RESERVE BANK
OF AUSTRALIA

RESERVE BANK OF AUSTRALIA ANNUAL REPORT

2015

RESERVE BANK OF AUSTRALIA

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G.R. Stevens
GOVERNOR

9 October 2015

The Hon Scott Morrison MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

RESERVE BANK OF AUSTRALIA ANNUAL REPORT 2015

In accordance with section 46 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), I am pleased to submit the Reserve Bank's Annual Report for 2015 for presentation to the Parliament. The annual report has been prepared in accordance with the rules under s46(3) of the PGPA Act.

Yours sincerely

Glenn Stevens

Reserve Bank of Australia

Annual Report 2015

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Governor's Foreword

International developments were again a source of concern and uncertainty in 2014/15. The global economy recorded growth, but fell a little short of forecasts from a year earlier. Financial conditions continued to be remarkably accommodative, as major jurisdictions ran extraordinary monetary policy settings in an effort to support demand in their respective economies. Short-term interest rates remained at or near zero and, in some countries, rates on deposits at the central bank fell into negative territory. Long-term interest rates early in 2015 reached the lowest levels ever recorded and in some European countries were negative for terms as long as 10 years. Although the Federal Reserve completed its 'quantitative easing' program some time ago, central bank balance sheets in Japan and Europe are still expanding significantly.

The Chinese economy has slowed, affecting demand for natural resources. This has affected Australia's terms of trade, which have also been driven lower by an increasing supply of commodities, including from Australia. Financial markets returned to more normal levels of volatility as they contemplated, among other things, the events in Greece and the rise and crash of a Chinese equity market bubble. These were absorbed without widespread spillovers, though it is apparent that financial markets have less underlying liquidity than was the case in earlier periods. Over the year ahead, there will, no doubt, be further news for markets to absorb – not least the approach of higher US interest rates.

The Australian economy recorded moderate growth in 2014/15. As in the world economy as a whole, the growth was a little disappointing, leaving unemployment relatively unchanged at a higher-than-desirable rate. Inflation remained low and, abstracting from the temporary effects of falling energy prices, was consistent with the medium-term target. After a lengthy period of stability in policy settings, the Reserve Bank Board adjusted the cash rate twice during 2014/15, taking it to 2 per cent, the lowest recorded on a sustained basis since the 1950s.

The Reserve Bank continued the build-up of several major projects during 2014/15. As has been noted in previous annual reports, these projects are resulting in a very significant, but largely temporary, increase in costs, with most of the likely outlays still in the future as work to deliver key projects gathers further momentum. These costs are mainly, though not entirely, in the IT area, as the projects are very technology intensive. Preparations to introduce a series of banknotes with upgraded security features, overhauling the technology architecture that supports banking services to the government, building the Bank's contribution to the New Payments Platform and upgrading the capacity to assess the quality of collateral that may be presented to the Bank at various points of its market operations are all driven by the Bank's Charter obligations. The Bank's staff numbers are commensurately rising, with the IT Department by far the largest in size, employing most additional staff on limited-term contracts.

The cost of running the Reserve Bank's existing operations rose by a little more than 1 per cent in 2014/15. The additional costs from the projects added a further 3.4 per cent. As the full effect of the project workload comes through, total outlays will rise, reaching a peak during 2015/16.

The Reserve Bank's net profit in 2014/15 amounted to $6.9 billion, a significant rise from the previous year (abstracting from proceeds of the one-off grant received from the Australian Government in that year). As explained in the chapter on 'Earnings and Distribution', the fall in the exchange rate has resulted in substantial valuation gains. Part of these were realised as the Bank's portfolio of foreign reserves turned over, while the unrealised gains are set aside against the risk of future losses or will be realised as relevant assets are sold. Underlying earnings remain low because of low yields on the Bank's portfolio but, at $832 million, were higher than in the previous year as the Bank's balance sheet expanded and ADIs began paying fees associated with the Committed Liquidity Facility from the beginning of 2015. The full-year effect of these fees will further boost underlying earnings in 2015/16.

Adding the realised valuation gains to underlying earnings results in earnings available for distribution as per the *Reserve Bank Act 1959* of about $3.5 billion. The Treasurer decided, after consulting the Board, that a sum of about $1.6 billion from distributable earnings be placed to the credit of the Reserve Bank Reserve Fund, effectively the Bank's capital. Accordingly, this reserve stood at $12.7 billion at balance date, a strong position given the risks on the Bank's balance sheet. The remainder of distributable earnings, a sum of about $1.9 billion, will be paid as a dividend to the Commonwealth.

As always, the Reserve Bank's management and staff have performed to a very high standard, under challenging conditions. This was very clearly in evidence during the terrible events at the Lindt Café, adjacent to the Head Office building, in December 2014. The Bank's building was locked down for some hours and was not available the following day, requiring the Business Resumption Site to be used for all the Bank's routine operations. The security and operational areas of the Bank responded admirably to these events, despite sharing the profound sense of loss evident so widely in the community, and all the Bank's normal operations were able to continue without interruption. The Reserve Bank Board and I, personally, record our admiration and appreciation for the skills and dedication of all our people.

Glenn Stevens
Governor and Chair, Reserve Bank Board
2 September 2015

Part 1:
About the Reserve Bank

Our Charter, Core Functions and Values

In its role as Australia's central bank, the Reserve Bank of Australia determines and implements monetary policy, undertakes a range of other activities in financial markets and banking, issues the nation's banknotes and operates infrastructure critical to the payments system.

Charter and Core Functions

The Reserve Bank of Australia is established by statute as Australia's central bank. Its enabling legislation is the *Reserve Bank Act 1959*. The Bank pursues national economic policy objectives. Its responsibility for monetary policy is set out in section 10(2) of the Reserve Bank Act, which states:

> It is the duty of the Reserve Bank Board, within the limits of its powers, to ensure that the monetary and banking policy of the Bank is directed to the greatest advantage of the people of Australia and that the powers of the Bank … are exercised in such a manner as, in the opinion of the Reserve Bank Board, will best contribute to:
>
> (a) the stability of the currency of Australia;
>
> (b) the maintenance of full employment in Australia; and
>
> (c) the economic prosperity and welfare of the people of Australia.

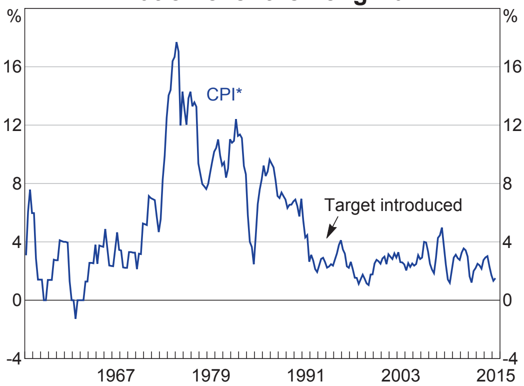
Policies in pursuit of these objectives have found practical expression in a flexible, medium-term inflation target, which has formed the basis of Australia's monetary policy framework since the early 1990s. The policy objective is to keep consumer price inflation between 2 and 3 per cent, on average, over the business cycle. Monetary policy aims to achieve this over the medium term as a crucial precondition for the promotion of sustainable economic growth and employment.

The sixth *Statement on the Conduct of Monetary Policy*, signed by the Treasurer and the Governor in October 2013 following the election of the Coalition Government records the common understanding of the Government and the Reserve Bank on key aspects of the monetary policy framework.

The Reserve Bank conducts operations in financial markets, operates Australia's main high-value payments system and undertakes analysis of markets and institutional developments. It also participates in discussions with government and other domestic regulators about regulatory design initiatives, largely through the Council of Financial Regulators (CFR). The CFR is chaired by the Governor and brings together the Bank, Australian Prudential Regulation Authority, Australian Securities and Investments Commission and Australian Treasury so as to contribute to the efficiency and effectiveness of regulation and the stability of the financial system.

Under the *Corporations Act 2001*, the Reserve Bank, through the Payments System Board, has responsibility for determining financial stability standards for licensed clearing and settlement facilities and assessing facilities' compliance with those standards. The Corporations Act also establishes a regime for the regulation of over-the-counter (OTC) derivatives markets, which includes an advisory role for the Bank on a range of matters.

Inflation over the Long Run



* Excludes interest charges prior to September quarter 1998 and adjusted for the tax changes of 1999–2000

Sources: ABS; RBA

These diverse roles assist the Reserve Bank in promoting the overall stability of the financial system. The Bank does not have responsibility for the prudential supervision of financial institutions, but in the event of a financial system disturbance, the Bank and relevant agencies would work to mitigate the risk of systemic consequences.

The Reserve Bank also:

- designs, produces and issues Australia's banknotes, with the objective of ensuring public confidence in banknotes as an effective payment mechanism and a secure store of wealth
- provides specialised banking services to government and foreign official institutions, including payments and collections as well as general account maintenance and reporting
- holds and manages Australia's foreign currency reserves, operating in the foreign exchange market to meet the foreign exchange needs of its clients and to assist with domestic liquidity management.

In addition to these functions, the Reserve Bank is responsible for ensuring the stability, efficiency and competitiveness of the payments system through the Payments System Board, which was established in 1998. The Bank's powers in relation to the payments system are set out in a number of other statutes, including the *Payment Systems (Regulation) Act 1998* and the *Payment Systems and Netting Act 1998*.

The Reserve Bank's Values

Staff and others who are involved in the activities of the Reserve Bank have a critical role to play in achieving its objectives, either directly or in a supporting role. Their behaviour is guided by the Code of Conduct for Bank staff, which sets out the Bank's requirements of its employees and others who are involved in its activities. The Code, which is published on the Bank's website, embodies five core values, namely, promotion of the public interest, integrity, excellence, intelligent inquiry and respect:

- We serve the public interest. We ensure that our efforts are directed to this objective, and not to serving our own interests or the interests of any other person or group.
- We are honest in our dealings with others within and outside the Bank. We are open and clear in our dealings with our colleagues. We take appropriate action if we are aware of others who are not acting properly.
- We strive for technical and professional excellence.
- We think carefully about the work we do and how we undertake it. We encourage debate, ask questions and speak up when we have concerns.
- We treat each other with respect and courtesy. We value each other's views and contributions.

Governance of the Reserve Bank

The Reserve Bank's activities are overseen by the Reserve Bank Board and the Payments System Board as well as several high-level committees. The Reserve Bank Board is responsible for monetary policy and other policy matters, except those relating to the payments system, which are the responsibility of the Payments System Board.

Reserve Bank Board

The Reserve Bank Board has responsibility for monetary and banking policy and the Reserve Bank's policy on all other matters except payments system policy. The Board comprises the Governor (Chair), Deputy Governor (Deputy Chair), Secretary to the Treasury and six external members appointed by the Treasurer, a total of nine. Members of the Board during 2014/15 are shown below and details of their qualifications and experience are provided on pages 12–18.

The Board meets 11 times a year, on the first Tuesday of each month except January. Five members form a quorum for a meeting of the Board. In terms of the *Reserve Bank Act 1959*, the Board makes decisions by a majority of the votes of the members present and voting, with the Chair having a casting vote, if necessary, in addition to a deliberative vote.

Most meetings are held at the Reserve Bank's Head Office in Sydney. Twice in each calendar year, meetings are held in other Australian cities, usually once in Melbourne and once in another location. In 2014/15, the Board met in Adelaide in September 2014 and in Melbourne in March 2015.

The Board has an Audit Committee and a Remuneration Committee. The Governor and Board reviewed and amended the charter of the Audit Committee in 2014/15 to ensure its consistency with the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and Rules made under the PGPA Act.

Board Meetings in 2014/15
Attendance by Members

	No. of meetings attended	No. of meetings eligible to attend
Glenn Stevens (Governor)	11	11
Philip Lowe (Deputy Governor)	11	11
Martin Parkinson (Secretary to the Treasury)[a]	5[b]	6
John Fraser (Secretary to the Treasury)[c]	5	5
John Akehurst	10	11
Roger Corbett	10	11
John Edwards	11	11
Kathryn Fagg	11	11
Heather Ridout	11	11
Catherine Tanna	11	11

(a) Martin Parkinson's term on the Board ended on 12 December 2014
(b) Jenny Wilkinson (Acting Executive Director (Domestic), Macroeconomic Group, Australian Treasury) attended the October 2014 meeting in place of Martin Parkinson, in terms of section 22 of the *Reserve Bank Act 1959*
(c) John Fraser's term on the Board commenced on 15 January 2015

The Reserve Bank's boardroom in the Sydney Head Office building

Payments System Board

The responsibilities of the Payments System Board are set out in the Reserve Bank Act. In particular, the Act requires the Board to ensure, within the limits of its powers, that the Reserve Bank's payments system policy is directed to the greatest advantage of the people of Australia and that its related powers are exercised in such a way that, in the Board's opinion, will best contribute to:

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

The Payments System Board also has responsibility to ensure that the powers and functions of the Bank under Part 7.3 of the *Corporations Act 2001* (dealing with licensing of clearing and settlement facilities) are exercised in a way that will best contribute to the overall stability of the financial system.

The Payments System Board is distinct from the Reserve Bank Board and issues a separate annual report.

Conduct of Reserve Bank Board Members

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

Members must comply with their statutory obligations as directors of the Reserve Bank, including those set out in the PGPA Act. Members' obligations under the PGPA Act include, but are not limited to, obligations to exercise their powers and discharge their duties with care and diligence, honestly, in good faith and for a proper purpose. Members must not use their position, or any information obtained by virtue of their position, to benefit themselves or any other person, or to cause detriment to the Reserve Bank or any other person.

In order for members to discuss and decide monetary and financial system stability policies, notwithstanding any material personal interest in the outcome, the Reserve Bank Act requires them to furnish a confidential statement of material personal interests to the Treasurer annually and, during the year, to notify any substantial change since their most recent annual statement. Members must declare to the other members of the Board any material personal interest they have in a matter relating to the affairs of the Board other than monetary and financial stability policies. Members may give standing notice to other members outlining the nature and extent of a material personal interest in such matters.

Over and above these statutory requirements, members recognise their responsibility for maintaining a reputation for integrity and propriety on the part of the Board and the Reserve Bank in all respects. Members have therefore adopted a Code of Conduct that provides a number of general principles as a guide for their conduct in fulfilling their duties and responsibilities as members of the Board.

During 2014/15, the Code of Conduct for Reserve Bank Board members was revised to provide greater clarity around the restrictions on members' ability to undertake financial transactions for their own account or participate in decisions regarding financial transactions in relation to their business or other interests. This followed a request by members for the Code to ensure consistency in the restrictions applying to the Governor and Deputy Governor (in terms of their adherence to the Code of Conduct for Bank staff), the Secretary to the Treasury (in terms of a voluntary set of arrangements) and the other members, in particular in the period between the receipt of Board papers and the announcement of the monetary policy decision after each Board meeting. A copy of the Code of Conduct for Reserve Bank Board members is on the Bank's website.

Audit Committee

The primary objective of the Audit Committee of the Reserve Bank Board is to assist the Governor and Board in fulfilling certain obligations in terms of the Reserve Bank Act and the PGPA Act. In particular, the Committee assists the Governor and Board in relation to:

- preparing the annual report, including a report of operations, a performance statement (from 2016) and the financial statements
- establishing and maintaining appropriate systems of internal control
- establishing and maintaining appropriate systems of risk oversight and management.

John Akehurst, a member of the Reserve Bank Board, chairs the Audit Committee. Other members of the Committee are Roger Corbett AO, a member of the Reserve Bank Board, and Michael Coleman and Terry Williamson, both of whom are company directors and former senior audit partners of major accounting firms who have extensive experience in the finance sector. Consistent with contemporary governance standards, no Bank executive is a member of the Audit Committee. Representatives of the Bank's internal and external auditors are expected to participate in meetings as appropriate at the invitation of the Chair. The Deputy Governor attends meetings of the Committee on a regular basis as the chief representative of the Bank's management. Other senior Bank executives attend meetings of the Committee by invitation on a regular basis or as required.

During 2014/15, the Audit Committee met on four occasions. At its July 2015 meeting, the Committee considered the draft consolidated financial statements for the Reserve Bank for the year ended 30 June 2015 and agreed that the statements be presented to the Governor and the Reserve Bank

Audit Committee Meetings in 2014/15
Attendance by Members

	No. of meetings attended	No. of meetings eligible to attend
John Akehurst[(a)]	4	4
Michael Coleman	3	4
Roger Corbett[(a)]	4	4
Terry Williamson	4	4

(a) Member of the Reserve Bank Board

Board with its endorsement. The Committee meets at least annually with the external auditors without management present; in respect of 2014/15 this occurred immediately following the July 2015 meeting.

Remuneration Committee

The Remuneration Committee of the Reserve Bank Board is established in terms of section 24A of the Reserve Bank Act to recommend to the Board 'terms and conditions relating to the remuneration and allowances' for the Governor and Deputy Governor. Membership of the Committee is drawn from the non-executive members of the Board and comprises Roger Corbett AO (Chair), John Edwards and Catherine Tanna. The Committee met on three occasions during 2014/15.

The offices of Governor and Deputy Governor are Principal Executive Offices in terms of the *Remuneration Tribunal Act 1973*, which provides for the Remuneration Tribunal to determine the applicable remuneration reference rate for these offices. The Remuneration Committee reviews the terms and conditions (including remuneration and allowances) applying to the Governor and Deputy Governor annually and recommends adjustments to the Board for approval, providing that such terms and conditions are consistent with the framework for Principal Executive Offices established by the Remuneration Tribunal. The Remuneration Committee is also kept informed of the general remuneration arrangements for Reserve Bank staff. The Governor attends meetings of the Committee at the invitation of the Chair to discuss remuneration matters in the Bank, but not those relating to his own remuneration. The Committee communicates with the Remuneration Tribunal as required.

In accordance with section 21A of the Reserve Bank Act, neither the Governor nor the Deputy Governor takes part in decisions of the Board relating to the determination or application of any terms or conditions on which either of them holds office.

