

Reserve Bank of Australia Corporate Plan

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Corporate Plan 2020/21

1. Introduction

This corporate plan is prepared for 2020/21 in accordance with section 35(1)(b) of the *Public Governance, Performance and Accountability Act 2013* and covers the reporting periods from 1 July 2020 to 30 June 2024.

The accountable authority of the Reserve Bank of Australia is the Governor.

The plan outlines the Bank's mission and key objectives, the activities that it undertakes to achieve them and how it measures performance. It also discusses the external environment in which the Bank operates, the Bank's organisational capability and the Bank's approach to managing and overseeing the key risks it faces.

2. The External Environment

The Reserve Bank is focused on addressing the impact of the COVID-19 pandemic on the economy. The Bank is also closely monitoring other external developments that affect its capacity to deliver on its key objectives, such as the evolution of the payments system.

Economic conditions in the wake of COVID-19

Global economic conditions deteriorated significantly over the first half of 2020 because of the COVID-19 pandemic. The result has been a large and near-simultaneous contraction across the global economy, which has affected labour markets severely. Fiscal and monetary authorities have implemented extensive supporting policies to offset some of the income lost because of the public health measures and to ease financial conditions. The path of the global economic recovery remains highly uncertain. It will depend on how quickly the virus is contained so that restrictions on activity can be relaxed, and on how persistent behavioural changes are as a result of the pandemic.

COVID-19 and the measures taken to contain it have resulted in the Australian economy experiencing its biggest peacetime economic contraction since the 1930s. The contraction in spending has been accompanied by significant job losses. Restrictions have been eased in many parts of the country and economic activity has begun to recover in some sectors. The ongoing coordinated response of governments, the Reserve Bank, regulators and the private sector is helping to support the recovery. However, a second wave of infections prompted another round of restrictions on activity, and the outlook, including the nature and speed of the expected recovery, remains highly uncertain. The pandemic is also likely to have long-lasting effects.

The Australian financial sector has played an important role in helping to cushion the effects of the shutdown on households and businesses, and will be equally important in supporting the economic recovery. In the period ahead, financial institutions will continue to experience the flow-on effects of the stress experienced by households and businesses.

The evolving payments system

The trend towards greater use of electronic methods of payment in the retail payments system has accelerated recently. There has been a significant shift by merchants and consumers to contactless and mobile payments, and away from the use of cash and cheques in response to COVID-19. There has also been significant innovation in consumer-facing technology, and there continues to be potential for the entry of new technologically enabled service providers to widen payment options further.

While the proportion of payments made using banknotes is declining, there is also still a significant minority of the population that continues to use cash for face-to-face payments. Furthermore, the number and value of banknotes on issue continues to rise, highlighting the importance of banknotes as a store of value as well as a payment mechanism.

User and industry expectations concerning the speed of payments, and the capacity to combine information with payments, have been increasing. These trends have been reflected in strong growth in transactions enabled by the New Payments Platform (NPP), which facilitates 24/7 real-time payments between individuals and organisations. Ongoing development of NPP capabilities will allow the community to embrace new functionality through the delivery of digital services. These developments are also relevant to the Reserve Bank in its role as provider of banking services to the Australian Government. The Government is seeking to implement more modern electronic payment services and its banking requirements will continue to change in response to improvements in payments technology and changes in the way government agencies interact with the public.

Globally, there is significant interest in the potential use of technologies as a means of providing new payments, clearing and settlement services. With the increasing digitisation of payments, there is a strong focus on fraud prevention and cyber resilience among payment service providers and operators of payments infrastructure. In addition, international standards continue to promote enhancements in resilience and crisis management of financial market infrastructures (FMIs).

3. The Reserve Bank's Strategic Plan

The Reserve Bank's Strategic Plan sets out our mission to promote the economic welfare of the Australian people through our monetary and financial policies and operations. To deliver on the mission, the Bank has five key objectives, which are outlined in Section 4. Our vision is to be a world-leading central bank that is trusted for our analysis, service delivery and policies. Over the period of this corporate plan, the Bank will focus on six strategic focus areas, outlined in Section 5. The most important focus area will be for the Bank to support the Australian economy in the wake of the COVID-19 pandemic. The other focus areas will strengthen the capability of the Bank to deliver on its mission and key objectives successfully. The pursuit of our mission is also supported by our core values of promoting the public interest, integrity, excellence, intelligent inquiry and respect.



4. Key Objectives

To deliver on its mission, the Reserve Bank has five key objectives, which are the purposes of the Bank.

Price stability and full employment

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:

- the stability of the currency of Australia
- the maintenance of full employment in Australia
- the economic prosperity and welfare of the people of Australia.

In support of this, the *Statement on the Conduct of Monetary Policy* agreed by the Treasurer and the Governor confirms the Bank's continuing commitment to achieving consumer price inflation between 2 and 3 per cent, on average, over time, consistent with its duties under the *Reserve Bank Act 1959*. 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.

Sustaining high employment means that not only do more people have jobs, but they also have greater opportunities in life. High rates of unemployment are costly for the economy and hurt our society.

