

Reserve Bank of Australia Corporate Plan 2017/18

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1. Introduction

This corporate plan is prepared for 2017/18 in accordance with section 35(1)(b) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and also covers the reporting periods from 1 July 2018 to 30 June 2021.

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

This corporate plan outlines the key functions and purposes of the Bank and, in relation to each of those functions and purposes, sets out:

- the Bank's assessment of the relevant environment in which those functions and purposes will be carried out
- how the Bank plans to achieve the relevant purposes and how it will measure and assess its performance in the achievement of those purposes
- the key strategies and plans that the Bank proposes to implement with a view to achieving the relevant purposes.

The plan also outlines how the Bank manages its financial position to support the achievement of its key functions and purposes. The penultimate section of the plan outlines the Bank's approach to managing and overseeing the main risks it faces, which includes a published *Risk Appetite Statement* indicating the Bank's attitude towards its key strategic, financial, people and operational risks. A final section on organisational capacity highlights the important supporting capabilities that assist the Bank in achieving its various functions and purposes, including in particular its high-quality staff and the information technology underpinning its activities, as well as a range of support services provided by various areas of the Bank.

Reserve Bank of Australia – Summary Measures of Performance 2017/18–2020/21

Performance areas	Performance objectives	Performance measures 2017/18	Performance measures 2018/19–2020/21
Monetary policy	Achieve inflation target	Consumer price inflation maintained between 2–3 per cent, on average, over the medium term	As for 2017/18
Financial stability	Support overall financial stability	A stable financial system that is able to support the economy. The Bank assesses a range of economic and financial data to help gauge the soundness of the financial system and identify potential vulnerabilities, and communicates this assessment, primarily in the Bank's half-yearly <i>Financial Stability Review</i> Work with the Council of Financial Regulators (CFR) agencies to identify and appropriately address evolving systemic risks	As for 2017/18
Financial market operations	Achieve cash rate target	Overnight cash rate equal to the target each business day	As for 2017/18
	Manage reserves to portfolio benchmarks	Portfolio managed within small deviations around the asset and duration benchmarks	Reserves will continue to be managed to benchmarks although these benchmarks will be subject to review from time to time
	Intervene in foreign exchange market as appropriate	Publish data and explanations of any interventions	As for 2017/18
Payments and infrastructure	Support competition and efficiency in the payments system and financial system stability	Maintain and improve where possible the efficiency and competitiveness of the payments system, consistent with financial system stability. Monitor and publish information on the effect of new card standards. Complete new statistical collection system for retail payments	Maintain and improve where possible the efficiency and competitiveness of the payments system, consistent with financial system stability. Policy work focusing on the strategic priorities identified by the Payments System Board
	Stability in the provision of financial market infrastructure (FMI) services	Stability of FMI service provision. Assess Reserve Bank Information and Transfer System (RITS) and licensed clearing and settlement facilities against relevant standards and take action where required to ensure standards are met. Contribute to international policy work on central counterparty resilience and FMI crisis management. Adapt domestic regulatory standards in response to international developments. Support international supervisory cooperation	As for 2017/18
	RITS operational reliability	RITS availability at 99.95 per cent during core hours	As for 2017/18
	RITS cyber security	Fast Settlement Service (FSS) go-live; FSS availability at 99.995 per cent on a 24/7 basis, with most transactions processed in less than one second Ongoing investment and regular reviews and testing to support cyber resilience	As for 2017/18

Reserve Bank of Australia – Summary Measures of Performance 2017/18–2020/21

Performance areas	Performance objectives	Performance measures 2017/18	Performance measures 2018/19–2020/21
Banking	Maintain transactional banking competitiveness	Minimum return on capital equivalent to 10-year Australian Government Security rate plus a margin for risk	As for 2017/18
	Progress on projects to deliver convenient, secure, reliable and cost-effective banking services to customers	<p>Provision of high-quality, cost-effective banking services to government and other official agency customers and, in turn, the public supported by:</p> <ul style="list-style-type: none"> Continued work on replacing the Bank's core account maintenance system Completion of initial capabilities to participate in the New Payments Platform (NPP) 	<p>As for 2017/18, supported by:</p> <ul style="list-style-type: none"> Completion of renovation of banking applications and systems by end 2019 Ongoing development of capabilities to participate in the NPP
Banknotes	Maintain public confidence in banknotes as follows:		Maintained or improved public perceptions of Australian banknotes as measured in the Reserve Bank survey
	• Meet banknote demand	99.5 per cent of banknote orders from commercial banks fulfilled by the Reserve Bank on the day requested	As for 2017/18
	• Increase security of Australian banknotes	Issuance of new \$10 banknote with upgraded security features as part of Next Generation Banknote (NGB) program	Complete NGB issuance program by 2021
	• Ensure high-quality banknotes	Reserve Bank banknote production orders to be met by Note Printing Australia Limited (NPA) in full, on time and to required quality standard	As for 2017/18
		Maintain quality of banknotes in circulation in excess of a minimum quality standard	As for 2017/18

