

MEMORANDUM OF UNDERSTANDING AMONG THE MONETARY POLICY BOARD, PAYMENTS SYSTEM BOARD, GOVERNANCE BOARD AND EXECUTIVE

BACKGROUND

The Monetary Policy Board, Payments System Board and Governance Board are established under and governed by the *Reserve Bank Act 1959*.¹ The Act also establishes the role of the Governor, Deputy Governor and Reserve Bank Service (the staff). The roles and responsibilities of each board – and the limits of those responsibilities – are set out in their respective charters.²

This document is intended to facilitate a shared understanding among the boards and the Governor (as chief executive) of their key responsibilities and how they will cooperate to ensure the Bank achieves its overarching objective of promoting the economic welfare and prosperity of the Australian people. It is not a legally binding document and it does not limit flexibility in the boards' operations as appropriate in the circumstances.

For context, the boards are responsible for determining the following policies of the RBA:

- The **Monetary Policy Board** (MPB) is responsible for determining the Bank's monetary policy and its policy (other than payments system policy) for contributing to the stability of Australia's financial system
- The **Payments System Board** (PSB) is responsible for determining the Bank's payments system policy and overseeing the RBA's functions under the *Payment Systems (Regulation) Act 1998*, *Payment Systems & Netting Act 1998* and Parts 7.3 and 7.3B of the *Corporations Act 2001*
- The **Governance Board** (GB) is responsible for determining the Bank's policies for all other matters, including its organisational affairs, and is the accountable authority under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). As accountable authority, the GB is responsible for establishing frameworks and policies for, among other things, proper use and management of the Bank's resources, establishing and maintaining appropriate systems of risk oversight and risk management, and governing the Bank to promote the achievement of the Bank's purposes.

The **Governor** – as chief executive – is responsible for day-to-day management of the Bank, including implementing the boards' policies in a manner that is consistent with their decisions. The Governor is the Chair of each board and a key conduit of information among the boards.

¹ Most notably, sections 9B to 10D set out the legal responsibilities of each board. The Monetary Policy Board and Payments System Board are collectively referred to in this document as the 'policy boards'.

² These are available at [Governance Board Charter | RBA](#), [Monetary Policy Board Charter | RBA](#), [Payments System Board Charter | RBA](#).

A. GENERAL PRINCIPLES

- 1. Each board shares a common purpose:** The overarching objective of the Bank and its boards is to promote the economic prosperity and welfare of the people of Australia both now and into the future. While each board plays a different role in achieving this objective, and may at times have different perspectives on how it is best achieved, its ultimate objective will always be aligned.
- 2. Only one board is ultimately responsible for each decision:** This principle is consistent with how the Reserve Bank Act establishes the responsibilities of the boards. It contributes to both good governance and appropriate accountability.
- 3. Decision-making can be strengthened when the boards cooperate effectively:** This principle underpins specific obligations of the boards under the Reserve Bank Act: the policy boards must have regard to the duties of the GB as accountable authority when performing their functions or exercising their powers, while the GB is obliged to consult with a policy board before doing anything that would materially affect that board's performance of its functions or exercise of its powers. Beyond these statutory obligations, the boards and the Governor agree to share information as appropriate in support of effective and efficient decision-making and performance reporting obligations.

The boards also acknowledge the limits to this principle: in many cases, where responsibilities are clear, good and timely decisions may be achieved without the need for consultation (within the constraints of the boards' obligations).

- 4. The boards are responsible for setting policy, which the Governor implements:** The primary role of the policy boards is to determine the Bank's policies on monetary, financial stability or payments matters (as applicable).³ The GB is responsible for overseeing the organisational affairs of the Bank and its policies on all other matters.⁴

Giving effect to the policies determined by the policy boards is the role of the Governor and staff. If the Governor is uncertain where the boundary lies between determining and implementing policy in any specific context or situation, the Governor should err on the side of bringing the matter to the relevant board where practicable.

The Governor must implement policies determined by the relevant board in a manner consistent with any specific direction given by that board in relation to implementation. The Governor should also, when implementing a decision of a policy board, adhere to frameworks and policies established by the GB insofar as it is possible to do so without preventing or impairing the implementation of the relevant decision of the policy board, or acting contrary to any specific direction the policy board has given in relation to the implementation.

³ Each policy board also has a role in promoting the proper, efficient and effective implementation of policies it determines, and has power to do anything conducive or incidental to the performance of its functions.

⁴ It too has power to do anything conducive or incidental to the performance of its functions. However it is not authorised to determine the Bank's approach to implementing policies determined by the policy boards.

5. **Each board plays an important and complementary role in managing risks:** While risks inherent in a policy decision are the direct responsibility of the relevant policy board, the policy boards acknowledge that the GB will routinely consider risks to the Bank that arise from their decisions, including those associated with the size and/or composition of the Bank's balance sheet. The GB may communicate any observations it has about such matters to the policy boards. In such circumstances, the policy boards will consider carefully the GB's concerns and any recommendations it provides, while not being bound to make any changes to their frameworks or policies. They will report back to the GB on which recommendations they adopt and which they do not (in the latter case, providing reasons).
6. **Resolving disputes:** The boards will seek to build consensus on matters that may arise among them. However, as a last resort, where it is not possible to reach an agreement, the Reserve Bank Act provides for the Governor to resolve any disagreement among the boards.