The Bank's operations in domestic financial markets are conducted to implement the monetary policy decisions of the Reserve Bank Board and to ensure that there is sufficient liquidity in the domestic money market every day. These domestic market operations promote the objectives of monetary policy and the stable functioning of the financial system.

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.

The stability of the financial system

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 Reserve Bank Act has long had an implied mandate to pursue financial stability. The Treasurer and the Governor recorded their common understanding of the Bank's longstanding responsibility for financial system stability as part of 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.

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, 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:

- 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.

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. The Reserve Bank's banking services fall into two components – 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.

The provision of secure and reliable banknotes

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.

5. Strategic Focus Areas

The Reserve Bank has six strategic focus areas to support the Australian economy in the wake of the COVID-19 pandemic, and strengthen the capability of the Bank to deliver on its mission and key objectives successfully.

Support the Australian economy in the wake of COVID-19

The most important focus area for the Reserve Bank during the period of this corporate plan will be to continue to support the Australian economy in the wake of the COVID-19 pandemic. The pandemic has resulted in a major disruption to economic activity and employment in Australia. Through its actions the Bank is helping the economy to adjust to, and recover from, this event:

- the Bank has put in place a package of policy measures to keep funding costs low across the economy and support the provision of credit. This package includes: a cash rate target of 0.25 per cent; bond market purchases to support a target of around 0.25 per cent for the yield on 3-year Australian Government bonds and smooth market functioning; a Term Funding Facility for the banking system with particular support for credit to small and medium-sized businesses; and provision of liquidity for the financial system through the Bank's daily open market operations as required by market conditions
- actively communicating the Bank's actions, our outlook for the economy, our assessment of the stability of the financial system, and the need for the official sector to support the economy during the pandemic and the recovery from this event, which will have long-lasting economic effects
- working closely with other regulatory authorities to support the economy by ensuring financial intermediation and financial markets continue to operate effectively. These measures, along with the strong starting position of the banking system, increase the financial system's ability to absorb, rather than amplify, the economic effects of the pandemic.

Over the period of this corporate plan, the Bank will maintain these important supports and build on them in three key ways:

- actively assess the efficacy of the policy actions taken, and measures taken by other central banks, and adapt the Bank's measures as required in support of its policy objectives
- continue to provide credible and independent analysis of the economic effects of the pandemic, its impact on financial stability, and the policy responses domestically and internationally, to support high-quality decision-making
- make sure the financial system continues to function smoothly.

Support the evolution of payments

An effective payment system that meets the needs of consumers, businesses and government entities is a prerequisite for a well-functioning economy. The Australian payments system is evolving rapidly, driven by ongoing advances in technology and changing expectations of end-users. The trend towards greater use of electronic payment methods, which appears to have accelerated as a result of the COVID-19 pandemic, presents both opportunities and risks. Policy issues for the Reserve Bank include the importance of keeping the costs of electronic payments low while maintaining the security, resilience and innovation in the payments system and dealing with any competition or access issues that emerge.

Over the period of this corporate plan, the Bank will work with the payments industry and users of the payments system on policy issues relating to both legacy and emerging payment methods. This will include:

- work to support the ongoing provision of cash services, given that cash is still used heavily by some segments of the population, and to explore the possible wind-down of the cheques system
- a major review of the regulatory framework for retail payments, focusing on the use of electronic payments, such as cards and bank transfers. Based on its consultations with end-users and the payments industry, the Bank will work with industry to address issues or will seek to implement regulatory changes to deal with any policy concerns
- under its different roles as regulator, infrastructure provider and banker to the Government, continuing to work with the industry to realise the potential of the New Payments Platform to deliver payments that are real-time, data-rich and easily addressed
- promoting resilience in core payments infrastructure and services, including improved payments incident management procedures and reporting
- conducting work in the Bank's Innovation Lab (including with external partners) on areas of relevance, including exploration of the possible issuance of central bank settlement tokens.

Attract and maintain a high-quality and innovative workforce

The ongoing quality and effectiveness of our employees are critical to the Reserve Bank delivering on its objectives. The Bank will continue to focus on attracting and retaining high-quality employees with a diversity of skills and experience who are innovative and nimble. This involves fostering an environment in which all employees are engaged and empowered to contribute to the full extent of their abilities.

Over the period of this corporate plan, the Bank will:

- focus on the current and future needs of the Bank and enhancing the manner in which we attract and retain employees
- maintain focus on the Bank's core values – promotion of the public interest, integrity, excellence, intelligent inquiry and respect – with emphasis on encouraging employees to ask questions, propose innovative

solutions and readily express opinions or concerns, and enhancing their understanding of appropriate risk-taking in pursuit of the Bank's objectives. Initiatives will include identifying opportunities to establish a clear 'tone from the top' through enterprise-wide leadership goals and regular communication