2. Monetary Policy

2.1 Purpose

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

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

In support of the above duties, the most recent *Statement on the Conduct of Monetary Policy* agreed by the Treasurer and the Governor, dated 19 September 2016, confirms the Bank's continuing commitment to keeping consumer price inflation between 2 and 3 per cent, on average, over time, consistent with its duties under the *Reserve Bank Act 1959*. Ensuring low and stable inflation preserves the value of money and facilitates strong and sustainable growth in the economy over the longer term. Low inflation assists businesses and households in making sound investment decisions, underpins the creation of jobs and protects the savings of Australians. The *Statement on the Conduct of Monetary Policy* also recognises the importance of financial stability for a stable macroeconomic environment.

2.2 Environment

There have been considerable challenges in the conduct of monetary policy globally. It is likely that this will remain the case over the period of this corporate plan. While at the time of writing there is more momentum in global economic growth, the global policy environment remains uncertain. Global interest rates are extremely low and inflation is generally subdued; globally, the current period of highly accommodative monetary policies is unprecedented. The Federal Open Market Committee in the United States has increased its policy rate from its historic low, and markets do not expect monetary policy to become more accommodative in other advanced economies. However, there is still significant uncertainty about the future path of monetary policy in the major economies. These global influences have an important effect on the environment in which monetary policy in Australia is conducted.

In Australia, wage growth has declined to a low level over recent years, reflecting spare capacity in the labour market, low inflation outcomes and expectations, and the adjustment of the economy to the end of the mining investment boom. These factors are expected to dissipate slowly, resulting in a gradual pick-up in wage growth over 2018 and 2019, although spare capacity is likely to remain in the labour market. Consistent with this, consumer price inflation is forecast to increase gradually and remain consistent with the medium-term inflation target over the Bank's two-year forecast period to mid 2019. The Bank has assessed the risks around the inflation forecasts to be balanced.

Over 2017/18 to 2020/21, the structure of the Australian economy is likely to continue to change and economic shocks – which, by definition, are not forecastable – will occur. Movements in asset values and leverage may be more important for economic developments than in the past given the already high levels of debt on household balance sheets. This suggests that the trade-offs for monetary policy may have become more complex at the current low levels of interest rates. Policymakers are wary of

the implications of a further substantial build-up in debt and recognise that the high debt levels mean that monetary policy's ability to stimulate growth may be more limited than in the past.

2.3 Performance

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 of between 2 and 3 per cent, on average, over time, and to foster sustainable economic growth and financial stability. Inflation outcomes for the period 2017/18 to 2020/21 will be measured by annual percentage changes in the consumer price index and assessed in the context of achieving inflation between 2 and 3 per cent, on average, over the medium term. Some variation of inflation from year to year is acceptable.

It will be less straightforward to assess the extent to which the Bank succeeds in fostering sustainable growth in the economy over the period of this corporate plan, 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 will mainly come through preserving low inflation and financial stability. The assessment of financial stability is discussed in section 3.3.

Assessing the conduct of monetary policy will, as always, involve judging whether the policy decisions taken were prudent and consistent with the objectives of monetary policy, based on the information available at the time.

Over the period of this corporate plan, the Bank will continue to communicate its views on relevant economic developments, the economic outlook and monetary policy decisions in a range of ways, including: the quarterly *Statement on Monetary Policy*; the Governor's statement and the minutes following the monetary policy meetings of the Reserve Bank Board; the Governor's regular appearances before the House of Representatives Standing Committee on Economics; and speeches by senior Bank officers. Communicating in this way supports both the effectiveness of monetary policy, by promoting a better understanding of the Bank's decisions across the community, and the transparency of monetary policy, which facilitates the Bank's accountability for the performance of its monetary policy responsibilities.

2.4 Capability

The flexible medium-term inflation target is the centrepiece of the monetary policy framework in Australia and has been well established for more than two decades. It has provided the foundation for the Reserve Bank to achieve its monetary policy objectives by providing an anchor for inflation expectations. The Bank will remain alert to new developments that may have a bearing on the framework for monetary policy. It will continue to pursue and monitor relevant research and evaluate overseas experience, engaging with other relevant public institutions and the academic community, both domestically and internationally.