B. USE OF THE BANK'S BALANCE SHEET BY THE MONETARY POLICY BOARD

The MPB may make policy decisions that affect the size or composition of the Bank's balance sheet. This section provides a framework for the MPB, GB and Governor to collaborate effectively. This will include those rare occasions when decisions on the use of the Bank's balance sheet may need to be taken very quickly to implement decisions made by the MPB, prevent a crisis, or limit the potential cost to the Bank's balance sheet.

1. **The MPB may perform its functions in ways that affect the Bank's balance sheet:** At times, the MPB may use the Bank's balance sheet to adjust the stance of monetary policy, respond to emerging financial instability or in other ways necessary to meet its objectives. The MPB has complete authority, subject to the next paragraph, to take monetary policy or relevant financial stability policy decisions that alter the Bank's balance sheet where, in its opinion, doing so is appropriate to perform its functions.
2. **The MPB must have regard to the duties of the GB as accountable authority of the Bank:** In practice this means the MPB must consider any relevant framework, policy or risk appetite that has been established by the GB, and any financial or other consequences of its decision for the RBA as an institution, when reaching a policy decision. The GB commits to share proactively with the MPB any relevant framework, policy or risk appetite statement that it approves, to help the MPB fulfil its obligation to have regard to the duties of the GB as accountable authority. The MPB also commits to follow a clear and sound process for identifying and analysing any risks (financial, reputational and other) associated with policy decisions that materially affect the balance sheet. It commits to consider carefully whether these risks can reasonably be mitigated in ways that do not materially limit its ability to achieve its policy objectives.
3. **The MPB and the Governor will consider carefully whether to consult the GB in relation to matters within its remit when making policy decisions that affect the balance sheet:** While the GB is not permitted to do anything that would limit the MPB's ability to make policy

decisions that affect the Bank's balance sheet, the MPB recognises that the perspective of the GB can help to improve governance and/or risk management surrounding certain decisions. The MPB agrees that the GB should be informed of any decision that materially affects the Bank's balance sheet. Where the timing and circumstances around the decision-making permits, and the materiality of the decision warrants it, this information should be provided before the MPB takes the decision to permit the GB to identify considerations it believes are relevant. However, both boards recognise that there may be rare circumstances in which the need to make decisions quickly might limit, or sometimes even prevent, any consultation process.⁵ In these circumstances, the MPB commits to making reasonable efforts in the circumstances to keep the GB informed (typically through the Governor), either before or after taking the decision.

The Governor agrees – wherever possible – to plan the sequencing of the Bank's work, and the timing of when matters are discussed by the boards, in ways that will facilitate opportunities for timely information sharing and consultation.

C. USE OF THE BANK'S BALANCE SHEET TO SUPPORT A LICENSED CLEARING AND SETTLEMENT FACILITY

- 1. The PSB has an important role to play when the Bank's balance sheet is needed to address instability at a clearing and settlement facility:** The considerations in Section B extend to situations where the MPB (or the Governor, under delegated authority, if applicable) judges that it is appropriate to use the Bank's balance sheet to provide short-term funding in support of an illiquid clearing and settlement facility supervised by the Bank. In such instances, the boards agree that the PSB will also have a legitimate interest in the matter.
- 2. The PSB and MPB agree that the ultimate decision-maker in this instance is the MPB (or the Governor under any applicable delegated authority from the MPB):** However, in such circumstances, the MPB agrees to consult the PSB insofar as it is practical to do so. This could include inviting the PSB to an emergency meeting of the MPB or seeking the PSB's input in other ways.

D. OTHER MATTERS

- 1. Payments policy matters outside the remit of the PSB:** There are policy matters relating to the payments system that fall outside of the PSB's formal responsibilities (which are limited to 'payments system policy' as defined in the Reserve Bank Act). The Bank's current practice is to consult with, or submit to voluntary oversight by, the PSB in relation to these matters. Without limitation, these matters include:

⁵ The relevant decision of the MPB will not be invalidated by a failure to consult the GB.

- the future of money, including the Bank's research and engagement on central bank digital currencies, and arrangements for cash distribution, access and acceptance
- oversight of the Reserve Bank Information and Transfer System (RITS) to assess the Bank's observance of the Principles for Financial Market Infrastructures (PFMI)
- oversight of prominent payment systems, such as the New Payments Platform (NPP) and Bulk Electronic Clearing System (BECS), where the Bank's Payment Settlements Department provides settlement services.

Under the Bank's governance structure, these matters fall (by default) within the remit of the GB (and some may also be relevant to the work of the MPB). The GB acknowledges the value to the Bank of the existing voluntary arrangements, including because they have provided a means to review RITS independently of Payments Settlements Department, which runs RITS, and because the PSB has requisite expertise on such matters. The GB agrees that it is appropriate for the Bank to continue to share information voluntarily with the PSB and to seek the PSB's views on issues and subjects that have in the past been considered by the PSB. The GB also agrees that RITS should continue to be assessed by the Bank's Payments Policy Department against the PFMI and that those assessments should be overseen by the PSB so as to maintain the current degree of independence.

The PSB, through the Governor, will advise the GB of its material observations, findings and reasoning on these matters, to assist the GB to fulfil its responsibilities. The Governor will also consult the GB if there are any other policy matters on which the Bank wishes to consult voluntarily with the PSB. For the avoidance of doubt, nothing in this section constitutes a delegation from the GB to the PSB of any of the GB's functions or powers (or otherwise authorises the PSB to determine the Bank's policies for matters other than 'payments system policy' as defined in the Reserve Bank Act).

These arrangements may be reviewed or further formalised in future.

May 2025