydney	2	0	2	0	0	0	2	2	0	2	0	0	0	2
Business Resumption Site, Sydney	26	0	26	11	1	12	38	22	0	22	11	1	12	34
Note-printing facility and National Banknote Site, Craigieburn	22	1	23	39	8	47	70	21	1	22	32	5	37	59
Canberra Branch, Canberra	4	0	4	6	1	7	11	5	0	5	8	1	9	14
Victorian Office, Melbourne	2	0	2	0	2	2	4	3	0	3	0	1	1	4

Location	30 June 2021							30 June 2022						
	Male			Female				Male			Female			
	Full time	Part time	Total	Full time	Part time	Total	Total	Full time	Part time	Total	Full time	Part time	Total	Total
Queensland Office, Brisbane	0	0	0	0	3	3	3	1	0	1	1	2	3	4
South Australian Office, Adelaide	1	0	1	2	0	2	3	2	0	2	2	0	2	4
Western Australian Office, Perth	1	0	1	2	0	2	3	1	0	1	2	0	2	3
Overseas														
New York Representative Office, New York	4	0	4	5	0	5	9	5	0	5	4	0	4	9
European Representative Office, London	5	0	5	2	1	3	8	6	0	6	1	1	2	8
China Representative Office, Beijing	0	0	0	2	0	2	2	0	0	0	2	0	2	2
Total	756	22	778	506	96	602	1,380	790	15	805	526	97	623	1,428

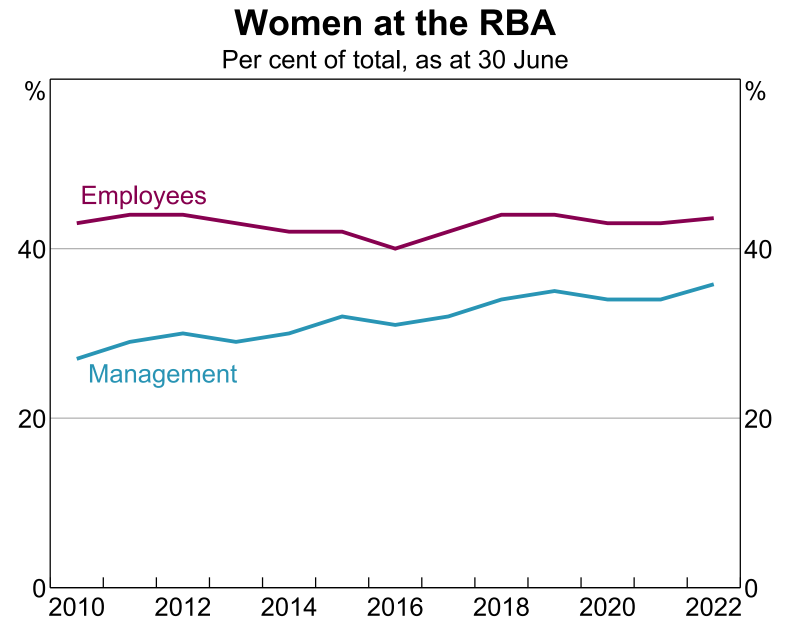
(a) Excludes NPA.

Source: RBA

The Reserve Bank is committed to achieving gender equity at all levels, including in management positions. The Bank's current objective for the share of women in management roles is to reach 40 per cent by 2023. Our longer term objective continues to be achieving equal representation of women in management positions. To achieve this, a key focus is equity in recruitment and selection, succession planning and development opportunities.

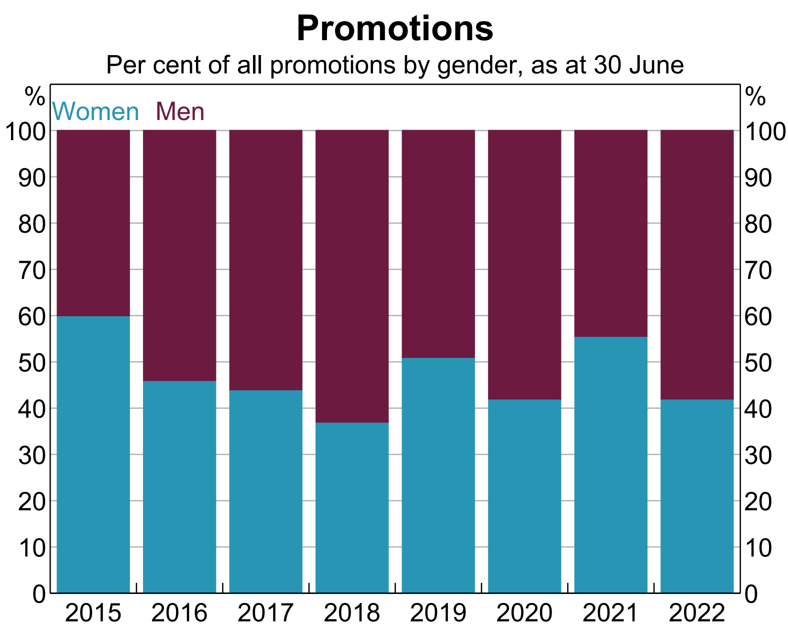
As at June 2022, women accounted for 43.6 per cent of the Bank's employees, compared with the Australia-wide share of employment of 47 per cent. As at June 2022, 35.8 per cent of management positions were held by women and four of the seven positions on the Bank's Executive Committee were held by women.

During 2021/22, 42.2 per cent of all promotions went to women. Of the 57 employees promoted to management positions, 36.8 per cent were women.

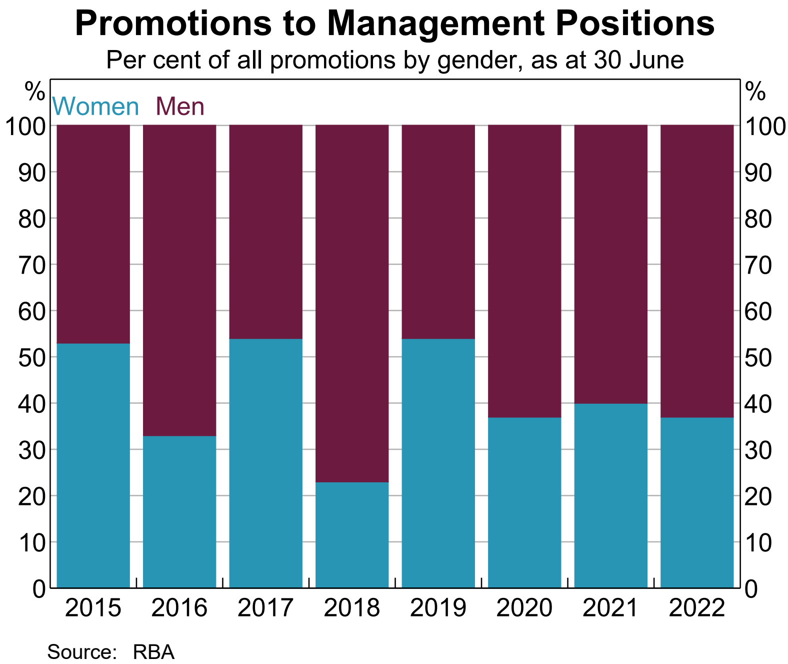


* Per cent of total employees and per cent of total managers.

Source: RBA



Source: RBA



Recruitment and development

The ability to attract and retain high-quality staff is essential to the Reserve Bank achieving its strategic objectives. Key to this is maintaining the Bank as an employer of choice and establishing strong recruitment practices and processes based on the principles of transparency, non-discrimination and merit.

The tight labour market in 2021/22 increased the challenge in attracting talent to certain roles at the Reserve Bank. In response, the Bank developed a talent attraction campaign that commenced in July 2022. The main theme of the Reserve Bank's Employer Value Proposition is that, by working for the Bank, a prospective employee can do more for Australia while achieving more for themselves. The Bank has also streamlined its processes for recruitment to reduce the time taken to fill vacant roles.

The Reserve Bank encourages employees continually to develop their skills. The Bank's flagship training programs are the Internship and Graduate Development Programs. The eight-week Internship Program provides high-performing university students with work experience and training through the completion of an applied research project. From the 330 applications for entry into the 2022 program, 24 places were offered. The two-year Graduate Development Program provides structured development opportunities through a balance of on-the-job training, rotations between key departments and complementary development activities. From the 1,370 applications received, 39 graduates started the program in 2022, compared with 24 graduates a year earlier. The Graduate Development Program has several streams and is open to graduates from a wide range of backgrounds, including economics, finance, audit and IT.

The Reserve Bank also provides financial support to employees for full-time and part-time study in disciplines related to their work and of interest, value and relevance to the Bank. During 2021/22, the Bank provided support to 24 employees to undertake part-time study and provided support to 17 employees to undertake full-time postgraduate study at universities in Australia and overseas.

Rotations and secondments

Within the Reserve Bank, lateral career rotation opportunities are offered to employees to provide exposure to different business areas, support new skills and knowledge development, encourage retention and strengthen succession pipelines.

In partnership with other Australian and international institutions, secondment opportunities are offered to Reserve Bank employees to share subject matter expertise and best practice, broaden their experience and assist with the development of their capabilities. During 2021/22, short-term secondments to other government agencies in Australia continued, including to the Australian Prudential Regulation Authority, the Australian Securities and Investments Commission and the Australian Treasury. A Reserve Bank staff member was also seconded to the Grattan Institute. Secondments to international institutions were disrupted by COVID-19, but began to increase in the second half of 2021/22. These included secondments to the Bank for International Settlements, the International Monetary Fund and the Bank of England.

Employee engagement

Employee Engagement Survey

In November 2021, the Reserve Bank undertook its fifth biennial enterprise-wide employee engagement survey. Overall, 84 per cent of staff reported that they are sustainably engaged, which is slightly improved from the previous survey in 2019. The results of this survey showed improvement across the Bank's focus areas, including career development opportunities, risk appetite and culture. Additionally, staff remain strongly aligned to the Bank's mission of serving the Australian people.

The survey also showed that staff rewards, retention and work pressures rated lower than previous years. To address these concerns, the Executive Committee sought further feedback from staff and agreed on actions to manage workload. Actions taken include prioritisation of enterprise-wide projects, encouraging staff to review processes for efficiency, and active management of priorities and workloads by management.

Hybrid working

The Reserve Bank has successfully transitioned to a hybrid working arrangement, which enables staff to work productively from the Bank's physical sites or remotely where it is practical or necessary to do so. These arrangements continue to protect the Bank's critical functions as well as ensure a safe and healthy workplace.

During 2021/22, the majority of the Bank's employees were again able to perform their duties by working remotely during periods of government-mandated restrictions on movement, with minimal disruption to day-to-day operations. By early 2022, the majority of Bank staff were working at a Bank site at least some of the time.

The Bank has developed a set of hybrid work principles for staff. The aim is to optimise the benefits of working remotely and coming together in person with an emphasis on teamwork, collaboration, learning and inclusiveness. These benefits align with the Bank's strategy to attract and maintain a high-quality, innovative workforce. To achieve this, staff are strongly encouraged to spend at least half their time working from a Bank site.

Diversity and inclusion

The Reserve Bank's Diversity and Inclusion Council meets quarterly and is chaired by the Deputy Governor. The Council comprises the Head of Human Resources and the sponsors and chairs of the Employee Resource Groups (ERGs), which focus on the areas of: Accessibility; Gender Equity; First Nations; LGBTI +Allies; and Race and Cultural Identity. Participation in the ERGs is voluntary and over 200 employees are members or associate members of the groups.

The Bank's Diversity and Inclusion Strategy was launched during 2020/21, with a commitment to building a more diverse and inclusive culture, where all employees are treated with respect throughout their careers. The Diversity and Inclusion Strategy is overseen by the Executive Committee, in consultation with the Diversity and Inclusion Council, which is responsible for monitoring the development and implementation of diversity and inclusion initiatives, policies and practices. The key focus areas of the strategy are:

- reinforcing leadership commitment to inclusion, where all leaders show visible, authentic commitment to inclusion and consistently role model inclusive behaviours
- building an inclusive culture, whereby our people are empowered to contribute to and deliver on the Bank's mission and drive results through challenging the status quo, effective collaboration and open communication
- reviewing and updating employee lifecycle processes, so that diversity and inclusion is considered and built into key processes, from recruitment to talent development and promotion.

The Reserve Bank's Innovate Reconciliation Action Plan was launched in August 2020 and we are close to completing the required actions. The Plan establishes the Bank's vision for meaningful engagement with Aboriginal and Torres Strait Islander peoples in our role as Australia's central bank, recognising and respecting the contribution of Australia's First Nations peoples to our social and economic progress. The Plan is underpinned by our commitment to reconciliation through engaging with and involving Aboriginal and Torres Strait Islander peoples in the Bank's work. It is consistent with our objectives of having a diverse and inclusive workplace, and contributing to the economic prosperity and welfare of the people of Australia. The Innovate Reconciliation Plan has three main focus areas:

1. *Increase awareness and respect* – raise awareness among our staff of Aboriginal and Torres Strait Islander cultures in a way that furthers reconciliation between Aboriginal and Torres Strait Islander peoples and other Australians.
2. *Build relationships* – work with Aboriginal and Torres Strait Islander peoples by drawing on the Bank's unique position as Australia's central bank and the skill and expertise of its staff.
3. *Provide opportunities* – position the Bank as a respectful employer of Aboriginal and Torres Strait Islander peoples.

The Bank hired a First Nations and Inclusion manager to support and drive the Innovate Reconciliation Action Plan initiatives.

The Bank continues to partner with My Gateway, an apprenticeship and traineeship support organisation. Three trainees from the 2021 cohort graduated with a Certificate III in Business Administration, with two transitioning to a second internship providing them with a deeper experience of working at the Bank and the opportunity to complete the Certificate IV in Business Administration.

Work health and safety, compensation and rehabilitation

The Reserve Bank is committed to maintaining and improving the safety, health and wellbeing of its employees. The Reserve Bank Board and the Bank's executives receive regular reports on work health and safety (WHS) matters to assist them in exercising their duty of care.

Acknowledging an ongoing key emphasis on safety and wellbeing in the context of the Bank's approach to hybrid working, and additional safety issues arising from the Head Office Refurbishment Project, areas of strategic focus over 2021/22 included:

- the Mental Health and Wellbeing Strategic Plan, with an emphasis on developing people leadership capability and mental health awareness, particularly for management and peer support
- the implementation of targeted initiatives that aimed to positively impact employee's health and wellbeing
- ensuring the Bank's health and safety management systems evolve to reflect changes brought about by our hybrid ways of working and the Head Office refurbishment
- continuation of a range of workplace safety and wellbeing initiatives to respond to the COVID-19 pandemic.

The Bank continued to implement initiatives to support the physical and psychological health of its employees, through promotion of positive health outcomes and prevention of potential health risks, including:

- encouraging staff to take two-week blocks of leave
- provision of a one-off 'Thank You Day' of leave, to provide recognition for employee efforts over the past 18 months, highlighting the Bank's awareness of the impacts the pandemic has had on employee wellbeing
- physical health activities, such as wellbeing programs focused on good physical health and nutrition, fitness classes, health challenges and influenza vaccinations
- mental health initiatives, such as the development of a toolkit to increase support capability of managers, mental health supportive leadership training, and seminars on topics related to mental health and wellbeing.

There were 64 WHS incidents reported in 2021/22, representing an 11 per cent decline on the previous year. The most common causes of incidents were: workplace factors such as property damage and electrical or environmental hazards (28 per cent); people experiencing cuts, sprains, strains, burns and striking objects (17 per cent); and people slipping/tripping/falling (14 per cent).

There were no accepted workers' compensation claims in 2021/22. The Reserve Bank's Lost Time Injury Frequency Rate (number of lost time injuries per million hours worked) was 2.2 in 2021/22, similar to the previous year.

Thirteen internal WHS investigations were conducted in 2021/22, relating to incidents that either caused moderate harm or had the potential to cause harm to a staff member. The investigations indicated that there were no systemic issues that would point to deficiencies in the way the Reserve Bank manages health and safety.

No investigations were made into the Reserve Bank's businesses or undertakings by Comcare during 2021/22, and no improvement, prohibition or non-disturbance notices were issued by Comcare under Part 10 of the *Work Health and Safety Act 2011* (WHS Act).

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

Action	2021/22	2020/21
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	0	0
Dangerous incident that required notice to Comcare under section 35	1	1
Internal investigations conducted	13	12
Investigations conducted under Part 10 of the WHS Act	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

The Reserve Bank is a Licensed Authority under the *Safety, Rehabilitation and Compensation Act 1988*. This licence requires the Bank to report to the Safety, Rehabilitation and Compensation Commission each year on WHS, workers' compensation and rehabilitation matters as they affect the Bank. Compliance with the relevant legislation – and the conditions of the Bank's 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 for its prevention, claims management and rehabilitation practices in each area for 2021/22.

In 2021/22, the Australian Postal Corporation provided claims management and rehabilitation services to the Bank, along with reconsideration services and representation in the Administrative Appeals Tribunal or Federal Court, when necessary.

Employment arrangements and remuneration

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 the parameters determined by the Remuneration Tribunal, the Reserve Bank Board Remuneration Committee, comprising three non-executive members, makes recommendations on remuneration for these positions for approval of the Reserve Bank Board, which is the 'employing body' for the positions. In accordance with provisions of the *Reserve Bank Act 1959*, neither the Governor nor the Deputy Governor takes part in decisions of the Reserve Bank Board relating to the determination or application of any terms or conditions on which either of them holds office.

Employment arrangements that apply to Reserve Bank employees vary according to their occupation and level of seniority. Executive and managerial employees are engaged under Individual Employment Agreements. Non-managerial employees are covered by a Workplace Agreement. The Bank and the Finance Sector Union of Australia identified the opportunity to work together towards a new modern, more flexible agreement, and commenced bargaining in May 2021. In the interim, all conditions contained in the existing Workplace Agreement continued to apply. Following a successful ballot of employees covered by the arrangement, a new agreement was approved in October 2021. This agreement resulted in changes that reflect a contemporary, diverse and flexible workplace, including:

- improved access to parental leave for either parent
- formalisation of our approach of paying superannuation contributions for the first 12 months of parental leave
- the option to substitute public holidays for a different agreed day off so this could be used on a day of cultural significance to the employee
- dedicated paid leave for employees experiencing family and domestic violence
- the Bank being able to give notice to employees who have accrued more than 40 days of annual leave to take leave.

The approach to salary increases in the Workplace Agreement was aligned to the growth in the private sector Wage Price Index in the year to the June quarter for 2021 and 2022. It was agreed that the Performance Pay Scheme would cease, with a one-off 2 per cent salary increase in September 2022 to compensate employees for the Scheme's removal. The Career Increment Scheme was rebranded as the Reward Increase Scheme for the September 2022 annual review. This approach is consistent with the approach as set out in the government's Public Sector Workplace Bargaining Policy and the Australian Public Service Commission's Performance Bonus Guidance.

The 2021 annual review resulted in the majority of employee's receiving a salary increase of 1.9 per cent and just under one-third of employees receiving a Career Increment salary increase at an average value of 3.9 per cent. Included in these Career Increment increases were 22 employees who progressed to a higher career stage, recognising their work experience, enhanced technical and core capabilities, and strong alignment to the Bank's values. Consistent with the Workplace Agreement, lump-sum performance payments were made for 2021.

Due to the tightening of the labour market, the resignation rate increased from 7.7 per cent in 2020/21 to 13.1 per cent in 2021/22. Employees sighted career progression opportunities, higher remuneration, and learning and development opportunities as primary reasons for leaving the Reserve Bank. A number of strategies were initiated to aid retention, including a remuneration review for roles in high demand, which resulted in a small number of salary adjustments at the end of 2021, and early career progression for 12 employees. The Bank uses surveys such as the Financial Institutions Remuneration Group, Aon Hewitt and Mercer for remuneration and benefit benchmarking.

As part of the annual review of remuneration, the Reserve Bank monitors differences in the salaries paid to men and women. The gap between the average FTE salaries of men and women declined from 16 per cent in 2016 to 14 per cent in 2021. This gap continues to be explained by a larger proportion of women occupying less senior roles compared with men. The average pay gap at most levels is modest and there are a number of levels for which the average FTE salary for women exceeds that for men. There is one level for which the average FTE salary for men exceeds that for women by more than 4 per cent. The Bank continues to undertake analysis to understand the gap at this level.