3. Financial Stability

3.1 Purpose

The Reserve Bank has a responsibility for fostering overall financial stability in Australia. This stems from the Bank's duties to exercise its powers in a way that will best contribute to 'the maintenance of full employment in Australia' and 'the economic prosperity and welfare of the people of Australia'. Given the serious damage to employment and economic prosperity that can occur in times of financial instability, the Reserve Bank Act has long implied a mandate to pursue financial stability. This mandate has been made more explicit by successive governments. Most recently, the Treasurer and the Governor have recorded their common understanding of the Bank's longstanding responsibility for financial system stability, as part of the periodically updated *Statement on the Conduct of Monetary Policy*.

The Reserve Bank works with other regulatory bodies in Australia to foster financial stability. The Governor chairs the Council of Financial Regulators (CFR) – comprising the Reserve Bank, the Australian Prudential Regulation Authority (APRA), the Australian Securities and Investments Commission (ASIC) and the Australian Treasury – whose role is to contribute to the efficiency and effectiveness of regulation and the stability of the financial system. The Bank's central position in the financial system, and its position as the ultimate provider of liquidity to the system, gives it a key role in financial crisis management, in conjunction with the other members of the CFR.

The Bank's operations in domestic financial markets, discussed in section 4, and oversight and operational roles in the payments system, discussed in section 5, also contribute to the stability of the financial system.

3.2 Environment

Financial stability in Australia has continued to be assisted by the sustained strong financial performance of the domestic banking system. Australian banks have improved their resilience to future financial and economic shocks by increasing their capital ratios in recent years, and are working to strengthen their lending standards, particularly for their mortgage business. Banks are expected to increase their capital ratios further over the coming two years to meet the higher minimum capital requirements that have been recently announced by APRA. This will further enhance banks' resilience to potential domestic and external risks.

The Bank, together with the other CFR agencies, continues to closely monitor developments in residential mortgage lending and the associated risks to household balance sheets, given the environment of high housing prices and high and rising household debt. In this environment of heightened risk, both APRA and ASIC took measures to reinforce sound residential mortgage lending practices in late 2014 and again in early 2017. The CFR remains open to considering further measures if necessary.

During 2017/18 to 2020/21, risks to financial stability will continue to evolve with new developments, such as financial technology ('fintech'), as well as in ways that may not be easily predicted.

3.3 Performance

The ultimate test of the Reserve Bank's performance in promoting overall financial system stability over the period of this corporate plan remains the stability of the financial system itself as it performs its function of supporting the economy. The Bank will use its powers, influence and communication to ensure as far as possible that the Australian financial system remains stable over this period and beyond. This entails the identification, assessment and, together with the other CFR agencies, management of domestic sources of systemic risk, as well as enhancing the resilience of the financial system to any shocks that might come from abroad. The Bank's liquidity operations would be available as needed, but many of the other tools that bear directly on financial stability outcomes are under the control of other agencies.

The Bank will continue to contribute to financial stability in Australia through its published assessments, especially the half-yearly *Financial Stability Review*, and other communication on financial stability matters. This communication supports financial stability – by promoting a better understanding of financial stability risks and how they can be addressed across the community – and the transparency of the Bank's thinking and decision-making, which facilitates the Bank's accountability for the performance of its financial stability responsibilities.

The Bank will continue working with the other CFR agencies on financial stability-related matters to support the identification, assessment and management of risks. This includes conducting a trans-Tasman crisis simulation exercise in 2017/18, and preparations for the next Financial Sector Assessment Program review of Australia by the International Monetary Fund (likely to commence in late 2018). The Bank will also continue working with other regulators, in particular APRA, to assess and address risks that may arise from domestic housing lending and other property markets.

3.4 Capability

During 2017/18 to 2020/21, the Reserve Bank will continue to devote appropriate resources to the processes of identifying and assessing risks to financial stability and engaging on these matters through international groups such as the Financial Stability Board, the Basel Committee on Banking Supervision, the Bank for International Settlements and the Trans-Tasman Council on Banking Supervision. Such engagement will ensure Bank staff are abreast of international developments and thinking affecting financial stability and related policies, and can provide their perspective where appropriate. The modernisation of the Economic and Financial Statistics collection (managed by APRA on behalf of the Bank and the Australian Bureau of Statistics) over 2017/18 to 2020/21 will add to the Bank's capacity to measure and monitor the activities of financial institutions.

