

Reserve Bank of Australia Corporate Plan 2018/19

Contents

1	Introduction	1
2	Monetary Policy	5
3	Financial Stability	7
4	Financial Market Operations	9
5	Payments and Infrastructure	11
6	Banking	14
7	Banknotes	16
8	Financial Position and Capital	18
9	Risk Oversight and Management	19
10	Organisational Capacity	21



1. Introduction

This corporate plan is prepared for 2018/19 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 2019 to 30 June 2022.

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. A final section on organisational capacity highlights the important supporting capabilities that assist the Bank in achieving its various functions and purposes.

Reserve Bank of Australia – Summary Measures of Performance 2018/19–2021/22

Performance areas	Performance objectives	Performance measures 2018/19	Performance measures 2019/20–2021/22
Monetary policy	Achieve inflation target	Consumer price inflation averages between 2 and 3 per cent over the medium term	As for 2018/19
Financial stability	Support overall financial stability	A stable financial system that is able to support the economy Work with the Council of Financial Regulators agencies 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>	As for 2018/19
Financial Market operations	Achieve cash rate target	Overnight cash rate consistent with the target each business day	As for 2018/19
	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 2018/19
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	As for 2018/19
		Continue to monitor the effect of the card standards introduced in 2016–2017 and encourage industry progress in providing least-cost routing functionality	Policy work focusing on the strategic priorities identified by the Payments System Board and addressing relevant issues raised by recent external inquiries
	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 (CS) 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 2018/19

Reserve Bank of Australia – Summary Measures of Performance 2018/19–2021/22

Performance areas	Performance objectives	Performance measures 2018/19	Performance measures 2019/20–2021/22
		Contribute to international policy work on central counterparty resilience and FMI crisis management	Contribute to international policy work on FMI supervision and crisis management
		Adapt domestic regulatory standards in response to international developments. Support international supervisory cooperation	As for 2018/19
	RITS operational reliability	RITS availability at 99.95 per cent during core hours	As for 2018/19
		RITS Fast Settlement Service availability at 99.995 per cent on a 24/7 basis, with most transactions processed in less than one second	As for 2018/19
	RITS cyber security	Ongoing investment and regular reviews and testing to support cyber resilience	As for 2018/19
Banking	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	As for 2018/19
	Satisfy financial performance benchmarks	Minimum return on capital for transactional banking business equivalent to 10-year Australian Government Security rate plus a margin for risk	As for 2018/19
	Progress on projects 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 work on replacing the Bank's core account maintenance system Continued development of New Payments Platform (NPP) capabilities Delivery of open and secure integration services via Application Programming Interfaces (API) for agencies 	As for 2018/19, supported by: <ul style="list-style-type: none"> Completion of renovation of banking applications and systems in the September quarter 2019 Ongoing development of new NPP services

Reserve Bank of Australia – Summary Measures of Performance 2018/19–2021/22

Performance areas	Performance objectives	Performance measures 2018/19	Performance measures 2019/20–2021/22
Banknotes	Maintain the capacity of Australian banknotes to provide a safe, secure and reliable means of payment and store of value, as follows: <ul style="list-style-type: none"> Meet banknote demand Increase security of Australian banknotes Ensure high-quality banknotes 	Maintain or improve public perceptions of Australian banknotes as measured in the Reserve Bank survey <p>More than 95 per cent of banknote orders from commercial banks fulfilled by the Reserve Bank within three days of the request</p> <p>Issuance of new \$50 banknote with upgraded security features as part of Next Generation Banknote program</p> <p>Reserve Bank banknote production orders to be met by Note Printing Australia Limited within agreed quality parameters</p> <p>Maintain quality of banknotes in circulation in excess of a minimum quality standard agreed with industry</p>	As for 2018/19 <p>Complete Next Generation Banknote issuance program by 2021</p> <p>As for 2018/19</p> <p>As for 2018/19</p>

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

Conditions in the global economy have been positive over the past year. A synchronised economic expansion is occurring, and spare capacity has been absorbed in a number of industrialised economies. Some central banks have begun the process of withdrawing monetary stimulus. Global interest rates have increased and financial market volatility has increased from its recent very low levels, but both remain low compared with historical experience. The future path of global monetary policy and financial conditions more generally remain subject to substantial uncertainty. These global factors significantly influence the environment in which monetary policy in Australia is conducted.