- continue to develop the leadership capabilities of executive leaders and managers, with emphasis on contributing to and supporting Bank initiatives, developing employee capabilities and maintaining the expected high standard of behaviour in the workplace
- continue to foster a diverse and inclusive Bank culture. This will be facilitated by active engagement with the Bank's Employee Resource Groups, and includes initiatives such as developing flexible work and accessibility guidelines, enhancing cultural awareness, providing equal opportunities for men and women in the workplace, and actions contained in the Bank's Reconciliation Action Plan, which focuses on providing opportunities for Aboriginal and Torres Strait Islander peoples
- continue to develop the Bank's technologies and facilities to strengthen the Bank's capability to deliver on its objectives. In particular, the Bank is planning improvements to its Head Office at 65 Martin Place, Sydney, and the H.C. Coombs Centre for Financial Studies in Kirribilli, Sydney. These initiatives are aimed at upgrading base building infrastructure that is at end of life and ensuring a safe, efficient and effective workplace
- continue to deliver initiatives to enhance employee mental health and wellbeing consistent with the Bank's Health and Safety Management Plan
- develop policies and workplace practices to ensure employees are able to work effectively and safely in a hybrid work environment that involves working at Bank premises as well as residential or remote locations, drawing on Bank and community experiences during the COVID-19 pandemic.

Strengthen the resilience of technology services

The Reserve Bank maintains highly resilient, efficient, fit-for-purpose technology systems that underpin the Bank's core payment systems, banking and financial markets operations, policy analysis and banknote distribution. Further strengthening key system resilience and availability is a key focus area, and targets reductions in system unavailability caused by unplanned incidents. This will be achieved by an ongoing program to address technology obsolescence, automation of key technology operations, system design to reduce the complexity of the Bank's technology environments, and investment in staff technology skills.

Over the period of this corporate plan, the Bank will:

- increase the efficiency and capacity of the infrastructure supporting the Bank's two data centres to ensure the ongoing performance and resilience of the Bank's operational systems and applications
- establish a data bunker facility to provide additional resilience for the Bank's key technology services and data
- increase automation of core technology delivery processes and enhance operator training to reduce operational risks
- deliver efficiency benefits through technology simplification, incorporating the adoption of cloud services for non-core services where appropriate
- continue to enhance our technology security posture in response to cyber threats and to remain aligned to Australian Signals Directorate guidelines and evolving industry best practices.

Harness the power of data

Data are a strategic asset for a central bank. The Reserve Bank therefore continues to strengthen its capabilities in managing data as an asset. This involves making the most of the data available, while at the same time developing the Bank's processes, technology and people to enhance the value we get from data in the future.

Over the period of this corporate plan, the Bank will:

- continue to increase the maturity of its data governance and data management processes to ensure a common Bank-wide approach to working with data
- commence the refresh and enhancement of the Bank's strategic platforms and tools for storing and analysing data
- accelerate the migration of data from legacy systems and its consolidation on strategic platforms with modern tools
- conduct an enterprise-wide program to improve employees' skills with data tools and technologies.

These initiatives aim to improve analytical excellence, efficiencies and employee engagement, reduce data-related risks and enable the Bank to make the most of available tools and practices.

Ensure we communicate effectively in a changing world

In a rapidly changing and uncertain world, it is important that the Reserve Bank communicates clearly with the Australian people. The Bank is committed to explaining its policies effectively, providing credible analysis of the Australian economy and being held accountable. The Bank will continue to demonstrate competence, integrity and dependability to maintain the trust of the community.

Means of communication are also changing. There are fewer journalists covering a rapidly evolving economy. At the same time, social media provides a platform for new voices, information and ideas. Social distancing during the pandemic has meant there are fewer opportunities for face-to-face interaction and yet there is broader reach through digital channels such as videoconferencing. We will make better use of technology to provide information to the community when and where they need it.

Over the period of this corporate plan, the Bank will:

- maintain regular communication on monetary and payments policies, banknote issuance, as well as reviews of financial stability and financial markets infrastructure
- provide information about the work the Bank is doing in cooperation with the Government and the financial regulators, particularly through the Council of Financial Regulators
- continue to develop new means of communication that are better aligned with the information needs of members of the community and their appetite to receive and respond to information
- continue to contribute to Australia's economic literacy, and encourage a diverse body of students to study economics
- maintain the Bank's liaison program to understand the community's perspectives, priorities and concerns, gather information and insights, as well as explain the Bank's monetary policy initiatives.

6. Key Activities and Measuring Performance

This section outlines the key activities that the Reserve Bank will undertake to deliver on its key objectives, and how it will measure and assess its performance.

Reserve Bank of Australia – Summary Measures of Performance 2020/21–2023/24

Key Objectives	Key Activities	Performance measures and targets 2020/21	Performance measures and targets 2021/22–2023/24
Price stability and full employment	Conduct monetary policy in a way that will best contribute to: <ul style="list-style-type: none"> • 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	As for 2020/21
		Foster sustainable growth in the economy	As for 2020/21
	Achieve cash rate consistent with the Board's objectives	Keep the cash rate within the interest rate corridor around the cash rate target each business day	As for 2020/21, subject to changes reflecting decisions by the Reserve Bank Board
	Achieve 3-year Australian Government bond yield target	3-year Australian Government bond yield consistent with the target at the close of each business day	As for 2020/21, subject to changes reflecting decisions by the Reserve Bank Board
	Provide low-cost term funding to the banking system	Provide the Reserve Bank's Term Funding Facility	As for 2020/21, subject to changes reflecting decisions by the Reserve Bank Board
	Provide adequate liquidity to the financial system	Use daily open market operations to ensure financial institutions have access to sufficient liquidity	As for 2020/21
	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	As for 2020/21
	Manage reserves to portfolio benchmarks	Reserves portfolio managed within small deviations around benchmarks for interest rate and currency risk	As for 2020/21, although benchmarks will be subject to review from time to time
	Intervene in foreign exchange market as appropriate	Publish data and explanations of any intervention	As for 2020/21
The stability of the financial system	Support overall financial stability	A stable financial system that is able to support the economy	As for 2020/21
		Work with the Council of Financial Regulators (CFR) agencies and international bodies to identify and appropriately address evolving systemic risks	
		Assess and communicate risks to financial stability, including through the Bank's half-yearly <i>Financial Stability Review</i>	