4. Financial Market Operations

4.1 Purpose

The Reserve Bank has a sizeable balance sheet, which will continue to be managed through financial market operations in support of the Bank's policy and other objectives over the period of this corporate plan.¹

The Bank's operations in domestic financial markets are conducted to ensure that the cash rate trades at the target and that there is sufficient liquidity in the domestic money market on a daily basis. This promotes the objectives of monetary policy as described in section 2 and the stable functioning of the financial system, in particular the payments system.

The Reserve Bank's foreign reserves are held to give the Bank the capacity to intervene in the foreign exchange market. In particular, they enable the Bank to address any apparent dysfunction in that market and/or a significant misalignment in the value of the currency, consistent with the objectives of monetary policy. Regular transactions in the foreign exchange market are conducted to manage these reserves, to provide foreign exchange services to the Bank's clients (the largest of which is the Australian Government) and to assist in liquidity management in domestic markets.²

4.2 Environment

The general model that the Reserve Bank uses to implement monetary policy is well established and understood by market participants. The present nature of the Bank's financial market operations continues to be influenced by the regulatory regimes that apply to financial markets in which the Bank transacts and/or the counterparties with which it deals, both domestically and internationally. With these regulations having undergone a period of substantial reform, market functioning and structure have evolved significantly, and further evolution is likely over the period of this corporate plan. The Bank will continue to adapt its processes as required to meet its objectives. The historically low level of global interest rates has provided challenges for the Bank in managing its holdings of foreign reserves and this is likely to remain the case for some time to come.

4.3 Performance

As part of its responsibility for monetary policy, the Reserve Bank Board sets a target for the cash rate, which is publicly announced following each Board meeting. The cash rate is the rate at which banks borrow from and lend to each other on an overnight, unsecured basis. That rate is determined by the demand and supply of exchange settlement balances that commercial banks hold at the Reserve Bank. Through its open market operations, the Reserve Bank alters the volume of these balances so as to keep the cash rate as close as possible to the prevailing cash rate target each day. The Bank collects information on each participant's activity in the money market in order to make this assessment and it publishes the cash rate outcome daily. This published series can be used to assess the Bank's performance in meeting the Reserve Bank Board's stated cash rate target over time.

¹ Section 8 covers the Bank's management of its financial position and capital.

² Section 6 discusses the Bank's responsibility to act as banker for the Commonwealth.

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 asset and duration benchmarks over time.

The Bank publishes data on its foreign exchange intervention with a lag on its website and communicates its views and decisions regarding to any intervention at the appropriate time in various written publications, public speeches and statements, such as the Reserve Bank annual report, the Governor's regular appearances before the House of Representatives Standing Committee on Economics and speeches by senior Bank officers. This communication will facilitate the Bank's accountability for its performance in relation to any foreign exchange market intervention in support of monetary policy objectives over the period of this corporate plan.

4.4 Capability

As discussed in section 4.2, the Reserve Bank will continue to adapt, where necessary, its processes for financial market operations in response to key developments in domestic and international financial markets, including changes to regulatory regimes over the period 2017/18 to 2020/21. The Bank's ability to manage 'system liquidity' is based on its capacity to lend cash to, or withdraw cash from, the interbank settlement system. It does this by undertaking transactions on behalf of the Bank's customers and/or transacting with other financial institutions. The Bank will continue to adjust its systems for domestic market operations to cater for extended hours and out-of-hours liquidity provision. The Bank will also continue to evaluate its domestic market operations framework and make any adjustments necessary to address 24/7 processing of payments through the NPP (see section 5.2 for further detail).

5. Payments and Infrastructure

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

- a. controlling risk in the financial system;
- b. promoting the efficiency of the payments system; and
- c. promoting competition in the market for payment services, consistent with the overall stability of the financial system.

In addition, it is the Payments System Board's duty to ensure that the powers and functions of the Bank under Part 7.3 of the *Corporations Act 2001* are exercised in a way that, in the Board's opinion, will best contribute to the overall stability of the financial system. These powers and functions relate to the supervision of central counterparties (CCPs) and securities settlement facilities, which are key components of the central 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), which is another key part of Australia's financial market infrastructure.

The Bank's operational role in the payments system is effected through its ownership and management of RITS, 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 Bank's work in these areas supports its other work, discussed in section 3.1, directed towards fostering overall financial stability.