Remuneration Committee Meetings in 2014/15
Attendance by Members

	No. of meetings attended	No. of meetings eligible to attend
Roger Corbett	3	3
John Edwards	3	3
Catherine Tanna	3	3

Remuneration and Allowances

Remuneration and travel allowances for the non-executive members of the Reserve Bank Board are set by the Remuneration Tribunal. In December 2014, the Remuneration Tribunal issued a formal determination in respect of the level of fees for members of the Audit Committee who were also members of the Board, which entailed an increase in the applicable fees to the A1 tier in the Tribunal's framework. The Board resolved that the new fee tier would apply to all members of the Audit Committee, in line with the Bank's longstanding practice of paying all Audit Committee members the same remuneration. Membership of the Remuneration Committee is not remunerated.

Induction of Board Members

The induction program assists newly appointed Board members in understanding their role and responsibilities, and provides them with an overview of the Reserve Bank's policy framework and operations. Separate briefing sessions are tailored to meet particular needs or interests of members.

Executive Committee

The Executive Committee is the key decision-making committee of the Reserve Bank for matters of an administrative and management nature. It is a management committee, whose role is to assist and support the Governor in fulfilling his responsibilities to manage the Bank (in particular under the Reserve Bank Act and as the accountable authority under the PGPA Act). The Committee, which is chaired by the Governor and comprises the Bank's most senior executives, generally meets weekly. The Heads of the Audit, Information and Risk and Compliance Departments and the General Counsel attend meetings of the Executive Committee in an advisory capacity.

Risk Management Committee

The Risk Management Committee has responsibility for ensuring that operational and financial risks are identified, assessed and properly managed across the Reserve Bank in accordance with its Risk Management Policy. It is a management committee chaired by the Deputy Governor and comprises senior executives drawn mainly from the operational areas of the Bank. During 2014/15 the Committee met on six occasions and kept the Executive Committee and Reserve Bank Board Audit Committee informed of its activities.

Risks associated with the formulation of monetary and payments policies are the direct responsibility of the Reserve Bank Board and the Payments System Board, respectively. The boards review management of these risks periodically as part of their decision-making processes. Details of the Bank's risk management framework are covered in the chapter on 'Risk Management'.

Policy Risk Management Framework and Board Review

During 2014, the key risks inherent in the consideration of monetary policy, for which the Reserve Bank Board is responsible, were confirmed and a formal risk register that codified these risks was finalised early in 2015.

The Reserve Bank Board conducted a review of its operation and processes towards the end of 2014, which concluded that these were functioning effectively.

Indemnities for Members of Boards and Senior Staff

During 2014/15, members of the Reserve Bank Board and Payments System Board continued to be indemnified against liabilities incurred by reason of their appointment to the relevant Board or by virtue of holding and discharging such office. Indemnities given prior to 1 July 2014, the date of repeal of the *Commonwealth Authorities and Companies Act 1997* (CAC Act), were in accordance with section 27M of the CAC Act. New members of each Board whose term of office commenced during 2014/15 were indemnified in substantially similar terms.

Indemnities in accordance with section 27M of the CAC Act provided by the Reserve Bank to other officers of the Bank in relation to liabilities they may incur in the conduct of their duties at the Bank, and to current senior executives and Reserve Bank Board members who, at the request of the Bank, are serving on the Board of Note Printing Australia Limited or formerly served on that board or the Board of Innovia Security Pty Ltd (formerly Securency International Pty Ltd) continue.

As the Reserve Bank does not take out directors' and officers' insurance in relation to its Board members or other officers, no premiums were paid for any such insurance in 2014/15.

Other Policy Matters

The Governor reports annually to the Reserve Bank Board on the process of review and implementation of key Reserve Bank policies, including compliance arrangements. In August 2015, annual reports were also presented to the Board covering matters relating to work health and safety in the Bank and its Anti-Money Laundering and Counter-Terrorism Financing Program.

Reserve Bank Board

The Reserve Bank Board comprises nine members: the Governor (Chair), Deputy Governor (Deputy Chair), Secretary to the Treasury (ex officio member) and six other non-executive members appointed by the Treasurer. Further to the legislated requirements, and in recognition of their responsibility to uphold the integrity of the Board and the Reserve Bank, members have adopted a Code of Conduct.

September 2015

Glenn Stevens

BEc (Hons) (Sydney), MA (Western)

Governor and Chair

Governor since 18 September 2006
Reappointed from 18 September 2013 until 17 September 2016

Glenn Stevens has held various senior positions at the Reserve Bank, including Head of the Economic Analysis and International Departments and Assistant Governor (Economic), where he was responsible for overseeing economic and policy advice to the then Governor and Reserve Bank Board. He was Deputy Governor from 2001 to 2006. In June 2014, Mr Stevens was awarded a Doctor of Laws, honoris causa (LLD) by Western University in Ontario, Canada.

Other Roles

Chair – Payments System Board

Chair – Council of Financial Regulators

Chair – Financial Stability Board Standing Committee for Assessment of Vulnerabilities

Chair – Financial Markets Foundation for Children

Member – Financial Stability Board

Director – The Anika Foundation

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

Deputy Governor and Deputy Chair

Deputy Governor since 14 February 2012
Present term ends 13 February 2019

Philip Lowe has held various senior positions at the Reserve Bank, including Assistant Governor (Economic) and Assistant Governor (Financial System), where he was responsible for overseeing economic and policy advice to the Governor and Reserve Bank Board. He spent two years with the Bank for International Settlements working on financial stability issues. Dr Lowe has authored numerous papers, including on the linkages between monetary policy and financial stability. He chairs the Bank's Risk Management Committee.

John Akehurst
MA (Oxon)

Non-executive Member

Member since 31 August 2007
Present term ends 30 August 2017

John Akehurst has had extensive experience in the oil and gas industry. He held a number of engineering and management positions with Royal Dutch Shell (1976–96) and as CEO of Woodside Petroleum Ltd (1996–2003). Mr Akehurst is a Fellow of the Institution of Mechanical Engineers.

Directorships

Chairman – National Centre for Asbestos Related Diseases

Chairman – Transform Exploration Pty Ltd

Director – CSL Limited

Director – Origin Energy Limited

Reserve Bank Board Committee membership

Chair – Audit Committee

Roger Corbett AO
BCom (UNSW)

Non-executive Member

Member since 2 December 2005
Present term ends 1 December 2015

Roger Corbett has had extensive experience in the retailing industry, both in Australia and overseas. He served as the CEO of Woolworths Limited (1999–2006) and has held numerous board positions. Mr Corbett is a Fellow of the Australian Institute of Management and the Risk Management Institution of Australasia.

Directorships

Chairman – Mayne Pharma Group Limited

Director – Wal-Mart Stores Inc

Reserve Bank Board Committee membership

Chair – Remuneration Committee

Member – Audit Committee

John Edwards
BA (Sydney), MPhil, PhD (George Washington)

Non-executive Member

Member since 31 July 2011
Present term ends 30 July 2016

John Edwards brings a combination of business, academic and professional economic experience to the Board. He was Chief Economist for Australia and New Zealand for HSBC Bank for over a decade prior to taking up the appointment of Executive Director of Economic Planning and Development for the Bahrain Economic Development Board (2009–11).

Other Roles

Adjunct Professor – John Curtin Institute of Public Policy, Curtin Business School, Curtin University

Adjunct Professor – University of Sydney School of Business

Visiting Fellow – Lowy Institute for International Policy

Director – Committee for Economic Development of Australia

Reserve Bank Board Committee membership

Member – Remuneration Committee

Kathryn Fagg

BE (Hons) (Queensland), MCom (Hons) (UNSW)

Non-executive Member

Member since 7 May 2013
Present term ends 6 May 2018

Kathryn Fagg has broad and diverse experience across a range of industries, including logistics, manufacturing, resources, banking and professional services, having worked in senior executive roles at Linfox, BlueScope Steel and ANZ Bank. Earlier, she worked at McKinsey & Co after commencing her career as a petroleum engineer with Esso Australia. She has led businesses in Australia, New Zealand and Asia. Ms Fagg is a Fellow of the Australian Academy of Technological Sciences and Engineering and a member of Chief Executive Women.

Directorships

Chair – Melbourne Recital Centre

Director – Boral Limited

Director – Breast Cancer Network Australia

Director – Djerriwarrh Investments Limited

Director – Incitec Pivot Limited

John Fraser

BEc (Hons) (Monash)

Ex Officio Member

Secretary to the Treasury
Member since 15 January 2015

John Fraser was appointed Secretary to the Treasury in 2015. He was Chairman and CEO of UBS Global Asset Management from late 2001 to 2013, based in London. During this time, he was also a member of the UBS Group Executive Board and Chairman of UBS Saudi Arabia. In 2014, Mr Fraser remained as Chairman of UBS Global Asset Management, Chairman of UBS Saudi Arabia and Chairman of UBS Grocon Real Estate. Prior to joining UBS and its predecessor organisations in 1993, he served for over 20 years with the Australian Treasury, including as Deputy Secretary (Economic) from 1990 and during postings at the International Monetary Fund and as Minister (Economic) at the Australian Embassy in Washington, DC. He was Chairman of Victorian Funds Management Corporation from 2009 to early 2015. In 2013, Mr Fraser was awarded an honorary degree of Doctor of Laws by Monash University, Melbourne.

Other Roles

Chair – Advisory Board of the Australian Office of Financial Management

Deputy Chairman – Monash and Warwick Universities Alliance Circle

Ex officio Member – Board of Taxation

Member – Centre for International Finance and Regulation

Member – Council of Financial Regulators

Member – Sir Roland Wilson Foundation

Member – Trans-Tasman Council on Banking Supervision

Heather Ridout AO

BEc (Hons) (Sydney)

Non-executive Member

Member since 14 February 2012
Present term ends 13 February 2017

Heather Ridout has a strong understanding of public policy and the manufacturing sector, having previously been Chief Executive of the Australian Industry Group. Her previous appointments include key national policy-setting and consultative groups, including as a member of the Henry Tax Review panel, board member of Infrastructure Australia, member of the Prime Minister's Taskforce on Manufacturing and member of the Australian Workforce and Productivity Agency. Ms Ridout is a member of Chief Executive Women.

Directorships

Chair – AustralianSuper Trustee Board

Director – Australian Chamber Orchestra

Director – Australian Securities Exchange Limited

Director – Image Networks Holdings Pty Ltd

Director – Note Printing Australia Limited

Director – Sims Metal Management Limited

Catherine Tanna
LLB (Queensland)

Non-executive Member

Member since 30 March 2011
Present term ends 29 March 2016

Catherine Tanna has extensive experience in the resources sector with BG Group, Royal Dutch Shell and BHP Billiton. She held senior executive roles with responsibility for LNG, gas transmission and power-generation businesses across Africa, North Asia, Russia, North America, Latin America and Australia. From April 2012 to the end of June 2014, Ms Tanna was Chairman of BG Australia. She is a member of Chief Executive Women.

Executive Role

Managing Director – EnergyAustralia

Reserve Bank Board Committee membership

Member – Remuneration Committee

Retirement from the Board

Martin Parkinson PSM

BEc (Hons) (Adelaide), MEc (ANU), MA, PhD (Princeton)

Ex Officio Member

Secretary to the Treasury

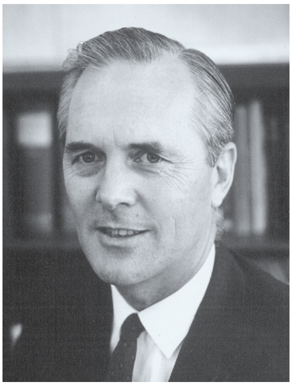
Member since 27 April 2011
Retired 12 December 2014

Martin Parkinson was appointed Secretary to the Treasury in 2011. He was Secretary of the Department of Climate Change from its establishment in December 2007 and, between 2001 and 2006, was Deputy Secretary of the Australian Treasury, with responsibility for domestic and international macroeconomic issues. In his Treasury career, he worked on issues including taxation policy, labour market and structural reform, and macroeconomic policy and forecasting.

Resolution Passed by the Board – 2 December 2014

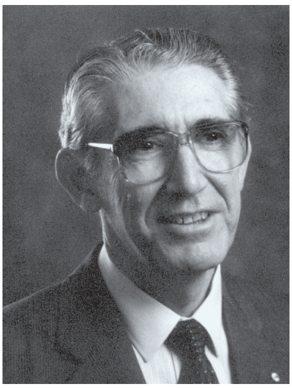
Members noted that this was the final meeting for Martin Parkinson, who had served a little over three and a half years on the Board with great professionalism and distinction. The Governor paid tribute to Dr Parkinson's contribution to the conduct of policy and governance of the Bank during his term, and his exceptional and wide-ranging contribution to economic policymaking and public sector leadership over more than three decades in the Australian Public Service. Members wished Dr Parkinson well in the future.

In Memoriam



Vale Sir Harold Knight KBE DSC

The Bank records, with deep regret, that Sir Harold (Harry) Knight KBE DSC, Governor of the Reserve Bank from 1975 to 1982 and Deputy Governor from 1968 to 1975, died on 19 June 2015.



Vale Mervyn John Phillips AO

The Bank records, with deep regret, that Mervyn John (John) Phillips AO, Deputy Governor of the Reserve Bank from 1987 to 1992, died on 3 November 2014.

Sir Harold Knight and John Phillips both had long and distinguished careers in central banking in Australia.

Accountability and Communication

The Reserve Bank is an independent central bank, accountable to the Australian Parliament for its actions. The Bank is required by legislation to consult with, and report to, the Australian Government. It seeks to enhance the community's understanding of its responsibilities and policies through a broad communications program.

Relationship with Government

The Reserve Bank is established under the *Reserve Bank Act 1959* as a body corporate distinct from the Commonwealth of Australia. The Governor, Deputy Governor and members of the Reserve Bank Board are appointed by the Treasurer. The Board is afforded substantial operational independence under the Reserve Bank Act to determine and implement the monetary and banking policy of the Bank, as will best contribute to the objectives set out in the Act. The *Statement on the Conduct of Monetary Policy*, as updated from time to time, has recorded the common understanding of the Governor, as Chair of the Reserve Bank Board, and the government on key aspects of Australia's monetary and central banking policy framework since 1996. The *Statement*, which seeks to foster a sound understanding of the nature of the relationship between the Reserve Bank and the government, records that the government recognises and continues to respect the Reserve Bank's operational independence.

The Reserve Bank's operational independence is accompanied by an obligation to inform the government of its monetary and banking policy 'from time to time'. This obligation is discharged mainly by regular contact between the Governor and the Treasurer (at the date of signing, The Hon Joe Hockey MP), including, in most months, a telephone conversation following each Board meeting. The Reserve Bank Act sets out a clear process for managing differences of opinion on policy matters between the Board and the government.

Reporting Obligations

The Reserve Bank is a corporate Commonwealth entity under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), of which the Governor is the 'accountable authority'. The Governor is responsible for the preparation of this annual report and for giving it to the Treasurer for presentation to the Parliament, although the Reserve Bank Board must approve the Bank's annual financial statements. At its meeting on 4 August 2015, that approval was given by the Board.

The Standing Orders of the House of Representatives Standing Committee on Economics allow it to review the annual report of the Reserve Bank and the annual report of the Payments System Board. The Committee holds twice-yearly public hearings, at which the Bank presents its views on the economy and financial markets and other matters pertaining to the Bank's operations, and responds to questions from Committee members. In 2014/15, the Governor and senior Bank officers attended hearings of this Committee in Brisbane in August 2014 and in Sydney in February 2015. The

(Image above) Governor Glenn Stevens (centre), Deputy Governor Philip Lowe (left) and Assistant Governor (Economic), Christopher Kent (right), at a regular hearing of the House of Representatives Standing Committee on Economics; (image below) the Governor and a member of the House of Representatives Standing Committee on Economics, Dr Jim Chalmers MP (right), with students from St Francis College, Crestmead, Brisbane – from left, Rachael Bentley, Melonie Gabrielle and Dorrycie Prakash – who attended the hearing of the Committee with their teacher, Ms Christine Rolfe (centre), August 2014

Committee issued its reports on these hearings on 28 October 2014, *Review of the Reserve Bank Annual Report 2013 (Third Report)*, which covered the August 2014 hearing, and on 24 March 2015, *Review of the Reserve Bank Annual Report 2014 (First Report)*, which covered the February 2015 hearing.

The regular twice-yearly appearances before the House of Representatives Standing Committee on Economics and the quarterly *Statement on Monetary Policy* (see below) are important elements of the arrangements embodied in the understandings between the Governor and the Treasurer (outlined in the sixth *Statement on the Conduct of Monetary Policy*, which was issued in October 2013).

In addition to these appearances, the Reserve Bank made five public written submissions to parliamentary inquiries during the year:

- in July 2014, to the inquiry by the Parliamentary Joint Committee on Law Enforcement into Financial Related Crime
- in November 2014, to the inquiry by the Senate Economics References Committee into Digital Currency
- in March 2015, to the inquiry by the Senate Finance and Public Administration Legislation Committee into the Public Governance and Resources Legislation Amendment Bill (No. 1) 2015. Following completion of the inquiry, the report was tabled on 24 March 2015
- in May 2015, to the inquiry by the Joint Committee of Public Accounts and Audit into Development of the Commonwealth Performance Framework
- in June 2015, to the inquiry by the House of Representatives Standing Committee on Economics into Home Ownership.

The Reserve Bank made a supplementary submission to the Financial System Inquiry in August 2014, focusing on the issues raised in the Interim Report that directly relate to the responsibilities of the Bank for the efficiency and stability of the payments system and the stability of the financial system more broadly.

Communication

The Reserve Bank seeks to ensure a high degree of transparency about its activities, goals, decision-making processes and the basis of its policy decisions. Transparency facilitates the Bank's accountability, to accompany its operational independence. Importantly, it also increases the effectiveness of policy decisions by promoting a better understanding of those decisions in the wider community.

In addition to the regular announcements about monetary policy decisions of the Reserve Bank Board, the Bank has an active communication program.

Reserve Bank publications

The quarterly *Statement on Monetary Policy* provides information to the general public, financial markets and media about the Reserve Bank's views on monetary policy and developments in financial markets. It also provides a basis for questioning by the House of Representatives Standing Committee on Economics at its regular hearings with the Bank. The *Statement* contains a detailed analysis of conditions in the economy and financial markets and describes the outlook for inflation and the economy more generally.