Key Objectives	Key Activities	Performance measures and targets 2020/21	Performance measures and targets 2021/22–2023/24	
A secure, stable and efficient payments system	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 promoting competition and reliable, secure, efficient and low-cost electronic payment services, as well as keeping abreast of new technologies and platforms in payments) and on any issues of competition, efficiency or risk identified in liaison with stakeholders	As for 2020/21	
		Recommence work on the comprehensive Review of Retail Payments Regulation, which was placed on hold in March 2020 owing to the COVID-19 pandemic. Monitor and enforce compliance with the Bank's card payments regulations	Complete work on Review in 2021/22. Monitor and enforce compliance with the Bank's card payments regulations	
		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, work exploring the wind-down of the cheques system and research on the possible issuance of central bank digital currency	As for 2020/21	
		Review elements of the regulatory framework for e-conveyancing platforms jointly with the CFR, the Australian Competition and Consumer Commission (ACCC) and the Australian Registrars' National Electronic Conveyancing Council, with the aim of identifying enhancements that would promote consumer protection, resilience and competition in the e-conveyancing market	Undertake second review of NPP access and functionality with ACCC	
		Work with the CFR to complete the review of the regulatory framework for stored-value facilities (SVFs) in Australia, including to progress any changes to the framework stemming from the CFR's report provided to Government in October 2019	As for 2020/21	
		Work with industry to modernise payment messaging standards via participation in the ISO 20022 migration project	As for 2020/21	
		Work with industry and the Australian Prudential Regulation Authority (APRA) to develop disclosure standards for operational performance	Monitor implementation of new disclosure framework standards	
		Work in the Bank's Innovation Lab (including with external partners) to research the case for, and implications of, central bank digital currencies	As for 2020/21	
		Oversee the stable provision of financial market infrastructure (FMI) services	Assess Reserve Bank Information and Transfer System (RITS) and licensed clearing and settlement (CS) facilities against relevant standards. Establish recommendations and regulatory priorities as appropriate for each high-value payment system and CS facility based on these assessments	As for 2020/21

Key Objectives	Key Activities	Performance measures and targets 2020/21	Performance measures and targets 2021/22–2023/24
A secure, stable and efficient payments system (cont.)	Oversee the stable provision of financial market infrastructure (FMI) services (cont.)	Undertake reviews as appropriate to determine whether additional FMIs should be subject to supervision or oversight by the Bank	As for 2020/21
		Provide proposals for enhancements to the FMI regulatory regime, including crisis management powers, to Government	Develop operational plans to execute any powers granted under the regime
		Contribute to international policy work on central counterparty resilience and FMI crisis management	As for 2020/21
		Adapt domestic regulatory standards in response to international developments. Support international supervisory cooperation	As for 2020/21
	Ensure the operational reliability of RITS	RITS availability at 99.95 per cent during core hours	As for 2020/21
		RITS Fast Settlement Service (FSS) availability at 99.995 per cent on a 24/7 basis, with most transactions processed in less than one second	As for 2020/21
	Ensure the cyber security of RITS	Complete an upgrade of RITS hardware and network infrastructure by end June 2021	As for 2020/21
Ongoing investment and regular reviews and testing to support cyber resilience. In 2020/21, this will include participation in a pilot 'red team' exercise for financial institutions sponsored by the CFR		As for 2020/21	
	Complete a review of RITS end-point security arrangements and update RITS member security requirements as required		
The delivery of efficient and effective banking services to the Australian Government	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 for 2020/21
	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	As for 2020/21
	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, supported by: <ul style="list-style-type: none"> Continued development of banking services and systems, including NPP capabilities Support agency customers as they migrate payments from legacy payment systems to new systems 	As for 2020/21, supported by: <ul style="list-style-type: none"> Ongoing development of new NPP services Continued support to agency customers

Key Objectives	Key Activities	Performance measures and targets 2020/21	Performance measures and targets 2021/22–2023/24
The provision of secure and reliable banknotes	Ensure Australian banknotes provide a safe, secure and reliable means of payment and store of value, as follows:	Maintained or improved public perceptions of Australian banknotes, as measured in the Reserve Bank survey	As for 2020/21
	<ul style="list-style-type: none"> Meet banknote demand 	More than 95 per cent of banknote orders from commercial banks fulfilled by the Bank within three days of request	As for 2020/21
	<ul style="list-style-type: none"> Increase security of Australian banknotes 	Complete Next Generation Banknote program with the issuance of new \$100 banknote with upgraded security features	Program completed
	<ul style="list-style-type: none"> Ensure high-quality banknotes 	Banknote production orders by the Bank to be met by Note Printing Australia Limited within agreed quality parameters	As for 2020/21
		Maintain quality of banknotes in circulation above the minimum quality standard agreed with industry	As for 2020/21