The distribution of remuneration paid to Reserve Bank executives and other senior employees on an accrual basis is set out in the tables below. The provision of this information is consistent with similar information provided by other Commonwealth entities.

Remuneration of Key Management Personnel

Remuneration received in 2021/22($)[(a)]

Name	Position title	Short-term benefits			Post-employment benefits	Other long-term benefits			
		Base salary[1]	Bonuses	Other benefits and allowances[2]	Superannuation contributions[3]	Long service leave[4]	Other long-term benefits	Termination benefits	Total remuneration[5,6]
Reserve Bank Executives									
Philip Lowe	Governor	890,252	–	8,870	115,171	23,416	–	–	1,037,709
Guy Debelle[(b)]	Deputy Governor	488,914	–	6,294	63,665	16,545	–	–	575,418
Michele Bullock[(c)]	Deputy Governor	176,868	–	2,183	22,025	4,293	–	–	205,369
	Assistant Governor, Financial System	409,222	10,593	28,803	75,133	10,174	–	–	533,925
Michelle McPhee	Assistant Governor, Business Services	479,524	9,392	38,189	88,062	15,953	–	–	631,120
Susan Woods	Assistant Governor, Corporate Services	545,415	16,929	38,189	57,624	12,722	–	–	670,879
Luci Ellis	Assistant Governor, Economic	476,797	9,392	38,189	88,062	15,953	–	–	628,393
Christopher Kent	Assistant Governor, Financial Markets	541,597	18,317	37,503	98,143	17,779	–	–	713,339
Non-Executive Members of the Reserve Bank Board									
Mark Barnaba	Member – Reserve Bank Board	77,620	–	–	3,913	–	–	–	81,533
	Chair – Reserve Bank Board Audit Committee	22,430	–	–	1,131	–	–	–	23,561
Wendy Craik	Member – Reserve Bank Board	77,620	–	–	7,762	–	–	–	85,382
Ian Harper	Member – Reserve Bank Board	77,620	–	–	7,762	–	–	–	85,382
Carolyn Hewson	Member – Reserve Bank Board	77,620	–	–	7,762	–	–	–	85,382
Steven Kennedy[(d)]	Member – Reserve Bank Board	–	–	–	–	–	–	–	–
Carol Schwartz	Member – Reserve Bank Board	77,620	–	–	7,762	–	–	–	85,382
Alison Watkins	Member – Reserve Bank Board	77,620	–	–	7,762	–	–	–	85,382
	Member – Reserve Bank Board Audit Committee	11,220	–	–	1,122	–	–	–	12,342

Name	Position title	Short-term benefits			Post-employment benefits	Other long-term benefits			
		Base salary[1]	Bonuses	Other benefits and allowances[2]	Superannuation contributions[3]	Long service leave[4]	Other long-term benefits	Termination benefits	Total remuneration[5,6]
Non-Executive Members of the Payments System Board									
Wayne Byres[(d)]	Member – Payments System Board	–	–	–	–	–	–	–	–
Scott Farrell[(e)]	Member – Payments System Board	43,939	–	–	4,394	–	–	–	48,333
Gina Cass-Gottlieb[(f)]	Member – Payments System Board	16,707	–	–	1,671	–	–	–	18,378
Deborah Ralston	Member – Payments System Board	60,980	–	–	6,098	–	–	–	67,078
Greg Storey	Member – Payments System Board	60,980	–	–	6,098	–	–	–	67,078
Catherine Walter	Member – Payments System Board	60,980	–	–	6,098	–	–	–	67,078
External Appointments to the Reserve Bank Board Audit Committee[(g)]									
Sandra Birkensleigh	Member – Reserve Bank Board Audit Committee	11,220	–	–	1,122	–	–	–	12,342
Rahoul Chowdry	Member – Reserve Bank Board Audit Committee	11,220	–	–	1,122	–	–	–	12,342

(a) Remuneration of Key Management Personnel are in relation to the Reserve Bank of Australia entity only.

(b) Resigned on 16 March 2022.

(c) Appointed on 2 April 2022.

(d) The Secretary to the Treasury, as a member of the Reserve Bank Board, and the Chair of APRA, 0as a member of the Payments System Board, are not remunerated.

(e) Appointed on 23 March 2022.

(f) Ms Gina Cass-Gottlieb ceased being remunerated as a member of the Payments System Board following the commencement of her appointment as Chair of the ACCC on 21 March 2022.

(g) External appointments to the Reserve Bank Board Audit Committee are not Key Management Personnel of the Reserve Bank of Australia but have been included for consistency of disclosure alongside the reported remuneration of Non-Executive Members of the Reserve Bank Board who are also members of the Reserve Bank Board Audit Committee.

Name	Position title	Short-term benefits			Post-employment benefits	Other long-term benefits			
		Base salary[1]	Bonuses	Other benefits and allowances[2]	Superannuation contributions[3]	Long service leave[4]	Other long-term benefits	Termination benefits	Total remuneration[5,6]

Notes

1. The 'Base salary' column is prepared on an accrual basis and includes gross fees or salary earned while working plus annual leave accrued in the case of Reserve Bank Executives.
2. The 'Other benefits and allowances' column includes benefits that form part of an individual's remuneration package. This includes, for eligible members of staff, motor vehicle benefits, car parking and health benefits plus the related fringe benefits tax on these benefits.
3. The 'Superannuation contributions' column is calculated as: contribution amounts for individuals who are eligible for a defined contribution arrangement in a defined contribution scheme; and for individuals who are in a defined benefit arrangement, an amount equal to 15.4 per cent of superannuable salary plus any employer productivity contributions.
4. The 'Long service leave' column is calculated as long service leave accrued.
5. Total remuneration does not include the cost of revaluing previously accrued leave entitlements and non-superannuation post-employment benefits, which are included in the reported total remuneration of Key Management Personnel in the notes to the financial statements.
6. Reported total remuneration for the positions of Governor and Deputy Governor differs to the remuneration determined by the Remuneration Tribunal by the net accrual of leave. In addition, the reported base salary of the Governor was, on an accrual basis, lower than the prior year due to a reduction in the daily rate of pay to account for there being an additional fortnightly pay period during 2021/22 (which occurs each 11 years) and to ensure the cash salary paid to the Governor was consistent with the annual rate determined by the Remuneration Tribunal.

Remuneration of Senior Executives

Remuneration received in 2021/22($)[(a)]

		Short-term benefits			Post-employment benefits	Other long-term benefits		Termination benefits	Total remuneration
Total remuneration bands	Number of senior executives	Average base salary[1]	Average bonuses	Average other benefits and allowances[2]	Average superannuation contributions[3]	Average long service leave[4]	Average other long-term benefits	Average termination benefits	Average total remuneration
$0 to $220,000	5	76,371	–	10,771	11,682	1,932	–	–	100,756
$220,001 to $245,000	1	175,439	–	16,726	27,860	4,105	–	–	224,130
$245,001 to $270,000	1	191,472	–	23,894	32,191	4,842	–	–	252,399
$270,001 to $295,000	1	194,841	6,733	36,567	36,104	4,902	–	–	279,147
$295,001 to $320,000	1	224,534	4,664	36,567	44,794	6,086	–	–	316,645
$320,001 to $345,000	3	240,566	6,973	35,630	43,093	6,633	–	–	332,895
$345,001 to $370,000	6	258,202	9,373	34,693	49,842	7,145	–	–	359,255
$370,001 to $395,000	7	282,994	6,046	36,475	51,163	8,930	–	–	385,608
$395,001 to $420,000	6	304,405	7,935	36,343	53,752	9,176	–	–	411,611
$420,001 to $445,000	3	313,084	15,641	36,567	52,023	8,377	–	–	425,692
$445,001 to $470,000	2	301,010	5,786	85,067	54,247	9,827	–	–	455,937
$470,001 to $495,000	1	371,457	6,884	35,896	54,024	10,682	–	–	478,943
$495,001 to $520,000	2	398,312	10,064	36,567	42,992	9,347	–	–	497,282
$520,001 to $545,000	3	341,437	8,262	30,757	54,656	9,324	–	94,476	538,912
$545,001 to $570,000	2	433,175	11,006	36,567	55,471	11,900	–	–	548,119
$570,001 to $595,000	3	373,771	12,106	111,889	71,991	12,141	–	–	581,898
$595,001 to $620,000	2	430,875	7,846	100,543	61,577	9,996	–	–	610,837
$895,001 to $920,000	1	258,815	9,489	573,281	53,094	9,618	–	–	904,297

(a) Each row shows an average figure based on the number of individuals within each remuneration band based on total remuneration earned; a Senior Executive for the purpose of this table is a member of staff holding a position of Head of Department or Deputy Head of Department (or equivalent).

		Short-term benefits			Post-employment benefits	Other long-term benefits		Termination benefits	Total remuneration
Total remuneration bands	Number of senior executives	Average base salary[1]	Average bonuses	Average other benefits and allowances[2]	Average superannuation contributions[3]	Average long service leave[4]	Average other long-term benefits	Average termination benefits	Average total remuneration

Notes

1. The 'Base salary' column is prepared on an accrual basis and includes gross salary earned while working plus annual leave accrued.
2. The 'Other benefits and allowances' column includes benefits that form part of an individual's remuneration package. This includes, for eligible members of staff, motor vehicle benefits, car parking and health benefits plus the related fringe benefits tax on these benefits. For staff located inter-state or overseas, this may also include allowances and accommodation benefits plus the related fringe benefits tax on these benefits.
3. The 'Superannuation contributions' column is calculated as: contribution amounts for individuals who are eligible for a defined contribution arrangement in a defined contribution scheme; and for individuals who are in a defined benefit arrangement, an amount equal to 15.4 per cent of superannuable salary plus any employer productivity contributions.
4. The 'Long service leave' column is calculated as long service leave accrued.

Remuneration of Other Highly Paid Staff

Remuneration received in 2021/22($)[(a)]

		Short-term benefits			Post-employment benefits	Other long-term benefits		Termination benefits	Total remuneration
Total remuneration bands	Number of other highly paid staff	Average base salary[1]	Average bonuses	Average other benefits and allowances[2]	Average superannuation contributions[3]	Average long service leave[4]	Average other long-term benefits	Average termination benefits	Average total remuneration
$235,001 to $245,000	23	172,367	4,362	27,928	29,972	4,343	–	–	238,972
$245,001 to $270,000	56	183,989	4,767	25,580	34,102	4,755	–	3,604	256,797
$270,001 to $295,000	33	213,662	5,256	18,644	37,939	5,882	–	–	281,383
$295,001 to $320,000	9	220,458	5,728	20,469	38,872	6,320	–	16,233	308,080
$320,001 to $345,000	4	223,708	4,656	63,579	36,782	5,471	–	–	334,196
$395,001 to $420,000	3	170,919	4,783	191,606	30,398	4,253	–	–	401,959
$445,001 to $470,000	2	167,694	5,877	238,482	30,930	5,603	–	–	448,586
$595,001 to $620,000	1	170,965	5,760	389,790	30,863	4,194	–	–	601,572
$670,001 to $695,000	1	246,682	8,367	386,096	44,828	8,121	–	–	694,094
$995,001 to $1,020,000	1	192,500	6,503	778,089	35,717	4,853	–	–	1,017,662

(a) Each row shows an average figure based on the number of individuals within each remuneration band based on total remuneration earned.

Notes

1. The 'Base salary' column is prepared on an accrual basis and includes gross salary earned while working plus annual leave accrued.
2. The 'Other benefits and allowances' column includes benefits that form part of an individual's remuneration package. This includes, for eligible members of staff, motor vehicle benefits and health benefits plus the related fringe benefits tax on these benefits. For staff located inter-state or overseas, this may also include allowances and accommodation benefits plus the related fringe benefits tax on these benefits.
3. The 'Superannuation contributions' column is calculated as: contribution amounts for individuals who are eligible for a defined contribution arrangement in a defined contribution scheme; and for individuals who are in a defined benefit arrangement, an amount equal to 15.4 per cent of superannuable salary plus any employer productivity contributions.
4. The 'Long service leave' column is calculated as long service leave accrued.

Risk Management

Effective risk management is an integral element in the Reserve Bank achieving its strategic objectives and meeting its policy responsibilities. Accordingly, a risk and compliance management framework underpins effective decision-making in the Bank, while allowing enterprise-wide and emerging risks to be identified and managed in a way that is consistent with the Bank's risk appetite. This framework is overseen by the Risk Management Committee.

Objectives and governance structure

The Reserve Bank, like any organisation, cannot achieve its objectives without taking on some risk. To help manage risk, the Bank has implemented the 'three lines model'. Departments – the 'first line' – are responsible for evaluating their risk environment, putting in place appropriate controls and ensuring that these controls are implemented effectively. This is supported by a 'second line' of staff who provide additional expertise, monitoring and challenge (particularly in areas where the inherent risks are higher). Audit Department provides a 'third line' of independent assurance and advice.

The Reserve 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. Risks are managed to a level that is consistent with the Bank's risk appetite as articulated by the Bank's management. The Bank supports and promotes 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.

Oversight of the Reserve Bank's arrangements for risk management is undertaken by the Risk Management Committee. The Committee is chaired by the Deputy Governor and comprises: the Assistant Governors for Business Services, Corporate Services and Financial Markets groups; the Chief Financial Officer; the Chief Information Officer; the Heads of the Audit, Human Resources, Information, and Risk and Compliance departments; and the General Counsel. The Risk Management Committee meets at least six times each year and informs the Executive Committee and the Reserve Bank Board Audit Committee of its activities.

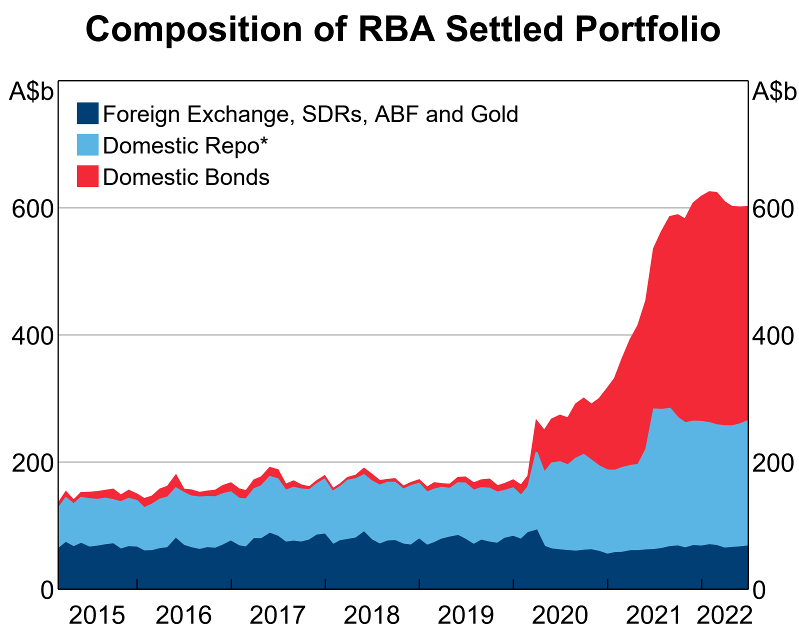
The Risk Management Committee is responsible for ensuring the proper assessment and effective management of all the risks the Reserve Bank faces, with the exception of those arising directly from its monetary and financial stability policies and payments policy functions. These risks remain the responsibility of the Governor, the Reserve Bank Board and the Payments System Board. The risks associated with the Bank's ownership of Note Printing Australia Limited (NPA) are overseen by the Reserve Bank Board, while the risks of operating NPA are overseen by the NPA Board and management.

The Risk Management Committee is assisted in its responsibilities by Risk and Compliance Department. The Department also assists individual business areas manage their risk and compliance environment effectively within a framework that is consistent across the Bank. It monitors risk and performance associated with the Reserve Bank's activities in financial markets and supports the business areas by implementing Bank-wide control frameworks covering fraud, bribery and corruption, business continuity and compliance-related risks. The Head of Risk and Compliance Department reports directly to the Deputy Governor and the Chair of the Audit Committee.

Audit Department undertakes a risk-based audit program to provide independent assurance that risks are identified and key controls to mitigate these risks are well designed, implemented and working effectively. The Head of Audit Department reports to the Deputy Governor and the Chair of the Audit Committee. Audit Department's work is governed by the Audit Department Charter, which is approved by the Audit Committee.

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 primary responsibility for managing these risks rests with Financial Markets Group. Risk and Compliance Department monitors these risks and assesses compliance with the approved risk framework. Within this framework, compliance with financial management guidelines and developments in portfolio risks are reported to the Risk Management Committee.

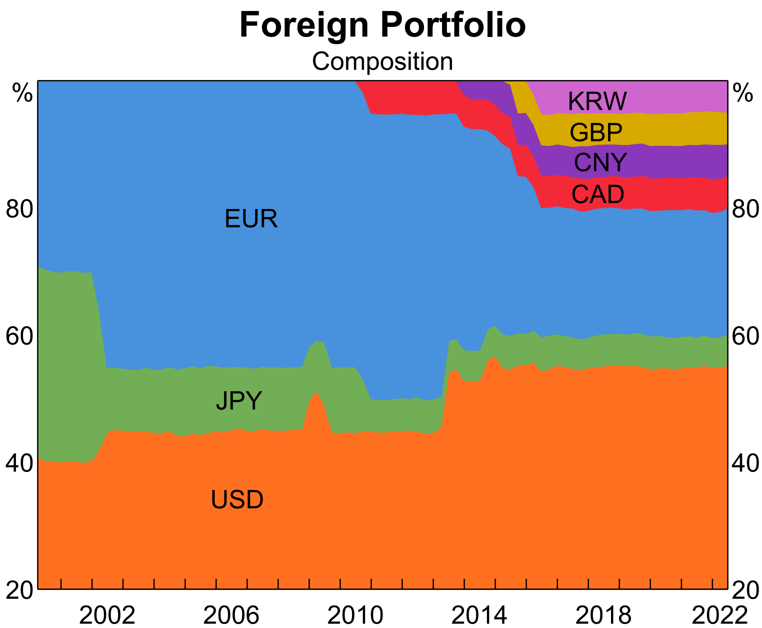


* Domestic repo is valued based on cash lent under repo.

Source: RBA

Exchange rate risk

The Reserve Bank is exposed to exchange rate risk as some of the Bank's assets are denominated in foreign currency, while most of the Bank's liabilities are denominated in Australian dollars. Foreign currency assets consist of outright foreign exchange holdings, assets funded by foreign exchange swaps, Special Drawing Rights (SDRs, an international reserve asset created by the International Monetary Fund (IMF)) and units in the Asian Bond Fund (an investment that is managed externally by the Bank for International Settlements). Outright foreign exchange holdings are the largest component of foreign currency assets. As these assets are held for policy purposes, the Bank does not seek to eliminate or hedge the associated foreign exchange exposure. However, the Bank mitigates some of this risk by diversifying these assets across various currencies. The foreign portfolio has target shares of 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 South Korean won. These shares have been unchanged since 2016. The portfolio composition reflects the Bank's risk appetite and desired liquidity. Some limited deviation from target currency shares is permitted to simplify management and minimise transaction costs.



* Excludes assets funded by foreign exchange swaps.