The *Financial Stability Review*, published biannually, provides a detailed assessment of the condition of Australia's financial system, along with analysis of financial system issues of special interest. In the year in review, these included discussion of households' investment property exposures, responses to risks in the housing and mortgage markets, and the major banks' cost-to-income ratios. More generally, the *Review* reports on international regulatory reforms, the Reserve Bank's involvement in these reforms and their potential effects. The *Review* reports on domestic regulatory issues, including the Bank's work with the Council of Financial Regulators (CFR), which is the coordinating body for Australia's main financial regulatory agencies.

(The CFR is a non-statutory body whose role is to contribute to the efficiency and effectiveness of financial regulation and to promote stability of the Australian financial system. Its members share information, discuss regulatory issues and, if the need arises, coordinate responses to potential threats to financial stability. The CFR also advises the Australian Government on Australia's financial regulatory arrangements.)

Australia's financial stability policy framework includes mandates for financial stability for several of the CFR agencies. The Reserve Bank is responsible for promoting overall financial system stability, while the prudential elements of the framework reside with the Australian Prudential Regulation Authority (APRA). During the year in review, and together with other CFR agencies, the Bank announced a consultation on overseas clearing and settlement facilities in Australia, along with a review of competition in clearing of Australian cash equities.

The Reserve Bank's quarterly *Bulletin* contains analysis of a broad range of economic and financial issues as well as information on aspects of the Bank's operations. *Bulletin* articles during the year in review included regular articles on bank fees and margins as well as other topical issues. Many articles were related to aspects of the mining boom, the economic performance of the states and factors influencing investment decisions by firms. There were articles on developments in labour markets, wage growth and inflation. Additionally, other articles explored economic and financial developments in China and India, developments in payment settlements and banknote production. The quarterly *Statement on Monetary Policy* incorporated boxes that provided more detail about specific economic or financial developments.

Speeches

During 2014/15, the Governor, Deputy Governor and senior executives gave 46 speeches on various topics. Questions were taken after all speeches. Senior staff also participated in a number of public panel discussions. In addition to explaining current economic and financial conditions, many speeches addressed the challenges associated with the transition from the mining boom and the need to encourage entrepreneurial behaviour and raise productivity. There were also speeches devoted to innovation and reform in the payments system, along with reflections on the implications of prevailing levels of global monetary stimulus. Presentations were provided on the transmission mechanism of monetary policy, banknote production and digital disruption. Audio files of these speeches, the associated Q&A sessions and panel discussions were published on the Reserve Bank's website to improve accountability and communication.


Photo: Oneill Photographics/Goldman Sachs

Deputy Governor Philip Lowe addressing the Goldman Sachs Annual Global Macro Economic Conference, March 2015

(Left) Assistant Governor (Financial Markets), Guy Debelle, addressing the KangaNews Debt Capital Markets Summit, March 2015; (right) Chris Aylmer, Head of Domestic Markets Department, addressing the Australian Securitisation Conference, November 2014

The Governor, Deputy Governor and senior executives gave 46 speeches

Research

The Reserve Bank disseminates the results of longer-term research conducted by staff in the form of Research Discussion Papers (RDPs). The aim of the RDP series is to encourage discussion and comment on policy-relevant issues. The views expressed in RDPs are those of the authors and do not necessarily represent those of the Bank. During 2014/15, 16 RDPs were published on a range of topics covering most of the Bank's areas of interest, including financial reform in Australia and China, the exchange rate, payment systems, financial stability, house prices and housing markets, and modelling the Australian economy. Reserve Bank staff also published their research in various external journals, including the *International Journal of Central Banking*, the *Australian Economic Review* and the *Journal of Applied Probability*.

Research undertaken at the Reserve Bank is frequently presented at external conferences and seminars. In 2014/15, Bank staff made presentations at a number of domestic conferences, namely: the joint Australian Conference of Economists and the

Head of Financial Stability Department, Luci Ellis (left), and Assistant Governor (Financial System), Malcolm Edey, at Parliament House, Canberra, addressing a hearing of the Senate Economics References Committee Inquiry into Affordable Housing, October 2014

Econometric Society Australasia Meeting at the University of Tasmania in July 2014; the annual PhD Conference in Economics and Business at Monash University in November 2014; and a conference on Recent Developments in Financial Econometrics and Applications at Deakin University in December 2014. Bank staff also presented the results of their research work at a number of domestic institutions, namely, Monash University, Melbourne University, the University of New South Wales and the University of Technology Sydney. Research papers were presented at a number of international conferences and workshops, namely: the Sixth India-Australia Economic Policy Dialogue at the Indian Ministry of Finance, New Delhi; Deutsche Bundesbank International Cash Conference, in Dresden; a conference on tax policy at Oxford University; 8th Annual BIS Workshop of the Asian Research Network, Bangkok; Chinese Economists Society Conference, in Chongqing; and Western Economic Association International Conference and RBNZ/IJCB Conference, both in Wellington, New Zealand.

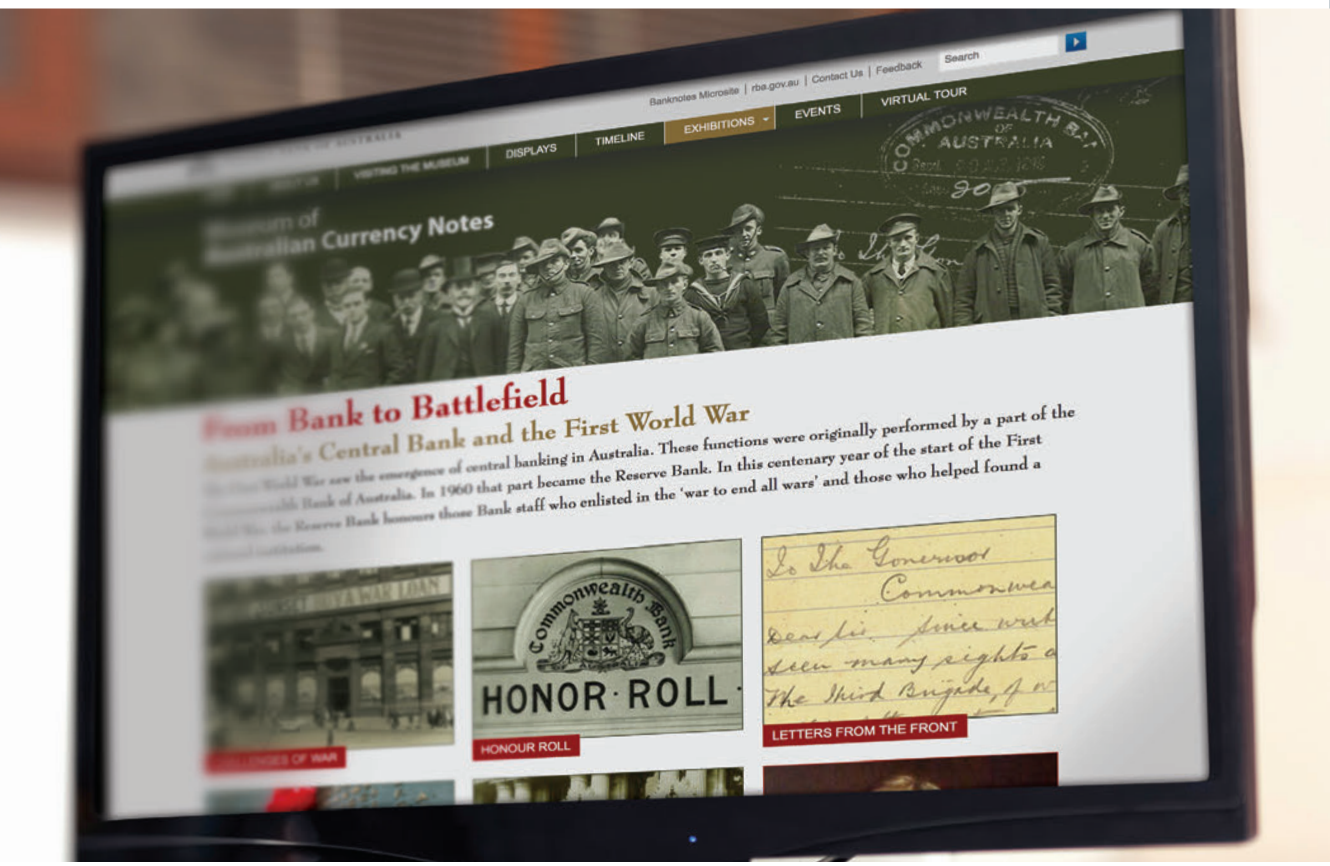
16 research papers were published

The Reserve Bank hosts regular conferences, which foster interaction between academics, central bankers and other economic practitioners on topical policy issues. The Bank's annual conference for 2015 was held in March in Sydney and focused on small business conditions and financing. A volume of the conference papers and discussions was published in August 2015. The next annual conference is scheduled for March 2016. In December 2014, the Reserve Bank hosted its annual Quantitative Macroeconomics Workshop, which featured 10 papers by international and Australian academics and central bankers. Another macroeconomics workshop will be held in December 2015.

The Reserve Bank also hosted visits from a number of policymakers from domestic and overseas institutions, including the Federal Reserve Bank of Dallas, De Nederlandsche Bank, Central Bank of Chile and International Monetary Fund, as well as academics from a range of institutions, including the Chinese Academy of Social Sciences, Princeton University, University of Tokyo, Australian National University and University of New South Wales. During their visits, these visitors presented seminars, taught short courses and participated in research activities at the Bank.

Online communication

The Reserve Bank publishes information in both electronic and hardcopy formats, though most access to information is now online. The website is frequently visited, with over 82 million page views and downloads made during 2014/15 and large spikes at the time of release of market-related information. The number of followers on Twitter has grown to around 27 000, while the number of subscribers to the website's conventional email alert service has continued to fall (to less than 11 000 at the end of June 2015). Visitors to the website also made greater use of RSS feeds, which allowed them to receive alerts about updates to selected data, media releases, speeches, research papers and other documents (including those related to Freedom of Information requests).



As part of the commemoration of the centenary of World War I, the Reserve Bank launched the *From Bank to Battlefield* online exhibition in August 2014

(From left) Information Department's Jeff Connors, Virginia MacDonald and John Murphy at the *Before Sunset: The Bank and World War I* exhibition, Museum of Australian Currency Notes, November 2014

Efforts in 2014/15 to improve public understanding of the Reserve Bank's role included the publication of videos on the Bank's main website and its new YouTube channel. These videos address each of the Bank's roles and functions, along with activities related to the Next Generation Banknote program, the Bank's Museum and recruitment.

The Banknotes microsite (www.banknotes.rba.gov.au), which focuses on explaining the design, production and security features of Australia's banknotes, was further developed as an education resource during the year in review to prepare the public and key stakeholders for the Next Generation Banknote series (more detail is provided in the chapter on 'Banknotes'). And as part of the commemoration of the centenary of World War I, an online exhibition, *From Bank to Battlefield*, was published on the Reserve Bank's website. It depicted the emergence of central banking in Australia to help finance the nation's involvement in the war, detailed the experiences of Bank staff and made the Bank's archival material about the war available to the public in digital form.

The Bank's website had over 82 million page views and downloads

Organisation Structure

The Reserve Bank has the following operational structure: Banking and Payments Group; Corporate Services Group; Currency Group; Economic Group; Financial Markets Group; Financial System Group; and five complementary departments.

The Reserve Bank is organised along the following operational lines, under the leadership of the Governor, Glenn Stevens*, and Deputy Governor, Philip Lowe*†.

Banking and Payments Group

Assistant Governor: Keith Hall*†

Banking and Payments Group comprises Banking Department and Payments Settlements Department.

Banking Department

Head: Lindsay Boulton

Deputy Heads: Stephanie Connors, Paul Phibbs

Banking Department provides a range of banking services to Australian Government departments and agencies as well as a number of overseas central banks and official institutions. The services are broadly divided into two activities – management of the government's core accounts and transactional banking. Sydney-based staff are responsible for the direction, administration and development of the Department's work, while the day-to-day interaction with customers is largely managed by staff in the Bank's Canberra Branch.

Payments Settlements Department

Head: Greg Johnston

Deputy Heads: David Brown, Peter Gallagher

Payments Settlements Department is responsible for the settlement of high-value payments and interbank obligations arising from the conduct of Exchange Settlement Accounts and the Reserve Bank's own trading activities, as well as the operations of RITS (Reserve Bank Information and Transfer System), Australia's real-time gross settlement system. Services are also provided for the clearing and settlement of low-value payments, such as those arising from cheque and direct entry transactions.

Corporate Services Group

Assistant Governor: Frank Campbell*†

Corporate Services Group comprises three departments, which provide services to other parts of the Reserve Bank.

Facilities Management Department

Head: Grant Baldwin

Deputy Head: Matt Nolan

Facilities Management Department is responsible for the Reserve Bank's properties, security management and a range of facilities services.

Finance Department

Chief Financial Officer: Robert Middleton-Jones†

Financial Controller: Colleen Andersen

Chief Manager, Superannuation Fund and Special Projects: Michael Davies

Finance Department prepares the Reserve Bank's financial and management accounts and is responsible for a range of staff services, including payroll, superannuation and travel. Finance also manages the Bank's Enterprise Portfolio Management Office.

Information Technology Department

Chief Information Officer: Sarv Girn†

Deputy Head, Infrastructure and Operations: Peter Speranza

Deputy Head, Technology Services: Gayan Benedict

Information Technology Department is responsible for maintaining and developing the IT functions that support the Reserve Bank's policy, operational and corporate objectives.

Currency Group

Assistant Governor: Michele Bullock*†

Currency Group is responsible for all aspects of the banknote life cycle, including the design, production and distribution of banknotes.

The Assistant Governor (Currency) is Chair of Note Printing Australia Limited (NPA), a separately incorporated, wholly owned subsidiary of the Reserve Bank. It is responsible for printing banknotes, passports and other security documents for Australia and for export. More detail on NPA's governance and structure is provided in the chapter on 'Currency'.

Note Issue Department

Head: Michael Andersen

Deputy Heads: Keith Drayton, James Holloway

Note Issue Department is responsible for research into and development of new banknote designs and security features, and the supply of high-quality banknotes to meet the community's demand. The Department manages laboratories to assess new and used banknotes, develop new security features and assess counterfeits detected in circulation. It has an extensive public engagement program with commercial banks, retailers, cash-in-transit companies, law enforcement agencies and banknote equipment manufacturers. Staff actively participate in a number of international groups with the objective of minimising the threat posed by counterfeiters internationally.

Economic Group

Assistant Governor: Christopher Kent*

Economic Group is responsible for analysis of economic trends, both domestic and overseas, forecasting and research relevant to the framing of monetary policy. It comprises Economic Analysis Department and Economic Research Department.

Economic Analysis Department

Head: Alexandra Heath

Deputy Heads: Andrea Brischetto, Merylin Coombs, Michael Plumb

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

The Reserve Bank maintains four State Offices, covering: Queensland; South Australia and the Northern Territory; Victoria and Tasmania; and Western Australia. New South Wales and the Australian Capital Territory are covered by Head Office. These offices analyse economic conditions in regions throughout Australia and conduct liaison with individual firms and agencies in both the private and public sectors. They also provide a vehicle for communicating the workings of monetary policy to the wider community and for improving access to the Reserve Bank.

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

Economic Research Department

Head: John Simon

Deputy Head: Adam Cagliarini

Economic Research Department undertakes longer-term research into issues relevant to monetary policy formulation and the operation of financial markets. Results are published in the Research Discussion Paper series. The Department organises a major annual conference as well as an annual research workshop. In addition, it organises a program of internal seminars, hosts a number of invited academic visitors each year and is responsible for administering a comprehensive library service for the Reserve Bank.

Financial Markets Group

Assistant Governor: Guy Debelle*†

Financial Markets Group is responsible for implementing the Reserve Bank's operations in domestic and foreign exchange markets, monitoring developments in financial markets and coordinating the Bank's relationships with international institutions. The Group comprises Domestic Markets Department and International Department.

Domestic Markets Department

Head: Chris Aylmer

Deputy Head: Ellis Connolly

Domestic Markets Department is responsible for the Reserve Bank's operations in the domestic money and bond markets. The Department analyses developments in domestic financial markets, including the cost and availability of finance through financial intermediaries and capital markets, and provides regular advice to the Governors and Reserve Bank Board on these issues.

International Department

Head: Chris Ryan

Deputy Heads: Matthew Boge, Marion Kohler

International Department is responsible for the Reserve Bank's foreign exchange operations, the investment of international reserve holdings of gold and foreign exchange, and the provision of regular advice on developments in international financial markets to the Governors and Reserve Bank Board. The Department is also responsible for maintaining the Reserve Bank's relations with major international institutions.

The Reserve Bank's Representative Offices in London and New York come under the umbrella of the Financial Markets Group. The European Representative Office in London maintains liaison with central banks and other institutions and authorities in Europe, including the Bank for International Settlements and the Organisation for Economic Co-operation and Development. The New York Representative Office performs similar functions in North America. Both of these offices monitor economic and financial developments in the local markets, and are responsible for foreign exchange operations and investment of international reserves.

The Reserve Bank's investment and trading operations are supported by the Business Support Services area.

Financial System Group

Assistant Governor: Malcolm Edey*

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

Financial Stability Department

Head: Luci Ellis

Deputy Heads: David Orsmond, Carl Schwartz

Financial Stability Department analyses the implications for financial system stability of developments in the macroeconomy, financial markets and the financial sector more generally, including areas such as patterns of financial intermediation, financial products and risk management techniques. The Department provides advice on these issues to the Governors and Reserve Bank Board and supports the Reserve Bank's representation on bodies such as the Council of Financial Regulators, Financial Stability Board and Basel Committee on Banking Supervision. It is responsible for producing the *Financial Stability Review*.

Payments Policy Department

Head: Tony Richards

Deputy Heads: Darren Flood, Mark Manning

Payments Policy Department is responsible for developing and implementing the Reserve Bank's payments system policy. It provides analysis and advice to the Payments System Board on improving the safety and efficiency of the payments system. The Department is also responsible for oversight of Australia's clearing and settlement facilities and represents the Bank on the Committee on Payments and Market Infrastructures of the Bank for International Settlements.

Audit Department

Head: Darryl Ross†‡

Audit Department is responsible for conducting independent appraisals of the Reserve Bank's activities, functions and operations to ensure that an adequate framework of internal controls has been established and is operating effectively. The Head of Audit Department reports to the Deputy Governor and Chair of the Audit Committee.