In Australia, wages growth is low, partly reflecting spare capacity in the labour market, but there are structural factors at work as well. Wages growth is expected to pick up gradually over 2018 and 2019 as spare capacity gradually diminishes in response to above-average employment growth. Consistent with this, consumer price inflation is forecast to increase gradually and be above 2 per cent for most of the Reserve Bank's forecast period, which extends to the end of 2020.

Over 2018/19 to 2021/22, the structure of the Australian economy will continue to evolve 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. The high debt levels could complicate future monetary policy decisions by making the economy less resilient to shocks.

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 2018/19 to 2021/22 will be measured by annual percentage changes in the consumer price index. Some variation of inflation from year to year is acceptable.

It is less straightforward to assess the extent to which the Reserve 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. Recent international experience has been that the level of unemployment consistent with stable wages growth and inflation could be lower than prior estimates implied. 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 come mainly 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 Reserve 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; speeches by senior Bank officers; and a range of public access and education initiatives. 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. To that end, in 2017/18 the Bank hosted a conference on monetary policy frameworks. 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 partly 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. More 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 Reserve 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 supported by the ongoing strong financial performance of the domestic banking system. Australian banks have also improved their resilience to future shocks by increasing their capital ratios, and have strengthened their lending standards, including for their mortgage business. Banks' capital ratios are now very close to the level that APRA recently determined would qualify them as 'unquestionably strong'.

The Reserve Bank, together with the other CFR agencies, continues to closely monitor developments in residential mortgage lending and the risks arising from the high level of household indebtedness. In an environment of heightened risk, both APRA and ASIC have taken measures to reinforce sound residential mortgage lending practices. Reflecting the improvement in lending standards, from 1 July 2018 APRA removed the temporary benchmark on investor lending growth for authorised deposit-taking institutions (ADIs) that have been able to provide an assurance on the strength of their lending standards. Although the risks associated with new residential mortgage lending have moderated somewhat since 2014, the CFR agencies would consider further measures should circumstances change.

During 2018/19 to 2021/22, the main risks to financial stability will most likely continue to relate to credit quality. Notably, banks' large exposure to a potential deterioration in housing loan performance is expected to remain a key issue, requiring ongoing monitoring by both banks and regulators. In addition, operational risks, especially the potential for a disruptive cyber attack on financial institutions or infrastructures, are expected to be a focus of financial institutions and their regulators over coming years.

3.3 Performance

The Reserve Bank's performance in promoting overall financial system stability continues to be best assessed by the stability of the financial system itself as it performs its function of supporting economic activity without disruption. The Bank will continue to use its powers, influence and public communications to mitigate risks to the stability of the Australian financial system over the period of this corporate plan 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 future shocks. The Bank's powers in relation to the payments system and financial market infrastructures have a bearing on financial stability outcomes, and during a potential financial disruption the Bank's facilities to provide liquidity would continue to be available as appropriate. Many of the other tools that bear directly on financial stability remain under the control of other agencies.

The Reserve Bank will continue to publish its assessments of financial stability, primarily in the half-yearly *Financial Stability Review*, and provide ongoing communication on financial stability matters. This communication is important because it promotes a better understanding of financial stability risks and how they can be addressed. It also ensures that there is transparency about the Bank's thinking and decision-making, which forms the basis of the Bank's accountability for the performance of its financial stability responsibilities.

The Reserve Bank will continue working with the other CFR agencies to support financial stability. In the period ahead this will be informed by the Financial Sector Assessment Program review of Australia being conducted by the International Monetary Fund during 2018. The Bank and other CFR agencies will also carefully consider the implications for the resilience of the financial sector arising from findings and recommendations of the final report of the Productivity Commission's review of competition in the financial system, as well as the outcomes of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. The Bank will also continue working with APRA and with other regulators to monitor and, where necessary, respond to risks that may emerge from economic and financial shocks emanating from Australia or abroad.