Source: RBA

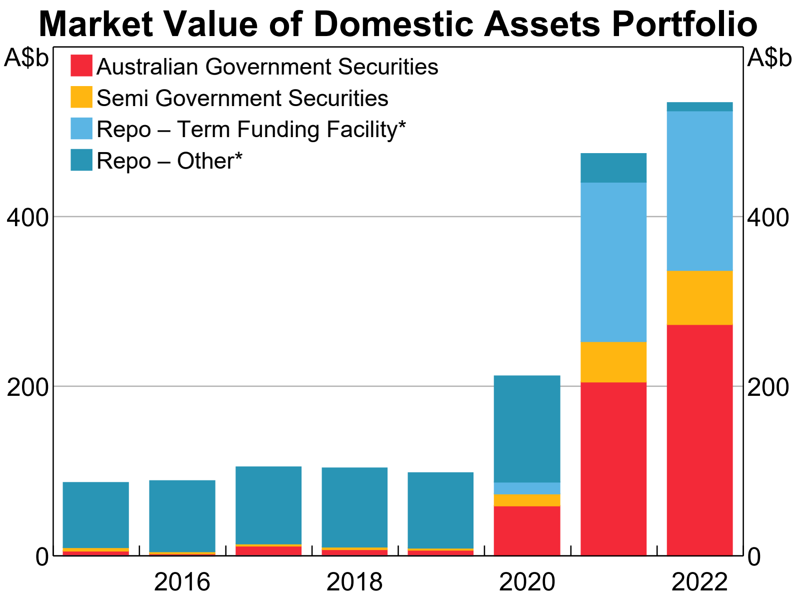
The Australian dollar value of the Reserve Bank's outright foreign exchange holdings increased modestly over 2021/22 owing to an overall depreciation of the Australian dollar against the currencies held. Based on the size of the outright foreign exchange portfolio as at 30 June 2022, a 10 per cent appreciation of the Australian dollar would result in a mark-to-market loss of $4.2 billion, little changed from the previous year.[1]

[1] Based on the Reserve Bank's total FX reserves exposure (including outright holdings of foreign exchange, SDRs, gold and the Asian bond fund) as at 30 June 2022, a 10 per cent appreciation of the Australian dollar would result in a mark-to-market loss of $5.4 billion, up slightly from the previous year.

Interest rate risk

The value of the Reserve Bank's financial assets is also exposed to movements in market interest rates. Interest rate risk on the Bank's portfolio rose to a historically high level over 2021/22, reflecting an increase in the size of the domestic portfolio.

Total holdings of domestic securities increased by $60 billion over 2021/22 to $534 billion. Domestic securities held outright increased by $84 billion to $337 billion, while those held on a temporary basis under repurchase agreements (repos) decreased by $24 billion to $197 billion.

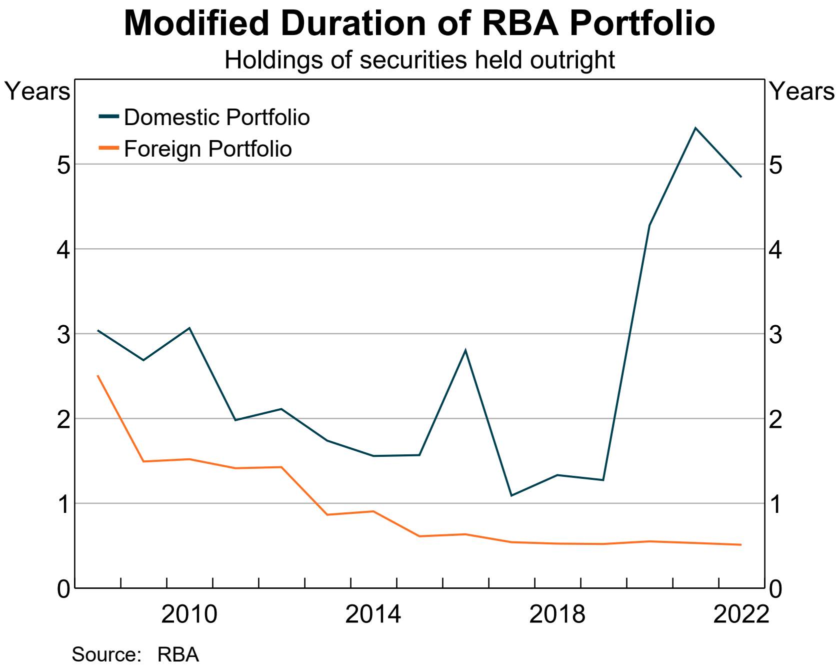


* Domestic repo is valued based on cash lent under repo.

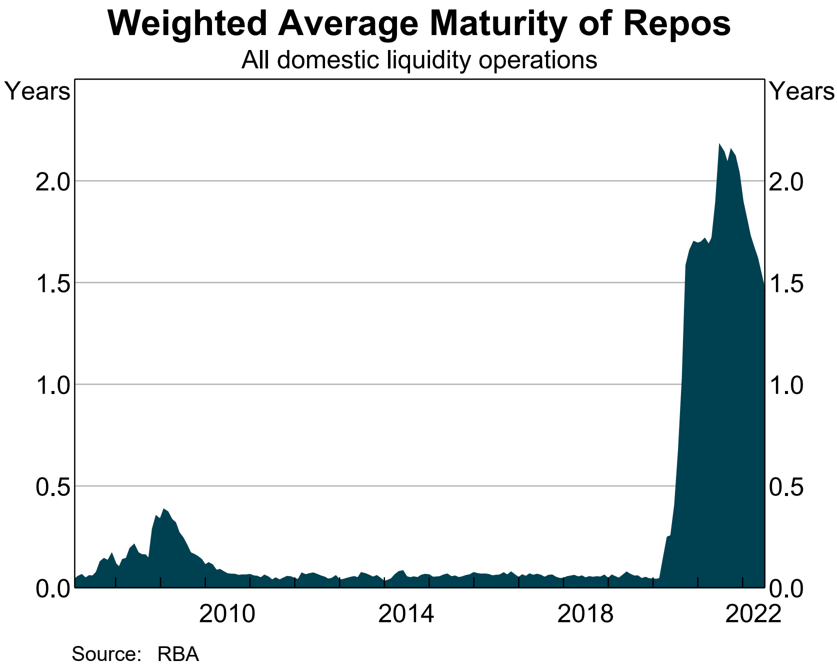
Source: RBA

The expansion in securities held outright was a result of the Reserve Bank's policy actions to support the Australian economy during the pandemic – in particular, purchases of Australian Government Securities (AGS) and semi-government securities (semis) in the secondary market to address dysfunction in the government bond market, support the three-year yield target, and as part of the bond purchase program, which focused on the 5–10 year segment of the yield curve. The Reserve Bank ceased all bond purchases under these programs by February 2022.

The interest rate sensitivity of outright holdings in the domestic portfolio, as measured by modified duration, decreased from around 5½ years to 5 years over 2021/22. The Reserve Bank intends to hold these bonds to maturity. Hence, the return the Bank will earn on these bonds will be determined by the yield on each bond at the time of purchase and will not change with valuation gains or losses that result from fluctuations in yields (see chapter on 'Earnings, Distribution and Capital').

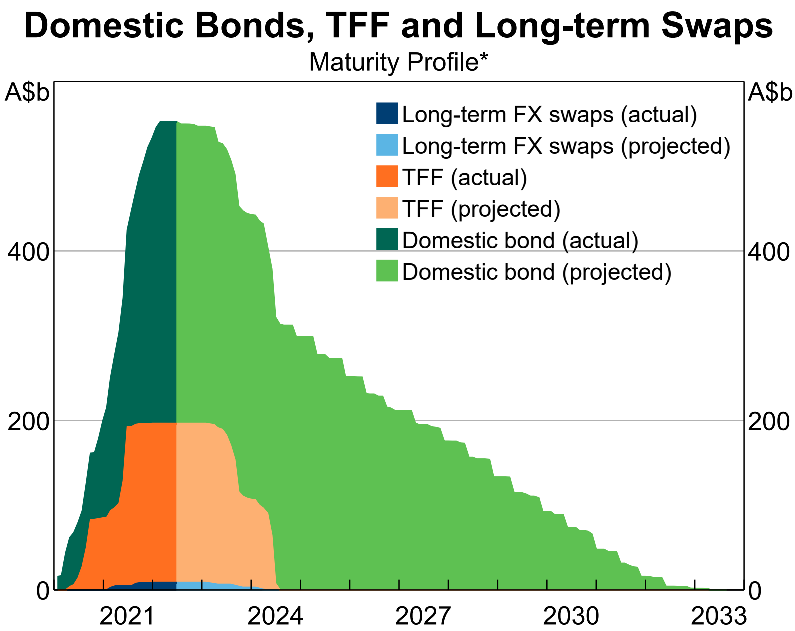


The reduction in repos was mainly due to authorised deposit-taking institutions (ADIs) maturing open repos with the Reserve Bank that had previously been maintained to meet payment obligations. These repos were no longer considered necessary by many ADIs in the presence of high exchange settlement account balances with the Reserve Bank (see chapter on 'Operations in Financial Markets'). Nonetheless, repos remain high by historical standards due to outstanding repos under the Term Funding Facility (TFF). Under the TFF, the Bank provided three-year funding to ADIs under repurchase transactions between April 2020 and June 2021. The average term of all outstanding repos decreased over the year from a peak of a little over 2 years to 1½ years as the remaining term to maturity of outstanding repos under the TFF decreased.



The Reserve Bank's foreign portfolio is comprised of assets denominated in the seven reserve currencies. Each asset portfolio is managed relative to a benchmark portfolio, with duration targets that reflect the Bank's long-term appetite for interest rate risk and return. These targets are reviewed periodically. During 2021/22, duration targets were unchanged in all seven asset benchmark portfolios. The duration targets are: 18 months for the Chinese and South Korean portfolios; six months for the European, Canadian and US portfolios; three months for the UK portfolio; and less than three months for the Japanese portfolio. Some limited variation in actual portfolio duration from these duration targets is permitted to reduce transaction costs and provide scope to staff to enhance portfolio returns. The weighted-average benchmark duration target for the Bank's total foreign portfolio was unchanged over 2021/22 at 6¾ months.

The Reserve Bank is also exposed to interest rate risk owing to a maturity mismatch between assets and liabilities. This risk increased substantially over the past two years as a result of the Bank's policy response to the pandemic. Liabilities include Exchange Settlement (ES) account balances held by ADIs, deposits held by the Australian Government and its agencies, and banknotes on issue. ES account balances have increased significantly since 2020 as a result of the TFF and asset purchase program. ES account balances have also increased as the Bank increased gross US dollar foreign exchange reserves by entering into long-term AUD/USD foreign exchange swaps with maturities of up to three years to fund the Bank's commitments to the IMF (see chapter on 'Operations in Financial Markets'). Interest paid on ES account balances, as well as deposits held by the Australian Government and its agencies, is based on an overnight rate that reflects the Bank's monetary policy settings. This rate increased by 75 basis points during 2021/22 as the Bank began to withdraw monetary stimulus provided in response to the pandemic. Historically, this interest cost has been broadly offset by interest earnings on the domestic asset portfolio, which was mostly comprised of short-term repos earning close to the overnight cash rate. However, earnings on most of the Bank's current asset holdings are fixed over longer terms; TFF repos earn a fixed rate over three-year terms, government bond holdings earn a fixed yield if held to maturity and long-term AUD/USD foreign exchange swaps attract a fixed rate on the AUD provided under swap. The mismatch in maturity between much of the Bank's domestic assets and liabilities is expected to persist until these fixed-rate assets mature. Banknotes on issue have declined modestly as a share of liabilities over the year from 18 per cent to 17 per cent and carry no interest cost to the Bank.



* Assumes no further bond, TFF or long-term FX swap activity as of 30 June 2022.

Source: RBA

Credit risk

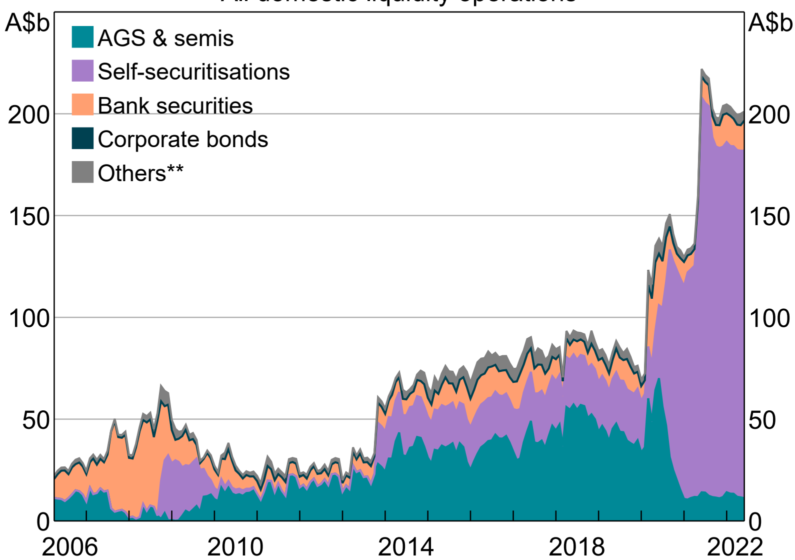
Credit risk is the potential for financial loss arising from the default of a debtor or issuer, or from a decline in asset values following a deterioration in credit quality. The Reserve Bank manages its credit exposure by applying a strict set of eligibility criteria to its holdings of financial assets and to counterparties with which it is willing to transact.

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 on domestic assets that are held under repo. The Bank would face a loss only if a counterparty failed to repurchase securities sold to the Bank under repo *and* the market value of the securities fell below the agreed repurchase amount. The Bank manages this exposure by requiring that these securities meet certain eligibility criteria and by applying an appropriate margin to the securities, which reduces the risk profile the Bank faces. The required margin is maintained throughout the term of the repo through daily two-way margining.

Alongside the establishment of the TFF in March 2020, the Reserve Bank relaxed constraints on certain ADIs posting eligible self-securitised asset-backed securities (ABS) (also called self-securitisations) as collateral.[2] Previously, only ADIs with access to the Committed Liquidity Facility were permitted to post self-securitisations as collateral under the Bank's standing facilities. Any eligible self-securitisation could be presented as collateral under the TFF. Following this adjustment to the policy, ADIs' use of self-securitisations as collateral increased significantly. These securities are related to the counterparty presenting them as collateral in a repo, implying that a default by the counterparty may be associated with a decline in the value of the securities held as collateral. However, this risk is mitigated because the issuing trust is bankruptcy remote,[3] the securities must be rated AAA and they attract a relatively high margin. Unlike other types of securities accepted as collateral in the Bank's operations, these securities are not typically traded in the market as they are held by ADIs solely for the purpose of accessing central bank liquidity. Risk and Compliance Department typically values these securities based on a pricing model that references prices in the public ABS market. However, when the TFF was established, the Reserve Bank froze prices of eligible self-securitisations until early 2023 for the purpose of valuing collateral accepted under repo. This was to ensure that modelled prices were not unduly affected by potential volatility in public ABS arising from the COVID-19 pandemic.

Collateral Held Under Repo*

All domestic liquidity operations



* Values based on cash lent under repo.

** Others include RMBS, ABS, supranational and corporate debt, securities with government guarantee and other AAA securities.

Source: RBA

The counterparties of the Reserve Bank dealing in policy operations in the domestic market must be: members of the Reserve Bank Information and Transfer System (RITS); subject to an appropriate level of regulation; and able to settle transactions within the Austraclear system. Certain counterparties must also

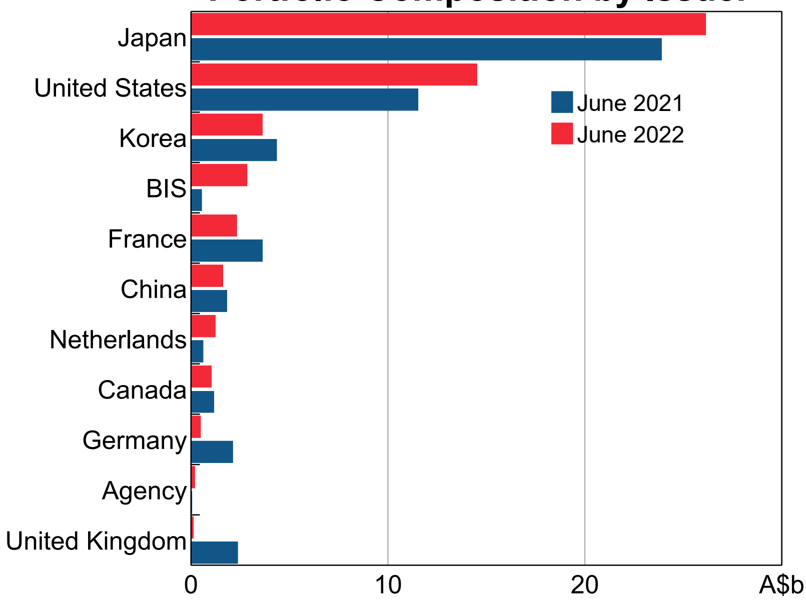
[2] ABS are debt securities issued by a trust that are backed by a pool of assets such as residential mortgages. Investors that purchase the securities receive income funded by the principal and interest payments from the pool of assets. Self-securitisations are a type of ABS. A distinguishing feature of self-securitisations is that notes issued from the trust are typically not sold to the public; rather, they are held by the ADI that issued them to use as collateral to access central bank liquidity. The Bank accepts securities issued by eligible self-securitisations as collateral.

[3] That is, the assets sold into the trust are not at risk if the counterparty that sold those assets into the trust becomes bankrupt.

demonstrate a material connection to the bond and/or repo markets and be creditworthy to be eligible. Repo transactions with the Bank are governed by a Global Master Repurchase Agreement.

Investments in the Reserve Bank's foreign currency portfolio are 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 highly rated supranational institutions and government agencies. Gross holdings of Japanese yen-denominated assets remained the largest share of the Bank's foreign currency issuer exposures as at 30 June 2022. The majority of these assets are funded under short-term foreign exchange swaps between Japanese yen and other currencies in the Reserve Bank's portfolio. When the cost of hedging currency risk under short-term foreign exchange swaps is taken into account, yields on short-dated Japanese investments have generally been higher than those available in the other currencies in the Bank's portfolio (see chapter on 'Operations in Financial Markets'). A limit on the size of exposures to individual currencies serves to mitigate concentration risk.

Portfolio Composition by Issuer*



* Includes assets held outright, funded by foreign exchange swaps, and held under repurchase agreements.

Source: RBA

The Reserve Bank 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, which is maintained through two-way margining in the local currency, 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 requiring execution of a Global Master Repurchase Agreement (or Master Repurchase Agreement where appropriate) with each counterparty.

The Reserve Bank undertakes foreign exchange and gold swaps as part of its policy operations and as a means of enhancing returns on the foreign currency portfolio. The Bank commenced transacting in long-term foreign exchange swaps in February 2021 to manage existing and future foreign currency commitments to the IMF and the size of this foreign exchange swap position increased during 2021/22 as the IMF increased Australia's allocation of SDRs. These transactions involve swapping Australian dollars into US dollars for terms of up to three years. IMF commitments were previously funded from foreign currency reserves held outright.

Credit risk on foreign exchange and gold swaps is managed by transacting only with counterparties that meet strict eligibility criteria, including the requirement to have executed with the Reserve Bank an International Swaps and Derivatives Association agreement with a credit support annex. Exposures generated by movements in market exchange and interest rates and gold prices are managed through daily two-way margining in Australian dollars.

In addition to gold swaps, the Reserve Bank undertakes some limited lending of its gold holdings. The lending is either fully collateralised or the borrower has government support. As at 30 June 2022, 6.0 tonnes of gold, valued at $0.5 billion, was on loan.

Operational risk

The Reserve Bank faces a diverse range of operational risks reflecting its responsibilities as a central bank. These risks range from those related to fraud and corruption (where the Bank has no risk appetite for employees engaging in fraudulent and corrupt behaviour) to the availability of business and critical technology services (where the Bank has a limited risk appetite).

In 2021, the Reserve Bank refreshed its Risk Management Policy, including its risk appetite across its activities. The policy is published on the Bank's website.[4] The objective of the policy is to ensure that we manage risk to the best of our ability to enable the successful achievement of the Bank's objectives. The new policy is being embedded into the Bank's processes and culture.

The most significant operational risks the Bank is exposed to are:

- the management of its people and culture, including safety and wellbeing, talent and risk culture
- transacting in financial markets to implement monetary policy
- maintaining the infrastructure to facilitate real-time interbank payment and settlement services through RITS and the Fast Settlement Service
- providing banking facilities for a number of government entities, including the Australian Taxation Office, Medicare and Centrelink
- the provision of safe, secure and reliable Australian banknotes.