Human Resources Department

Head: Melissa Hope*†

Deputy Head: Bruce Harries

Human Resources Department provides a range of centralised functions to support and enable the Reserve Bank to deliver its core objectives. These include shaping and maintaining a positive culture, a productive and engaged workforce and a safe, inclusive work environment; developing and fully utilising the talents of its staff to achieve with excellence; attracting, rewarding and retaining high-quality staff; and ensuring compliance with legislative requirements and legal standards.

Information Department

Head: Jacqui Dwyer†‡

Information Department is responsible for preparing and publishing Reserve Bank information and maintaining the Bank's websites. It handles enquiries from the public and media. In addition, the Department is responsible for the Bank's records management system, archives and the Museum of Australian Currency Notes.

Risk and Compliance Department

Head: Michelle McPhee†‡

The Risk and Compliance Department supports the consistent and effective application of the Reserve Bank's framework for managing risk, both at the enterprise level and for individual business units across the Bank. It assists departments to identify, understand and manage their compliance obligations. It also monitors and reports on portfolio risks and compliance with respect to the Bank's operations in financial markets. The Head of Risk and Compliance Department reports to the Risk Management Committee and the Deputy Governor. The Department is responsible for secretariat services for the Risk Management Committee.

Secretary's Department

Secretary: Anthony Dickman*

Deputy Secretary: Peter Stebbing

General Counsel: Catherine Parr†‡

Deputy General Counsel: Peter Jones

As a custodian of governance in the Reserve Bank, Secretary's Department provides secretariat and coordination services for the Governors, the Reserve Bank Board and its Audit and Remuneration Committees, the Payments System Board and the Executive Committee. In addition, it provides legal services to the Bank through the General Counsel, and coordinates a range of contacts with government, the Parliament, other central banks and international organisations, including arranging programs for visitors.

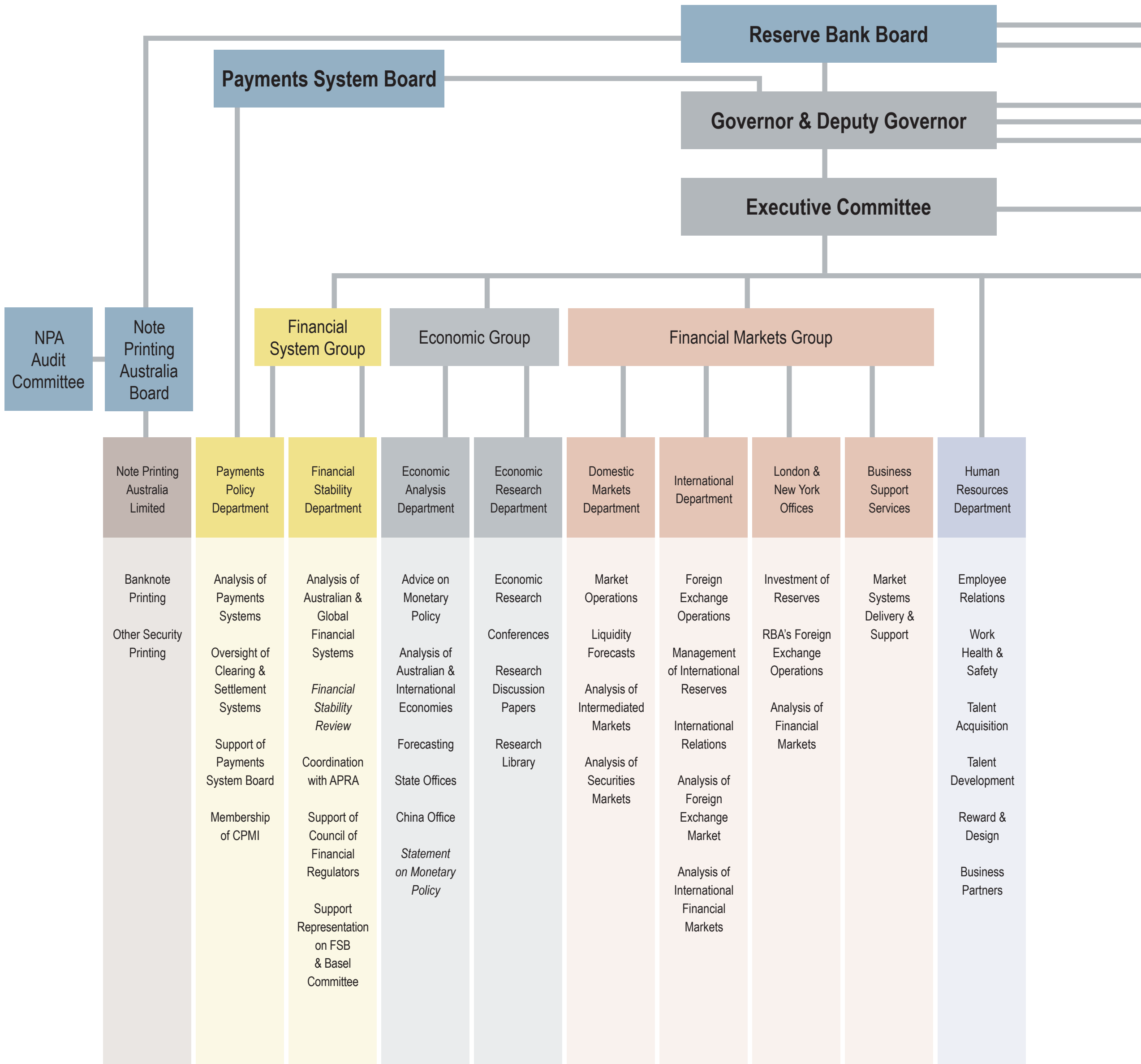
* Member of Executive Committee

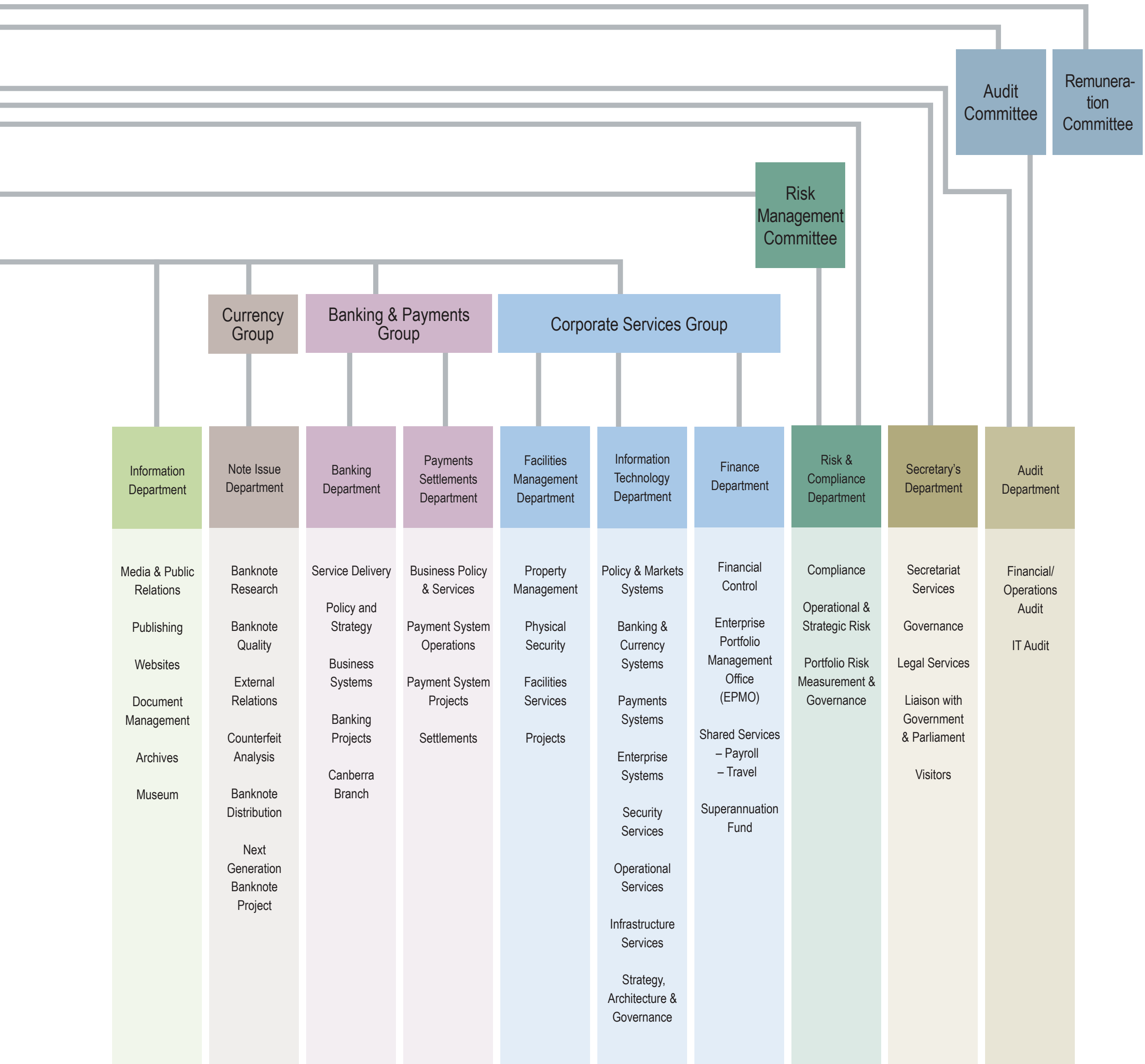
† Member of Risk Management Committee

‡ Advisor to Executive Committee

Organisation Structure

September 2015





Audit Committee
Remuneration Committee
Risk Management Committee
Currency Group
Banking & Payments Group
Corporate Services Group
Information Department
Media & Public Relations
Publishing
Websites
Document Management
Archives
Museum
Note Issue Department
Banknote Research
Banknote Quality
External Relations
Counterfeit Analysis
Banknote Distribution
Next Generation Banknote Project
Banking Department
Service Delivery
Policy and Strategy
Business Systems
Banking Projects
Canberra Branch
Payments Settlements Department
Business Policy & Services
Payment System Operations
Payment System Projects
Settlements
Facilities Management Department
Property Management
Physical Security
Facilities Services
Projects
Information Technology Department
Policy & Markets Systems
Banking & Currency Systems
Payments Systems
Enterprise Systems
Security Services
Operational Services
Infrastructure Services
Strategy, Architecture & Governance
Finance Department
Financial Control
Enterprise Portfolio Management Office (EPMO)
Shared Services – Payroll – Travel
Superannuation Fund
Risk & Compliance Department
Compliance
Operational & Strategic Risk
Portfolio Risk Measurement & Governance
Secretary's Department
Secretariat Services
Governance
Legal Services
Liaison with Government & Parliament
Visitors
Audit Department
Financial/ Operations Audit
IT Audit

Part 2:

Our Operations in 2014/15

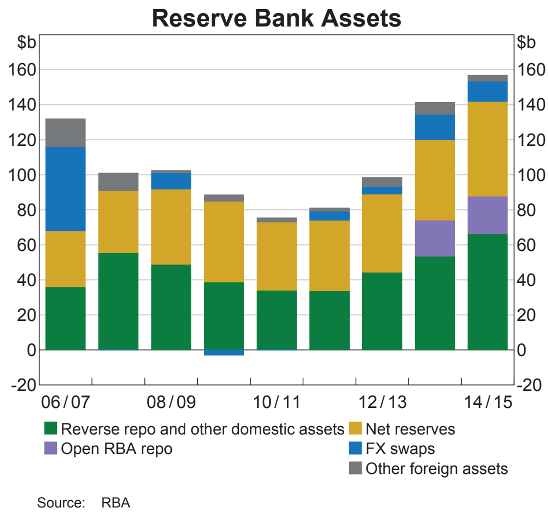
Operations in Financial Markets

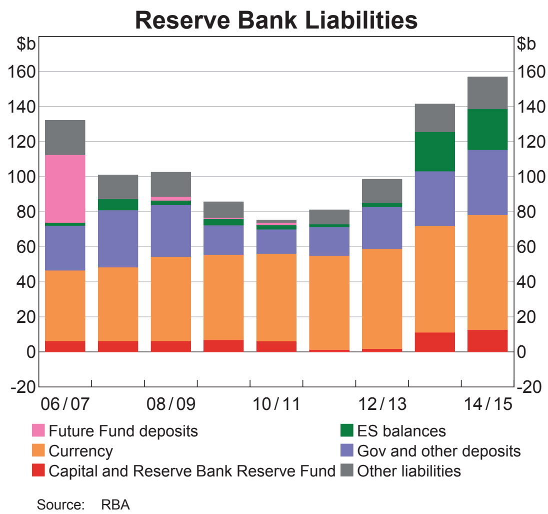
The Reserve Bank transacts in domestic and international financial markets in order to meet the Bank's policy objectives. These transactions include implementing the monetary policy decisions of the Reserve Bank Board, facilitating smooth functioning of the payments system, managing the nation's foreign reserve assets, providing banking services to clients (mainly the Australian Government and its agencies and foreign central banks) and issuing banknotes.

Balance Sheet

The Reserve Bank's balance sheet is affected by the range of transactions undertaken in domestic and international financial markets to meet the Bank's policy objectives.

The balance sheet increased by around $15 billion over 2014/15. On the liabilities side, the increase reflected the issuance of banknotes and higher deposit balances held by clients, particularly deposits held by the Australian Government, which increased by around $6 billion over the financial year. These deposits are used by the Government to ensure that its financial obligations are able to be met as and when they fall due, and can vary considerably over the course of a year.[1] Banknotes on issue rose by around $5 billion over 2014/15. The increase in liabilities was accommodated on the assets side of the balance sheet predominantly by an increase in domestic securities held under reverse repurchase agreements (repos).





Domestic Market Operations

Management of System Liquidity

The Reserve Bank Board's operational target for monetary policy is the cash rate – the rate at which banks borrow and lend to each other on an

1 See Baker A and D Jacobs (2010), 'Domestic Market Operations and Liquidity Forecasting', RBA *Bulletin*, December, pp 37–43.

The Reserve Bank's balance sheet increased by around $15 billion

overnight, unsecured basis. The cash rate target was changed twice during the past year – from 2.5 per cent to 2.25 per cent in February 2015 and from 2.25 per cent to 2 per cent in May 2015.

To assess whether the target has been achieved, each day the Reserve Bank collects data from Exchange Settlement (ES) account holders on their unsecured borrowing and lending in the overnight interbank market. Aggregate activity within the cash market averaged around $5 billion each business day over the financial year. The weighted-average cash rate was equal to the Board's target on all days.

To implement the cash rate target, the Reserve Bank operates in financial markets each day to maintain an appropriate level of ES balances, which are liabilities of the Bank and are used by financial institutions to settle their payment obligations with each other and with the Bank. Of the 174 members of the Reserve Bank Information and Transfer System (RITS), 88 members hold ES accounts. The supply of ES balances is altered by payments between ES account holders (mainly financial institutions) and the Reserve Bank (including its customers, principally the Australian Government). To offset these flows, the Bank can buy or sell government securities, undertake transactions in the repo market or use foreign exchange swaps.

The Reserve Bank announces its intentions for its open market operations each morning at 9.30 am. Those wishing to participate in the Bank's open market operations have a 15-minute window in which to register their approaches for the auction that determines the Bank's liquidity injection. The results of the Bank's main round of open market operations are announced shortly after 9.45 am. To ensure that unforeseen payments do not adversely affect the Bank's ability to implement monetary policy, the Bank has the option of undertaking additional rounds of market operations late in the afternoon. The Bank announces its intention to deal (or not to deal) at 5.10 pm every day; there have been 58 such additional dealing rounds during the past financial year, with two-thirds of these operations to inject liquidity. In the event of unforeseen liquidity developments later than this, further additional rounds can be announced if the need arises, but no such operations were required in 2014/15.

Surplus ES balances are remunerated at 25 basis points below the cash rate target; conversely, where an ES account holder faces a shortfall in ES balances, the Reserve Bank is willing to advance funds overnight against eligible securities at an interest rate 25 basis points above the cash rate target. During 2014/15, ES account holders sought overnight funding from the Bank on two separate occasions for small amounts.

The Reserve Bank seeks to maintain a supply of surplus ES balances sufficient to ensure that the interbank cash market clears at the Board's target.[2] In recent years, the supply of surplus ES balances had been reasonably steady at around $1 billion; however, over the past year there has been an increase in the size and volatility of surplus funds. From January 2015, surplus ES balances increased to around $1½ billion and were typically in a range of $500 million around this average. In part, this reflects an increase in demand for ES balances by some institutions following the introduction of the Liquidity Coverage Ratio (LCR). This reflects the fact that ES balances are high-quality liquid assets (HQLA), which institutions are required to hold in

2 Total ES balances are typically $21 billion to $22 billion, of which around $20 billion is required to be maintained as contracted open repo positions; ES account holders typically have aggregate surplus balances of around $1 billion to $2 billion. For further details refer to the 'Operations in Financial Markets' chapter of the Annual Report for 2014.

Overnight Funding from the Reserve Bank Sought by Exchange Settlement Account Holders(a)

	Number of occasions funding sought	Average value of funding provided $ million
2009/10	5	207
2010/11	2	182
2011/12	5	221
2012/13	2	94
2013/14	7	194
2014/15	2	38

(a) Includes overnight repos and exchange settlement account balance shortfalls relative to open RBA repo positions
Source: RBA

sufficient quantity to satisfy the LCR. In response to this additional demand, the Reserve Bank increased the quantity of surplus ES balances supplied in open market operations. This ensured that sufficient funds were available in the cash market for all institutions to meet their payment obligations and that the market cleared at the Board's target on all days.