Price stability and full employment

The Reserve Bank will seek to ensure that monetary policy is set appropriately to produce consumer price inflation outcomes in Australia that are consistent with the inflation target and to foster sustainable economic growth. The flexible medium-term inflation target is the centrepiece of the monetary policy framework in Australia. Since the early 1990s, it has provided the foundation for the Bank to achieve its monetary policy objectives by providing an anchor for inflation expectations. A strategic focus area for the Bank over the period of this corporate plan will be to support the economy in the wake of the COVID-19 pandemic (see Section 5).

Assessing the conduct of monetary policy involves judging whether the policy decisions taken were prudent and consistent with the objectives of monetary policy, based on the information available at the time. Inflation outcomes for the period 2020/21 to 2023/24 will be measured by annual percentage changes in the consumer price index as published by the Australian Bureau of Statistics. Some variation of inflation from year to year is acceptable and expected; the inflation target does not require that inflation is always between 2 and 3 per cent. It is less straightforward to assess the extent to which the Bank succeeds in fostering sustainable growth in the economy, partly because the levels of output and unemployment that are consistent with stable inflation and maintaining financial stability risks at manageable levels cannot be directly observed and must be inferred from other data. Over the short term, monetary policy can affect cyclical deviations of output and unemployment from their equilibrium levels, but, over the long term, the Bank's contribution to sustainable growth comes mainly through achieving the inflation target and preserving financial stability.

As part of its responsibility for monetary policy, the Reserve Bank Board sets the cash rate target. The cash rate is the rate at which commercial banks borrow from and lend to each other on an overnight, unsecured basis.^[1] It is determined by the demand for and supply of Exchange Settlement (ES) balances that commercial banks hold at the Bank. The Bank operates a corridor system around the cash rate target. Under this system, the balances that banks hold with the Bank overnight in ES Accounts earn an interest rate set at a margin below the cash rate target (the floor of the corridor). And at the top of the corridor, when a bank needs to borrow from the Reserve Bank overnight, it is charged an interest rate set at a margin above the cash rate target. Following the policy measures announced by the Bank in March 2020, the volume of ES balances increased substantially. As a result, and as expected, the cash rate drifted below the cash rate target, but remained above the floor of the corridor.

This is consistent with the aim of the Bank's policy package of ensuring that funding costs in the Australian economy are very low.

The Bank also has a target for the 3-year Australian Government bond yield. Achievement of this target can be assessed by measuring the closing mid-market yield on the Australian Government bond that is closest to having a 3-year maturity date. Government bond purchases in secondary markets will be conducted if required to achieve the target and to support the functioning of these important financial markets. Measures of market functioning that can be used to assess how well this objective has been achieved include relatively low bid-offer spreads and volatility in yields, consistent with historic norms.

Under the Term Funding Facility, the Bank provides fixed-rate 3-year funding to authorised deposit-taking institutions on the terms set out on the Bank's website;^[2] all funding that banks wish to draw from their allocations under the program announced in March 2020 will need to be drawn down by the end of March 2021. Total amounts of funding allocations and drawdowns are reported on a weekly basis on the Bank's website.^[3]

The Bank will also provide sufficient liquidity in daily open market operations to support the operation of the payments system and consistent with the Board's objective to keep funding costs low. This can be measured by yields on repurchase agreements conducted in the Bank's open market operations remaining at low levels consistent with the targets for the cash rate and 3-year Australian Government bond yields.

The Bank manages its foreign reserves portfolio relative to a benchmark. This benchmark is assessed to be the combination of foreign currencies and foreign currency assets that will maximise the Bank's expected returns over the long run, subject to the Bank's tolerance for risk. Managers' discretionary positions are limited. A measure of performance in managing the portfolio is provided by the close adherence to the benchmarks for interest rate and currency risk over time.

The Bank communicates its views and decisions regarding any foreign exchange intervention at the appropriate time in various written publications and speeches. When the Bank's annual report is published each year, intervention data for the year under review are also published on the Bank's website.^[4] This facilitates the Bank's accountability for its performance in relation to any foreign exchange market intervention over the period of this corporate plan.

The Bank will also assess developments that may have a bearing on the design or implementation of the framework for monetary policy. As part of these activities, the Bank will continue to monitor developments in Australia's economic and financial environment where relevant to the design or implementation of monetary policy, and undertake and monitor relevant research and evaluate overseas experience. This will include engaging with other public institutions, the academic community and other stakeholders, both domestically and internationally. The Bank will also engage in activities that support and enhance the transparency and accountability of its monetary policy activities, including through parliamentary testimonies, speeches and other public statements, and a range of publications and forms of community engagement.