3.4 Capability

During 2018/19 to 2021/22, the Reserve Bank will continue to devote appropriate resources to 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 related committees) 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 visibility of risks created by the activities of non-prudentially regulated entities will also be enhanced by the recent passage of legislation that enhances APRA's ability to collect information from non-ADI lenders. APRA's formal consultation on the modernised Economic and Financial Statistics collection (managed by APRA on behalf of the Bank and the Australian Bureau of Statistics) was finalised in March 2018. Changes to the data submitted to APRA by banks and other entities over the coming years based on this modernisation will enhance 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 objectives over the period of this corporate plan.¹

The Reserve Bank's operations in domestic financial markets are conducted to ensure that the cash rate is consistent with the target set by the Reserve Bank Board 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. Such interventions occur rarely. Regular transactions in the foreign exchange market are, however, 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 Bank's financial market operations are 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. Low interest rates in some countries may continue to present challenges for the Bank in its management of foreign reserves. The Bank will continue to adapt its processes as required to meet its objectives.

4.3 Performance

As part of its responsibility for monetary policy, the Reserve Bank Board sets a target for the cash rate, which is published 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 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 Reserve 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 Reserve Bank publishes data on its foreign exchange intervention with a lag on its website and communicates its views and decisions regarding 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 2018/19 to 2021/22. 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 growth in payments through the New Payments Platform (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, comprising 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; 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 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 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 Reserve 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 Reserve 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 continuing to evolve, with use of cash and cheques declining relative to other payment instruments, while use of electronic payments is increasing rapidly 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.

In February 2018, the payments industry publicly launched the NPP, a major upgrade of Australia's retail payments infrastructure which facilitates 24/7 real-time payments between individuals and organisations.³ The launch of the NPP addresses the key strategic objectives established by the Payments

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

System Board in June 2012 as part of its *Strategic Review of Innovation in the Payments System*. To enable the settlement of NPP transactions between financial institutions in real time on a 24/7 basis across exchange settlement accounts, the Reserve Bank developed the RITS Fast Settlement Service (FSS).

In the area of financial market infrastructure, international standards continue to promote enhancements in resilience and crisis management of central counterparties. 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 potential use of technologies such as distributed ledgers and blockchains as a means of providing new payments, clearing and settlement services. There is also a strong focus on cyber resilience among operators of payments infrastructure globally. As part of this, in March 2017, SWIFT introduced security obligations via a Customer Security Controls Framework. At the end of 2017, the Reserve Bank lodged its first annual attestation of compliance with this framework.

5.3 Performance

The Payments System Board meets quarterly to determine payments system policy in accordance with its legislative responsibilities. The Board's focus over the period of this corporate plan will be on a number of strategic areas, including: technology and innovation; managing the payments mix; the NPP; issues involving new entrants into the payments system; and operational risk, security and resilience. Policy work will also address relevant issues raised by recent external inquiries. 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. An example has been the Bank's recent work to promote the availability of least-cost routing for contactless debit card transactions. The Bank will continue to encourage industry progress in this area in 2018/19. Where the Bank uses 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 2018/19, the Bank will continue to monitor the effect of the card standards introduced in 2016–2017 to support competition and efficiency in the payments system.

In the area of financial market infrastructure, the Reserve 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 central counterparty resilience as well as supervision and crisis management of financial market infrastructures, 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 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 with the launch of 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 the 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 work to maintain these operational targets for each reporting period covered by this corporate plan.

The Reserve 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 Signals Directorate's *Information Security Manual and the International Organization for Standardization (ISO) 27001 – Information Security Management Standards*; the Bank's payments settlements systems received certification for ISO 27001 in July 2018. Regular reviews are undertaken to ensure that appropriate security controls are maintained and are appropriately tested.

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 for the period 2018/19 to 2021/22.

As discussed in section 5.2, the Reserve Bank has developed new systems and processes, including through the FSS, to facilitate 24/7 real-time settlement of NPP payments exchanged by households, businesses and government agencies. Development was completed and live transactions between financial institutions commenced in November 2017 and the NPP was publicly launched in February 2018.

The Reserve Bank is monitoring technology-related innovations in payments and market infrastructures. An important recent focus has been on the implications of cryptocurrencies and the possible case for the Bank to issue an e-AUD (or digital cash) or to provide a new form of central bank liability to be used to settle a wider range of transactions than those currently settled via exchange settlement accounts; the Bank's assessment is that a case has not yet been established in either instance, but it will keep this assessment under review. More broadly, the Bank is working on potential implications of distributed ledger technology, drawing on collaboration through an internal cross-departmental working group.