Committed Liquidity Facility

The Australian Prudential Regulation Authority (APRA) implemented the Basel III liquidity standard in Australia from 1 January 2015. The standard requires banks subject to the LCR to hold sufficient HQLA to meet outflows during a 30-day period of stress. Given the relatively low levels of government debt and hence a shortage of HQLA in Australia available to the banks subject to the LCR, the Reserve Bank introduced a committed liquidity facility (CLF). The CLF provides banks with a contractual commitment to funding under repurchase agreements with the Reserve Bank, subject to certain conditions. These include that banks pay a fee of 15 basis points per annum on the amount committed and that any bank seeking to utilise the CLF must have positive net worth in the opinion of the Reserve Bank, having consulted with APRA. The banks are able to contract these repos using eligible securities (including self-securitisations). The full terms and conditions of the facility are available on the Bank's website.[3]

The Reserve Bank administers the CLF, while APRA determines which banks have access and the amount available. For the calendar year 2015, the Reserve Bank entered into commitments with 13 banks and the total size of the facility was $275 billion at 30 June 2015. The aggregate size of the facility is the difference between APRA's assessment of banks' overall LCR requirements less the Reserve Bank's assessment of the amount of Australian Government Securities (AGS) and semi-government securities (semis) that could reasonably be held by banks without unduly affecting market functioning. In 2015, these amounts were $450 billion and $175 billion, respectively. The size of the commitment granted to each bank will be reviewed annually by APRA, while the Reserve Bank will make an annual assessment of the overall amount of government securities that can reasonably be held by the banks as HQLA.

Total size of the CLF was **$275 billion**

Holdings of Domestic Assets

The size of the Reserve Bank's asset holdings is generally determined by changes in its liabilities. Over the past year, the Bank's holdings of domestic assets increased by around $13 billion. The domestic assets are either purchased outright or held under repo.

3 The CLF legal documentation is available at <http://www.rba.gov.au/mkt-operations/resources/tech-notes/pdf/clf-terms-and-conditions.pdf> and <http://www.rba.gov.au/mkt-operations/resources/tech-notes/clf-operational-notes.html>.

Most of the Reserve Bank's transactions in the domestic market are contracted as repos as part of the Bank's regular open market operations. A reverse repo involves an agreement to buy and then later sell securities; this is economically similar to a secured loan, with the difference between the purchase and sale prices representing the interest earned on the transaction. To protect against a decline in the value of the collateral securities should the Bank's counterparty not be able to meet its repurchase obligation, the Bank requires the value of the security to exceed the cash lent by a certain margin.[4]

The size of the Reserve Bank's repo book ranged between $30 billion and $60 billion over the past financial year. With the stock of repos outstanding in the whole domestic market generally around $110 billion, the Bank's operations are a significant portion of the market, particularly for longer terms. The most active users of repo tend to be the fixed-income trading desks of banks and securities firms seeking to finance their inventories of AGS and semis. Reflecting this, around 70 per cent of the securities held by the Bank (excluding those under open repo) are government-related obligations. The average residual maturity of reverse repos contracted via open market operations in 2014/15 remained around one month.

Securities that are eligible in the Reserve Bank's open market operations are also eligible for open repo positions. In addition, the Bank has permitted the use of certain related-party assets issued by bankruptcy-remote vehicles, such as self-securitised residential mortgage-backed securities (RMBS), as security against open-repo positions. Around 90 per cent of the outstanding amount of open repos is backed by these self-securitised assets. Self-securitised RMBS used in open repos do not have directly observable market prices as they are retained in full by the bankruptcy-remote trusts of originating institutions and are therefore not traded. As a result, the Bank uses an internal valuation model for self-securitised RMBS based on observed market prices of similarly structured RMBS. The internal valuation model was independently reviewed in 2014 and assessed as being fit for purpose.

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

	June 2013		June 2014		June 2015	
	$ billion	Per cent of total	$ billion	Per cent of total	$ billion	Per cent of total
AGS	15.5	42	17.6	25	21.3	28
Semis	9.4	30	15.5	22	9.8	13
Supras	1.4	4	3.3	5	3.8	5
Government guaranteed	0.2	1	0.0	0	0.0	0
ADI issued	8.0	19	8.8	12	15.9	21
Asset Backed Securities	0.6	4	25.1	35	25.3	33
Of which for open repo	0.0	0	24.3	34	24.1	32
Other	0.0	0	0.6	1	0.0	0
Total	35.2	100	70.9	100	76.2	100
Of which for open repo	0.0	0.0	25.2	36	25.6	34

(a) Market value of securities before the application of margins
Source: RBA

4 These margins are listed on the Bank's website at <www.rba.gov.au/mkt-operations/resources/tech-notes/eligible-securities.html> and are considerably higher for securities that are not issued by governments.

Asset-backed securities form a significant share of the collateral securities the Reserve Bank purchases under repo and there is the potential for significant usage of self-securitised RMBS as collateral for the CLF. Given this, the Bank has introduced new eligibility requirements for securitisations to be used in its operations, which took effect on 30 June 2015. These required reporting transaction and securities-related data to the Bank, as well as information on the underlying assets, such as residential mortgages for RMBS. The provision of this information, which allows the Bank to value securitised assets more precisely and better assess and manage risk, has led to more granularity of the adjustments that the Bank makes to manage credit risk, according to individual credit characteristics. Reflecting the Bank's interest in promoting increased transparency for investors in asset-backed securities, this information is also made available to those with a legitimate interest in receiving it for investment purposes or for professional or academic research purposes, although for these recipients some information is aggregated or redacted. The reporting requirements were developed in consultation with the industry.

Domestic securities purchased by the Reserve Bank are held in an account that the Bank maintains in Austraclear, the securities depository of the Australian Securities Exchange (ASX). Securities transactions conducted between the Bank and its counterparties are settled in the Austraclear system, mostly on a bilateral basis. The Bank also settles repo transactions contracted in its open market operations within ASX Collateral, a collateral management service. During the past financial year, around 5 to 10 per cent of the total amount of securities the Bank purchased under repo was settled within ASX Collateral.

The Reserve Bank continues to operate a Securities Lending Facility on behalf of the Australian Office of Financial Management (AOFM). The securities available through the facility comprise all Treasury Bonds and Treasury Indexed Bonds currently on issue. The Bank sells these securities either for intraday or overnight repos to RITS members eligible to participate in the Bank's domestic market operations.

In addition to the securities held under repo, the Reserve Bank holds a smaller amount of both AGS and semis on an outright basis in its domestic portfolio. These are used for the Bank's management of system liquidity and are also available to be sold as collateral for repos.

An important influence on the composition of the Reserve Bank's holdings of AGS has been management of the impact of large AGS maturities on system liquidity. This reflects the Bank's need to mitigate the liquidity impact of the large volume of funds that are paid out of the Australian Government's account at the Bank into ES accounts (for the credit of the security holder) on the maturity date. In addition to using reverse repos and FX swaps – both contracted to unwind and therefore withdraw liquidity on the same day as the AGS maturity – the Bank makes purchases of AGS ahead of their maturity date.

Over the course of 2014/15, the Reserve Bank offset the liquidity effects of two large AGS maturities – the $12 billion maturity of the October 2014 bond and the $14.8 billion maturity of the April 2015 bond. To do this, the Bank purchased around $3.2 billion of the October 2014 bond and $6 billion of the April 2015 bond in the 12 months preceding each maturity. These sterilisation operations will increase in size in the future as large AGS issues mature. Reflecting these operations, the Bank's holdings of AGS tend to be concentrated in those issues with a short term to maturity. These holdings generally increase ahead of their maturity date. On occasion, the securities may be sold to the AOFM ahead of their maturity date.

At the end of June 2015, the Reserve Bank held around $4 billion of semis. This is similar to the level of earlier years. These securities are generally purchased as part of the Bank's daily open market operations or separately through outright purchase operations. The latter, which are conducted over Yieldbroker DEBTS, an electronic trading platform, occurred four times in 2014/15.

Foreign Exchange Operations

On almost all business days, the Reserve Bank transacts in the foreign exchange market. Most of these transactions are undertaken to meet the needs of the Australian Government, which is the major foreign currency customer of the Bank. During 2014/15, the Bank sold $9.4 billion of foreign currency to the Government (not including sales related to IMF financing).

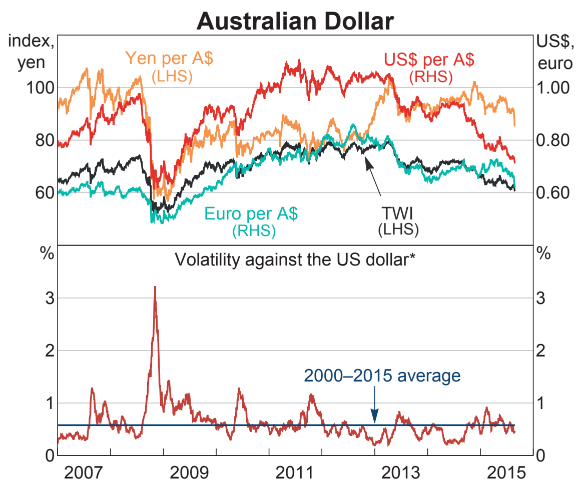
The Reserve Bank sources the required foreign currency for its customers from purchases in the spot market, only deviating from this strategy in periods where the market for Australian dollars is under significant strain. At those times, the Bank may use its existing stock of foreign currency reserves to fund its customer business, subsequently replenishing those reserves when market conditions are deemed to have stabilised. Using foreign currency reserves in this manner has not been considered necessary since 2008, when global financial markets were significantly impaired.

More generally, the Reserve Bank retains the discretion to intervene in the market to address market dysfunction and/or a significant misalignment in the value of the Australian dollar. Over 2014/15, as Australia's terms of trade declined from historically high levels, the Australian dollar depreciated significantly, falling from US$0.94 to US$0.77 and by 11 per cent on a trade-weighted basis. As with developed market currencies more generally, volatility in the Australian dollar increased from what had been very low levels. However, the Bank's assessment is that liquidity conditions in the Australian dollar market have been adequate and it has not deemed it necessary to support liquidity in the market through its own transactions. (Intervention data are published, with a lag, on the Bank's website.)

The A$ depreciated by 11 per cent on a trade-weighted basis

The Reserve Bank also transacts in the foreign exchange market when managing its foreign currency reserves. As discussed below, the relative weightings of foreign currencies within the Bank's portfolio are managed against a benchmark. To maintain the portfolio at these benchmark weights, or to accommodate discrete changes in the weights, the Bank will transact in spot foreign exchange. The final settlement of these rebalancing flows may be deferred through the use of foreign exchange swaps, whereby one currency is exchanged for another, with a commitment to unwind the exchange at a subsequent date at an agreed (forward) rate. Swaps can also be an efficient way to manage the shorter-dated portion of the reserves portfolio. During 2014/15, swaps transacted for these purposes totalled around US$66 billion.

As highlighted above, the Reserve Bank also makes use of foreign exchange swaps to manage liquidity in the domestic cash market. Swaps against



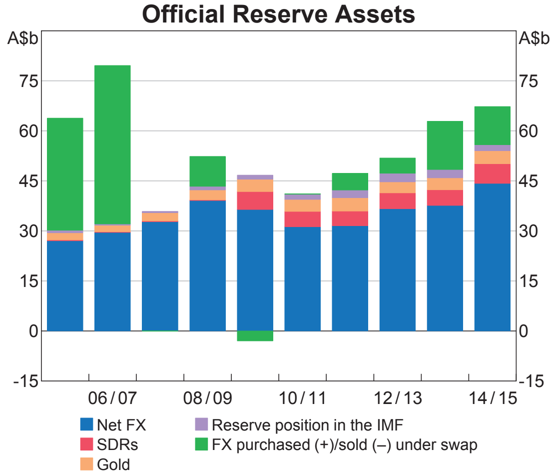
* Daily absolute percentage change, 22-day rolling average
Sources: RBA; Thomson Reuters

Australian dollars do not affect the exchange rate but will alter the supply of ES balances in the same way as repos against Australian dollar-denominated securities. The swap market generally offers more liquidity than the domestic repo market, allowing the Bank more effectively to manage the impact of large projected changes in ES balances (such as those associated with government bond maturities). In 2014/15, $76.7 billion of foreign currency swaps were undertaken for domestic liquidity management.

Foreign currency swaps executed by the Reserve Bank are generally for no more than three months' duration. The risk associated with forward foreign exchange positions is mitigated by receiving collateral from (or, where appropriate, posting collateral to) the Bank's counterparties against changes in the market value of outstanding positions. The terms under which such collateral is exchanged are defined in two-way Credit Support Annexes to the ISDA Master Agreements that the Bank has executed with each of its foreign exchange counterparties (see the chapter on 'Risk Management' for details).

Reserves Management

Australia's official reserve assets include foreign currency assets, gold, Special Drawing Rights (SDRs – a liability of the IMF) and Australia's reserve position in the IMF. Reserve assets are held primarily to facilitate policy operations in the foreign exchange market (as discussed above). The capacity to undertake such operations is best measured by 'net' reserve assets, with the amount of foreign currency subject to forward commitments (such



Source: RBA

as foreign currency that the Reserve Bank has obtained from short-term swaps against Australian dollars) excluded.

Australia's reserve position in the IMF is an asset of the Australian Government. All other components of Australia's official reserve assets are held on the Reserve Bank's balance sheet and the Bank is responsible for managing the level and composition of those reserves. As these assets can expose the Bank to various risks (such as market, liquidity and credit risk), the level held represents the amount assessed as necessary to meet potential policy requirements. Within that, the Bank seeks to mitigate risks to its balance sheet where possible, such as by holding a diversified portfolio of assets and investing only in assets of high credit quality and appropriate liquidity.

The composition of the Reserve Bank's foreign currency asset portfolio is guided by an internally

Benchmark Foreign Currency Portfolio
30 June 2015

	US dollar	Euro	Japanese yen	Canadian dollar	Chinese renminbi	Pound sterling
Currency allocation (per cent of total)	55	25	5	5	5	5
Duration (months)	6	6	6	6	30	3

Source: RBA

constructed benchmark. This benchmark is assessed to be the combination of foreign currencies and foreign currency assets that will maximise the Bank's returns over the long run, subject to the Bank's risk tolerance. The structure of the benchmark is periodically reviewed to take account of significant changes in market conditions.

During 2014/15, the allocation to the Chinese renminbi within the foreign currency benchmark was increased from 3 per cent to 5 per cent, the US dollar allocation was increased from 52 per cent to 55 per cent and an allocation of 5 per cent was made to pound sterling. Within the benchmark, these changes were offset by a 10 per cent reduction in the euro share. These shifts further helped to diversify the Bank's foreign currency investments and are expected to enhance returns over the long run. The large weight of the US dollar in the foreign currency portfolio in part reflects the greater liquidity of that market.

Chinese renminbi in the foreign currency benchmark increased to 5 per cent

Reflecting the generally low level of global interest rates, duration targets have remained short for most of the foreign currency portfolios, with the target for euro investments reduced further during the year. Short duration targets will mitigate the risk of capital losses should bond yields return to more normal levels in these currencies. The duration target for the Chinese portfolio was raised in 2014/15 alongside the increased allocation to that currency to support replicability of the benchmark.

Investments within the benchmark currencies are limited to deposits at official institutions (such as central banks) and debt instruments issued or guaranteed by sovereigns, central banks, supranational agencies and (under reverse repo only) quasi sovereigns. Sovereign credit exposures are currently limited to the United States, Germany,

Foreign Currency Assets[(a)]
A$ million, 30 June 2015

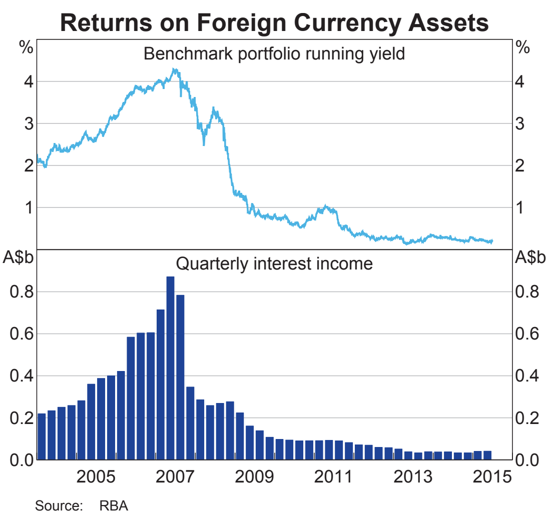
Currency	Securities held outright	Securities held under reverse repos	Deposits at official institutions[(b)]	Total	Forward FX commitments: Against AUD	Forward FX commitments: Against other currencies	Net
US dollar	13 222	561	720	14 504	–385	9 872	23 990
Euro	6 485	524	13	7 022	–5	3 822	10 840
Japanese yen	28 860	1 224	58	30 142	–11 278	–16 682	2 183
Canadian dollar	1 172	–	5	1 178	–	1 003	2 181
Chinese renminbi	2 186	–	33	2 219	–	–	2 219
Pound sterling	–	–	1	1	–3	2 253	2 251
Total	**51 926**	**2 310**	**830**	**55 065**	**–11 670**	**268**	**43 663**

(a) Excludes investments in the Asian Bond Funds
(b) Includes deposits at foreign central banks and the Bank for International Settlements
Source: RBA

France, the Netherlands, Canada, Japan, China and the United Kingdom.

At the end of June, the Reserve Bank's foreign currency reserves included $11.7 billion of foreign currency sourced from swaps against Australian dollars. Foreign currency obtained in this manner does not comprise part of the benchmark portfolio, but is invested to ensure that the Bank's forward commitments to sell foreign currency are fully hedged against currency and interest rate risk.

As has been the case for some years, when the costs of hedging currency risk are taken into account, yields on short-dated Japanese investments have generally exceeded those available in the other currencies within the Reserve Bank's portfolio. Reflecting this, almost all of the foreign currency the Bank obtains from swaps against Australian dollars is Japanese yen. For the same reason, the Bank also swaps other foreign currencies against the yen to enhance returns on its foreign reserves portfolio. As a consequence, while the Bank's exposure to changes in the value of the yen remains small (consistent with the yen's low share in the Bank's benchmark), around 55 per cent of foreign currency reserves were invested in yen-denominated assets at the end of June 2015. The swaps undertaken for return enhancement are of short duration, less than 100 days, and are



The benchmark portfolio running yield was very low at 0.2 per cent

staggered such that the average term to maturity is around one and a half months.