The Reserve Bank operates in a complex technology environment and seeks to innovate while managing risks appropriately. In 2021/22, the Bank executed 52,526 transactions, generating an average daily settlement value of around $26.2 billion; RITS settles around $202 billion every day on average. The risk management framework supports the identification, analysis and management of risks that could adversely affect these operations, and also promotes greater efficiencies and agility. These include: mechanisms by which emerging risks are identified; processes and systems by which subject matter

[4] See RBA (2021), 'Risk Management Policy', November.

experts consider these risks; and channels that facilitate these risks being raised with executives. Various metrics are used to highlight to executives how risks are being managed and whether risks are consistent with the Bank's risk appetite. These metrics range, for example, from availability targets for payment settlements systems to whether business resilience tests are performed regularly.

Considering these risks in more detail, the Reserve Bank's activities are highly dependent on information technology (IT) systems. The risk management and control framework supports an ongoing focus on managing the risks associated with complex IT systems. The IT Department collaborates with relevant business areas to facilitate the monitoring, assessment and management of IT-related risks and ensures IT-related initiatives are consistent with the Bank's Strategic Plan. This work is supported by ongoing evaluation of industry developments in order to ensure that the Bank's systems and procedures remain robust and conform to current IT standards. Assessment of appropriate resourcing, the adequacy of IT process controls and the level of security over information management are all incorporated in the risk management and control framework.

As part of the Reserve Bank's management of the risks associated with technology and operational systems, a strong focus is placed on the security of these systems. Cyber resilience is a key operational risk and managing this risk is supported by staff at all levels of the Bank. The Bank prioritises protecting digital assets from cybersecurity threats, while also providing a high-quality IT service. The Bank remains committed to a mature implementation of the Australian Signals Directorate Information Security Manual and relevant security standards, introducing innovative security technologies, and proactively searching for emerging threats in order to continually meet the Bank's strategic cyber resilience objectives. The Bank continues to work with peer central banks, the Australian Government and industry participants to increase the cyber resilience of national and international financial systems.

The Reserve Bank invests in significant security controls and risk assurance functions, which are supported by a regular assessment regime. The Bank receives regular independent assurance of its compliance with security strategies endorsed by the Australian Signals Directorate, and maintains independent certification for the ISO 27001 global standard for Information Security Management.

During the past year, the Reserve Bank continued to direct substantial resources towards the delivery or completion of a number of large and complex multi-year projects. These include constructing a third data centre in Canberra for the Bank's most critical systems to enhance our data resilience, and modernising the media publishing system to reduce the risk of problems related to publishing the cash rate. Successfully completing and embedding these projects will ensure high-quality services are maintained for the Bank's clients and the Australian public. Project risks are managed so that adequate resources are available, nominated project deadlines are met and change management is effective. Project steering committees play an important role in overseeing the management of these risks.

The Reserve Bank manages risks related to the handling of confidential and sensitive information and, in particular, ensuring that there are no unintended disclosures. While the primary focus is on ensuring that sufficient controls exist to prevent a breach occurring, the risk and control framework also seeks to ensure the Bank would respond appropriately if a breach were to occur.

The Reserve Bank does not tolerate dishonest or fraudulent behaviour and is committed to deterring and preventing such behaviour. It takes a very serious approach to cases, or suspected cases, of fraud. 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 the separation of front-, back- and middle-office functions, where staff involved in trading, settlement and reconciliation activity remain physically apart and have separate reporting lines. For non-trading activities, several layers of fraud control are in place. A clear decision-making hierarchy, separation of duties and physical controls over systems and information have been established and are subject to regular review. Ongoing training and awareness programs are also conducted; the Bank requires all staff to undertake fraud awareness training. The Bank has arrangements in place for staff and members of the public to report concerns anonymously. All concerns are fully investigated. During 2021/22, there were no reported instances of fraud by employees.

The Reserve Bank remains strongly committed to maintaining and strengthening a workplace culture in which employees uphold the highest standards of behaviour. The Code of Conduct sets out requirements of the Bank's employees and others who are involved in its activities. The Bank has arrangements in place for staff to report concerns about breaches of the Code of Conduct, including channels by which concerns can be reported anonymously. Arrangements are in place to ensure staff are comfortable reporting concerns across a range of issues.

The effective management of compliance risk is central to the Bank's activities. Supporting this, staff complete regular training on areas such as privacy and workplace health and safety. Risk and Compliance Department collaborates with all business areas to ensure compliance risks are being managed effectively; it also keeps the Risk Management Committee informed regarding the level of compliance in key areas.

Notwithstanding these measures, events can occur from time to time that may lead to service disruption, or to financial or other costs. Timely reports on incidents and 'near misses' are provided to the Risk Management Committee. These reports outline the circumstances (including impact and cause) and identify areas where new controls may be needed, where existing controls should be strengthened or where more significant innovation efforts might be well placed.

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 $429 million in fees has been collected for state and territory borrowing since the scheme commenced in 2009, with $1 million collected in 2021/22.

Business resilience

The resilience of critical business functions is a key focus area for the Reserve Bank. The Bank's policy is to maintain resilient arrangements when responding to any incident that has the potential adversely to affect its people, operations, assets or reputation, or compromise its physical security. The Bank undertakes ongoing testing of its business resilience arrangements to ensure it remains responsive to potential disruptive events.

Another major consideration is maintaining business resilience during a large project of building works at the Head Office at 65 Martin Place, Sydney between 2022 and 2024. Business contingency response arrangements have been refreshed to ensure staff are well briefed on their roles during the project, including effective communication. The Risk Management Committee is regularly overseeing this project to ensure operational risks are managed effectively.

Earnings, Distribution and Capital

In 2021/22, the Bank recorded an accounting loss of $36.7 billion. While underlying earnings were positive, large unrealised valuation losses were recorded on the bonds purchased as part of the Bank's economic support package during the pandemic. The large accounting loss means there will be no dividend paid to the Australian Government this year. Of the $36.7 billion loss, $15.9 billion has been absorbed by the unrealised profits reserve (UPR) and the Reserve Bank Reserve Fund (RBRF). The remainder ($20.8 billion) is being recorded as 'accumulated losses' on the Bank's balance sheet. These accumulated losses exceed the Bank's other reserves, so that the Bank was in a negative equity position of $12.4 billion as at 30 June 2022.

The Reserve Bank Board's judgement is that negative equity does not affect the Bank's ability to operate effectively or perform its policy functions, but that it is important that the Bank's equity is restored over time. This restoration can be achieved through the Bank retaining its profits over the years ahead. Accordingly, the Board has communicated its strong expectation to the Australian Government that future distributable earnings would be applied, in full, to offsetting the accumulated losses and restoring the balance of the RBRF to the Board's target. In response, the Treasurer has endorsed the Board's general approach to restoring the equity position over time, while noting any retention of earnings remains at the discretion of the Treasurer in terms of the Reserve Bank Act 1959. The Treasurer also supported the Board's judgement that the Bank will be able to continue to operate effectively, even in the event of further losses over the coming few years. Given that there is a credible path to restoring the Bank's capital, the Board has not sought a capital injection from the government.

The Reserve Bank's earnings and distribution

The Reserve Bank's earnings come from two sources: (i) underlying earnings, including net interest and fee income, less operating costs; and (ii) valuation gains or losses on its holdings of government bonds and foreign exchange.

Net interest income usually arises from the Bank earning interest on almost all of its assets, albeit currently at low rates, while paying no interest on a large portion of its liabilities – namely, banknotes on issue.

Moreover, Exchange Settlement (ES) balances, which have grown significantly as a result of the Bank's policy actions, were, until recently, paid a zero interest rate.

Valuation gains and losses arise from fluctuations in the value of the Reserve Bank's assets due to movements in exchange rates or changes in the market yields on securities held outright. Over the past year, the valuation gains from exchange rate movements were relatively small. By contrast, there were large valuation losses on the holdings of domestic government bonds owing to the rise in bond yields. The Bank purchased significant quantities of bonds at low yields during the pandemic to support the economic recovery. As that recovery gathered pace, yields rose, and the Bank recorded significant valuation losses on these bonds.

Accounting for domestic bonds

Consistent with Australian Accounting Standards, the Reserve Bank's longstanding policy has been to account for its domestic bonds held on an outright basis at 'fair value through profit and loss'. This treatment reflects that the Bank's domestic bonds are held to implement monetary policy and may be sold or lent in pursuit of those policy objectives. By contrast, many other central banks use amortised cost to value their domestic bond holdings, as permitted by their respective accounting frameworks, with the result that there is less volatility in their reported profits.

Under amortised cost, the return on the Bank's domestic bonds would be calculated as the sum of coupon (interest) income received less any premiums paid to acquire those securities (reflecting that bonds under the Bank's bond purchase program were generally purchased at prices higher than the face value of those bonds, owing to their coupon rates being greater than market yields at the time). In the event bonds are purchased at a price below their face value, the 'discount' would be added to coupon income. Each of these components is accrued on a straight line basis over the remaining term of the bond. During 2021/22, the return on an amortised cost basis is estimated to have been about $3 billion.

By contrast, fair value accounting, as applied in the Bank's financial statements, also includes valuation gains or losses from movements in market yields. In 2021/22, these valuation changes resulted in very large unrealised losses being recorded. When combined with other components of earnings, a net loss of $37.7 billion was reported on the Bank's domestic bond holdings. Given the intention to hold these bonds to maturity, any valuation losses that occur as yields increase will be offset at the time that the bonds mature at their face value. This means that fluctuations in yields alter the timing of any valuation gain or loss over time, but do not change the ultimate return the Bank will earn on its domestic bonds. This would not be the case if the bonds were sold prior to maturity.

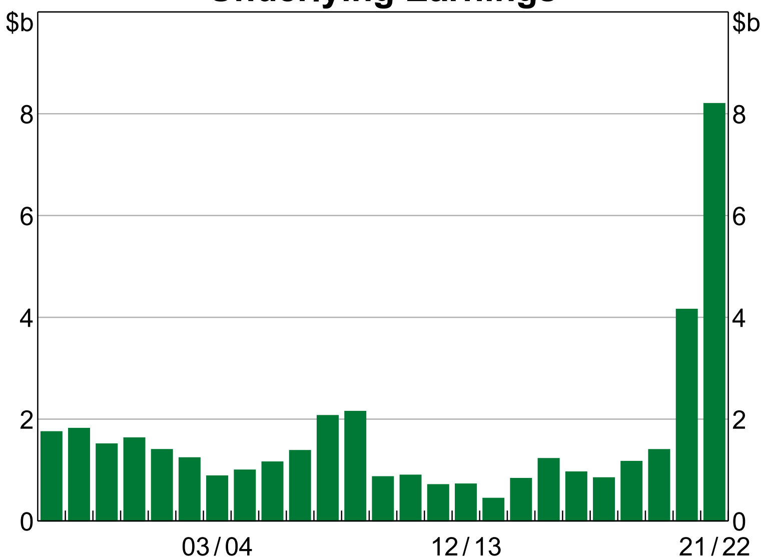
In 2021/22, the Bank's accounting loss of $36.7 billion was comprised of the following:

- Underlying earnings of $8.2 billion, compared with $4.2 billion in 2020/21. This increase reflects interest earnings through the year on the larger portfolio of Australian Government bonds purchased under the bond purchase program.
- Unrealised valuation losses of $44.5 billion, from:
  - a rise in bond yields in Australia ($40.3 billion loss) and overseas ($0.5 billion loss)

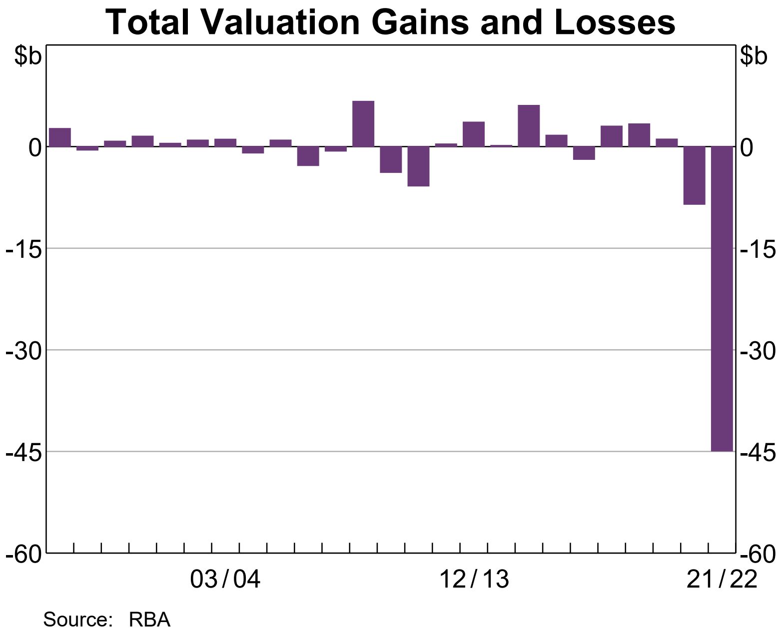
  - the unwinding of premiums on domestic government bonds ($5.2 billion loss); these premiums are unwound on a straight-line basis and recorded as unrealised valuation losses each day, and realised upon sale or maturity of the bond
  - partially offset by the depreciation, on average, of the Australian dollar over the year ($1.5 billion gain).
- Realised valuation losses of $0.4 billion.

In accordance with the Reserve Bank Act, unrealised valuation losses were initially absorbed by the UPR, and then against other sources of income (namely, underlying earnings). A further $15.4 billion was charged against the RBRF, bringing the balance of this reserve to nil. The remainder, $20.8 billion, is reported as accumulated losses on the Bank's balance sheet.

Underlying Earnings

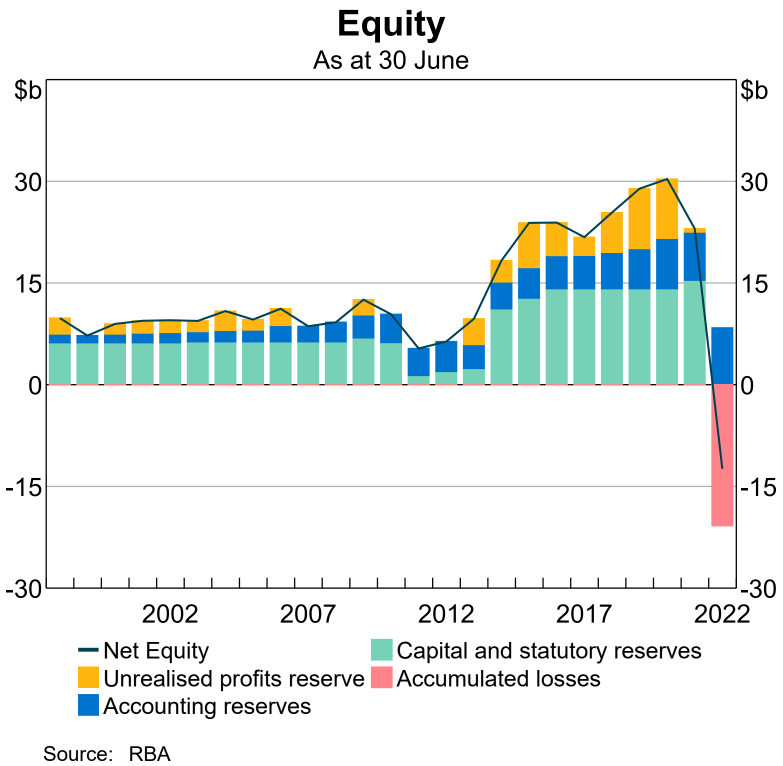


Source: RBA



Capital and reserves

The Reserve Bank Board views it as important that the Bank's capital is restored over time. It also recognises that by virtue of their unique nature, central banks can operate for a period of time with negative equity. Indeed, a number of central banks in other countries have operated for some time with negative equity; several other central banks are, or are likely to be, in a similar position over coming years. Unlike a normal business, there are no going concern issues with a central bank in a country like Australia. The negative equity position will not affect the ability of the Reserve Bank to do its job.

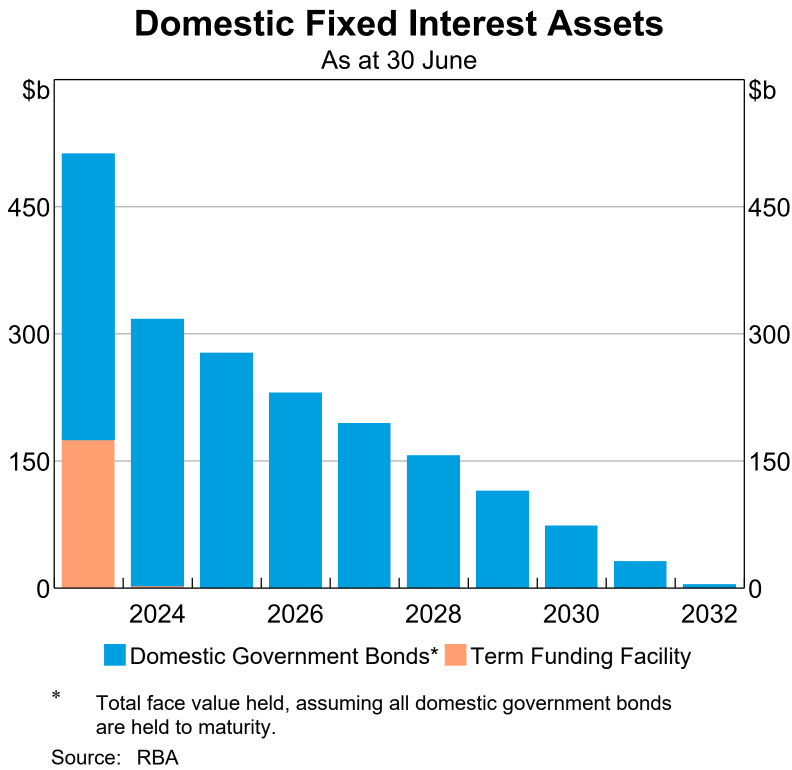


For a number of years, the Board has maintained a formal framework for determining the target balance in the RBRF, which is the Bank's main reserve and essentially its capital. Under that framework, capital was assigned to market risk arising from the Bank's portfolio of foreign and domestic securities. A small amount of capital was also assigned to credit risk arising from the very small exposures to commercial banks that are not collateralised. The target balance in the RBRF is not a minimum level of capital that needs to be maintained at all times, but rather a benchmark for the Board to consider when providing advice to the Treasurer regarding the Bank's capital and dividends.

As at 30 June 2022, the target for the RBRF stood at $20.8 billion, compared with an actual balance of nil (and accumulated losses recorded elsewhere on the balance sheet of $20.8 billion).

Given this shortfall, at its July 2022 meeting the Board considered the case for a capital injection by the Australian Government. It concluded that a capital injection was not necessary, as the Bank's capital can be restored over time through the retention of future earnings. This path to capital restoration requires that all distributable earnings are retained by the Bank, perhaps for many years.

The majority of the Bank's domestic bonds are now carried on the balance sheet at a discount to their face value, so that capital gains are expected to be realised as these bonds mature. This will add to the Bank's distributable earnings in future periods. Nevertheless, the Bank's future earnings remain highly uncertain, due to the mismatch between the fixed returns on the majority of its assets and the variable rate paid on a large portion of its liabilities, especially ES balances. This is especially so in the next two financial years before the bonds purchased to support the three-year yield target mature and funds lent under the Term Funding Facility are repaid.

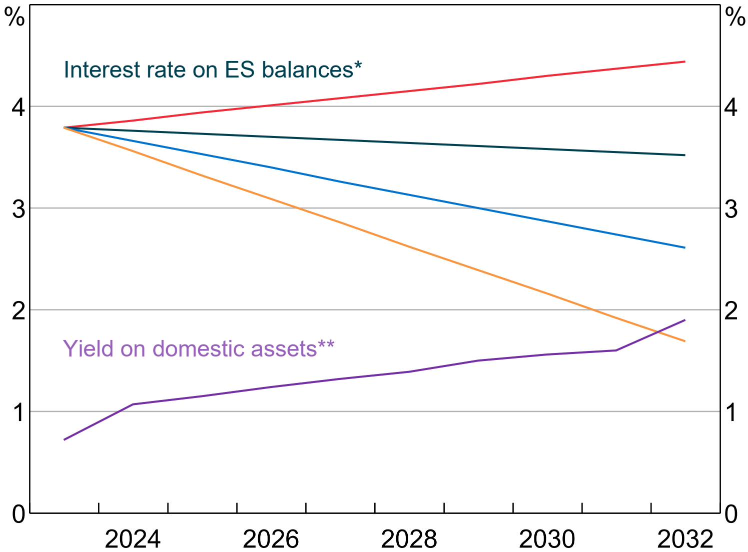


Below are four scenarios to illustrate how the Bank's future earnings and net equity position could vary with different assumed paths for policy rates. For all scenarios, the cash rate is projected to evolve in line with the market expectations to June 2023 (using overnight index swap rates as at 31 August), with the margin between the cash rate target and the ES rate assumed to remain constant at its current level of 10 basis points. The projections beyond 2023 assume the ES rate converges to either 1½ per cent, 2½ per cent, 3½ per cent or 4½ per cent.