In the case of the Reserve 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 central counterparties and securities settlement facilities. The Bank will continue to work with other domestic financial regulators to develop legislation to underpin the proposed regime as well as develop operational plans to execute powers granted under the regime over the period of this corporate plan.

6. Banking

6.1 Purpose

Insofar as the Commonwealth 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, in competition with other commercial financial institutions, 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 Commonwealth and other central banks include payments and collections as well as general account maintenance and reporting.

6.2 Environment

The banking and payments landscape will continue to evolve over the course of 2018/19 to 2021/22. The public launch of the NPP in February 2018 was an important development in this area. More broadly, the community continues to embrace new technology and demand digital services. As the provider of both central banking and transactional banking services to the Australian Government, the Reserve Bank needs to be in a position to respond appropriately to these trends with the delivery of convenient, secure, reliable and cost-effective services.

The Australian Government is seeking to implement more modern electronic payment services. It is expected that the government's banking requirements for the period 2018/19 to 2021/22 will continue to develop in response to improvements in payments technology and changes in the way government agencies interact with the public. The Reserve 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 will continue to work with the Department of Finance, the Australian Office of Financial Management and other key stakeholders to maintain and improve, where possible, the central banking services provided to the Commonwealth. Over the period of this corporate plan, work will continue on the review initiated by the Department of Finance and the Reserve Bank of the Commonwealth's cash management principles and the existing arrangements for the daily consolidation of cash into the Official Public Account. The Bank will also assist the Department of Finance with its ongoing work to automate Commonwealth cash management processes using the NPP.

The Reserve Bank competes with commercial organisations 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 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 Reserve Bank will continue to undertake several important banking projects over the period of this corporate plan, including the completion of the renovation of its banking applications and systems, extending the capabilities of existing services including NPP and expanding the Bank's mechanisms for securely interacting with agencies to include Application Programming Interfaces (APIs). 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 Reserve Bank's renovation of its banking applications and systems is made up of a number of projects which have been undertaken progressively over several years. Work on renovating the systems used to process most government payments and collections is almost complete and there has been good progress with the project to upgrade the Bank's core account maintenance system. Work is on schedule to have all of the Bank's banking applications and systems migrated to more contemporary technologies during the September quarter 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.

6.4 Capability

The Reserve Bank will continue to develop its services and systems over 2018/19 to 2021/22 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 Reserve 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 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. 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 as well as a payment mechanism.

Counterfeiting in Australia, while still relatively 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 by a Reserve Bank survey on perceptions of Australian banknotes conducted every two years, with the next survey to be conducted in early 2019. This survey asks a number of questions about the public's attitude to, and awareness of, banknotes, including the level of concern about counterfeiting.

To maintain the public's confidence in the supply of Australian banknotes and to ensure they remain a reliable means of payment and store of value, the Reserve Bank aims to ensure that the demand for banknotes is met. Fulfilment of more than 95 per cent of banknote orders from commercial banks within three days of the request indicates that the Reserve 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 Reserve Bank's key initiative to enhance banknote security is the Next Generation Banknote 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 was issued on 20 September 2017, the \$50 banknote is scheduled to enter circulation in October 2018 and the remaining denominations will be issued by 2021. 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.

Ensuring the quality of genuine banknotes in circulation is high (i.e. the variation in banknote quality is low) supports public confidence in banknotes and makes it easier for the public to detect counterfeits, thereby assisting in maintaining the capacity of Australian banknotes to provide a safe, secure and reliable means of payment and store of value. The Reserve 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 2018/19 to 2021/22 is to continue to develop and issue a new series of banknotes, incorporating improved security features.

NPA is supporting the Reserve Bank's strategy by working with it to finalise the designs of the remaining denominations in the new series and printing the new banknotes as required by the Bank. During the period of production of the new banknotes, NPA will operate at close to 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 Next Generation Banknote series reduces and to maintain the skills of its staff.

The Reserve Bank has developed a communication strategy to assist with public recognition of the new banknote 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, Aboriginal and Torres Strait Island peoples and people from culturally and linguistically diverse backgrounds.

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

In 2017, construction was completed on the National Banknote Site, which is a new banknote storage, processing and distribution facility in Craigieburn, Victoria. Upgraded banknote-processing equipment and automated materials handling systems were installed in the new facility. In late 2017, storage and processing operations commenced. Distribution operations commenced in August 2018. The 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.