A small component of the Reserve Bank's net foreign currency reserves sits outside the benchmark framework. This encompasses investments in a number of Asian debt markets through participation in the EMEAP Asian Bond Fund Initiative, which was established in the wake of the Asian currency crisis in the late 1990s to assist in the development of bond markets in the region. The Bank has modest holdings in the US dollar-denominated fund (ABF1) and the local currency-denominated fund (ABF2). At the end of June 2015, the total allocation of reserves to these funds was $583 million. The return on these investments in 2014/15 was 10 per cent when measured in SDR terms.

Measured in SDRs, the overall return on the Reserve Bank's foreign currency assets in 2014/15 was 2.2 per cent, significantly higher than the previous year but still below historical norms. This outcome largely reflected the US dollar's appreciation against other benchmark currencies, with small contributions from interest income and capital gains on bond holdings. At the end of June 2015, the running yield on the benchmark portfolio was very low at 0.2 per cent, reflecting the historically low levels of global bond yields.

The Reserve Bank's holdings of SDRs at 30 June 2015 amounted to $5.9 billion, $1.2 billion higher than the previous year, reflecting net purchases of SDRs over the year and the depreciation of the Australian dollar. Under voluntary arrangements with the IMF, the Bank is willing to transact in SDRs upon request from other countries or prescribed holders. In these transactions, the Bank will generally either buy or sell SDRs in exchange for foreign currencies (such as euros or US dollars). While such transactions do not alter the level of Australia's reserve assets (only the proportions held in SDRs and foreign currency), the Bank occasionally chooses to replenish foreign currency sold in exchange for SDRs by purchasing additional foreign currency against Australian dollars in the spot market.

Australia's reserve position in the IMF was $1.8 billion at the end of June 2015. This is $0.7 billion lower than the previous year as a result of IMF member countries' loan repayments, which were only partly offset by exchange rate valuation effects. The reserve position comprises that part of Australia's quota in the IMF that was paid in foreign currency as well as other credit that Australia has extended to the IMF in support of its lending programs. As noted above, this asset is not held on the Reserve Bank's balance sheet. However, the Bank will sell to (or purchase from) the Australian Treasury the foreign currency the Treasury needs to complete its transactions with the IMF. Unlike the normal customer business transacted with the Australian Government, the Bank will typically draw on (or add to) its foreign currency reserves when providing foreign currency for this purpose. This is because any change to the Bank's holdings of foreign currency assets will be offset by an equivalent change in Australia's reserve position in the IMF, leaving total official reserve assets unchanged. Nevertheless, as with SDR transactions, on certain occasions the Bank may decide to offset the impact on foreign currency asset holdings of these IMF transactions by transacting in spot foreign currency against the Australian dollar.

Gold holdings at the end of June 2015 were around 80 tonnes, unchanged from the previous year. Gold prices rose by 9 per cent in Australian dollar terms over 2014/15, increasing the value of the Reserve Bank's holdings of gold by around $0.3 billion to $3.9 billion. The Bank had only 1 tonne of gold on loan during 2014/15, with income earned on that loan amounting to $0.1 million.

Bilateral Currency Swaps

In April 2015, the Reserve Bank renewed its bilateral local-currency swap agreement with the People's Bank of China. This follows the initial swap agreement between the two central banks signed in 2012 and is for a further period of three years. The agreement, which can be activated by either party, allows for the exchange of local currencies between the two central banks of up to A$40 billion or CNY 200 billion. The Reserve Bank has a similar local-currency swap arrangement with the Bank of Korea. These agreements are designed to support trade and investment between the respective countries, particularly in local-currency terms, and to strengthen bilateral financial cooperation.

Banking and Payment Services

The Reserve Bank provides a range of banking, registry and payment settlement services to participants in the Australian financial system, the Australian Government and various international entities. The Bank works closely with its government and agency clients to ensure that they can access services consistent with both their needs and those of the public.

Banking and payment services provided by the Reserve Bank include those associated with the operation of the Australian Government's principal public accounts; transactional banking services to government agencies; custodial and related services; and the operation of the real-time gross settlement (RTGS) system for high-value Australian dollar payments.

Banking

The Reserve Bank's banking services comprise two broad components: core and transactional banking services. Both are provided with the common objective of delivering secure and efficient arrangements to meet the banking and payment needs of the Australian Government and its agencies. In addition, the Bank provides banking and related services to a number of overseas central banks and official institutions.

Core banking services are provided to the Department of Finance on behalf of the Australian Government and the Australian Office of Financial Management (AOFM). These services derive directly from the Reserve Bank's role as Australia's central bank and require the Bank to manage the consolidation of Australian Government agency account balances – irrespective of the financial institution with which each agency banks – into the government's Official Public Accounts (OPA) at the Bank on a daily basis. Balances from agencies' accounts at transactional banks are 'swept' to the OPA at the end of each business day, with balances required to meet agencies' day-to-day payment obligations returned the following morning. The average daily sweep to and from the OPA was around $3 billion in 2014/15.

The Reserve Bank also provides the government with a term deposit facility for investment of its excess cash reserves, as well as a short-term overdraft facility to cater for occasions when there is unexpected demand on Commonwealth cash balances. The overdraft facility was used once during 2014/15.

While the Reserve Bank manages the consolidation of the government's accounts, the AOFM has day-to-day responsibility for ensuring there are sufficient cash balances in the OPA to meet the government's day-to-day spending commitments and for investing excess funds in approved investments, including term deposits with the Bank.

The Reserve Bank's transactional banking services are associated with more traditional banking activities. Principal among these are services for making payments from government agencies to recipients' accounts. The Bank processed some 325 million payments, totalling $495 billion, for government agencies in 2014/15. Most of

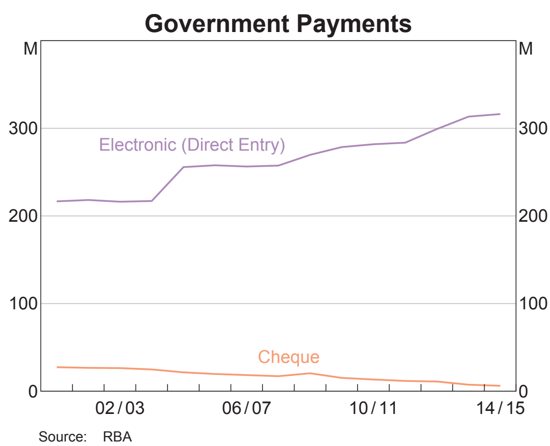
325 million payments, worth $495 billion, processed for government agencies

these were made via direct entry. The Australian Government also makes payments by eftpos, the RTGS system and cheque, though its use of cheques has fallen significantly in recent years relative to electronic payment methods. In addition to payments, the Bank provides its government agency customers with access to a number of services through which they can collect funds, including Electronic Funds Transfer, BPAY, eftpos, and card-based services via phone and the internet. The Bank processed 30 million collections-related transactions for the Australian Government in 2014/15, amounting to $460 billion.

The provision of transactional banking services is consistent with the Reserve Bank's responsibilities under the *Reserve Bank Act 1959*. These services are offered in line with the Australian Government's competitive neutrality guidelines. To deliver the services, the Bank must compete with commercial financial institutions, in many instances bidding for business at tenders conducted by the agencies themselves. It must cost and price the services separately from the Bank's other activities, including its core banking services, and meet a prescribed minimum rate of return. Some 90 government agencies are transactional banking customers of the Bank. Pro forma business accounts for transactional banking are provided in this report, on page 109.

The Reserve Bank works closely with its transactional banking customers and the Australian Government more generally to ensure that they have access to services that are consistent with their needs and those of the public. In 2014/15, the Bank added a second corporate card product to its suite of banking services to provide agency customers with greater choice and convenience in managing expenses. The Bank also broadened the features available through its online payments service, Government EasyPay, allowing its agency customers, in turn, to provide improved services to households and businesses when making payments to government. For some services, the Bank combines its specialist knowledge of the government sector with specific payment services and products from commercial providers to meet the government's banking needs. Many of the services mentioned above, including the new corporate card and the improvements to Government EasyPay, are examples of this. The Bank will continue to make use of combined service arrangements with commercial providers as the government's banking needs evolve.

In common with other financial institutions, the Reserve Bank relies heavily on ICT systems to deliver banking services to its customers and must upgrade and improve its systems over time to ensure that they continue to provide the highest levels of service, reliability and efficiency. Annual



reports for the past few years have noted that the Bank is undertaking a program of work to upgrade its banking systems and applications, moving them to a contemporary programming language and architecture, and re-engineering a number of related business processes. Further milestones in this program were reached during 2014/15. In particular, an upgrade to one of the services by which the Bank processes payments made to its agency customers was completed in May 2015. Another significant milestone, involving processing the government's international payments, is scheduled to be reached in the first half of 2015/16.

The Reserve Bank also works with other financial institutions and payments-related organisations to develop and improve banking and payment services at an industry level. Along with other financial institutions, the Bank implemented arrangements during 2014/15 to process cheque payments on the basis of transferring digital images of cheques rather than by the exchange of physical cheques. The move to digital exchanging was an initiative of the Australian Payments Clearing Association and intended to limit increases in cheque processing costs as the use of cheques in the community falls. As noted above, cheque use

Photo: Stuart Mccormick, Sthbeach Photography

Assistant Governor (Financial System), Malcolm Edey, speaking at the Cards & Payments Conference, May 2015 by the Reserve Bank's government customers has fallen significantly, with cheques now making up less than 2 per cent of agency payments compared with a little under 10 per cent a decade ago.

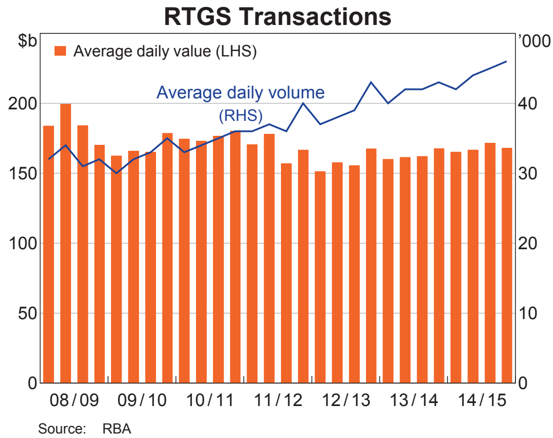
The Reserve Bank continued its contribution during 2014/15 to developing the payments industry's New Payments Platform (NPP), which will enable payments to be exchanged on a 24/7 basis in near real time together with more complete remittance information. Also, as part of this contribution, work began within the Bank in early 2015 to implement a system to process government-related transactions across the new platform. The Bank expects to make an NPP service available to its agency customers from the payments industry's scheduled go-live date in the second half of 2017. In common with the program to upgrade the Bank's banking systems, the work within the Bank is being overseen by a Steering Committee comprising senior staff. Further information on NPP is available below in the section on Settlement Services.

After-tax earnings from the Reserve Bank's transactional banking services were $5.5 million in 2014/15, around $0.4 million higher than in the previous year. The increase was due largely to increased transaction volumes through the Bank's online collection services. This was tempered slightly by higher costs associated with systems development and service improvements.

Settlement Services

The Reserve Bank owns and operates the Reserve Bank Information and Transfer System (RITS), which provides for the settlement of payment obligations across Exchange Settlement Accounts (ESAs) held with the Reserve Bank. At the end of June 2015, there were 58 institutions approved to operate an ESA, with an additional 30 institutions holding ESAs but having appointed another ESA holder to settle RTGS transactions on their behalf in RITS. A further 86 institutions were Non-Transaction Members of RITS, mostly in order to participate in the Reserve Bank's domestic open market operations.

Most transactions are submitted to RITS for settlement individually on a RTGS basis. These include time-critical customer and other bank payments, wholesale debt and money market transactions and the Australian dollar legs of foreign exchange transactions. The latter includes Australian dollar trades settled through continuous linked settlement (CLS), for which net amounts are paid to and received from CLS Bank International each day. Close to 44 000 RTGS transactions, worth $168 billion, were settled in RITS, on average, each day during 2014/15. While RTGS volumes have continued to grow steadily in recent years, growth in values has been more variable, with RTGS values in 2014/15 still well below those of 2010/11.



RITS also settles some payments on a net basis after they have been exchanged. This includes obligations arising from payments exchanged through low-value clearing systems for cheques, debit and credit cards, BPAY and direct entry transactions. Most direct entry obligations are settled on a same-day basis in five multilaterally netted settlements at 10.45 am, 1.45 pm, 4.45 pm, 7.15 pm and 9.15 pm Australian Eastern Time. Obligations arising from cheques, BPAY and retail card transactions, except those for MasterCard, are settled on a multilateral net basis the following day at around 9.00 am. The daily average value of net retail obligations settled in RITS in these six multilateral settlements was $7.4 billion in 2014/15,

An average of
44 000 RTGS transactions
worth
$168 billion
settled each day

representing more than $22 billion of underlying transactions.

Other payments are settled on a multilateral net basis using batch feeder functionality in RITS. One of these arrangements is the daily CHESS batch, which effects settlement of payments arising from stock market transactions and is managed by ASX Settlement Pty Limited as Batch Administrator. CHESS batch settlements averaged around $1.1 billion each day in 2014/15.

In late 2014, two new batch arrangements commenced in RITS. On 15 September 2014, MasterCard International became a Batch Administrator in RITS, submitting a daily multilateral net batch for the settlement of obligations arising from domestic MasterCard card use. From 10 November 2014, batch processing has included interbank cash settlements related to some property transactions, as part of a new national electronic conveyancing system for the Australian property industry operated by Property Exchange Australia Limited (PEXA). This initiative is expected to deliver significant benefits to consumers and property industry specialists through efficiency gains and cost savings. The implementation of property settlement in RITS required development work by the Reserve Bank to support the 'reservation' of ESA funds in RITS while title changes are lodged with the relevant land titles office. Since commencement, the daily value of property transactions in RITS has increased to around $62 million in June 2015.

The implementation of property settlement batches in RITS is one example of how the Reserve Bank invests in its technical and business infrastructure to ensure that RITS continues to meet the needs of its members and also promotes innovation in the Australian payments system. Another important area where this is occurring is in relation to the industry's NPP project, where the Bank continues to support the industry through its participation in industry design work and project governance and also through the development of the Fast Settlement Service (FSS). The FSS is a new RITS service that will settle individual NPP payments across ESAs in real time, removing the need for financial institutions to manage credit risk and enabling them to complete these customer payments in a matter of seconds.

Reflecting the critical importance of RITS to the Australian financial system, the Reserve Bank requires RITS to be assessed annually against the internationally agreed *Principles for Financial Market Infrastructures*. These principles, set by the Committee on Payments and Market Infrastructures of the Bank for International Settlements and the Technical Committee of the International Organization of Securities Commissions, aim to ensure the resilience of financial market infrastructures. The 2014 assessment concluded that RITS observed all the relevant principles and supported ongoing work by the Bank to ensure that RITS continues to meet international best practice, including a comprehensive review of its regulations and conditions of operation.[1] Reviews are also being undertaken in the areas of cyber security, operational resilience and participants' compliance with business continuity standards.

1 For further details, see Reserve Bank of Australia (2014), *2014 Assessment of the Reserve Bank Information and Transfer System*, December.

The Reserve Bank recovers its operating costs from RITS members through a combination of annual and transaction-based fees. There was a major restructure of RITS fees in July 2012, which sought to provide a more representative distribution of costs among members by striking a better balance in the use of volume and value fees. The process of rebalancing fees continued with an adjustment of fees in July 2014. A further small adjustment to the structure of RITS fees will take effect from July 2015, but this will not materially affect the total value of fees collected.

Around 55 overseas central banks and official institutions hold accounts at the Reserve Bank for settlement of their Australian dollar transactions and over half of these institutions also use the Bank's safe custody services. Overseas demand for Australian dollar investments remains strong, with the face value of securities held in custody by the Bank for these institutions increasing by $3.2 billion to $74.8 billion over 2014/15.

The Reserve Bank also provides settlement services for banknote lodgements and withdrawals by commercial banks and for RTGS settlement of (mainly high-value) transactions undertaken by the Bank and its customers, including the Australian Government.

55 overseas agencies hold accounts at the Reserve Bank

Banknotes

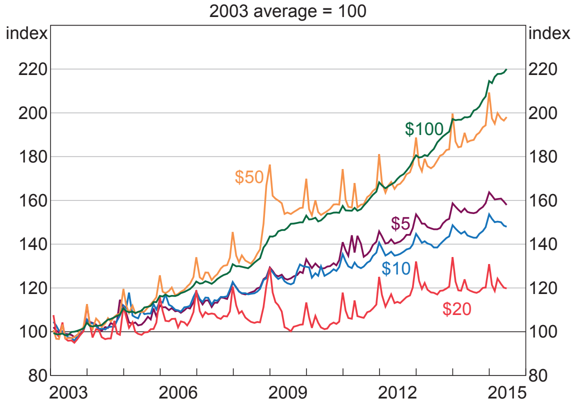
The Reserve Bank is responsible for producing and issuing Australia's banknotes. It seeks to ensure that there are sufficient high-quality banknotes in circulation to meet public demand. It also conducts research and development to help Australian banknotes remain secure against counterfeiting.

Public demand for banknotes stems from their role as a payment mechanism and store of wealth. To preserve public confidence in the capacity of banknotes to perform these roles, the Reserve Bank:

- produces and issues banknotes to meet public demand
- maintains the quality of banknotes in circulation by withdrawing old, worn banknotes and replacing them with new banknotes
- conducts research and development to ensure that Australian banknotes remain secure against counterfeiting.

Number of Banknotes in Circulation

2003 average = 100



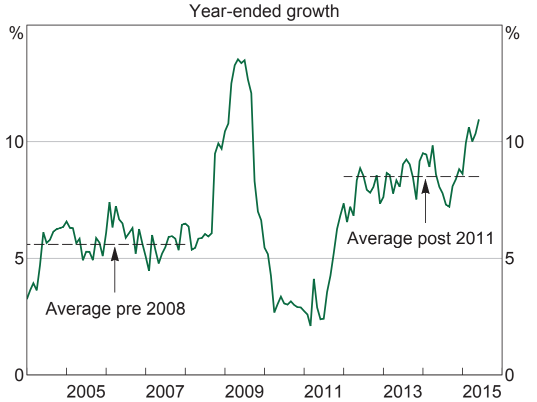
Source: RBA

Banknotes on Issue

At the end of June 2015 there were 1.3 billion banknotes, worth $65.5 billion, in circulation. The value of banknotes in circulation increased by 8 per cent in 2014/15, slightly above the long-term growth rate of 6 per cent. Growth in 2014/15 was driven by high-denomination banknotes, with the value of $100 banknotes increasing by 11 per cent and the value of $50 banknotes increasing by 6 per cent. While the growth in $50 banknotes was broadly in line with historical trends, growth in demand for $100 banknotes has increased substantially since 2012. Together, the $50 and $100 banknotes accounted for 92 per cent of the value and 67 per cent of the number of banknotes in circulation at the end of June 2015.