Under all four scenarios, losses are forecast in the next few years, as the interest rate on ES balances would be higher than interest income on the Bank's assets (especially funds lent under the Term Funding Facility). Thereafter, the abovementioned valuation gains on the Bank's domestic bonds are projected to more than offset negative underlying earnings, underpinning an expected improvement in the Bank's financial results and equity position. These projections are highly dependent on the future path of the cash rate and broader movements in bond yields and the Australian dollar exchange rate.

Domestic Interest Rates

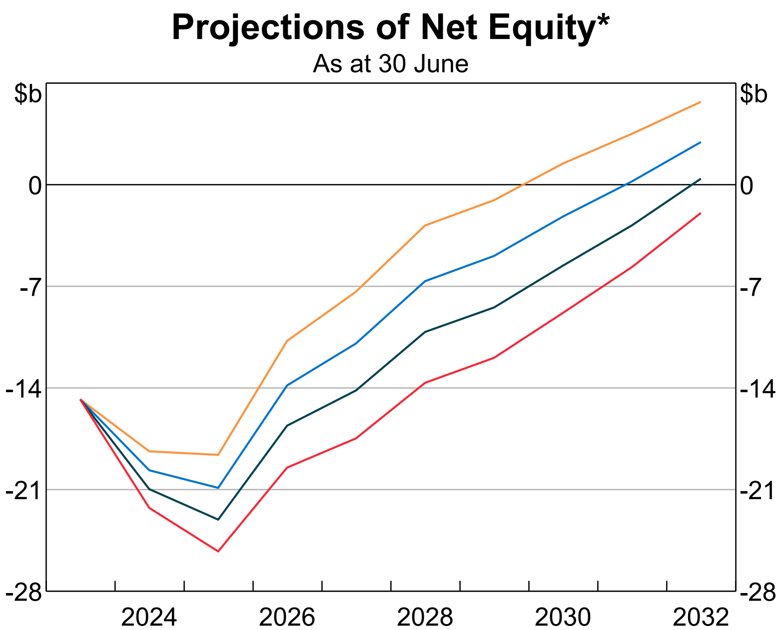
As at 30 June



* The path of interest rate on ES balances up to 30 June 2023 is based on the cash rate path implied by overnight index swap rates as at 31 August 2022; the projections beyond June 2023 assume the ES rate converges to either 1½ per cent, 2½ per cent, 3½ per cent or 4½ per cent.

** Weighted average yield to maturity of outstanding domestic government bonds and interest rate on Term Funding Facility reverse repos.

Sources: Bloomberg; RBA



* Assuming future distributable earnings will first be applied to offsetting accumulated losses and then to restoring the RBRF to target. In accordance with the Reserve Bank Act, such transfers are to be formally determined by the Treasurer each year.

Source: RBA

The Board views it as important that there is a credible path to restoring the Bank's capital over time. Accordingly, the Board's strong expectation is that future distributable earnings will first be applied to offsetting accumulated losses and then to restoring the RBRF to target, before paying any dividends to the Australian Government. Following consultation with the Governor, on behalf of the Board, the Treasurer has endorsed the Board's general approach to restoring its equity position. Consistent with the Reserve Bank Act, any transfers from the Bank's earnings in the future will be formally determined by the Treasurer after consulting the Board each year.

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

Composition and Distribution of Reserve Bank Profits

$ million

Financial Year	Composition of profits[a]				Distribution of profits				
					Transfer to/from(–)				
	Underlying earnings	Realised gains or losses (–)[b]	Unrealised gains or losses (–)	Accounting profit or loss (–)	Unrealised profits reserves	Asset revaluation reserves	Reserve Bank Reserve Fund	Dividend payable	Accumulated losses
1997/98	1,750	966	1,687	4,403	1,687	–558	548	2,726	–
1998/99	1,816	2,283	–2,773	1,326	–2,349	–1	–	3,676	–
1999/00	1,511	–708	1,489	2,292	1,489	–	–	803	–
2000/01	1,629	1,200	320	3,149	320	–5	–	2,834	–
2001/02	1,400	479	–11	1,868	–11	–10	–	1,889	–
2002/03	1,238	1,157	–222	2,173	–222	–2	133	2,264	–
2003/04	882	–188	1,261	1,955	1,261	–	–	694	–
2004/05	997	366	–1,289	74	–1,289	–	–	1,363	–
2005/06	1,156	4	933	2,093	933	–17	–	1,177	–
2006/07	1,381	72	–2,846	–1,393	–2,475	–3	–	1,085	–
2007/08	2,068	614	–1,252	1,430	27	–	–	1,403	–
2008/09	2,150	4,404	2,252	8,806	2,252	–	577	5,977	–
2009/10	866	–128	–3,666	–2,928	–2,248	–	–680	–	–
2010/11	897	–1,135	–4,651	–4,889	–23	–	–4,866	–	–
2011/12	710	405	–39	1,076	–20	–	596	500	–
2012/13	723	–135	3,725	4,313	3,725	–	588	–	–
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	–
2015/16	1,223	3,389	–1,729	2,883	–1,729	–	1,390	3,222	–
2016/17	960	322	–2,179	–897	–2,179	–4	–	1,286	–

	Composition of profits[a]				Distribution of profits				
					Transfer to/from(–)				
Financial Year	Underlying earnings	Realised gains or losses (–)[b]	Unrealised gains or losses (–)	Accounting profit or loss (–)	Unrealised profits reserves	Asset revaluation reserves	Reserve Bank Reserve Fund	Dividend payable	Accumulated losses
2017/18	845	–176	3,178	3,847	3,178	–	–	669	–
2018/19	1,167	412	2,970	4,549	2,970	–106	–	1,685	–
2019/20	1,399	1,168	–79	2,488	–79	–	–	2,567	–
2020/21	4,157	–240	–8,249	–4,332	–8,249	–1	1,247	2,671	–
2021/22	8,198	–353	–44,545	–36,700	–502	4	–15,366	–	–20,836

(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.

Source: RBA

PART 4

Financial Statements

Financial Statements: Statement of Assurance

In the opinion of each of the Governor, as the accountable authority of the Reserve Bank of Australia (RBA), and the Chief Financial Officer, the financial statements for the year ended 30 June 2022 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 6 September 2022.

Philip Lowe
Governor and Chair, Reserve Bank Board

Emma Costello
Chief Financial Officer

7 September 2022

Financial Statements: Statement of Financial Position

Statement of Financial Position – as at 30 June 2022

Reserve Bank of Australia and Controlled Entity

	Note	2022 $M	2021 $M
Assets			
Cash and cash equivalents	6	482	721
Australian dollar investments	1(b), 15	538,142	474,974
Foreign currency investments	1(b), 15	66,497	56,710
Gold	1(d), 15	6,772	6,022
Property, plant and equipment	1(e), 8	744	754
Other assets	7	1,137	716
Total assets		613,774	539,897
Liabilities			
Deposits	1(b), 9	513,757	415,576
Distribution payable to the Commonwealth	1(h), 3	–	2,671
Australian banknotes on issue	1(b)	102,345	95,485
Other liabilities	10	10,115	3,160
Total liabilities		626,217	516,892
Net (Liabilities)/Assets		**(12,443)**	**23,005**
Equity			
Reserves:			
– Unrealised profits reserve	1(g)	–	502
– Asset revaluation reserves	1(g), 5	7,525	6,753
– Superannuation reserve	1(g)	828	344
– Reserve Bank Reserve Fund	1(g)	–	15,366
Accumulated Losses	1(g)	(20,836)	–
Capital	1(g)	40	40
Total Equity		**(12,443)**	**23,005**

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

Financial Statements: Statement of Comprehensive Income

Statement of Comprehensive Income – for the year ended 30 June 2022

Reserve Bank of Australia and Controlled Entity

	Note	2022 $M	2021 $M
Net interest income	2	8,458	4,285
Fees and commission income	2	376	460
Other income	2	25	53
Net gains/(losses) on securities and foreign exchange	2	(44,898)	(8,489)
General administrative expenses	2	(470)	(483)
Other expenses	2	(191)	(158)
Net Profit/(Loss)		**(36,700)**	**(4,332)**
Gains/(losses) on items that may be reclassified to profit or loss:			
– Gold		750	(593)
		750	(593)
Gains/(losses) on items that will not be reclassified to profit or loss:			
– Property		(6)	24
– Superannuation		484	257
– Shares in international and other institutions		24	(12)
		502	269
Other Comprehensive Income		**1,252**	**(324)**
Total Comprehensive Income		**(35,448)**	**(4,656)**

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

Financial Statements: Statement of Distribution

Statement of Distribution – for the year ended 30 June 2022

Reserve Bank of Australia and Controlled Entity

	Note	2022 $M	2021 $M
Net profit/(loss)		(36,700)	(4,332)
Transfer from unrealised profits reserve		502	8,249
Transfer from asset revaluation reserves		(4)	1
Earnings available for distribution		(36,202)	3,918
Distributed as follows:			
Transfer (from)/to Reserve Bank Reserve Fund		(15,366)	1,247
Transfer to accumulated losses		(20,836)	–
Payable to the Commonwealth	3	–	2,671
		(36,202)	3,918

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

Financial Statements: Statement of Changes in Equity

Statement of Changes in Equity – for the year ended 30 June 2022

Reserve Bank of Australia and Controlled Entity

	Note	Unrealised profits reserve	Asset revaluation reserves	Superannuation reserve	Earnings available for distribution	Reserve Bank Reserve Fund	Accumulated losses	Capital	Total equity
		$M	$M	$M	$M	$M	$M	$M	$M
Balance as at 30 June 2020		**8,751**	**7,335**	**87**	**–**	**14,119**	**–**	**40**	**30,332**
Net Profit/(Loss)	1(h)	(8,249)			3,917				(4,332)
Gains/(losses) on:									
– Gold	1(d), 5		(593)						(593)
– Shares in international and other institutions	1(b), 5		(12)						(12)
– Property	1(e), 5		24						24
– Superannuation	1(j)			257					257
Other comprehensive income			**(581)**	**257**					**(324)**
Total comprehensive income for 2020/21									**(4,656)**
Transfer from Asset revaluation reserves	1(g), 3		(1)		1				–
Transfer to Reserve Bank Reserve Fund					(1,247)	1,247			–

	Note	Unrealised profits reserve	Asset revaluation reserves	Superannuation reserve	Earnings available for distribution	Reserve Bank Reserve Fund	Accumulated losses	Capital	Total equity
		$M	$M	$M	$M	$M	$M	$M	$M
Transfer to distribution payable to the Commonwealth	1(h), 3				(2,671)				(2,671)
Balance as at 30 June 2021		**502**	**6,753**	**344**	**–**	**15,366**	**–**	**40**	**23,005**
Net Profit/(Loss)	1(h)	(502)			(36,198)				(36,700)
Gains/(losses) on:									
– Gold	1(d), 5		750						750
– Shares in international and other institutions	1(b), 5		24						24
– Property	1(e), 5		(6)						(6)
– Superannuation	1(j)			484					484
Other comprehensive income			768	484					1,252
Total comprehensive income for 2021/22									(35,448)
Transfer from Asset revaluation reserves	1(g), 3		4		(4)				–
Transfer from Reserve Bank Reserve Fund					15,366	(15,366)			–
Transfer to accumulated losses					20,836		(20,836)		–
Transfer to distribution payable to the Commonwealth	1(h), 3								–
Balance as at 30 June 2022		**–**	**7,525**	**828**	**–**	**–**	**(20,836)**	**40**	**(12,443)**

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

Financial Statements: Cash Flow Statement

For the purposes of this statement, cash includes overnight settlement balances due from other banks.

Cash Flow Statement – for the year ended 30 June 2022

Reserve Bank of Australia and Controlled Entity

	Note	2022 Inflow/(outflow) $M	2021 Inflow/(outflow) $M
Cash flows from operating activities			
Interest received		8,046	3,523
Interest paid		(146)	(165)
Net fee income received		270	374
Net payments for investments		(110,603)	(267,996)
Net cash collateral received/(provided)		325	132
Other		(439)	(438)
Net cash from operating activities	6	(102,547)	(264,570)
Cash flows from investment activities			
Net payments for property, plant and equipment		(45)	(52)
Net payments for computer software		(12)	(19)
Other		0	–
Net cash from investment activities		(57)	(71)
Cash flows from financing activities			
Distribution to the Commonwealth	3	(2,671)	(2,567)
Net movement in deposit liabilities		98,181	262,035
Net movement in banknotes on issue		6,860	5,383
Other		(5)	(5)
Net cash from financing activities		102,365	264,846
Net increase/(decrease) in cash		(239)	205
Cash at beginning of financial year		721	516
Cash at end of financial year	6	**482**	**721**

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

Financial Statements: Notes to and Forming Part of the Financials Statements

Reserve Bank of Australia and Controlled Entity

Note 1 – Accounting Policies

The 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 2022 are a general purpose financial report prepared under Australian Accounting Standards (AAS) and accounting interpretations issued by the Australian Accounting Standards Board, in accordance with the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*, which is issued pursuant to the PGPA Act. The RBA is classified as a for-profit public sector entity for the purposes of financial disclosure. 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 2022.

All amounts in these financial statements are expressed in Australian dollars, the functional and presentational currency of the RBA. All revenues and expenses are brought to account on an accruals basis.

Going concern

These financial statements are prepared on a going concern basis.

As at 30 June 2022, the RBA's liabilities exceeded its assets by $12.4 billion. The net liability position reflects unrealised valuation losses recorded on the RBA's holding of bonds issued by the Australian government and the state and territory borrowing authorities, which resulted from the significant rise in bond yields during 2021/22. These bonds were purchased as part of the RBA's response to the COVID-19 pandemic, including under the Bond Purchase Program and as part of achieving a target for the yield on the 3-year Australian Government bond.

The Governor and Reserve Bank Board are of the view that the RBA will continue to operate effectively, and in accordance with its policy functions and objectives set out in the Reserve Bank Act and in the Statement on the Conduct of Monetary Policy.

The RBA's liabilities are guaranteed by the Australian Government under section 77 of the Reserve Bank Act. As a central bank, the RBA also has the ability to create liquidity to meet its liabilities as and when they fall due and has substantial liabilities (in the form of banknotes on issue) which have a zero funding cost.

Additional information on the Bank's capital is provided in the 'Earnings, Distribution and Capital' chapter.

(a) Consolidation

The financial statements show information for the economic entity only; this reflects the consolidated results for the parent entity, the RBA, 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.

NPA was incorporated as a wholly owned subsidiary of the RBA on 1 July 1998.

Note Printing Australia Limited Balance Sheet

	2022 $M	2021 $M
Assets	172.9	174.9
Liabilities	43.4	43.8
Equity	129.5	131.1

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 premises and security services.

(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 accounts for its financial instruments in accordance with AASB 9 – *Financial Instruments* and reports these instruments *under* AASB 7 – *Financial Instruments: Disclosures* and AASB 13 – *Fair Value Measurement*.

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

Financial assets

Australian dollar securities

Australian dollar securities, except those held under reverse repurchase agreements, are measured at fair value through profit or loss, as they are held to implement 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 on securities is accrued as revenue.

Reverse repurchase agreements

In carrying out operations to manage domestic liquidity and foreign reserves, the RBA enters into reverse repurchase agreements in Australian dollar and foreign currency securities. Reverse repurchase agreements were also used to provided funding via the Term Funding Facility. A reverse repurchase agreement involves the purchase of securities with an undertaking to reverse this transaction at an agreed price on an agreed future date. 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. Reverse repurchase agreements are measured at amortised cost. Interest earned is accrued over the term of the agreement and recognised as revenue.

RBA open repurchase agreements are available to assist eligible financial institutions manage their liquidity after normal business hours. 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.

Gold borrowed under gold swaps

Gold swaps are available to assist with domestic liquidity management and to enhance the return on the RBA's gold holdings.

Gold swaps involving the purchase of gold include an undertaking to reverse this transaction at an agreed price on an agreed future date. As these gold swaps provide the RBA's counterparty with cash for the term of the agreement, the RBA treats it as an asset by recording a cash receivable. Gold swaps are measured at amortised cost in accordance with AASB 9. The difference in agreed gold prices for the first and second legs is accrued over the term of the swap and recognised as interest income. Gold borrowed under a swap agreement is not recognised on the RBA's balance sheet, as the predominant risk and reward of ownership, including exposure to any movement in the market price of gold, remains with the counterparty.

Foreign government securities

Foreign government securities, except those held under reverse repurchase agreements, are measured at fair value through profit or loss, as they are available to be traded in managing the portfolio of foreign 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.

Foreign deposits

Some foreign currency reserves are invested in deposits with central banks and the Bank for International Settlements (BIS), while small working balances are also maintained with a small number of commercial banks. Deposits are measured at amortised cost. Interest is accrued over the term of deposits.

Foreign currency swaps

The RBA uses foreign currency swaps to assist domestic liquidity management and in managing foreign reserve assets and Australia's foreign currency commitments as a member of the IMF. 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. Foreign currency swaps are measured at fair value through profit or loss.

Bond futures

The RBA uses bond futures contracts on overseas exchanges to manage interest rate risk on its portfolio of foreign assets. Bond futures positions are measured at fair value through profit or loss with valuation gains or losses taken to net profit. Futures positions are reported within 'Foreign currency investments'.

Asian Bond Fund 2 (ABF2)

Through its participation in the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) Asian Bond Fund, the RBA invests in a number of non-Japan Asian debt markets. This investment comprises units in ABF2, which invests in local currency-denominated bonds issued by sovereign and quasi-sovereign issuers in EMEAP markets. ABF2 is measured at fair value through profit or loss and is valued on balance date at the relevant unit price of the fund, with valuation gains or losses taken to profit. ABF2 is reported within 'Foreign currency investments'.

Shareholding in Bank for International Settlements

Shares in the BIS are owned exclusively by the central banks and monetary authorities that are its members, including the RBA. The RBA has made an election to designate its shareholding in the BIS at fair value through other comprehensive income, as permitted under AASB 9. The shareholding is measured at fair value and valuation gains or losses are transferred directly to the revaluation reserve for 'Shares in international and other institutions' (Note 5). An uncalled portion of this shareholding is disclosed as a contingent liability in Note 11. Dividends are recognised as revenue in net profit, when declared.

Financial liabilities

Deposit liabilities

Deposit liabilities are measured at amortised cost (see Note 9). Interest is accrued over the term of deposits and is paid periodically or at maturity. Interest accrued on deposits not yet paid is included in Note 10.

Australian banknotes on issue

Banknotes on issue are a financial liability recorded at face value.

The RBA pays interest on working balances of banknotes held by banks under cash distribution arrangements (see Note 4).

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

Repurchase agreements

A repurchase agreement involves the sale of securities with an undertaking to repurchase them on an agreed future date at an agreed price. Securities sold and contracted for repurchase under repurchase agreements are retained on the balance sheet and reported within the relevant investment portfolio (see 'Australian dollar securities' and 'Foreign government securities', above). The counterpart obligation to repurchase the securities is reported in 'Other liabilities' (Note 10) and measured at amortised cost. The difference between the sale and purchase price is accrued over the term of the agreement and recognised as interest expense.

Gold loaned under gold swaps

Gold swaps involving the sale of gold include an undertaking to reverse this transaction at an agreed price on an agreed future date. Gold sold under gold swaps is retained on the balance sheet and reported within gold holdings (Note 1(d)). The counterpart obligation to repurchase the gold is reported in 'Other liabilities' (Note 10) and measured at amortised cost. The difference in agreed gold prices for each leg is accrued over the term of the swap 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 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 net profit. Interest revenue and expenses and revaluation gains and losses on foreign currency securities are converted to Australian dollars using exchange rates on the date they are accrued or recognised.