5.2 Environment

The payments environment is changing rapidly and is expected to continue to do so during the period 2017/18 to 2020/21. Use of cash and cheques is declining relative to other payment instruments, use of electronic payments is increasing and there is significant innovation in customer-facing technology. User and industry expectations concerning the speed of payments, and the capacity to combine information with payments, have been increasing. The Reserve Bank has encouraged a major upgrade of Australia's retail payments infrastructure through its *Strategic Review of Innovation in the Payments System*. It is also contributing to the process of innovation by participating in the industry's New Payments Platform (NPP) project, which will facilitate 24/7 real-time payments between individuals and organisations; the Bank is developing the Fast Settlement Service (FSS), which will act as the settlements

hub for the new industry platform.³ For card payments, the Financial System Inquiry broadly endorsed the existing regulatory approach, although it recommended that the Bank consider some changes with respect to interchange regulation and surcharging. The Bank has since conducted a review of the regulatory framework, with the Payments System Board determining three new standards in May 2016.

In the area of financial market infrastructure, international standards continue to promote enhancements in resilience and crisis management of CCPs. In part, this is being driven by increased cross-border provision of services by financial market infrastructures, which, in turn, is increasing the extent of cross-border regulatory and supervisory cooperation.

Globally, there is significant interest in the use of blockchain and distributed ledger technologies in payments, clearing and settlement. There is also a strong focus on cyber resilience among operators of payments infrastructure globally.

5.3 Performance

The Payments System Board meets quarterly to determine payments system policy in accordance with its legislative responsibilities. In support of the responsibility to promote competition and efficiency in the payments system, in May 2016 the Bank concluded a wide-ranging review of card payments regulation, which addressed issues raised in the recommendations of the Financial System Inquiry. At the conclusion of the review, the Payments System Board determined three new standards, two dealing with interchange payments in debit and credit card systems (which mostly took effect on 1 July 2017) and one relating to merchant surcharging (which took effect for large merchants on 1 September 2016 and will take effect for other merchants on 1 September 2017). Over 2017/18, the Bank will monitor the impact of the new standards.

Other payments system policy work over the period of this corporate plan will be focused on the areas identified by the Payments System Board as strategic priorities for the Bank, including: technology and innovation; managing the payments mix; the NPP; issues involving new entrants into the payments system; and operational risk, security and resilience. Consistent with the Bank's longstanding approach, the focus will be on working with industry participants (most notably the Australian Payments Council) to achieve outcomes that are in the public interest, with regulatory activity contemplated only when the industry is unable to address policy concerns. Where the Bank has used its regulatory powers or has formal oversight responsibilities, it seeks views from regulated entities under the Australian Government Regulatory Performance Framework regarding compliance costs.

In the area of financial market infrastructure, the Bank will continue to execute its responsibilities as overseer of high-value payment systems and supervisor of Australian-licensed clearing and settlement facilities over the period of this corporate plan. As part of this function, the Bank will continue to conduct and publish assessments of RITS and licensed clearing and settlement facilities against relevant standards. The Bank will also continue to contribute actively to international policy work on resilience and crisis management of CCPs, adapting domestic regulatory standards and frameworks as needed in response to international policy developments. The Bank will also support international supervisory cooperation, including implementation and monitoring of international standards, and participating

³ For further information about the NPP, see <<http://www.nppa.com.au/>>.

in or establishing cooperative cross-country oversight arrangements for individual operators where appropriate.

As the owner and operator of RITS, the Reserve Bank seeks to ensure that this system operates with extremely high levels of reliability and security, while also adapting to the needs of a 24/7 payments world. 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. A key target is for the RITS system availability to be 99.95 per cent during core system hours. The Bank will work to maintain this operational target for each reporting period covered by this corporate plan.

The Reserve Bank ensures that RITS is well protected from cyber attack, taking into account emerging threats and international standards. Security controls are aligned to the *Australian Signals Directorate's Information Security Manual and the International Organization for Standardization (ISO) 27001 – Information Security Management Standards*. Regular reviews are undertaken to ensure that appropriate security controls are maintained and are appropriately tested. As part of its security framework, information about RITS's security controls and testing arrangements is tightly managed by the Reserve Bank.

5.4 Capability

Reflecting the critical importance of RITS to the Australian financial system, the Reserve Bank will continue to invest significantly in its technical and business infrastructure and in operational resourcing to ensure that RITS continues to operate to appropriately high standards of availability and resilience, and that it meets the changing needs of the Australian payments system for the period 2017/18 to 2020/21.