$100 Banknotes in Circulation

Year-ended growth



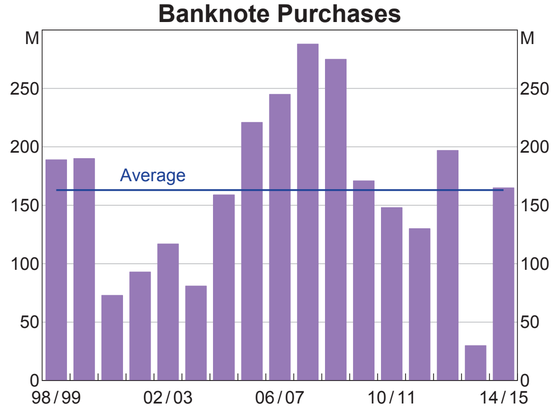
Source: RBA

1.3 billion banknotes, worth $65.5 billion, are in circulation

New Banknote Purchases

The Reserve Bank purchased 166 million banknotes from Note Printing Australia Limited (NPA) in 2014/15. These comprised 21 million $5 banknotes, 105 million $50 banknotes and 40 million $100 banknotes.

Banknote Purchases



Source: RBA

Distribution

The Reserve Bank maintains banknote holdings to accommodate growth in the number of banknotes in circulation, seasonal fluctuations in demand and for contingency purposes in the event of systemic shocks and production disruptions. The Bank has established distribution agreements with a number of commercial banks that provide them with access to banknote holdings. The Reserve Bank issued banknotes worth $10.4 billion in 2014/15, of which $3.8 billion had previously been in circulation and $6.6 billion were new.

The Reserve Bank aims to maintain a high quality of banknotes in circulation to ensure public confidence in Australia's banknotes. High-quality banknotes reduce machine acceptance issues and make it more difficult for counterfeits to be passed. For this reason, the Bank provides incentives to the commercial banks and the cash-in-transit companies to reissue fit banknotes into circulation and return those that are unfit to the National Note Processing and Distribution Centre (NNPDC), operated by NPA. These unfit banknotes are assessed using high-speed processing machines to confirm their authenticity and quality. In 2014/15, the NNPDC received $2.0 billion banknotes deemed unfit for recirculation.

The Reserve Bank also provides an additional service to members of the public through its Damaged Banknotes Facility, which helps to remove unfit banknotes from circulation. Through this facility, members of the public who have unwittingly come into possession of damaged banknotes or whose banknotes are accidentally damaged can ask the Bank to examine and verify their damaged or contaminated banknotes. Subject to the claim meeting the requirements set out in the Damaged Banknotes Policy, payment is made based on the assessed value of each claim. The Bank processed 15 117 claims and made $3.8 million in payments in 2014/15.

Counterfeiting in Australia

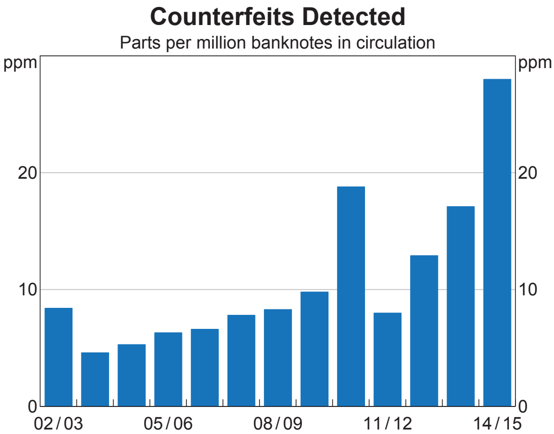
In 2014/15, around 37 000 counterfeits, with a nominal value of nearly $2.0 million, were detected in circulation. This corresponds to around 28 counterfeits detected per million genuine banknotes in circulation, which is a 63 per cent increase compared with 2013/14.

During the year, the Reserve Bank identified a single production source of counterfeits that contributed to the increased rate of detections. Some arrests have been made in relation to this production source, and the police are continuing to investigate the matter.

Counterfeit Banknotes in Australia
2014/15

	$5	$10	$20	$50	$100	Total
Number	78	66	755	33 292	2 943	37 134
Nominal value ($)	390	660	15 100	1 664 600	294 300	1 975 050
Parts per million	0.5	0.6	4.8	55.3	10.2	27.9

Source: RBA



Source: RBA

Despite the increase during the year, this level of counterfeiting remains low by international standards.

To combat counterfeiting in Australia, the Reserve Bank has strengthened its ties with law enforcement agencies in Australia and overseas to monitor trends and identify emerging threats. As part of this arrangement, the Reserve Bank provides analytical and counterfeit examination services and prepares expert witness statements and court testimonies to assist the agencies with their investigations.

The Reserve Bank again partnered with the Australian Federal Police through the continuation of the Counterfeit Deterrence Workshop program. In April 2015, a workshop was held in Brisbane, which was attended by a number of agencies and organisations, including the Australian Federal Police, State Police, cash-in-transit companies, financial institutions, casinos, retailers and industry representative groups. Participants were provided with information on a number of banknote-related topics, which will assist them in their roles with detecting and handling counterfeits.

Next Generation Banknote Project

While Australia has experienced low levels of counterfeiting – both in absolute terms and compared with other countries – the Reserve Bank has a continuing commitment to ensure that Australia's counterfeiting level remains low in the future. The current series of banknotes has been in circulation for more than 20 years, and while this longevity is a direct pay-off from the investment made in developing polymer banknotes, the Bank is actively investigating ways in which it can continue to maintain banknote security. To that end, in 2012 the Bank announced the Next Generation Banknote (NGB) project to issue a new banknote series with upgraded security features.

As a part of this project, the Reserve Bank has consulted extensively with key users of banknotes, including banknote equipment manufacturers, retail organisations, financial institutions and the vision-impaired community. Advice has also been sought through a number of channels during the development process, including an advisory panel, subject-matter experts and focus groups comprising members of the public. These ongoing consultations provide an opportunity to ensure that the new banknotes will continue to meet the various needs of the community.

Importantly, the new banknotes will retain many of the key design elements of the current banknote series, including the people portrayed, size, general colour palette and denominational structure. There will, however, be design changes to accommodate the new security features.

Participants in the Reserve Bank's Counterfeit Deterrence Workshop undertaking interactive exercises, Brisbane, April 2015

Issuance of the denominations will be staged over a number of years, with the first two denominations, the $5 and $10, expected to be issued in 2016/17. The time and cost involved – $18.3 million as at the end of June 2015 and an expected total cost of around $29 million – reflects the complexity of the process of designing, testing and producing a new banknote series, and the extensive community consultation required.

New $5 and $10 banknotes expected in 2016/17

Banknote Accessibility

The Reserve Bank has engaged extensively with the vision-impaired community to seek input on accessibility options for the next generation of banknotes. Flowing from this consultation, the Bank committed to retaining the existing accessibility characteristics of Australia's banknotes – their size differentials, vibrant colours and bold, contrasting numerals – and to incorporate a new embossed tactile feature into the design. The Bank also continues to support the production of a banknote measurement device that assists people with impaired vision to differentiate banknotes.

Banknote Infrastructure Modernisation Program

In preparation for the logistical demands arising from the introduction of the NGB series, the Reserve Bank has initiated a program to upgrade its existing banknote infrastructure. The main objectives of the upgrade are to increase banknote storage and processing capacity, and to introduce new technologies and systems to improve banknote logistics processes and simplify distribution arrangements with cash-in-transit companies.

The upgrade will include the construction of the National Banknote Site (NBS) on the Reserve Bank's existing Craigieburn site to accommodate improved banknote storage, processing and distribution functions. The new two-storey building began construction in June 2015, and is scheduled for completion in 2017.

In addition, the Banknote Infrastructure Modernisation program will improve manual processes in the Reserve Bank's existing sites and introduce automated processes at the NBS. This will allow for more efficient workflows, a reduction in work health and safety risks and further improvements in the security associated with the handling of banknotes. In parallel, the Bank will increase its capacity to process unfit banknotes, with the commissioning of additional high-speed banknote processing machines.

Banknote Research and Development

The Reserve Bank's research and development program is designed to ensure that Australian banknotes remain both secure against counterfeiting and functional for a wide variety of users. A core function of this work is the development of innovative new technologies that are incorporated into new security features and detection equipment for banknotes. This is accomplished through a range of collaborations with third parties, including universities, public and private companies, research institutes and other central banks. The vulnerability of current and future banknotes and security features to different forms of simulation is also assessed.

A computerised representation of the new National Banknote Site in Craigieburn, Victoria, currently under construction

The Reserve Bank contributes to several international forums concerned with banknote security, including 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. The Bank also works closely with its partners and suppliers to introduce new technologies and features into the banknote production process.

In 2014/15, the research program focused heavily on providing technical expertise for the development of the NGB series, by conducting extensive trials and assessment of new technologies and strategies to ensure the durability of the new security features. This was conducted in conjunction with the development of new testing methodologies that will form part of the quality assurance program.

Community Liaison

The Reserve Bank actively engages with a range of stakeholders, including users and manufacturers of banknote equipment, law enforcement agencies, retail organisations, schools and financial institutions, with the aim of increasing knowledge about banknotes in the community. A total of 70 presentations were made during 2014/15, the majority of which were delivered to visitors to the Bank's Museum of Australian Currency Notes.

An online school education resource aimed at educating primary school students about Australia's banknotes was launched in January 2015. The resource, which was developed in collaboration with the New South Wales Department of Education and Communities, provides engaging and interactive information about banknotes through history and mathematics activities aligned to the Australian curriculum. The resource can be

Children using props and online games to learn about banknote production, Australia Day 2015

Visitors to Note Issue Department learn about banknote production, September 2014

accessed through the Bank's website, where many other resources are also available for teachers and students as well as members of the public.

Numismatic Banknote Sales

To enable the Reserve Bank to focus its resources on the NGB project, a decision was made in 2015 to discontinue numismatic banknote sales for the current polymer series. The Bank is assessing possible commemorative options to coincide with the issuance of the NGB series.

Note Printing Australia Limited (NPA)

NPA is a wholly owned subsidiary of the Reserve Bank that produces banknotes and operates the NNPDC on behalf of the Bank. NPA operates under a charter reviewed and approved annually by the Reserve Bank Board.

Specifically, NPA's prime function is the efficient and cost-effective production of high-quality and secure Australian banknotes, in accordance with the specifications and requirements of the Reserve Bank. The charter also permits NPA to undertake other activities, including developing and producing passports for the Department of Foreign Affairs and Trade (DFAT), producing banknotes for other issuing authorities and producing some other security products. In recent years, these activities have included the production of banknotes for some countries in the Asia-Pacific region. In all cases, NPA dealt directly with the relevant central banks.

NPA is governed by a board of directors appointed by the Reserve Bank. As at 30 June 2015, the NPA Board comprised four Reserve Bank executives and a member of the Reserve Bank Board: Michele Bullock, Assistant Governor (Currency) as Chair; Keith Hall, Assistant Governor (Banking and Payments); Lindsay Boulton, Head of Banking Department; Michelle McPhee, Head of Risk and Compliance Department; and Heather Ridout AO, a member of the Reserve Bank Board. The NPA Board has an Audit and Risk Committee, whose membership comprises Keith Hall (Chair), Lindsay Boulton and an external member, Alan Beckett, a company director and former senior audit partner of a major accounting firm with extensive experience in the corporate sector, including manufacturing.

The NPA Board appointed NPA's Acting Chief Executive Officer, Malcolm McDowell, to the position of Chief Executive Officer on 25 February 2015. Six business units report to NPA's Chief Executive Officer: Financial Services; Manufacturing Operations; Passports Business and Support Services; Quality Management; Risk Management and Security; and Human Resources. The Chief Executive Officer and the heads of these business areas constitute NPA's Executive Committee. As at the end of June 2015, NPA employed 233 permanent staff.

In 2014/15, NPA delivered 166 million Australian banknotes to the Reserve Bank under a contract entered into in 2011. NPA also provided banknote distribution and banknote processing services to the Bank during the year. Until October 2014 those services were provided under a contract entered into in 2001. That contract was replaced with effect from 27 October 2014 with a new Distribution and Processing Agency Agreement. The aggregate amount paid by the Bank to NPA in 2014/15 for the supply of banknotes and related services under the above contracts was $55.2 million. The Reserve Bank Board did not take any decisions in 2014/15 in relation to any of these contracts between NPA and the Bank.

NPA delivered 152 million banknotes to other countries in 2014/15, including Singapore and Papua New Guinea. NPA also produced 2.5 million P series passports for DFAT.

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

NPA delivered
166 million
Australian banknotes
and 152 million
foreign banknotes

NPA produced
2.5 million
passports

International Financial Cooperation

The Reserve Bank participates actively in initiatives that seek to address the challenges facing the global economy and improve the global financial architecture. It does so through its membership of global and regional forums and its close bilateral relationships with other central banks.

Group of Twenty (G20)

Objective

The G20 facilitates international cooperation on economic and financial policy issues.

Reserve Bank Involvement

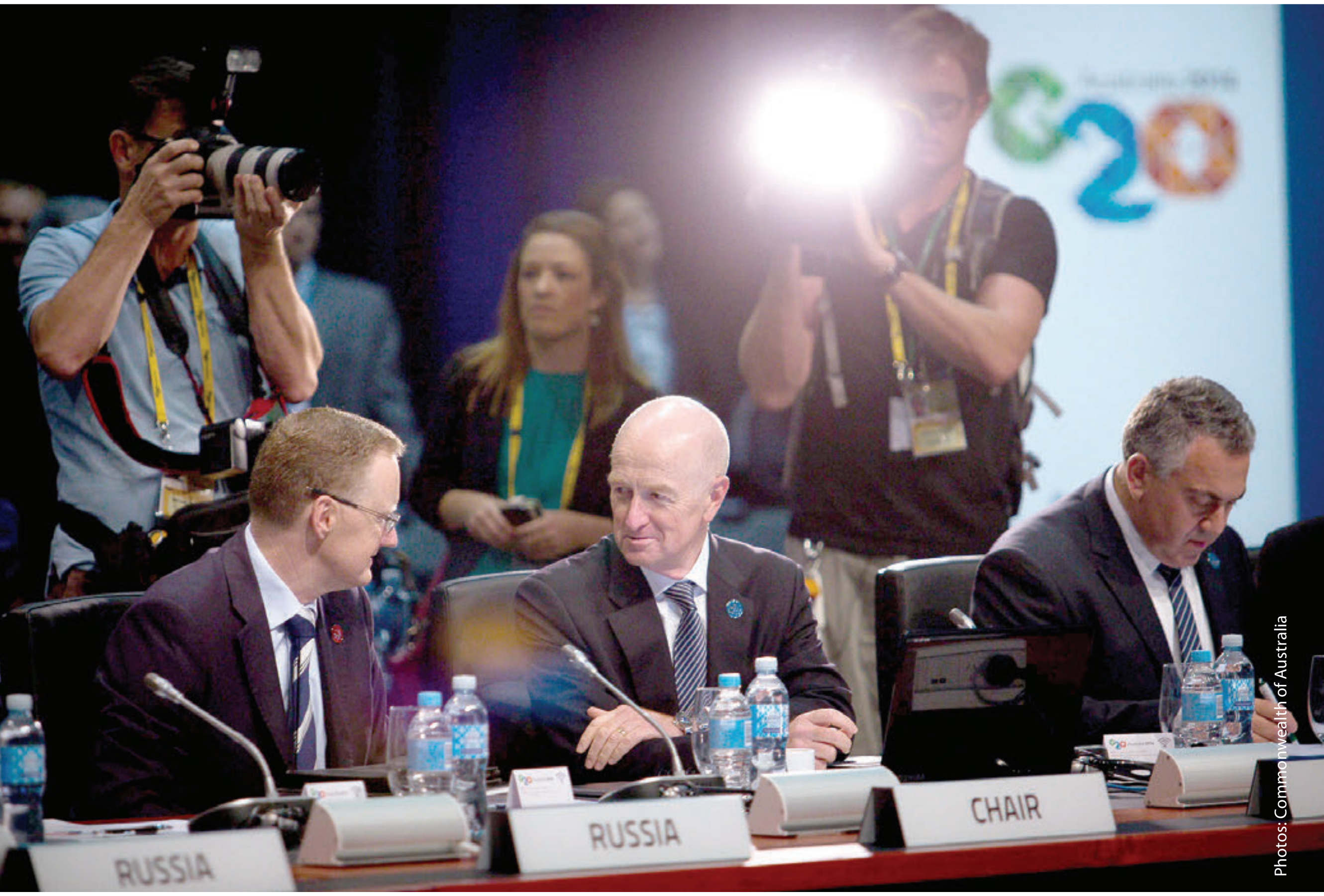
Australia held the G20 presidency from December 2013 to November 2014. The Governor and Deputy Governor chaired meetings covering financial stability issues and developments in the global economy during this period.

From December 2014, the G20 presidency was rotated to Turkey. The Reserve Bank continues to participate in meetings at the Governor and Deputy Governor level, while senior officials from International Department participate in G20 Finance Track working groups. Senior officials from Financial Stability Department contribute to the G20's financial reform agenda.

Promoting strong, sustainable and balanced growth remains a priority for the G20 in 2015. To reinforce this, Turkey has summarised the key aims of its presidency as promoting 'inclusive' growth (by focusing on issues related to small- and medium-sized enterprises (SMEs) and inequality within and across countries), ensuring the implementation of previous commitments and emphasising the importance of investment as a driver of growth.