The stability of the financial system

The Reserve Bank will continue to use its powers, influence and public communication to mitigate risks to financial system stability. This involves identifying, assessing and addressing domestic sources of systemic risk, as well as enhancing the resilience of the financial system to future shocks. The Bank's powers in relation to the payments system and FMs have a bearing on financial stability outcomes. During a financial disruption, the Bank's facilities to provide liquidity would continue to be available as appropriate.

The Bank will continue to assess the ongoing impact of the COVID-19 pandemic, and implement policy measures as required to maintain financial stability. In particular, the Bank will assess the medium-term effects on households, businesses and financial institutions, as well as changes that could be made to ensure systemic resilience to future shocks. This assessment will be guided by ongoing improvements and expansions to the Bank's stress-testing framework.

The Bank and the other CFR agencies will coordinate closely on how best to support the economic recovery and to maintain a healthy financial system. In addition, the Bank will work closely with CFR agencies to continue to refine processes for managing a distressed financial institution, in order to provide an effective and coordinated response. The Bank will also engage with New Zealand agencies on financial system issues as part of the Trans-Tasman Council on Banking Supervision (TTBC). The members of the TTBC are the CFR agencies, the New Zealand Treasury, the Reserve Bank of New Zealand and the New Zealand Financial Markets Authority.

The Bank will continue engaging with international bodies, in particular on the effects of the pandemic on the financial system. The key international groups are the Financial Stability Board (FSB), the Basel Committee on Banking Supervision, the Committee on Payments and Market Infrastructures, the Bank for International Settlements and the Executives' Meeting of East Asia-Pacific Central Banks. This engagement will ensure Bank staff stay abreast of international developments regarding COVID-19, and related improvements to financial stability policies and frameworks arising from international experiences. Future international assessments of Australia's regulatory framework, including a FSB peer review and an International Monetary Fund Financial Sector Assessment Program review (which are both likely to take place during 2020/21 to 2023/24), will also be important for assessing and refining the Bank's approach to financial stability.

The Bank's performance in promoting overall financial system stability will continue to be best assessed by the stability of the Australian financial system itself. The Bank will continue to publish its assessments of financial stability in the half-yearly *Financial Stability Review* and provide other ongoing communication on financial stability matters, such as via speeches. This communication informs the community about risks they should consider when investing and borrowing. It also forms the basis of the Bank's accountability for the performance of its financial stability responsibilities.

A secure, stable and efficient payments system

The Reserve Bank will continue its work on its mandate under the *Payment Systems (Regulation) Act 1998* to promote competition and efficiency and to control risk. The Bank will also continue its work on its mandate under the *Corporations Act 2001* to perform assessments of the licensed clearing and settlement facilities against relevant standards, and set regulatory priorities as appropriate.

The Payments System Board meets quarterly to determine payments system policy in accordance with its statutory responsibilities. The Board's focus over the period of this corporate plan will be on a number of strategic areas, including:

- promoting competition and reliable, secure, efficient and low-cost electronic payment services (including for cross-border payments)
- keeping abreast of innovations and new players in the payments system
- putting in place enhancements to supervisory and crisis management powers for FMIs
- ensuring that the framework for oversight of foreign-headquartered FMIs remains appropriate.

Consistent with the Reserve Bank's longstanding approach, the focus will be on working with industry participants to achieve outcomes that are in the public interest, with regulatory activity contemplated only when an appropriate industry response is not forthcoming. Where the Bank uses its regulatory powers or has formal

oversight responsibilities, it seeks views from regulated entities under the Australian Government Regulator Performance Framework regarding regulatory effectiveness and compliance costs.

The Bank will continue working on the comprehensive Review of Retail Payments Regulation that was started in 2019/20; the Review is expected to be completed in 2021 after being put on hold in March 2020 on account of the COVID-19 pandemic. The Review will focus on outcomes for consumers and businesses and will pay particular attention to any issues of competition, efficiency or risk identified in liaison with stakeholders.

The Bank will continue to execute its responsibilities as overseer of high-value payment systems and supervisor of Australian-licensed clearing and settlement facilities. As part of this, the Bank will continue to conduct and publish assessments of RITS and licensed clearing and settlement facilities. The Bank will monitor whether additional FMIs should be subject to its supervision or oversight. The Bank will also support international supervisory cooperation, including implementation and monitoring of international standards, and participating in or establishing cooperative cross-country oversight arrangements for individual operators where appropriate.

Reflecting the critical importance of RITS to the Australian financial system, the Bank will continue to invest in the infrastructure supporting the smooth operation of RITS and FSS. During 2020/21, this will include the completion of an upgrade of hardware and network infrastructure supporting RITS. It will also include an upgrade of the file management system supporting the receipt and sending of low-value settlement position information between the Bank and RITS members. The Bank will also focus on the operation of the FSS, which facilitates 24/7 real-time settlement of NPP payments exchanged by households, businesses and government agencies.