As discussed in section 5.2, in support of the Payments System Board's responsibility to promote efficiency in the payments system, the Bank is contributing to the process of innovation by participating in the NPP project. The Bank is developing new systems and processes, including through the FSS, which will facilitate 24/7 real-time settlement of NPP payments exchanged by households, businesses and government agencies. Development of the FSS is nearing completion. Operations are expected to commence around the end of 2017. The FSS system availability target will be 99.995 per cent on a 24/7 basis. FSS will also be measured against response times, with an objective of most transactions being processed in less than one second.

The Bank is monitoring developments in technology-related innovations in payments and market infrastructures. These include the development of mobile wallets, both connected to the card payment networks and also those using alternative technologies, such as QR codes. The Bank is also working domestically and internationally on potential implications of distributed ledger technology, including establishing a cross-departmental working group to ensure effective internal collaboration.

In the case of the Bank's policy and oversight roles, an important domestic policy focus in recent years has been the development of a special resolution regime for financial market infrastructures. The Australian Government consulted on the design of such a regime in 2015, including the proposal that the Bank be the resolution authority for CCPs and securities settlement facilities. The Bank will continue to work with the government and other domestic financial regulators to develop legislation to underpin

the proposed regime as well as operational plans to execute powers granted under the regime over the period of this corporate plan. The Bank is also working with the industry on a new statistical collection in the payments area both to maintain the relevance of data published by the Bank and to ensure that high-quality data are available to support the policy deliberations of the Payments System Board.

6. Banking

6.1 Purpose

Insofar as the Commonwealth requires it to do so, the Reserve Bank must act as banker for the Commonwealth. 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. These services include payments and collections as well as general account maintenance and reporting.

6.2 Environment

There are substantial changes under way in transactional banking, particularly in the area of payment services. The broader community is embracing new technology and demanding digital services at a rapid pace. As the largest provider of transactional banking services to the Australian Government, the Reserve Bank must be in a position to respond appropriately with convenient, secure, reliable and cost-effective services.

The Australian Government is seeking to implement more modern electronic payment services when interacting with its customers. It is expected that the government's banking requirements for the period 2017/18 to 2020/21 will continue to evolve in response to broad policy requirements, improvements in payments technology and general changes in the way government agencies interact with the public. The Bank expects that the government and its agencies will require banking services that facilitate a range of options for making and receiving payments on digital platforms that are convenient and cost effective for the public to use.

6.3 Performance

The Reserve Bank competes with commercial organisations to provide banking services to Australian government agencies. It must cost and price the services separately from its other activities as well as meet an externally prescribed minimum rate of return on capital over a business cycle equivalent to the 10-year Australian Government Security rate plus a margin for risk. At present, the return on capital is the Bank's principal measure of financial performance for its transactional banking business.

The Bank will continue to undertake several important banking projects over the period of this corporate plan, including the renovation of its banking applications and systems, and building and extending the capabilities to participate in the payments industry's NPP, which will facilitate 24/7 real-time payments between individuals and organisations. 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's renovation of its banking applications and systems is made up of a number of projects, which will continue to be completed progressively over the next several years. Work on renovating key components of the systems used to process bulk electronic payments and the final components

of systems used to collect payments for the government was completed during 2016/17. Effort is also under way to upgrade the Bank's core account maintenance system. This work began in 2015/16. The need to undertake an extensive and detailed process to select a suitable third-party provider for the system has meant that the scheduled completion date for the work is now 2019, around six months later than initially expected, but within the overall timeframe the Bank has set to complete the full renovation of the its banking systems.

The Bank is seeking to have migrated all of its banking applications and systems to more contemporary technologies by the end of 2019. This will enable the Bank to continue providing convenient, secure, reliable and cost-effective banking services to the Australian Government and its agencies over the subsequent decade. The Bank's work to build capabilities to participate in the NPP is proceeding in line with the payment industry's timeline.

6.4 Capability

The Reserve Bank will continue to develop its services over 2017/18 to 2020/21 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.

The Bank has several strategic projects either under way or at the planning stage that will enable it to meet its banking purposes, including those projects mentioned in section 6.3.

7. Banknotes

7.1 Purpose

The Reserve Bank is responsible for the issue, reissue and cancellation of Australian banknotes. Its primary purpose in carrying out this role is to maintain public confidence in the supply, security and quality of Australian banknotes. The Bank works with its wholly owned subsidiary, Note Printing Australia Limited (NPA), to design 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.

7.2 Environment

The proportion of payments made using banknotes is declining relative to electronic payments. Notwithstanding this, the number and value of banknotes on issue continues to rise, highlighting the continued importance of banknotes as a store of value and a payment mechanism.

Counterfeiting in Australia, while still low by international standards, has risen over the past decade as advances in technology have made it easier and cheaper to produce and distribute counterfeit banknotes.