8. Financial Position and Capital

This section outlines how the Reserve Bank manages its financial position to support the achievement of its key functions and purposes. As noted in section 4.1, the Bank holds a range of financial assets to conduct operations in financial markets to achieve its central banking policy objectives. 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 the assets 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 may be faced over time.

The RBRF is the Reserve 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 the Bank holds. The distribution of profits 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 Reserve 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 Reserve 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 Reserve Bank recognises that it is not possible or desirable to eliminate all the 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.

9.2 Risk Management Framework

The Reserve Bank's risk management framework establishes a 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 Reserve 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

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.

have (or could have) material undesirable consequences. These reports include action plans to address the causes of incidents. 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. There is also further escalation to the Reserve Bank Board Audit Committee and the Reserve Bank Board and/or Payments System Board depending on the nature and severity of an incident.

The Reserve Bank's attitude towards its key strategic, financial, people and operational risks is described in its *Risk Appetite Statement*, 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 *Risk Appetite Statement*.

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

10. Organisational Capacity

To facilitate achievement of the objectives set out in this corporate plan, the Reserve Bank will continue to rely on a range of supporting capabilities. Several of these capabilities are covered in more detail below, including the Bank's staff and culture, information technology (IT) and property management activities. There is also a range of other services provided by different 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 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 Reserve Bank places considerable importance on attracting, developing and retaining high-quality people who work productively together to achieve its objectives and in accordance with its values and risk appetite. This involves fostering an environment in which all employees are engaged and empowered to contribute to the full extent of their abilities and there is a strong focus on values and behaviour, and a clear understanding of the Bank's risk appetite. To meet these objectives, during the period of this corporate plan the Bank will:

- continue to deliver leadership development programs for executive and managerial staff, with increased focus on career planning
- implement diversity and inclusion initiatives, with the assistance of the Bank's Employee Resource Groups. Planned initiatives include training and awareness-raising activities. The Bank is also seeking to raise the proportion of women in management positions and has introduced a target of 35 per cent of management positions to be filled by women by 2020, with a longer-term aim of 50 per cent
- continue to deliver training on mental health and wellbeing for both employees and managers, and provide additional training to staff to reinforce the importance of meeting very high standards of behaviour in the workplace and their legal obligations in this regard
- maintain the strong focus on the Bank's core values of promotion of the public interest, integrity, excellence, intelligent inquiry and respect. This focus is led by the Governor, and biennial employee engagement surveys have indicated it is shared by staff at all levels. These surveys will continue to be used to monitor the strength of the core values within the Bank and its risk culture, and to identify any areas requiring additional focus. Recent areas of focus have included further encouragement for staff to speak up when they have a different opinion or a concern, and enhancing their understanding of appropriate risk-taking in pursuit of the Bank's objectives.

Over the period 2018/19 to 2021/22, the Reserve Bank will continue to ensure its IT assets are highly resilient, fit for purpose, appropriately innovative and support workplace efficiency. Cyber security

remains an area of particular focus. The Bank has been certified as complying to a mature standard with the cyber security strategies recommended by the Australian Signals Directorate for containing cyber threats, and will continuously build on this as these 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 Reserve Bank will continue to strengthen its organisational effectiveness in light of the changing business environment during the period covered by this corporate plan. During 2017/18, work was undertaken to centralise process and transactional shared services that underpin the Bank's operations in order to achieve efficiencies and process improvements. Work was also done to further enhance 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. The centralisation of shared services work was informed by observations made in an independent functional and efficiency review commissioned by the Bank. This work is expected to be completed in 2018/19 and initiatives to improve the efficiency and effectiveness of processes and the IT function will remain a focus over the period of this corporate plan.

The Reserve Bank has undertaken a review of its property portfolio to ensure it remains relevant to the purposes of the Bank and continues to meet the needs of staff in delivering the services required of the Bank over the period of this corporate plan and beyond. The new National Banknote Site in Craigieburn, Victoria, became operational in late 2017. As a result, the Bank's building at 60 Collins Street, Melbourne is no longer needed to store and distribute banknotes, and a decision has been made to sell this building. The Bank is also 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 to meet the long-term needs of the Bank.