As the owner and operator of RITS, the Bank seeks to ensure that this system operates with very high levels of reliability and security, while also adapting to the needs of a 24/7 payments world with RITS FSS. A broad range of operational metrics are tracked in real time and documented. These include measures of system availability, system liquidity, participants' transaction values and volumes, and system throughput and performance. The key targets are for RITS system availability for real-time settlement of payment instructions to be 99.95 per cent during core system hours and for FSS system availability for real-time settlement processing of settlement requests to be 99.995 per cent on a 24/7 basis. FSS is also measured against target settlement response times, with an objective of most transactions being processed in less than one second. The Bank will complete an upgrade of the hardware and network infrastructure supporting RITS by the end of June 2021.

The Bank ensures that RITS is appropriately protected from cyber attack, taking into account emerging threats and international standards. Security controls are aligned to the *Australian Government Information Security Manual* and the International Organization for Standardization's information security management standards (ISO 27001); the Bank's payments settlements systems have received certification for ISO 27001. Regular reviews will be undertaken to ensure that appropriate security controls are maintained and are appropriately tested. In particular, RITS will be included in a CFR pilot 'red team' exercise during 2020/21. The Bank is also conducting a review of cyber-related risks that might arise in relation to the way RITS members use RITS technology. Changes to RITS member security requirements will be implemented where this is considered to be appropriate.

The Bank cooperates with other financial regulators on payments issues. In 2021/22, the Bank and the ACCC will commence a second public consultation on NPP access and functionality, which will review developments since the first report was completed in 2018/19. The Bank will continue to work with other domestic financial regulators to develop proposals to enhance the regulatory regime for FMIs. This includes developing proposals for legislation for stronger supervisory powers and a crisis management regime for clearing and settlement facilities as well as developing operational plans to execute powers granted under the regime. The Bank will also continue to contribute to international policy work on central counterparty resilience and FMI crisis management.

The Bank also cooperates with payments industry bodies. It has frequent engagement with the Australian Payments Network, the self-regulatory and coordinating body for the payments industry. In addition, the Bank

cooperates with the Australian Payments Council (APC), the strategic coordination body for the payments industry. To promote greater resilience of electronic payments, the Bank will be continuing its work with industry and APRA to develop a standard set of operational performance statistics for retail payments to be disclosed by individual institutions. Over the next several years, the Bank will also be participating in an industry project to update messaging standards used in the Australian payments system, including for RITS.

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

The Reserve Bank will continue to work with government agencies and other key stakeholders to maintain and improve the central banking services it provides. This includes working with the Department of Finance (Finance) to implement its multi-stage plan to modernise whole-of-government funding payments and assisting the Australian Office of Financial Management (AOFM) to explore opportunities to improve the process for more efficient cash management arrangements.

In addition, the Bank will continue the work to develop its services and systems over the period 2020/21 to 2023/24, with the intention of accommodating the likely banking needs of its government and other official agency customers, while at the same time meeting the objectives of security, reliability and cost-effectiveness. This includes working with the industry to develop additional NPP capabilities and support agency customers as they migrate payments from legacy payment systems to new systems. Overall, this work will ensure that the Bank continues to meet the needs of its government and other official agency customers and, in turn, the public.

The Bank operates in a competitive environment to provide banking services to Australian Government agencies. It must cost and price these services separately from its other activities as well as meet an externally prescribed minimum rate of return on capital for its transactional banking business over a business cycle. This prescribed minimum rate of return is equivalent to the yield on 10-year Australian Government Securities plus a margin for risk. At present, the return on capital is one of the Bank's measures of financial performance for its transactional banking business. Other measures include the retention of customers, growth and use of the Bank's suite of banking products and services, and customer satisfaction as assessed by the results of the Bank's customer calling program. Service availability through the monitoring of core systems infrastructure is another important measure.

The provision of secure and reliable banknotes

The Reserve Bank's key initiative to enhance banknote security is the Next Generation Banknote program for the issuance of a new series of banknotes with upgraded security features. The \$5, \$10, \$20 and \$50 banknotes have been progressively issued over recent years. The final denomination in the series, the \$100 banknote, is scheduled to enter circulation in late 2020. Wide acceptance and distribution of these banknotes over subsequent years will be important to this strategy.

NPA is continuing to support the Reserve Bank's strategy by printing sufficient new banknotes to replace the outgoing banknote series. With less capacity needed to meet ongoing production demands for the new series of banknotes, NPA's corporate strategy involves broadening its revenue streams by increasing its mix of export banknote and passport projects that sit within the Bank's risk profile.

As part of its communication strategy to assist with public recognition of the new banknote series, the Bank had extensive discussions with business stakeholders, such as banks, retailers and relevant machine manufacturers. It also has an ongoing public awareness campaign providing information about the new banknotes.

The National Banknote Site, located in Craigieburn, Victoria, is the distribution site for banknotes, with contingency arrangements in place. The site has been designed to meet Australia's estimated needs for the distribution, processing and storage of banknotes for decades to come.

The Bank has a banknote research and development (R&D) program focused on new banknote security features and detection equipment. The primary aim of this program is to ensure that Australia's banknotes remain secure against counterfeiting and 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.

Public confidence in Australian banknotes is measured directly by a Reserve Bank survey on perceptions of Australian banknotes conducted every two years, with the next survey to be conducted within the period of this corporate plan. This survey asks questions about the public's attitude to, and awareness of, banknotes, including the level of concern about counterfeiting.