7.3 Performance

Public confidence in Australian banknotes is measured directly in a Reserve Bank survey on perceptions of Australian banknotes conducted every two years. This survey asks a number of questions about the public's attitude to, and awareness of, banknotes, including the level of concern about counterfeiting. The next survey is scheduled to be conducted in late 2018 and will provide an indication of the extent to which the Bank has been successful in maintaining public confidence in Australian banknotes.

To maintain the public's confidence in the supply of Australian banknotes, the Bank aims to ensure that the demand for banknotes is met. Fulfilment of banknote orders provides an indication that this demand is being met. Fulfilment of 99.5 per cent of banknote orders from commercial banks on the day requested indicates that the Bank has been timely in meeting demand. The Bank will work to maintain this operational target for each reporting period covered by this corporate plan.

The Bank's key initiative to enhance banknote security is the Next Generation Banknote (NGB) program for the issuance of a new series of banknotes. The first denomination in the new series, the \$5 banknote, was issued on 1 September 2016. The \$10 banknote will be issued on 20 September 2017, the \$50 banknote is expected to enter circulation in 2018 and the remaining denominations will be issued by 2020/21. Wide acceptance and distribution of these banknotes over subsequent years will be important to this strategy and the Bank will monitor public perceptions in its biennial survey. The Bank will also monitor counterfeiting rates of the existing and new banknote series, as well as international trends in counterfeiting, to identify possible threats to public confidence.

Ensuring the quality of genuine banknotes in circulation is high (i.e. the variation in banknote quality is low) supports public confidence in them 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 over the period of this corporate plan.

7.4 Capability

The Reserve Bank's key strategy over 2017/18 to 2020/21 is to develop and issue a new series of banknotes, incorporating improved security features.

NPA is supporting the Bank's strategy by working with it on the design of the new series, investing in the equipment required to produce the new series and printing the new banknotes as required by the Bank. During the period of production of the new banknotes, NPA will be required to operate at full capacity, with some, albeit limited, ability to meet orders from longstanding export customers. This is in line with NPA's five-year strategy, which involves maintaining relationships with existing central bank customers and seeking to re-establish relationships with some previous central bank customers to keep open the possibility of ongoing business as production of the NGB series reduces and to maintain the skills of its staff.

The Bank has developed a communication strategy to assist with public recognition of the new series. This involves engaging business stakeholders, such as banks, retailers and relevant machine manufacturers. It also involves an ongoing multi-channel public awareness campaign providing information to many groups across the community, including the vision-impaired, older generations and people from culturally and linguistically diverse backgrounds.

To facilitate a smooth and efficient transition to the new banknote series, modifications were made to the distribution agreements between the Bank and the commercial banks.

Construction has also been completed on the new banknote storage, processing and distribution facility in Craigieburn, Victoria. The new National Banknote Site will facilitate the effective issuance of the new banknote series and is designed to meet Australia's estimated needs for some decades. Upgraded banknote-processing equipment is being installed in the new facility, which is expected to be commissioned in the second half of 2017.

Overseas central banks and organisations provide essential information and intelligence on world's best practice for banknote security and functionality. As part of its strategy to maintain public confidence in banknotes, the Bank will continue to be involved in organisations such as the Central Bank Counterfeit Deterrence Group, which examines emerging threats in counterfeiting technologies, and the Reproduction Research Centre, which provides facilities to test new security features. Additionally, the Bank will share information and participate in joint work on banknote distribution arrangements and research and development into banknote security with the Four Nations Group of central banks.

8. Financial Position and Capital

As noted in section 4.1, the Reserve Bank holds a range of financial assets to conduct operations in financial markets to achieve its central banking policy objectives – specifically, to implement monetary policy, support an efficient and orderly payments system and manage Australia’s international reserves. These assets expose the Bank to risk, mainly in the form of foreign exchange and interest rate risk, which cannot be fully eliminated given the policy purposes for which they are held. The Bank therefore seeks to ensure that it holds sufficient capital, as a balance in the Reserve Bank Reserve Fund (RBRF), to manage the risks to its balance sheet that the Bank may face over time.

The RBRF is the Bank’s permanent capital reserve, the primary purpose of which is to provide sufficient capacity to absorb losses when it is necessary to do so. The Reserve Bank Board has a policy of holding a sufficient balance in the RBRF against the risks that the Bank faces and sets a target for the balance of this reserve based on an assessment of risks on the various assets that it holds. The distribution of profits – essentially determination of the dividend payable to the Australian Government, the Bank’s owner – is governed by section 30 of the Reserve Bank Act. This legislation determines that underlying earnings and realised gains are to be made available for distribution, while unrealised gains are retained and transferred to the Unrealised Profits Reserve. The legislation also determines the process for approving transfers from net profit to the RBRF. In particular, the Treasurer determines any such transfer each year, following consultation with the Reserve Bank Board.