(d) Gold

Gold holdings (including gold sold under gold swaps or on loan to other institutions) are valued at the Australian dollar equivalent of the 3.00 pm fix in the London gold market on balance date. Valuation gains or losses on gold are transferred to the asset revaluation reserve for gold.

In addition to gold swaps (Note 1(b)), the RBA also lends gold to institutions that participate in the gold market under gold loan agreements. Similar to gold swaps, gold provided under a loan is retained on the balance sheet. Interest is accrued over the term of the loan and is paid at maturity. The interest receivable on gold loans is accounted for in accordance with AASB 9.

(e) Property, plant and equipment

The RBA accounts for property, plant and equipment it owns in accordance with AASB 116 – *Property, Plant and Equipment* and AASB 13. Property, plant and equipment held under lease arrangements, including overseas and interstate representative offices and computer hardware, are accounted for under AASB 16 – *Leases.*

Expenditure, revaluation adjustments and depreciation of property, plant and equipment, including leased assets, are included in Note 8.

Property

The RBA measures its property at fair value. The RBA's Australian properties are formally valued biennially by an independent valuer, with the most recent valuation conducted in 2020/21; overseas properties are independently valued on a triennial basis, with the most recent valuation conducted in 2021/22. Previously, formal independent valuations of the RBA's Australian properties were conducted on an annual basis. Between obtaining independent valuations, carrying values are reviewed by management to ensure that they remain appropriate. Reflecting their specialised nature, fair value for the RBA's Business Resumption Site and National Banknote Site is based on depreciated replacement cost. Valuation gains (losses) are generally transferred to (absorbed by) the asset revaluation reserve of each respective property. 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 income in net profit.

Annual depreciation is calculated on a straight line basis using assessments of the remaining useful life of the relevant building.

Plant and equipment

Plant and equipment is valued at cost less accumulated depreciation. Annual depreciation is calculated on a straight line basis using the RBA's assessment of the remaining useful life of individual assets.

Useful life for each class of depreciable asset

	Years
Buildings	15–50
Fit-out	5–10
Computer hardware	4
Motor vehicles	5
Plant and other equipment	4–20

Leased Assets

Leased assets are measured at cost and comprise of the amount equal to the lease liability, adjusted by the amount of any lease payments made before commencement date and initial direct costs less accumulated depreciation. Annual depreciation is calculated on a straight line basis using the length of the lease term.

(f) Computer software

Computer software is reported in accordance with AASB 138 – *Intangible Assets*. Computer software is recognised at cost less accumulated amortisation and impairment adjustments, if any (see Note 7). Amortisation of computer software is calculated on a straight line basis over the estimated useful life of the relevant asset, usually for a period of between four and six years (see Note 7). The useful life of payments systems and core banking software may be for a period of between 10 and 15 years, reflecting the period over which future economic benefits are expected to be realised from these assets.

(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 reserve maintained to provide for events that 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 investments that cannot be absorbed by its other resources. The RBRF also provides for other risks such as operational risk. In accordance with the Reserve Bank Act, this reserve is funded only by transfers from net profits, as determined by the Treasurer, after consulting the Reserve Bank Board (see Note 1(h)). The Board assesses the adequacy of the balance of the RBRF each year (see 'Earnings, Distribution and Capital' chapter).

The RBA's equity also includes 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 remeasurement gains or losses on the RBA's defined benefit superannuation obligations (Note 1(j)).

Balances of asset revaluation reserves reflect differences between the fair value of non-traded assets and their cost. These assets are: gold; property held outright; and shares in international and other institutions. Valuation gains on these assets are not distributable unless an asset is sold and these gains are realised.

Accumulated losses represent losses, as calculated under section 30 of the Reserve Bank Act (refer Note 1(h)), which could not be absorbed by the Reserve Bank Reserve Fund.

(h) Net profits

Net 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.

Where the application of subsection (2) above results in a loss position, such losses are absorbed by the Reserve Bank Reserve Fund, to the extent possible; remaining losses are reflected in Accumulated losses (Note 1(g)).

(i) Provisions for employee benefits entitlements

In accordance with AASB 119 – *Employee Benefits*, the RBA records provisions for certain employee benefit entitlements, including accrued annual and long service leave and post-employment health insurance benefits. These provisions reflect the present value of the estimated future cost to meet those entitlements, including any applicable fringe benefit or payroll taxes and, in the case of leave entitlements, future leave accrual and superannuation contributions to the extent that any leave is assumed to be taken during service. The estimated future cost of these entitlements is discounted to its present value using yields on highly rated Australian dollar-denominated corporate bonds. Leave provisions are calculated using assumptions for length of staff service, leave utilisation and future salary. The provision for post-employment health insurance benefits is estimated using assumptions about the length of staff service, longevity of retired staff and future movements in health insurance costs. This post-employment benefit ceased to be available for new staff appointed after 30 June 2013.

Further detail on employee benefit provisions are included in Note 10.

(j) 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. Remeasurement gains and losses are transferred to the Superannuation reserve.

Details of the superannuation funds and superannuation expenses are included in Note 14.

(k) Committed Liquidity Facility

The RBA provides a Committed Liquidity Facility (CLF) to eligible ADIs. Fees received from providing the CLF are recognised as fee income in net profit. Additional information on the CLF is provided in Note 11.

(l) Lease liabilities

Lease liabilities are measured at the present value of the remaining lease payments (see Note 10). The lease liability is subsequently remeasured where there is a change in the lease term or future lease payments. Lease payments in relation to new leases with a lease term of 12 months or less and leases for low-value assets are expensed on a straight-line basis over the lease term.

(m) Revenue from contracts with customers

In the course of its operations, the RBA enters into contracts for the provision of goods and services. These include: contracts for the provision of banking and payment services to the Australian Government, overseas central banks and official institutions; the provision of the CLF for participating ADIs (see Note 1(k)); and, in the case of the RBA's subsidiary, banknote and security products to overseas central banks.

Revenue is recognised on a gross basis at the point the contracted performance obligation is satisfied, as required by AASB 15 – *Revenue from Contracts with Customers*. In the case of banking and payment services, revenue is recognised upon the completion of the provision of service. Revenue from the sale of banknote and security products is recognised at the point at which the product is accepted and CLF fee income is recognised over the period the facility is provided.

Where the right to consideration for the completion of the performance obligation under the contract becomes unconditional, a receivable is recognised in the Statement of Financial Position; a contract asset is recorded when this right remains conditional (see Note 7). Where a performance obligation under a contract remains unsatisfied, but consideration has been received, the RBA reports this as an unearned contract liability (see Note 10).

(n) Rounding

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

(o) Comparative information

Certain comparative information may be reclassified where required for consistency with the current year presentation.

(p) Application of new or revised Australian Accounting Standards

New Australian Accounting Standards and amendments made to existing standards that apply to the RBA's financial statements in the current and future financial years are not expected to result in a material impact on disclosures.

Note 2 – Net Profit

Net Profit

	Note	2022 $M	2021 $M
Net interest income			
Interest income	1(b), 4	8,869	4,432
Interest expense	1(b), 4	(411)	(147)
		8,458	4,285
Fees and commissions income			
Committed liquidity facility	1(k), 1(m)	228	331
Banking services	1(m)	110	96
Payment services	1(m)	38	33
		376	460
Other income			
Sales of banknote and security products	1(m)	11	37
Rental of Bank premises		3	3
Dividend revenue	1(b)	5	9
Other		6	4
		25	53
Net gains/(losses) on securities and foreign exchange			
Foreign investments	1(b)	(703)	(107)
Australian dollar securities	1(b)	(45,964)	(5,154)
Foreign currency	1(b)	1,769	(3,228)
		(44,898)	(8,489)
General administrative expenses			
Staff costs		(260)	(247)
Net gains/(losses) on employee provisions		24	(3)
Superannuation costs	1(j)	(64)	(70)
Depreciation of property, plant and equipment	1(e), 8	(55)	(52)
Amortisation of computer software	1(f), 7	(20)	(21)
Premises and equipment		(78)	(75)
Other		(17)	(15)
		(470)	(483)

	Note	2022 $M	2021 $M
Other expenses			
Banking service fees		(91)	(78)
Materials used in banknote and security products		(64)	(40)
Banknote distribution		(1)	(2)
Other		(35)	(38)
		(191)	(158)
Net Profit/(Loss)		**(36,700)**	**(4,332)**

Net losses on Australian dollar securities largely reflect unrealised valuation losses from the significant rise in bond yields during 2021/22. The chapter on 'Earnings, Distribution and Capital' provides additional analysis over the drivers of these losses.

Note 3 – Distribution Payable to the Commonwealth

Section 30 of the Reserve Bank Act requires that the net profits of the RBA, less amounts transferred to the RBRF as determined by the Treasurer, shall be paid to the Commonwealth (see Note 1(h)). Also under section 30, unrealised profits 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 where they are offset against unrealised profits accumulated from previous years. 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 then the RBRF, to the extent of the available balance in this reserve. Any remaining loss is transferred to accumulated losses.

In 2021/22, the RBA recorded an accounting loss which fully depleted the balances in both the unrealised profits reserve and the RBRF. The remainder of the accounting loss, a sum of $20,836 million, was transferred to accumulated losses. No dividend was payable to the Commonwealth.

Distribution Payable to the Commonwealth

	2022 $M	2021 $M
Opening balance	2,671	2,567
Distribution to the Commonwealth	(2,671)	(2,567)
Transfer from Statement of Distribution	–	2,671
As at 30 June	–	2,671

Note 4 – Interest Income and Interest Expense

Interest Income and Interest Expense

Analysis for the year ended 30 June 2022

	Average balance $M	Interest $M	Average annual interest rate Per cent
Interest income			
Foreign currency investments	61,713	231	0.4
Australian dollar investments	532,111	8,637	1.6
Overnight settlements	501	0	0.1
Cash collateral provided	267	0	0.1
Gold loans	478	0	0.1
Loans, advances and other	33	1	1.2
	595,103	8,869	1.5
Interest expense			
Exchange Settlement balances	410,163	299	0.1
Deposits from governments	55,845	112	0.2
Deposits from overseas institutions	18,156	0	0.0
Banknote holdings of banks	3,008	2	0.1
Foreign currency repurchase agreements	2,197	2	0.1
Australian dollar repurchase agreements	5,519	(5)	(0.1)
Gold loaned under gold swaps	261	0	(0.2)
Cash collateral received	386	1	0.2
	495,535	411	0.1
Net interest margin			**1.4**
Analysis for the year ended 30 June 2021			
Interest income	336,472	4,432	1.3
Interest expense	224,991	147	0.1
Net interest margin			**1.3**

Interest income for 2021/22 includes $336 million calculated using the effective interest method for financial assets not at fair value through profit or loss ($276 million in 2020/21). Interest expense for 2021/22 includes $411 million calculated using the effective interest method for financial liabilities not at fair value through profit or loss ($147 million in 2020/21).

Note 5 – Asset Revaluation Reserves

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

Asset Revaluation Reserves

	Note	2022 $M	2021 $M
Gold	1(d)	6,644	5,894
Shares in international and other institutions	1(b), 7	491	462
Property	1(e), 8	390	397
As at 30 June		7,525	6,753

Note 6 – Cash and Cash Equivalents

Cash and Cash Equivalents

	2022 $M	2021 $M
Cash	41	17
Overnight settlements	441	704
As at 30 June	482	721

Cash and cash equivalents include net amounts of $441 million owed to the RBA for overnight clearances of financial transactions through the payments system ($704 million at 30 June 2021). 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.

Reconciliation of net cash used in operating activities to Net Profit

	Note	2022 $M	2021 $M
Net Profit		(36,700)	(4,332)
Net loss on overseas investments	2	703	107
Net loss on Australian dollar securities	2	45,964	5,154
Net (gain)/loss on foreign currency	2	(1,769)	3,228
Depreciation of property, plant and equipment	2	55	52
Amortisation of computer software	2	20	21
Net payments for investments		(110,603)	(267,996)
(Increase) in interest receivable		(827)	(911)
Increase/(decrease) in interest payable		268	(16)
Cash collateral received		325	132
Other		17	(9)
Net cash used in operating activities		(102,547)	(264,570)

Note 7 – Other Assets

Other Assets

	Note	2022 $M	2021 $M
Shareholding in Bank for International Settlements	1(b)	534	507
Superannuation asset	1(j), 14	433	–
Computer software	1(f)	83	90
Other		87	119
As at 30 June		1,137	716

At 30 June 2022, the gross book value of the RBA's computer software amounted to $197.0 million and the accumulated amortisation on these assets was $114.4 million ($192.9 million and $102.5 million, respectively, at 30 June 2021). During 2021/22, there were $4.1 million in net additions to computer software ($18.3 million in 2020/21) and $20.2 million in amortisation expense ($20.9 million in 2020/21). The RBA had contractual commitments of $0.8 million as at 30 June 2022 for the acquisition of computer software ($0.8 million at 30 June 2021).

Other assets include receivables of $24.1 million at 30 June 2022 ($33.6 million at 30 June 2021).

There were no contract assets at 30 June 2022 (Note 1(m)).

Note 8 – Property, Plant and Equipment

Property, Plant and Equipment

	Land and buildings $M	Plant and equipment $M	Leased assets $M	Total $M
Gross Book Value as at 30 June 2021	**598**	**357**	**26**	**981**
Accumulated depreciation	(1)	(218)	(8)	(227)
Net Book Value	**597**	**139**	**18**	**754**
Additions	13	34	4	51
Depreciation expense	(16)	(34)	(5)	(55)
Net gain/(loss) recognised in Net Profit	–	1	–	1
Net gain/(loss) recognised in Other Comprehensive Income	(6)	–	–	(6)
Disposals	–	(1)	–	(1)
Net additions to net book value	(9)	–	(1)	(10)
Gross Book Value as at 30 June 2022	**603**	**382**	**30**	**1,015**
Accumulated depreciation	(15)	(243)	(13)	(271)
Net Book Value	**588**	**139**	**17**	**744**

The net book value of the RBA's property, plant and equipment includes $48.7 million of work in progress ($48.3 million at 30 June 2021). The carrying amount of leased assets at 30 June 2022 includes

$12.7 million in property and $4.5 million in plant and equipment ($11.3 million and $6.7 million, respectively, at 30 June 2021).

As at 30 June 2022, the RBA had contractual commitments of $220.0 million for acquisitions relating to its property, plant and equipment ($19.2 million at 30 June 2021), of which $88.5 million are due within one year ($16.6 million at 30 June 2021). Included within these contractual commitments is an amount of $207.8 million which relates to the refurbishment of the RBA's Head Office in Sydney, of which $77.5 million is due within one year.

Note 9 – Deposits

Deposits

	2022 $M	2021 $M
Exchange Settlement balances	420,211	341,800
Australian Government	89,595	61,539
State governments	37	44
Foreign governments, foreign institutions and international organisations	3,914	12,193
Other depositors	0	0
As at 30 June	513,757	415,576

Note 10 – Other Liabilities

Other Liabilities

	Note	2022 $M	2021 $M
Provisions			
Provision for annual and other leave	1(i)	31	29
Provision for long service leave	1(i)	51	56
Provision for post-employment benefits	1(i)	78	98
Other		2	4
		162	187
Other			
Securities sold under agreements to repurchase	1(b)	7,893	996
Payable for unsettled purchases of securities	1(b)	143	1,480
Foreign currency swap liabilities	1(b)	1,572	383
Interest accrued on deposits	1(b)	271	5
Superannuation liability	1(j), 14	–	23
Other		74	86
		9,953	2,973
Total Other Liabilities as at 30 June		10,115	3,160

The RBA's provision for its post-employment benefits was $20.0 million lower in 2021/22, largely due to a rise in discount rates used to measure the estimated future cost of providing these benefits in present value terms. Benefits of $4.6 million were paid out of the provision for post-employment benefits in 2021/22. The balance of the provision will change if assumptions about the length of staff service, the longevity of retired staff, future costs of providing benefits, or discount rates vary.

Other provisions include amounts for workers compensation.

Other liabilities include contract liabilities of $11.3 million mainly relating to unearned revenue from the provision of the CLF (Note 1(m)) and $18.9 million in lease liabilities. Interest on lease liabilities was $0.2 million in 2021/22.

Note 11 – Contingent Assets and Liabilities

Committed Liquidity Facility

Since 1 January 2015, the RBA has provided a CLF to eligible 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 was originally made available to ADIs in Australia because the supply of high-quality liquid assets (HQLA) was lower in Australia than is typical in other major economies (in other countries, these liquidity requirements are usually met by banks' 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.

In September 2021, APRA and the RBA assessed that there was sufficient HQLA for locally incorporated ADIs to meet their liquidity requirements without the need to utilise the CLF. Accordingly, APRA expects ADIs to reduce their usage of the CLF to zero by the end of 2022. This transition is being made in a series of steps over 2022.

APRA has stated that the CLF will remain available should it need to be reactivated in the future to meet shortfalls in the availability of HQLA.

The aggregate undrawn commitment of the CLF at 30 June 2022 totalled $65 billion for 12 ADIs ($115 billion for 14 ADIs at 30 June 2021).

Bank for International Settlements

The RBA has a contingent liability for the uncalled portion of its shares held in the BIS amounting to $69.6 million at 30 June 2022 ($68.3 million at 30 June 2021).

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.

Similarly, the RBA has provided a performance guarantee for pension payments to members of the Reserve Bank of Australia UK Pension Scheme in relation to a UK insurer. This exposure is not material. Further detail is provided in Note 14.

Note 12 – Key Management Personnel

The key management personnel of the RBA 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 RBA. There were 20 of these positions in 2021/22 (unchanged from 2020/21). A total of 20 individuals occupied these positions for all or part of the financial year (23 in the previous year). Following the resignation of Dr Guy Debelle as Deputy Governor of the Reserve Bank of Australia in March 2022, Ms Michele Bullock was appointed to the position in April 2022. Ms Bullock's previous position of Assistant Governor (Financial System) was filled in July 2022.

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 the parameters determined by the Remuneration Tribunal, the Reserve Bank Board Remuneration Committee, comprising three non-executive members, makes a recommendation on remuneration for these positions for the approval of the Board, which is the 'employing body' for the positions. In accordance with provisions of the Reserve Bank Act, neither the Governor nor the Deputy Governor takes part in decisions of the Reserve Bank Board relating to the determination or application of any terms or conditions on which either of them holds office. In June 2021, the Remuneration Tribunal determined that no adjustment would be made at that time to the remuneration of offices in its jurisdiction, including Principal Executive Offices. Accordingly, the remuneration reference rates for these positions of Governor and Deputy Governor were unchanged in 2021/22 at $1,061,210 (superannuable salary of $774,683) for the Governor and $795,910 (superannuable salary of $581,014) for the Deputy Governor. Remuneration of any individual occupying these positions in 2021/22 was at the applicable reference rate. No performance payments were made to any individual while occupying these positions in 2021/22.

Fees for non-executive members of the Reserve Bank Board and the Payments System Board are determined by the Remuneration Tribunal. The Governor determines the rates of remuneration of the Assistant Governors. 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.

The disclosure of key management personnel remuneration is based on AASB 124 – *Related Party Disclosures*, as shown below. 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.

Key Management Personnel Remuneration

	2022 $	2021 $
Short-term employee benefits	5,007,991	5,125,974
Post-employment benefits	797,946	805,758
Other long-term employee benefits	56,471	304,513
Termination benefits	–	–
Total compensation[(a)]	**5,862,408**	**6,236,245**

(a) Within the group of key management personnel, 18 individuals (21 in 2020/21) were remunerated and included in this table; the two key management personnel that are not remunerated are the individuals who held the positions of Secretary to the Treasury, as a member of the Reserve Bank Board, and the Chair of APRA, as a member of the Payments System Board.

Short-term benefits include salary and, for relevant executives, lump-sum performance payments and motor vehicle, car parking and health benefits (including any fringe benefits tax on these benefits).

Post-employment benefits include superannuation and, in the case of executives, an estimate of the cost to provide health benefits in retirement. Other long-term employee benefits include long service leave and annual leave, as well as the effect of revaluing previously accrued leave entitlements in accordance with AASB 119 (see Note 10).