The Bank aims to ensure that the demand for banknotes is met in a timely way. The relevant key performance indicator is for more than 95 per cent of banknote orders from commercial banks to be met within three days of the request.

Ensuring that the quality of banknotes in circulation is high supports public confidence in banknotes and makes it easier for the public to detect counterfeits. The Bank works closely with NPA to ensure that high-quality Australian banknotes are produced that meet the Bank's specifications. The Bank has arrangements in place whereby the private sector is encouraged to return damaged banknotes to the Bank. The Bank will continue to collect information on the quality of banknotes in circulation to ensure that a quality standard in excess of the minimum standard is maintained. The Bank will also monitor counterfeiting rates for the existing and new banknote series, as well as international trends in counterfeiting.

7. Risk Oversight and Management

The Reserve Bank's approach to managing its key strategic, financial, people and operational risks is described in its *Risk Appetite Statement*. This is reviewed biennially, or whenever there is a significant change to the Bank's operating environment, and is published on the Bank's website.^[5] All heads of department are responsible for the implementation of risk controls consistent with the Bank's *Risk Appetite Statement*.

Key risks and risk appetite

The Reserve Bank faces a broad range of risks reflecting its responsibilities as a central bank. These risks include those resulting from its responsibilities in the areas of monetary, financial stability and payments system policy as well as its day-to-day operational activities.

The risks arising from the Bank's policy and regulatory responsibilities can be significant. These risks are managed through rigorous processes that emphasise the importance of integrity, intelligent inquiry, maintaining high-quality staff and public accountability.

The Bank faces significant financial risks, largely because it manages Australia's foreign reserves and holds domestic financial assets in the pursuit of monetary policy objectives, including outright holdings of Australian government securities. It accepts that the balance sheet risks are large and manages these risks carefully, but not at the expense of its policy responsibilities. The Bank has a very low appetite for credit risk and manages exposures accordingly.

The Bank applies a 'top-down' enterprise risk management approach to identify a number of key risks where particular attention is required. These risks, including cyber security, business continuity and resourcing, are considered to have the greatest potential to adversely affect the Bank's ability to discharge its responsibilities effectively. They inform decision making at the executive level, promote a risk dialogue among management and enable effective risk oversight.

The Bank works to mitigate the key risks it faces to levels that are consistent with meeting its policy and operational objectives. Key risks are regularly reported to the Risk Management Committee, which is chaired by the Deputy Governor and reviews actions, controls and mitigation strategies for these risks.

The Bank recognises that it is not possible or desirable to eliminate all risks inherent in its activities. Acceptance of some degree of risk is necessary to foster innovation in business practices. Nonetheless, the Bank has a low appetite for most types of operational risk and makes resources available to limit operational risk to acceptable levels.

Risk management framework

The Reserve Bank's risk management framework establishes a process to manage risk across the Bank.^[6] Managers have a responsibility to evaluate their risk environment, put in place appropriate controls and monitor the effectiveness of those controls. The risk management culture emphasises careful analysis and management of risk in all business processes.

In addition to those risks that are identified at an enterprise level ('top-down'), risks are also identified, assessed and managed at a business level ('bottom-up'). The Risk Management Committee has oversight of these processes. This committee meets at least six times a year and provides a report on its activities to both the Executive Committee (chaired by the Governor) and the Reserve Bank Board Audit Committee.

The Bank's Risk and Compliance Department supports the application of the Bank's framework for managing risk. It also monitors and reports on portfolio risks and compliance with respect to the Bank's operations in financial markets. Incident reports are prepared for events not covered by, or which occur other than in accordance with, Bank policies and procedures, and which have (or could have) material undesirable consequences. The Risk Management Committee receives regular reporting on the Bank's performance against its nominated risk tolerances, as well as on incidents and related action plans. Depending on the nature and severity of an incident, there is also further escalation to the Reserve Bank Board Audit Committee and the Reserve Bank Board and/or Payments System Board.

The Bank seeks to ensure that it holds sufficient capital and reserves to manage the risks to its balance sheet that may be faced over time. In particular, the Bank holds a balance in the Reserve Bank Reserve Fund (RBRF) that is consistent with the target balance set by the Reserve Bank Board. The target balance is based on an assessment of risks on the various assets that the Bank holds.

Endnotes

[1] See <<https://www.rba.gov.au/mkt-operations/resources/cash-rate-methodology/overview.html>>

[2] See <<https://www.rba.gov.au/mkt-operations/term-funding-facility/overview.html>>

[3] See Statistical Table A3, available at: <<https://www.rba.gov.au/statistics/tables/>>

[4] See Statistical Table A5, available at: <<https://www.rba.gov.au/statistics/tables/>>

[5] See <<https://www.rba.gov.au/about-rba/our-policies/risk-appetite-statement.html>>.

[6] See <<https://www.rba.gov.au/about-rba/our-policies/risk-management-policy.html>>. This policy seeks to ensure the implementation of an effective risk management framework that is consistent with the Bank achieving its policy and operating objectives. In doing so, it follows accepted standards and guidelines for managing risk, particularly those used by public and financial institutions.