9. Risk Oversight and Management

This section outlines the approach to managing and overseeing the risks faced by the Reserve Bank during the period of this corporate plan and beyond.

9.1 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 exchange reserves. 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 recognises that it is not possible or necessarily desirable to eliminate all the risks inherent in its activities. Acceptance of some degree of risk is often 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.

9.2 Risk Management Framework

The Reserve Bank's risk management framework establishes an effective process to manage risk across the Bank.⁴ 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.

Risks are identified, assessed and managed at both an enterprise level ('top-down') and business level ('bottom-up'). The Risk Management Committee, which is chaired by the Deputy Governor, 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 consistent and effective application of the Bank's framework for managing risk, both at the enterprise level and for individual business units across the Bank. It assists departments to identify, understand and manage their compliance obligations, including under the PGPA Act. 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 that are not covered by, or which occur other than in accordance with, Bank policies and procedures, and which have (or could have) material undesirable consequences. These reports include action plans to address

⁴ 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.

the causes of incidents. The Risk Management Committee receives regular reporting on incidents and related action plans, with further escalation to the Reserve Bank Board Audit Committee and boards depending on the nature and severity of the incident.

The Bank's attitude towards its key strategic, financial, people and operational risks is described in the *Risk Appetite Statement* (RAS), which is reviewed at least annually, 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 departments are responsible for the implementation of risk controls consistent with the Bank's RAS.

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

10. Organisational Capacity

To facilitate the achievement of the objectives set out in this corporate plan, the Reserve Bank will continue to rely on a range of supporting capabilities. Two important capabilities, which are covered in more detail below, are the Bank's staff and the information technology (IT) underpinning its activities. There is also a range of services provided by other parts of the Bank that support the achievement of the Bank's objectives. These services include:

- carrying out independent appraisals of the Bank's internal control framework
- managing the Bank's properties, security and facility services
- collecting, storing and managing the Bank's information assets securely and efficiently to support good decision-making and to comply with legal requirements
- preparing the Bank's financial and management accounts
- disseminating the Bank's policy decisions, views and information through online communication, Bank publications, speeches and the media
- supporting the consistent and effective application across the Bank of its framework for managing risk.

The Bank places great importance on attracting, developing and retaining high-quality people who work productively together to achieve its objectives and in accordance with its values. This involves fostering an environment whereby all employees are engaged and empowered to contribute to the full extent of their abilities. To meet these objectives, during the period of this corporate plan the Bank will implement initiatives related to its priorities of leadership, talent management, diversity and inclusion, and mental health and wellbeing. In particular, the Bank will:

- continue to deliver leadership development programs for executive and managerial staff
- conduct formalised talent reviews of staff and develop accompanying succession plans, as well as introduce a mentoring scheme
- help to develop and drive diversity and inclusion initiatives through the recently formed Employee Resource Groups. Planned initiatives range from training and awareness-raising activities, to the development of a Reconciliation Action Plan. The Bank is also seeking to raise the proportion of women in managerial positions and has introduced a target of 35 per cent of managerial positions to be filled by women by 2020, with a longer-term aim of 50 per cent
- develop specific training on mental health and wellbeing for both employees and managers.

Over the period 2017/18 to 2020/21, the Bank will continue to pursue fit-for-purpose strategies to ensure its IT assets are appropriately innovative, mature and resilient, and manage operational risk to acceptable levels. Cyber security has been an area of particular focus in recent years. The Bank has been certified as complying to a mature standard with the 'Top 35' strategies recommended by the Australian Signals Directorate (ASD) for containing cyber threats, and will continuously build on this as newer ASD strategies and standards evolve. The Bank has also attained certification of its internet gateway to the ISO 27001 global standard for Information Security Management.

The Bank will work to continue to strengthen its organisational effectiveness in light of the changing business environment during the period covered by this corporate plan. This work is being informed by observations made in a recently commissioned independent Functional and Efficiency Review and has as its priorities: centralisation of process and transactional shared services that underpin the Bank's operations in order to achieve efficiencies and process improvements; and further enhancing the effectiveness of the business-as-usual IT function in supporting the Bank's operations as the volume of IT-enabled project work passes its peak.