There were no loans to Board members or other key management personnel during 2021/22 and 2020/21. Transactions with Board member-related entities and key management personnel 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, and at arms-length; any vendor relationships with such entities complied with the RBA's procurement policy.

Note 13 – Auditor's Remuneration

Auditor's Remuneration

	2022 $	2021 $
Fees paid or payable to the statutory auditor (Australian National Audit Office) for audit services	441,091	409,000

KPMG has been contracted by the Australian National Audit Office (ANAO) to provide audit services for the external audit of the RBA and the RBA's subsidiary, NPA.

During 2021/22, KPMG earned additional fees of $52,019 for non-audit services that were separately contracted by the RBA ($34,395 in 2020/21). These fees included professional services provided to the RBA.

Note 14 – Superannuation Funds

The RBA sponsors two superannuation funds: RB Super and the Reserve Bank of Australia UK Pension Scheme.

RB Super is a hybrid plan, with a mix of defined benefit members, defined contribution members and pensioners. Current and future benefits are funded by member and RBA contributions and the existing assets of the scheme. Defined benefit members receive a defined benefit in accordance with RB Super's plan rules. Most members have unitised accumulation balances, which comprise employer contributions and members' personal contributions plus earnings on these contributions. Defined benefit membership was closed to new RBA staff from 1 August 2014. From that date, new staff have been offered defined contribution superannuation. The RBA does not have a role in directly operating or governing RB Super and has no involvement in the appointment of the RB Super Trustees.

The UK Pension Scheme is a closed defined benefit scheme subject to relevant UK regulation. In 2018, the Trustees, with agreement from the RBA, entered into the buy-in side of a bulk purchase annuity contract with Aviva Life and Pensions UK Limited (Aviva) to reduce the funding risk in relation to the UK Pension Scheme's pension liabilities. During 2019 and 2020, the Trustees completed their work with Aviva to convert the buy-in policy to a buy-out policy, thereby fully securing members' benefits with Aviva. The process of winding up the Scheme is expected to be completed in early 2022/23. Defined benefit accrual for current members ceased on 30 June 2018. From that date, current and new staff have been offered defined contribution arrangements in a separate fund.

Funding valuation

An independent actuarial valuation of RB Super is conducted every three years. The most recent review was completed for the financial position as at 30 June 2020 using 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 was $313 million. On the same valuation basis, the RB Super surplus as at 30 June 2022 amounted to $614 million. The RBA maintained its contribution rate to fund defined benefit obligations at 18.3 per cent of salaries in 2021/22, consistent with the actuary's recommendation.

Accounting valuation

For financial statement purposes, disclosures required by AASB 119 are provided only for RB Super, as the UK Pension Scheme is not material.

Actuarial assumptions

Principal actuarial assumptions for the AASB 119 valuation of RB Super

	2022 Per cent	**2021** Per cent
Discount rate (gross of tax)[(a)]	5.5	3.6
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) In 2021, this includes a short-term assumption of 2.0 per cent for the first two years of the projections.

Maturity analysis

The weighted average duration of the defined benefit obligation for RB Super is 17 years (20 years at 30 June 2021).

Expected maturity profile for defined benefit obligations of RB Super

	2022 Per cent	2021 Per cent
Less than 5 years	19	14
Between 5 and 10 years	18	14
Between 10 and 20 years	29	27
Between 20 and 30 years	19	22
Over 30 years	15	23
Total	100	100

Risk exposures

Key risks from the RBA's sponsorship of the RB Super defined benefit plan include investment, interest rate, longevity, salary and pension risks.

Investment risk i s 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 RB Super members live longer, on average, 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, thereby increasing 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.

Change in defined benefit obligation

	2022 $M	2021 $M
Change in defined benefit obligation from an increase of 0.25 percentage points in:		
– Discount rate (gross of tax)	(54)	(86)
– Future salary growth	10	18
– Future pension growth	44	68
Change in defined benefit obligation from a decrease of 0.25 percentage points in:		
– Discount rate (gross of tax)	57	93
– Future salary growth	(10)	(18)
– Future pension growth	(42)	(65)
Change in defined benefit obligation from an increase in life expectancy of one year	31	49

Asset distribution

Distribution of RB Super's assets used to fund members' defined benefits at 30 June

	Per cent of fund assets	
	2022	**2021**
Cash and short-term securities	2	2
Fixed interest and indexed securities	9	9
Australian equities	27	28
International equities	27	26
Property	10	10
Private equity	10	10
Infrastructure	10	10
Alternative strategies	5	5
Total	100	100

AASB 119 Reconciliation

The table below contains a reconciliation of the AASB 119 valuation of RB Super. 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 RB Super.

AASB 119 Reconciliation

	2022 $M	**2021** $M
Opening balances:		
Net market value of assets	1,581	1,325
Accrued benefits	(1,604)	(1,572)
Opening superannuation asset/(liability)	**(23)**	**(247)**
Change in net market value of assets	(10)	256
Change in accrued benefits	467	(32)
Change in superannuation asset/(liability)	**456**	**224**
Closing balances:		
Net market value of assets	1,571	1,581
Accrued benefits	(1,138)	(1,604)
Closing superannuation asset/(liability)	**433**	**(23)**
Interest income	56	46
Benefit payments	(49)	(49)
Return on plan assets	(36)	240
Contributions from RBA to defined benefit schemes	19	19
Change in net market value of assets	**(10)**	**256**
Current service cost	(44)	(44)
Interest cost	(58)	(54)
Benefit payments	49	49

	2022 $M	2021 $M
Gains/(losses) from change in demographic assumptions	–	(58)
Gains/(losses) from change in financial assumptions	524	21
Gains/(losses) from change in other assumptions	(4)	54
Change in accrued benefits	**467**	**(32)**
Current service cost	(44)	(44)
Net Interest (expense)/income	(2)	(8)
Productivity and superannuation guarantee contributions	(11)	(11)
Superannuation (expense)/income included in profit or loss	(57)	(63)
Actuarial remeasurement gain/(loss)	**484**	**257**
Superannuation (expense)/income included in Statement of Comprehensive Income	**426**	**194**

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, facilitating the smooth functioning of the payments system 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. With regard 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, liquidity risk and credit risk. The chapters on 'Operations in Financial Markets' and 'Risk Management' provide 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. In the RBA's case, 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. The RBA's net foreign currency exposure as at 30 June 2022 was $52.6 billion ($51.6 billion as at 30 June 2021). An appreciation in the Australian dollar would result in valuation losses, while a depreciation would lead to valuation gains. The overall level of foreign currency exposure is determined by policy considerations. Foreign currency risk can be mitigated to a limited extent 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 in managing foreign reserve assets and Australia's foreign currency commitments as a member of the IMF. These instruments carry no foreign exchange risk.

Concentration of foreign exchange

The RBA's net holdings of foreign exchange (excluding Special Drawing Rights and Asian Bond Fund 2) were distributed as follows as at 30 June.

Concentration of foreign exchange

	Per cent of foreign exchange	
	2022	**2021**
US dollar	55	55
Euro	20	20
Japanese yen	5	5
Canadian dollar	5	5
Chinese renminbi	5	5
UK pound sterling	5	5
South Korean won	5	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.

Sensitivity to foreign exchange risk

	2022 $M	**2021** $M
Change in profit/equity due to a 10 per cent:		
– appreciation in the reserves-weighted value of the A$	(4,812)	(4,693)
– depreciation in the reserves-weighted value of the A$	5,881	5,736

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.

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. The increase in interest rate risk on Australian dollar securities is primarily due to purchases under the bond purchase program, which have increased the RBA's holdings at 30 June 2022. Purchases under the program concluded in February 2022.

Sensitivity to interest rate risk

	2022 $M	**2021** $M
Change in profit/equity due to movements of +/–1 percentage point across yield curves:		
– Foreign currency securities	–/+282	–/+294
– Australian dollar securities	–/+16,313	–/+13,650

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 and, at times, obligations to repurchase gold sold under gold swap 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 and obligations to repurchase gold sold under gold swap agreements. Foreign currency swaps reflect the gross contracted amount of the RBA's outstanding foreign currency swap positions.

Maturity Analysis – as at 30 June 2022

	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	482	39	441	–	–	–	2	0.55
Australian dollar investments								
Securities sold under repurchase agreements	4,178	–	–	–	3,977	201	–	3.05
Securities purchased under repurchase agreements	201,123	–	10,574	12,367	175,265	–	2,917	0.22
Other securities	330,619	–	2,763	16,321	136,168	175,367	–	3.38
Accrued interest	2,222	–	548	1,245	429	–	–	n/a
	538,142							
Foreign currency investments								
Balance with central banks	13,592	12,705	887	–	–	–	–	0.10
Securities sold under repurchase agreements	3,646	–	–	591	3,055	–	–	2.25
Securities purchased under repurchase agreements	3,864	–	3,864	–	–	–	–	0.92
Other securities	44,351	–	18,248	8,639	10,252	106	7,106	1.27
Deposits	696	0	696	–	–	–	–	2.37
Cash collateral provided	279	–	279	–	–	–	–	0.81
Accrued interest	69	–	50	19	–	–	–	n/a
	66,497							

	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		
Gold								
Gold holdings on loan	510	–	170	340	–	–	–	0.10
Gold holdings	6,262	–	–	–	–	–	6,262	n/a
	6,772							
Property, plant & equipment	744	–	–	–	–	–	744	n/a
Other assets	1,137	–	31	9	1	0	1,096	n/a
Total assets	**613,774**	**12,744**	**38,551**	**39,531**	**329,147**	**175,674**	**18,127**	**2.03**
Liabilities								
Deposits	513,757	427,672	86,085	–	–	–	–	0.81
Distribution payable to the Commonwealth	–	–	–	–	–	–	–	n/a
Cash collateral received	715	–	715	–	–	–	–	0.81
Australian banknotes on issue	102,345	–	–	–	–	–	102,345	0.02
Other liabilities	9,400	–	8,371	327	540	2	160	0.38
Total liabilities	**626,217**	**427,672**	**95,171**	**327**	**540**	**2**	**102,505**	**0.67**
Capital and reserves	(12,443)							
Total balance sheet	**613,774**							
Swaps								
Australian dollars								
– Contractual outflow	(56)	–	(56)	–	–	–	–	n/a
– Contractual inflow	8,889	–	331	2,285	6,273	–	–	n/a
	8,833	–	275	2,285	6,273	–	–	

	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		
Foreign currency								
– Contractual outflow	(34,760)	–	(25,976)	(2,511)	(6,273)	–	–	n/a
– Contractual inflow	25,927	–	25,701	226	–	–	–	n/a
	(8,833)	–	(275)	(2,285)	(6,273)	–	–	

Maturity Analysis – as at 30 June 2021

	Balance sheet total $M	Contracted maturity $M On demand	0 to 3months	3 to 12 months	1 to 5 years	Over 5 years	No specified maturity $M	Weighted average effective rate %
Assets								
Cash and cash equivalents	721	14	704	–	–	–	3	0.00
Australian dollar investments								
Securities sold under repurchase agreements	979	–	–	–	960	19	–	0.43
Securities purchased under repurchase agreements	221,994	–	7,704	–	187,722	–	26,568	0.14
Other securities	250,587	–	355	4,572	92,076	153,584	–	0.90
Accrued interest	1,414	–	352	875	187	–	–	n/a
	474,974							
Foreign currency investments								
Balance with central banks	14,756	14,024	732	–	–	–	–	0.00
Securities sold under repurchase agreements	–	–	–	–	–	–	–	n/a
Securities purchased under repurchase agreements	281	–	281	–	–	–	–	0.05
Other securities	41,047	–	16,786	7,886	10,103	93	6,179	0.22
Deposits	524	0	524	–	–	–	–	2.53
Cash collateral provided	52	–	52	–	–	–	–	0.03
Accrued interest	50	–	33	17	–	–	–	n/a
	56,710							

	Balance sheet total $M	Contracted maturity $M					No specified maturity $M	Weighted average effective rate %
		On demand	0 to 3months	3 to 12 months	1 to 5 years	Over 5 years		
Gold								
Gold holdings on loan	454	–	303	151	–	–	–	0.09
Gold holdings	5,568	–	–	–	–	–	5,568	n/a
	6,022							
Property, plant & equipment	754	–	–	–	–	–	754	n/a
Other assets	716	–	39	10	3	1	663	n/a
Total assets	**539,897**	**14,038**	**27,865**	**13,511**	**291,051**	**153,697**	**39,735**	**0.50**
Liabilities								
Deposits	415,576	359,025	56,551	–	–	–	–	0.01
Distribution payable to the Commonwealth	2,671	–	2,671	–	–	–	–	n/a
Cash collateral received	163	–	163	–	–	–	–	0.03
Australian banknotes on issue	95,485	–	–	–	–	–	95,485	0.00
Other liabilities	2,997	–	2,596	2	188	3	208	(0.04)
Total liabilities	**516,892**	**359,025**	**61,981**	**2**	**188**	**3**	**95,693**	**0.01**
Capital and reserves	23,005							
Total balance sheet	**539,897**							
Swaps								
Australian dollars								
– Contractual outflow	(29)	–	(29)	–	–	–	–	n/a
– Contractual inflow	4,449	–	75	–	4,374	–	–	n/a
	4,420	–	46	–	4,374	–	–	

	Balance sheet total $M	Contracted maturity $M					No specified maturity $M	Weighted average effective rate %
		On demand	0 to 3months	3 to 12 months	1 to 5 years	Over 5 years		
Foreign currency								
– Contractual outflow	(28,159)	–	(23,785)	–	(4,374)	–	–	n/a
– Contractual inflow	23,739	–	23,739	–	–	–	–	n/a
	(4,420)	–	(46)	–	(4,374)	–	–	

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 under reverse repurchase agreements.

The RBA held no impaired assets at 30 June 2022 or 30 June 2021.

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 2022, the RBA was under contract to purchase $25.9 billion of foreign currency ($23.7 billion at 30 June 2021) and sell $34.8 billion of foreign currency ($28.2 billion at 30 June 2021). As of that date there was a net unrealised gain of $0.5 billion on these swap positions included in net profit (less than $0.1 billion unrealised loss at 30 June 2021).

   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 both foreign exchange and gold swaps (see 'Gold exchanged under gold swap agreements' below), the RBA exchanges collateral with counterparties under terms specified in 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 2022, the RBA held $0.4 billion of collateral ($0.1 billion of collateral was held at 30 June 2021).

2. *Bond futures* – As at 30 June 2022, the RBA did not hold any bond futures contracts (as at 30 June 2021, the amount of credit risk on margin accounts associated with bond futures contracts held by the RBA was approximately $2.4 million with unrealised losses of less than $0.1 million on those contracts).

Assessment of expected credit loss under AASB 9

The RBA assesses its financial assets carried at amortised cost, mainly its reverse repurchase agreements, gold swaps and foreign currency-denominated balances held with other central banks, for any deterioration in credit quality which could result in losses being recorded. The RBA's assessment is done on an individual exposure basis and takes account of: the counterparties with which balances are held; the collateral, if any, it holds against exposures and the terms upon which collateral is margined; and the remaining terms to maturity of such exposures. Based on the assessment at 30 June 2022, the provision for expected credit losses was immaterial.

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, supranational organisations, 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 agreement that governs 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 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 2022, the carrying amount of securities sold and contracted for purchase under repurchase agreements was $7.9 billion ($1.0 billion at 30 June 2021). Terms and conditions of repurchase agreements are consistent with those for reverse repurchase agreements disclosed above.

Gold exchanged under gold swap agreements

Credit exposure from gold swaps is managed under CSAs the RBA has established with its swap counterparties, which cover both gold swaps and foreign exchange swaps. Australian dollar cash collateral is exchanged to cover the potential cost of replacing swap positions in the market if a counterparty fails to meet their obligations. The potential cost is assessed as the net costs of replacing all outstanding swap positions covered by the CSA.

There was no gold swap agreement outstanding at 30 June 2022 or 30 June 2021.

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 at 30 June.

Concentration of credit risk

	Risk rating of security/ issuer[(a)]	Risk rating of counterparties[(a)]	Per cent of Investments 2022	2021
Australian dollar investments				
Holdings of Australian Government Securities	Aaa	n/a	43.8	37.8
Holdings of semi-government securities	Aaa	n/a	2.7	0.1
	Aa	n/a	7.7	8.7
Securities purchased under reverse repurchase agreements	Aaa	Aa	22.4	29.1
	Aaa	A	5.9	7.0
	Aaa	Baa	1.3	1.4
	Aaa	Other[(b)]	0.2	0.5
	Aa	Aa	0.7	0.5

	Risk rating of security/ issuer[(a)]	Risk rating of counterparties[(a)]	Per cent of Investments 2022	2021
	Aa	A	0.8	1.3
	Aa	Baa	0.3	0.1
	Aa	Other[(b)]	0.0	0.3
	A	Aa	0.3	0.2
	A	A	0.6	0.7
	A	Baa	0.2	0.1
	A	Other[(b)]	0.0	–
	Baa	Aa	0.0	0.0
	Baa	A	0.1	0.1
	Baa	Baa	0.0	0.0
	Baa	Other[(b)]	0.0	–
Securities sold under repurchase agreements	Aaa	Aa	0.6	0.1
	Aaa	A	0.1	–
	Aaa	Other[(b)]	0.0	–
	Aa	Aa	0.0	–
Foreign investments				
Holdings of securities	Aaa	n/a	3.2	3.5
	Aa	n/a	0.7	1.5
	A	n/a	2.8	2.5
	Other	n/a	0.3	–
Securities purchased under reverse repurchase agreements	Aaa	Aa	0.4	0.1
	Aaa	A	0.0	–
	Aa	A	0.2	–
Securities sold under repurchase agreements	Aaa	Aa	0.4	–
	Aaa	A	0.2	–
Deposits	n/a	Aaa	0.4	0.4
	n/a	Aa	0.0	0.0
	n/a	A	1.9	2.4
	n/a	Ba	0.0	–
	n/a	B	0.0	–
	n/a	Other[(b)]	0.1	0.1
Other	Aaa	A	0.0	0.1
	Aaa	Other[(b)]	0.0	–
	n/a	Aaa	0.0	–
	n/a	Aa	0.2	–
	n/a	A	0.0	–

	Risk rating of security/ issuer[a]	Risk rating of counterparties[a]	Per cent of Investments 2022	2021
Other assets			1.5	1.4
			100.0	100.0

(a) Average of the credit ratings of the three major rating agencies, where available.

(b) This category includes counterparties that 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, bond 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 and gold holdings. 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 is based on quoted prices in active markets for identical assets; for Level 2, valuation is based on quoted prices or other observable market data not included in Level 1; Level 3 includes 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 2022.

Fair Value Hierarchy – as at 30 June 2022

	Fair Value Level 1 $M	Level 2 $M	Level 3 $M	Amortised Cost $M	Total $M
As at 30 June 2022					
Financial assets					
At fair value through profit or loss					
– Australian dollar securities	332,829	3,693	–	n/a	336,522
– Foreign government securities	40,911	5,582	–	n/a	46,493
– Foreign currency swaps	0	1,331	–	n/a	1,331
At fair value through other comprehensive income					
– Shares in international and other institutions	–	–	534	n/a	534
At amortised cost	n/a	n/a	n/a	220,798	220,798
	373,740	10,606	534	220,798	605,678
Non-financial assets					
– Land and buildings	–	–	588	12	600
– Gold holdings	6,772	–	–	n/a	6,772
– Other	–	–	–	724	724

	Fair Value Level 1 $M	Level 2 $M	Level 3 $M	Amortised Cost $M	Total $M
	6,772	–	588	736	8,096
Total assets	**380,512**	**10,606**	**1,122**	**221,534**	**613,774**
Financial liabilities					
At fair value through profit or loss					
– Foreign currency swaps	–	856	–	n/a	856
Not at fair value through profit or loss	n/a	n/a	n/a	625,168	625,168
	–	856	–	625,168	626,024
Non-financial liabilities	n/a	n/a	n/a	193	193
Total liabilities	**–**	**856**	**–**	**625,361**	**626,217**

Fair Value Hierarchy – as at 30 June 2021

	Fair Value Level 1 $M	Level 2 $M	Level 3 $M	Amortised Cost $M	Total $M
As at 30 June 2021					
Financial assets					
At fair value through profit or loss					
– Australian dollar securities	250,029	2,705	–	n/a	252,734
– Foreign government securities	35,386	4,982	–	n/a	40,368
– Foreign currency swaps	–	212	–	n/a	212
At fair value through other comprehensive income					
– Shares in international and other institutions	–	–	510	n/a	510
At amortised cost	n/a	n/a	n/a	239,125	239,125
	285,415	7,899	510	239,125	532,949
Non-financial assets					
– Land and buildings	–	–	597	12	609
– Gold holdings	6,021	–	–	n/a	6,021
– Other	–	–	–	318	318
	6,021	–	597	330	6,948
Total assets	**291,436**	**7,899**	**1,107**	**239,455**	**539,897**
Financial liabilities					
At fair value through profit or loss					
– Foreign currency swaps	–	220	–	n/a	220
Not at fair value through profit or loss	n/a	n/a	n/a	516,409	516,409
	–	220	–	516,409	516,629
Non-financial liabilities	n/a	n/a	n/a	263	263

	Fair Value Level 1 $M	Level 2 $M	Level 3 $M	Amortised Cost $M	Total $M
Total liabilities	–	**220**	–	**516,672**	**516,892**

The RBA's Level 2 financial instruments include foreign currency swaps priced with reference to an active market yield or rate, but which have been interpolated 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 (excluding leased property, which is recorded at amortised cost). 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 in 2002, which remains the latest repurchase conducted by the BIS. Fair values of the RBA's property 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 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 during the financial year are detailed in Note 8. Fair value changes in the RBA's shareholdings in international and other institutions reflect valuation movements recognised in Other Comprehensive Income and the divestment of the RBA's interest in NPP Australia Limited.

Note 17 – Subsequent Events

Unless otherwise disclosed in these financial statements, there are no events subsequent to 30 June 2022 to be disclosed.

Financial Statements: Independent Auditor's Report

Auditor-General for Australia

Australian National Audit Office

To the Treasurer

Opinion

In my opinion, the financial statements of the Reserve Bank of Australia and its subsidiary (together the Consolidated Entity) for the year ended 30 June 2022

a. comply with Australian Accounting Standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and

b. present fairly the financial position of the Consolidated Entity as at 30 June 2022 and its financial performance and cash flows for the year then ended.

The financial statements of the Consolidated Entity, which I have audited, comprise the following as at 30 June 2022 and for the year then ended:

- Statement of Assurance;
- Statement of Financial Position;
- Statement of Comprehensive Income;
- Statement of Distribution;
- Statement of Changes in Equity;
- Cash Flow Statement; and
- Notes to and Forming Part of the financial statements comprising a summary of significant accounting policies and other explanatory information.

Basis for opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Consolidated Entity in accordance with the relevant ethical requirements for financial statement audits conducted by me. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* *(including Independence Standards)* (the Code) to the extent that they are not in conflict with the *Auditor-General Act 1997*. I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key audit matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

Key audit matter

Valuation of Australian dollar and foreign currency investments

Refer to note 1 'Accounting Policies' and note 15 'Financial Instruments and Risk'

Valuation of Australian dollar and foreign currency investments was a key audit matter due to their significant size relative to the Reserve Bank of Australia's statement of financial position ($604,639 million as at 30 June 2022) and the complexity inherent in auditing a wide range of investments which use different valuation methodologies and varying pricing sources.

The portfolio of investments primarily comprises Australian dollar securities, foreign currency securities, repurchase agreements, deposits with other central banks, and foreign currency swap contracts. All investments are measured at fair value except for reverse repurchase agreements and deposits which are measured at amortised cost.

How the audit addressed the matter

To audit the valuation of Australian dollar and foreign currency investments, I performed the following audit procedures:

- tested the design, implementation and operating effectiveness of key controls over the accurate recording of the purchase and sale of investments, including Information Technology General Controls on the Reserve Bank of Australia's investment trading system;
- tested the design, implementation and operating effectiveness of key controls over valuation of investments, including Information Technology General Controls on the Reserve Bank of Australia's securities valuation system;
- tested the design, implementation and operating effectiveness of key controls relevant to the ongoing monitoring of the collateralisation of repurchase agreements, including those established as part of the Term Funding Facility; and
- tested year end valuations of Australian dollar and foreign currency securities using the following procedures:
    - checked all year end valuations of Australian dollar and foreign government securities and foreign currency swaps against independent pricing sources;
    - independently tested the year-end valuations of all foreign currency swaps using publicly available information;
    - checked whether all reverse repurchase agreements were collateralised in line with the Reserve Bank ofAustralia's policy. As part of this, for a sample of securities held as collateral I agreed valuations to independent pricing sources; and

  - requested and obtained independent confirmation from other central banks regarding the value of deposits held with them.

Other information

The Accountable Authority is responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2022 but does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information, and accordingly I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Accountable Authority's responsibility for the financial statements

As the Accountable Authority of the Consolidated Entity, the Governor is responsible under the *Public Governance, Performance and Accountability Act 2013* (the Act) for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards and the rules made under the Act. The Governor is also responsible for such internal control as the Governor determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Governor is responsible for assessing the ability of the Consolidated Entity to continue as a going concern, taking into account whether the entity's operations will cease as a result of an administrative restructure or for any other reason. The Governor is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the assessment indicates that it is not appropriate.

Auditor's responsibilities for the audit of the financial statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material it individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit 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 Consolidated Entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accountable Authority;
- conclude on the appropriateness of the Accountable Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Consolidated Entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Consolidated Entity to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Consolidated Entity to express an opinion on the financial report. I am responsible for the direction, supervision and performance of the Consolidated Entity audit. I remain solely responsible for my audit opinion.

I communicate with the Accountable Authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

From the matters communicated with the Accountable Authority, I determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Australian National Audit Office

Grant Hehir
Auditor-General

Canberra
7 September 2022

PART 5

Indexes

Statutory Reporting Requirements Index

The Reserve Bank Annual Report 2021/22 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 statutory reporting requirements identifies where relevant information can be found in this annual report.

PGPA Act Rule References

PGPA Rule Reference	Part of Report, page number	Description	Requirement
17BE	***Contents of annual report***		
17BE(a)	Governance and Accountability, 13	Details of the legislation establishing the body	Mandatory
17BE(b)(i)	Our Role, 9-12	A summary of the objects and functions of the entity as set out in legislation	Mandatory
17BE(b)(ii)	Annual Performance Statement for 2021/22, 57-73	The purposes of the entity as included in the entity's corporate plan for the reporting period	Mandatory
17BE(c)	Governance and Accountability, 23	The names of the persons holding the position of responsible Minister or responsible Ministers during the reporting period, and the titles of those responsible Ministers	Mandatory
17BE(d)	Governance and Accountability, 25	Directions given to the entity by the Minister under an Act or instrument during the reporting period	If applicable, mandatory
17BE(e)	Governance and Accountability, 25	Any government policy order that applied in relation to the entity during the reporting period under section 22 of the Act	If applicable, mandatory
17BE(f)	Not applicable	Particulars of non-compliance with: 1. a direction given to the entity by the Minister under an Act or instrument during the reporting period; or 2. a government policy order that applied in relation to the entity during the reporting period under section 22 of the Act	If applicable, mandatory
17BE(g)	Annual Performance Statement for 2021/22,	Annual performance statements in accordance with paragraph 39(1)(b) of the Act and section 16F of the rule	Mandatory

PGPA Rule Reference	Part of Report, page number	Description	Requirement
	57-73		
17BE(h), 17BE(i)	Governance and Accountability, 25	A statement of significant issues reported to the Minister under paragraph 19(1)(e) of the Act that relates to non-compliance with finance law and action taken to remedy non-compliance	If applicable, mandatory
17BE(j)	Reserve Bank Board, 27-38	Information on the accountable authority, or each member of the accountable authority, of the entity during the reporting period	Mandatory
17BE(k)	Operational structure, 47-54	Outline of the organisational structure of the entity (including any subsidiaries of the entity)	Mandatory
17BE(ka)	Our people, 158-159	Statistics on the entity's employees on an ongoing and non-ongoing basis, including the following: 1. statistics on full-time employees; 2. statistics on part-time employees; 3. statistics on gender; 4. statistics on staff location	Mandatory
17BE(l)	Management of the Reserve Bank, 153-154	Outline of the location (whether or not in Australia) of major activities or facilities of the entity	Mandatory
17BE(m)	Governance and Accountability, 13-25	Information relating to the main corporate governance practices used by the entity during the reporting period	Mandatory
17BE(n), 17BE(o)	Governance and Accountability, 25	For transactions with a related Commonwealth entity or related company where the value of the transaction, or if there is more than one transaction, the aggregate of those transactions, is more than $10,000 (inclusive of GST): 1. the decision-making process undertaken by the accountable authority to approve the entity paying for a good or service from, or providing a grant to, the related Commonwealth entity or related company; and 2. the value of the transaction, or if there is more than one transaction, the number of transactions and the aggregate of value of the transactions	If applicable, mandatory
17BE(p)	Governance and Accountability, 25	Any significant activities and changes that affected the operation or structure of the entity during the reporting period	If applicable, mandatory
17BE(q)	Governance and Accountability, 25	Particulars of judicial decisions or decisions of administrative tribunals that may have a significant effect on the operations of the entity	If applicable, mandatory
17BE(r)	Governance and Accountability, 24	Particulars of any reports on the entity given by: 1. the Auditor-General (other than a report under section 43 of the Act); or 2. a Parliamentary Committee; or 3. the Commonwealth Ombudsman; or the Office of the Australian Information Commissioner	If applicable, mandatory
17BE(s)	Not applicable	An explanation of information not obtained from a subsidiary of the entity and the effect of not having the information on the annual report	If applicable, mandatory

PGPA Rule Reference	Part of Report, page number	Description	Requirement
17BE(t)	Governance and Accountability, 22-23	Details of any indemnity that applied during the reporting period to the accountable authority, any member of the accountable authority or officer of the entity against a liability (including premiums paid, or agreed to be paid, for insurance against the authority, member or officer's liability for legal costs)	If applicable, mandatory
17BE(taa)	Governance and Accountability, 15-17 and Our People 167-169	The following information about the audit committee for the entity: 1. a direct electronic address of the charter determining the functions of the audit committee; 2. the name of each member of the audit committee; 3. the qualifications, knowledge, skills or experience of each member of the audit committee; 4. information about each member's attendance at meetings of the audit committee; 5. the remuneration of each member of the audit committee	Mandatory
17BE(ta)	Our People, 167-172	Information about executive remuneration	Mandatory
17BF	***Disclosure requirements for government business enterprises***		
17BF(1)(a)(i)	Not applicable	An assessment of significant changes in the entity's overall financial structure and financial conditions	If applicable, mandatory
17BF(1)(a)(ii)	Not applicable	An assessment of any events or risks that could cause financial information that is reported not to be indicative of future operations or financial conditions	If applicable, mandatory
17BF(1)(b)	Not applicable	Information on dividends paid or recommended	If applicable, mandatory
17BF(1)(c)	Not applicable	Details of any community service obligations the government business enterprise has including: 1. an outline of actions taken to fulfil those obligations; and 2. an assessment of the cost of fulfilling those obligations	If applicable, mandatory
17BF(2)	Not applicable	A statement regarding the exclusion of information on the grounds that the information is commercially sensitive and would be likely to result in unreasonable commercial prejudice to the government business enterprise	If applicable, mandatory

Legislative References

Legislative Reference	Part of Report, page number	Description	Requirement
Public Governance, Performance and Accountability Act 2013			
43(4)	Financial Statements, 197–248	Annual Financial Statements and Auditor-General's report	Mandatory
***Work Health and Safety Act 2011* Schedule 2 Part 4**			
4(2)(a)	Our People, 164–165	Health, safety and welfare initiatives	Mandatory
4(2)(b)	Our People, 164–165	Health and safety outcomes	Mandatory
4(2)(c)	Our People, 165	Statistics of notifiable incidents	Mandatory

Legislative Reference	Part of Report, page number	Description	Requirement
4(2)(d)	Our People, 164–165	Investigations conducted	Mandatory
Environment Protection and Biodiversity Conservation Act 1999			
516A(6)(a)	Management of the Reserve Bank, 154–155	Report on implementation of ecologically sustainable development principles	Mandatory
516A(6)(b)	Not applicable.	Identify how any outcomes specified for the Reserve Bank in an Appropriations Act contribute to ecologically sustainable development	Mandatory
516A(6)(c)	Management of the Reserve Bank, 154–155	Effect of the Reserve Bank's activities on the environment	Mandatory
516A(6)(d)	Management of the Reserve Bank, 154–155	Measures to minimise the impact of the Reserve Bank's activities	Mandatory
516A(6)(e)	Management of the Reserve Bank, 154–155	Mechanisms for reviewing/increasing effectiveness of measures	Mandatory
Equal Employment Opportunity (Commonwealth Authorities) Act 1987			
9	Our People, 157–166	Report on development and implementation of the Bank's equal employment opportunity program	Mandatory

List of Tables

List of Graphs

List of Figures

Abbreviations

A glossary of relevant terms is available on the Reserve Bank website

24/7	24 hours per day, 7 days per week
AAS	Australian Accounting Standards
AASB	Australian Accounting Standards Board
ABF2	Asian Bond Fund 2
ABN	Australian Business Number
ACCC	Australian Competition and Consumer Commission
ACT	Australian Capital Territory
ADI	authorised deposit-taking institution
AFXC	Australian Foreign Exchange Committee
AGNSW	Art Gallery of New South Wales
AGS	Australian Government Securities
AIF	Automated Information Facility
AM	Member of the Order of Australia
ANAO	Australian National Audit Office
ANU	Australian National University
AO	Officer of the Order of Australia
AOFM	Australian Office of Financial Management
APC	Australian Payments Council
APEC	Asia-Pacific Economic Cooperation
API	Application Programming Interface
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
ASXFS	ASX Financial Settlements
ATM	automated teller machine
ATO	Australian Taxation Office
AusPayNet	Australian Payments Network
AUSTRAC	Australian Transaction Reports and Analysis Centre
BA	Bachelor of Arts
BCBS	Basel Committee on Banking Supervision (of the BIS)
BIS	Bank for International Settlements
BPA	bulk purchase annuity
BPAY	A payments clearing organisation owned by a group of retail banks
BRS	Business Resumption Site
CAC Act	Commonwealth Authorities and Companies Act 1997 (repealed)
CBDC	Central bank digital currency
CCPs	central counterparties
CEDA	Committee for Economic Development of Australia
CEPAR	Australian Research Council Centre of Excellence in Population Ageing Research
CFR	Council of Financial Regulators
CHESS	Clearing House Electronic Sub-register System
CLF	Committed Liquidity Facility
CME	Chicago Mercantile Exchange Inc.
COVID-19	Coronavirus disease
CPMI	Committee on Payments and Market Infrastructures (of the BIS)
CPRs	Commonwealth Procurement Rules
CRC	Cooperative Research Centre
CS	clearing and settlement
CSA	credit support annex
CSIRO	Commonwealth Scientific and Industrial Research Organisation
EAP	Employee Assistance Program
EDO	Enterprise Data Office
ELA	Emergency liquidity assistance
EMEAP	Executives' Meeting of East Asia-Pacific

	Central Banks
EFS	Economic and Financial Statistics
eftpos	electronic funds transfer at point of sale
EAF	Executive Accountability Framework
ERG	Employee Resource Group
ES	Exchange Settlement
ESA	Exchange Settlement Account
ESD	ecologically sustainable development
ESG	environmental, social and governance
ESP	Economic Support Payments
FINMA	Swiss Financial Market Supervisory Authority
FMI	financial market infrastructure
FOI	Freedom of Information
FOI Act	Freedom of Information Act 1982
FSAP	Financial Sector Assessment Program (of the IMF)
FSB	Financial Stability Board
FSS	Fast Settlement Service (of RITS)
FTE	full-time equivalent
FX	foreign exchange
G20	Group of Twenty
G-SIB	global systemically important bank
GDP	gross domestic product
GFC	Global Financial Crisis
GFXC	Global Foreign Exchange Committee
GST	Goods and Services Tax
HQLA	high-quality liquid assets
IAT	Incident Assessment Team
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IPS	Information Publication Scheme
ISDA	International Swaps and Derivatives Association
ISO	International Organization for Standardisation
IT	information technology
KRW	Korean won
LCR	Liquidity Coverage Ratio
LED	light emitting diode
LGBTI	lesbian, gay, bisexual, transgender and intersex
LIBOR	London Inter-Bank Offered Rate
LLB	Bachelor of Laws
LVSS	RITS Low Value Settlement Service
MBA	Master of Business Administration
MFSC	Monetary and Financial Stability Committee (of EMEAP)
MIT	Massachusetts Institute of Technology
MP	member of parliament
NAB	National Australia Bank
NABERS	National Australian Built Environment Ratings System
NAIDOC	National Aborigines and Islanders Day Observance Committee
NBS	National Banknote Site
NGB	Next Generation Banknote
NGFS	Network for Greening the Financial System
NPA	Note Printing Australia Limited
NPP	New Payments Platform
NPPA	NPP Australia Limited
NSW	New South Wales
OECD	Organisation for Economic Co-operation and Development
OAM	Medal of the Order of Australia
OMO	open market operations
OPA	Official Public Account
PEXA	Property Exchange Australia Limited
PFMI	Principles for Financial Market Infrastructures
PGPA Act	Public Governance, Performance and Accountability Act 2013
PGPA Rule	Public Governance, Performance and Accountability Rule 2014
PhD	Doctor of Philosophy
Prospera	Australia Indonesia Partnership for Economic Development
PSM	Public Service Medal
RAP	Reconciliation Action Plan
RBA	Reserve Bank of Australia
RBRF	Reserve Bank Reserve Fund
RDP	Research Discussion Paper
repo	repurchase agreement

RITS	Reserve Bank Information and Transfer System
RMBS	residential mortgage-backed securities
RTGS	real-time gross settlement
R&D	research and development
SAR	Special Administrative Region (of China)
SDR	Special Drawing Right
SEACEN	South East Asian Central Banks
Semis	semi-government securities (Australian state and territory government securities)
SME	Small and medium-sized enterprises
SVF	stored-value facility
TFF	Term Funding Facility
TTBC	Trans-Tasman Council on Banking Supervision
SWIFT	Society for Worldwide Interbank Financial Telecommunication
UK	United Kingdom
UNSW	University of New South Wales
US	United States
WA	Western Australia
WHS	work health and safety
WHS Act	Work Health and Safety Act 2011
WPIT	Welfare Payment Infrastructure Transformation Program (of Services Australia)

Contact Details

Head Office

65 Martin Place
Sydney NSW 2000
Telephone: +612 9551 8111
Toll Free: 1800 300 288[1]
Website: https://www.rba.gov.au/
Email: rbainfo@rba.gov.au

State Offices

Queensland

Senior Representatives:
Kate Davis and Andrew Staib (Acting)

South Australia

Senior Representative:
Jonathan Kemp

Victoria

Senior Representative:
Mark Chambers

Western Australia

Senior Representative:
Aaron Walker

Canberra Branch

General Manager: Paul Martin
20–22 London Circuit
Canberra ACT 2600
Telephone: +612 6201 4800
Email: canberrabranch-cn@rba.gov.au

Overseas Offices

China

Senior Representative:
Morgan Spearritt
Australian Embassy
21 Dongzhimenwai Dajie
Beijing 100600
People's Republic of China
Telephone: +86 10 5140 4491
Email: chinaenquiries@rba.gov.au

Europe

Chief Representative:
Michael Andersen
Deputy Chief Representative:
David Olivan
53 New Broad Street
London EC2M 1JJ
Telephone: +44 20 7600 2244
Email: euenquiries@rba.gov.au

New York

Chief Representative:
David Emery
Deputy Chief Representative:
David Dolan
505 Fifth Avenue
New York, NY 10017
Telephone: +1 212 566 8466
Email: nyoffice@rba.gov.au

[1] Freecall – Calls from mobile phones may be charged at the applicable rate.

Note Printing Australia Limited

Chief Executive Officer:
Malcolm McDowell
1–9 Potter Street
Craigieburn VIC 3064
Telephone: +613 9303 0444
Website: https://www.noteprinting.com/