At the Brisbane Leaders' Summit in November 2014, G20 members published their comprehensive growth strategies. These strategies were developed over the course of 2014 and aim collectively to lift the level of G20 GDP by at least 2 per cent by the end of 2018. These strategies encompass macroeconomic and structural reform policies aimed to increase investment, lift employment and labour force participation, enhance trade and promote competition. In 2015, the focus is on implementing these comprehensive growth strategies and assessing whether additional commitments need to be made.

Investment, particularly in infrastructure, was a focus of the G20 during Australia's presidency and remains a priority in 2015. A key output of this work in 2014 was the agreement to establish the Global Infrastructure Hub, which has a four-year mandate to help implement the G20's multi-year investment agenda. Located in Sydney, the Hub will function as a knowledge-sharing network among the private sector, governments and international entities involved in infrastructure development. The Reserve Bank and Australian Treasury have continued to contribute to a working group that supports the G20's investment agenda. The focus of the working group in 2015 is on the development of 'country investment strategies' to enable G20 members to share knowledge on the types of policies that are being implemented to increase investment in infrastructure and support investment by SMEs.



Photos: Commonwealth of Australia

(Image above) The Australian Treasurer, the Hon Joe Hockey MP, chairing the G20 Meeting of Finance Ministers and Central Bank Governors, Cairns, September 2014 – the Treasurer is shown with Governor Glenn Stevens (centre), Deputy Governor Philip Lowe (also on his right), and Australia's G20 Finance Deputy, Barry Sterland PSM (on his left); (image below) the Governor and Deputy Governor conferring at the G20 meeting, with the Treasurer shown on the right

G20 Meeting of Finance Ministers and Central Bank Governors, Cairns, September 2014

Reform of the international monetary system also continues to be an important issue for the G20. However, work in this area continues to be delayed because the United States Congress is yet to ratify the quota and governance reforms of the International Monetary Fund (IMF) agreed to in 2010. The G20 remains committed to maintaining a strong and adequately resourced IMF and has urged ratification of the reforms at the earliest opportunity. The G20 has supported the IMF's efforts to explore interim options to advance these reforms should the delays in ratifying the 2010 reforms continue.

Reform of financial regulation continued to be an important element of the G20's agenda during the year in review, with ongoing work to address the problems revealed by the financial crisis. During its G20 presidency, Australia supported the Financial Stability Board's focus on the following core reform areas:

- building resilient financial institutions
- ending 'too big to fail'
- addressing 'shadow banking' risks
- making derivatives markets safer.

Australia's G20 presidency also emphasised the importance of implementing agreed reforms in these core reform areas and assessing their effects.

Financial Stability Board (FSB)

Objective

The FSB promotes international financial stability by coordinating national financial authorities and international standard-setting bodies as they work towards developing strong regulatory, supervisory and other financial sector policies.

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

Reserve Bank Involvement

The Governor is a member of the FSB Plenary (the main decision-making body of the FSB), Steering Committee and Standing Committee on Assessment of Vulnerabilities (SCAV), becoming Chair of the SCAV in early 2015.

The Governor (or a senior officer from Financial Stability Department) attends meetings of the FSB Regional Consultative Group (RCG) for Asia.

The Assistant Governor (Financial Markets) chairs a group focusing on reforms to foreign exchange benchmarks and is a member of an FSB group that has guided work on reforms to interest rate benchmarks.

The Head of Financial Stability Department is a member of the Analytical Group on Vulnerabilities and one of its sub-groups on asset managers, while a senior officer from Domestic Markets Department participates in the FSB's Financial Innovations Network, which also operates under this group.

A number of other officers in the Financial Stability, Payments Policy and Domestic Markets Departments have participated, or continue to participate, in several FSB working groups. A senior officer from Payments Policy Department has been on secondment to the FSB since late 2012, working on over-the-counter (OTC) derivatives market reforms. More recently, that officer has worked on the cross-border effects of structural banking reforms undertaken, or proposed, by several jurisdictions, and on financial market benchmarks and issues of market conduct.

The Bank's Chief Representative in New York recently joined a FSB peer review team tasked with examining the implementation of the FSB's framework for shadow banking entities other than money market funds (MMFs).

The FSB has continued to play an important role in overseeing the international financial regulatory reform agenda over the past year.[1] The agenda covers both the core post-crisis reform areas noted above, as well as new and evolving risks identified by the G20 and the FSB.

The SCAV is the FSB's main forum for identifying and assessing risks in the global financial system, while the Analytical Group on Vulnerabilities (AGV) provides an analytical forum to discuss new and evolving risks to the global financial system and thereby support the work of the SCAV. In turn, the FSB's Financial Innovations Network provides input to AGV by monitoring financial innovation in order to assess the potential for future systemic risks to countries, markets and sectors, and possible cross-border impacts. A current focus of the SCAV and AGV is the potential financial stability risks posed by the asset management industry.

The work of the SCAV on the asset management industry is related to ongoing efforts by the FSB to address the risks posed by 'shadow banking'. Defined by the FSB as credit intermediation involving entities and activities outside the regular banking system, the shadow banking sector in Australia accounts for a relatively small share of the financial system compared with a number of other jurisdictions. With most of the international shadow banking recommendations released in 2012 and 2013, the more recent focus of FSB work in this area has been on implementation based on a 'roadmap' reported to G20 Leaders in November 2014. Reserve Bank officers continue to participate in two FSB working groups examining potential responses to the risks posed by shadow banking entities other than MMFs and by securities financing transactions.

Other key areas in which Reserve Bank officers have been involved over the past year include:

- participation in the FSB's Resolution Steering Group (ReSG), which is developing important aspects of the FSB's work on resolution, such as crisis management arrangements, cross-border recognition of resolution actions and proposals on total loss-absorbing capacity. This work is part of G20/FSB efforts in recent years to address the 'too big to fail' problem associated with systemically important financial institutions (SIFIs). A key component of the FSB's SIFI policy framework, developed in cooperation with key international standard-setting bodies, is enhancing resolution regimes, based on the

1 For further details on FSB activities, see RBA *Financial Stability Review*, March 2015.

FSB's *Key Attributes of Effective Resolution Regimes for Financial Institutions* (the *Key Attributes*)

- membership of a ReSG subgroup, which is working on the resolution of central counterparties (CCPs). The FSB is increasingly focusing on the resolution of financial market infrastructures (FMIs), such as CCPs. In October 2014 the FSB re-issued the *Key Attributes* with annexes that provide sector-specific guidance on resolution, including one for FMIs. Given the growing use of CCPs, the ReSG, in consultation with the FSB's Standing Committee on Supervisory and Regulatory Cooperation, the Committee on Payments and Market Infrastructures (CPMI), the International Organization of Securities Commissions (IOSCO) and the BCBS, has developed a work plan to promote CCP resilience, recovery planning and resolvability
- cooperation with the Australian Securities and Investments Commission (ASIC) to implement G20/FSB commitments to reform OTC derivatives markets and to advance international work to reduce the scope for contagion in these markets. Implementation in this area is monitored by the FSB on an ongoing basis. While ASIC is the main domestic regulator involved in this work, there is a high degree of cooperation with the Reserve Bank on issues of common interest. ASIC represented Australia on an IOSCO working group that, in January 2015, released a revised implementation schedule for risk mitigation standards for non-centrally cleared OTC derivatives. ASIC consulted closely with the Bank as this work progressed. The Bank and ASIC participate in the OTC Derivatives Regulators' Forum, an international group that facilitates cooperation and information sharing between regulators on OTC derivatives data held in trade repositories. The Bank also signed, in February and April 2015 respectively, memoranda of understanding (MoUs) with the European Securities and Markets Authority (ESMA) and the Monetary Authority of Singapore, which facilitate the Bank's access to data held in trade repositories located in these jurisdictions
- participation in FSB working groups to guide reforms to interest rate and foreign exchange benchmarks. A group chaired by the Assistant Governor (Financial Markets) is assessing the implementation of the FSB recommendations on foreign exchange benchmarks. This is part of the increased focus by the G20, the FSB and other bodies on market misconduct by banks and other financial institutions, which includes the work being done by a group also chaired by the Assistant Governor (Financial Markets) on developing a single code of conduct for the foreign exchange market and promoting greater adherence to the code (see below)
- participation, along with the Australian Treasury, in meetings of the RCG for Asia, one of six regional groups established to expand the FSB's outreach activities with non-member economies and to discuss issues relevant for the region
- participation in a joint FSB-IOSCO workstream that in March released a second consultation paper on assessment methodologies for identifying non-bank non-insurer global SIFIs, covering entities such as finance companies, investment funds and asset managers.

Following a review of the structure of its representation, the FSB added five new members to the FSB Plenary from emerging market economies (EMEs), to reflect the growing importance of EMEs in the global economy, strengthen the group's effectiveness and ensure the views of its members are taken into consideration when developing reform proposals. This was an item on Australia's G20 agenda for 2014 and both the Reserve Bank and the Australian Treasury supported the increase in representation of EMEs.

Bank for International Settlements (BIS)

Objective

The BIS and its associated committees play an important role in supporting collaboration among central banks and other financial regulatory bodies. It does so by bringing together officials to exchange information and views about the global economy, vulnerabilities in the global financial system and other issues affecting the operations of central banks.

Reserve Bank Involvement

The Reserve Bank is one of 60 central banks that holds shares in the BIS.

The Governor or Deputy Governor attends regular bimonthly meetings of governors and participates in meetings of the Asian Consultative Council.

The Assistant Governor (Financial Markets) chairs both the Markets Committee (MC) and an MC working group on foreign exchange market best practices, and is a member of the Committee on the Global Financial System (CGFS).

The Head of International Department participates in the MC, while a number of senior officers in the Domestic Markets and International Departments have participated in study and/or working groups of the MC and CGFS.

The MC considers how economic and other developments, including regulatory reform and technological change, might affect central bank operations and broader financial markets. In the past year, it has discussed the changing execution structure of fixed income and foreign exchange markets, the European money market and developments in pricing benchmarks for interest rates and foreign exchange. The CGFS monitors developments in financial markets, focusing on potential vulnerabilities in the global financial system. In recent times there has been extensive discussion in both the MC and the CGFS of the influence of unconventional monetary policies, and their eventual withdrawal, on capital flows to and from EMEs.

In 2014/15, Reserve Bank staff members participated in a number of MC and CGFS working groups, including:

- an MC Working Group on foreign exchange market best practices (noted above). Working with market participants, including through the various Foreign Exchange Committees, the group is tasked with establishing a single global code of conduct for the foreign exchange market and promoting greater adherence to the code
- a CGFS Study Group on market making and proprietary trading. The group produced a report on trends, drivers and implications of developments in market making and proprietary trading, which was published in November 2014
- an MC Study Group on electronic trading in fixed-income markets
- a joint CGFS–MC Working Group that assessed the potential impact of recent global regulatory initiatives on central banks' implementation of monetary policy. A report was published in May 2015.

Basel Committee on Banking Supervision

Objective

The BCBS is the international standard-setting body for the banking sector and consists of members from 28 jurisdictions. It provides a forum for regular cooperation on banking supervisory matters that seeks to enhance understanding of key supervisory issues and improve the quality of banking supervision worldwide.

Reserve Bank Involvement

The Governor is a member of the Group of Governors and Heads of Supervision, which is the oversight body of the BCBS.

The Assistant Governor (Financial System) is a member of the BCBS.

A senior officer in Financial Stability Department is a member of the Macroprudential Supervision Group, which monitors and reports to the BCBS on systemic risk and global developments that relate to macroprudential and systemically important banks' supervision policy.

A key activity of the BCBS during 2014/15 was ongoing monitoring of the implementation of Basel III, which sets out new capital and liquidity standards for banks. These standards were developed following the global financial crisis in order to increase banks' resilience in the face of financial and economic shocks. The BCBS regularly reports its implementation monitoring findings to both the FSB and the G20. Countries have largely implemented the capital standards, in keeping with BCBS timelines, with the focus now turning to the liquidity reforms. APRA implemented the Basel III Liquidity Coverage Ratio (LCR) in full in January 2015. At the same time, the Bank's Committed Liquidity Facility also commenced operations for those banks subject to the LCR (see the chapter on 'Operations in Financial Markets' for more detail).

Over the past year, the Macroprudential Supervision Group (MPG) has worked on aspects of the BCBS' methodology for identifying global systemically important banks (G-SIBs), including a review of the G-SIB data collection exercise and assessment. It also continued discussions of practical issues that are arising as jurisdictions start to develop their counter-cyclical capital buffer frameworks and work on the advantages and disadvantages of different macroprudential approaches to managing systemic risk.

Committee on Payments and Market Infrastructures (CPMI)

Objective

The CPMI serves as a forum for central banks to monitor and analyse developments in payment, clearing and settlement infrastructures and set standards for them. It has members from 24 jurisdictions.

CPMI-IOSCO brings together members of both the CPMI and IOSCO to advance policy work on the regulation and oversight of financial market infrastructures.

Reserve Bank Involvement

Senior officers from Payments Policy Department are members of the CPMI and the CPMI Retail Working Group.

Officers from Payments Policy Department are members of the:

- CPMI-IOSCO Steering Group
- CPMI-IOSCO Implementation Monitoring Standing Group (as co-chair)
- CPMI-IOSCO Policy Standing Group.

The CPMI-IOSCO Implementation Monitoring Standing Group (IMSG) monitors the international implementation of the *Principles for Financial Market Infrastructures* (PFMIs). The third update to the self-assessments on progress towards adopting the PFMIs was published in June 2015. In February 2015, the IMSG's assessments of the regulatory or oversight framework applied to systemically important CCPs and trade repositories in the European Union, Japan and the United States were published. A similar assessment of Australia is currently in progress. A peer review assessing the extent to which relevant authorities are observing their responsibilities associated with the PFMIs in their regulation, supervision and oversight of financial market infrastructures (FMIs) is also expected to be published shortly. Future work will assess the consistency in outcomes achieved by FMIs' implementation of the PFMIs.

The CPMI-IOSCO Policy Standing Group (PSG) has commenced work on evaluating CCP resilience and conducting a stocktake of existing CCP recovery mechanisms. This stocktake seeks to better understand CCPs' approaches and inform analysis of whether additional guidance to the standards in these areas is needed. This work is part of the CCP work plan developed in conjunction with the FSB and BCBS.

Payments Policy Department officers also contributed to a number of reports published by CPMI and IOSCO during the year in review, namely:

- in November 2014, a report by the CPMI on the current cyber risks faced by FMIs and their level of readiness to deal effectively with worst case scenarios. Following this, a CPMI-IOSCO group was established to consider issuing guidance to assist FMIs and their overseers in enhancing the cyber resilience of FMIs
- in October 2014, finalised guidance on how FMIs should develop plans to enable them to recover from extreme circumstances that threaten their viability
- in February 2015, public quantitative disclosure standards for CCPs, intended to assist participants and other stakeholders to understand and assess the risk characteristics of CCPs
- in September 2014, two analytical reports by the CPMI on developments in collateral management services and non-banks in retail payments. The latter was the latest output from a working group conducting research on current issues in retail payment systems.

Cooperative Oversight Arrangements

Objective

To provide regulatory oversight of several FMIs that operate across borders.

Reserve Bank Involvement

Senior officers from Payments Policy Department have participated in:

- an arrangement led by the Federal Reserve Bank of New York to oversee CLS Bank International, which provides a settlement service for foreign exchange transactions
- a global oversight college for LCH.Clearnet Limited, chaired by the Bank of England
- the SWIFT Oversight Forum, chaired by the National Bank of Belgium.

During 2014, the Reserve Bank also signed bilateral MoUs with ESMA, the Reserve Bank of New Zealand and the US Commodity Futures Trading Commission, covering cooperation and information-sharing in the supervision and oversight of cross-border CCPs.

International Monetary Fund

Objective

The IMF is mandated by its members to oversee the stability of the international monetary system. The key ways it does this are through: bilateral and multilateral surveillance, which involves monitoring, analysing and providing advice on the economic and financial policies of its 188 members and the linkages between them; and the provision of financial assistance to member countries experiencing actual or potential balance of payments problems.

Reserve Bank Involvement

Australia holds a 1.36 per cent quota share in the IMF and is part of the Asia and the Pacific Constituency. This constituency is currently represented on the IMF's Executive Board by an Executive Director from Australia.

The Reserve Bank works with the Australian Treasury to provide support to the Constituency Office at the IMF on issues that are to be discussed by the IMF's Executive Board. The Bank also supports the Constituency Office directly by seconding an advisor with expertise in financial markets and financial sector issues.

The IMF has continued to provide financial assistance to member countries, although the total number and size of new lending arrangements for countries experiencing balance of payments problems (non-precautionary lending) remained lower in the past year than in the years immediately following the onset of the financial crisis. Reflecting this, IMF credit outstanding continued to decline, with net disbursements less than net repayments for the third financial year in a row. The largest non-precautionary program approved during the year in review was a SDR12.3 billion extended arrangement provided to Ukraine, which replaced a SDR11 billion stand-by arrangement approved in early 2014. The precautionary credit lines held by Colombia, Mexico, Morocco and Poland were extended for another two years.

At the end of June 2015, the IMF's outstanding credit was SDR59.5 billion, around two-thirds of which was accounted for by Greece, Portugal and Ukraine. In light of the continued improvement in the Irish economy and favourable financial market conditions, Ireland made substantial early repayments to the IMF over 2014/15, reducing its credit outstanding from a peak of SDR19.5 billion over most of 2014 to SDR3.8 billion by June 2015. Portugal also began making early repayments on its sizeable outstanding obligations in March 2015, while Ukraine has met all of its scheduled repayments to the IMF to date. In contrast, Greece temporarily entered into arrears with the IMF at the beginning of July 2015 after it failed to make its repayments for June.

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

Objective

EMEAP brings together central banks from 11 economies in the east Asia-Pacific region – Australia, China, Hong Kong SAR, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore and Thailand – to discuss issues relevant for monetary policy and financial stability, foster closer cooperation, and exchange information and expertise on issues of common interest.

Reserve Bank Involvement

The Reserve Bank participates in EMEAP at a number of levels, including the Governor and Deputy Governor.

Senior officers from the International, Financial Stability and Payments Policy Departments participate in the EMEAP Working Groups on Financial Markets, Banking Supervision and Payment and Settlement Systems.

The Reserve Bank's Chief Information Officer has also participated in regular meetings of IT Directors from EMEAP member central banks.

At the Governors' and Deputies' meetings during the year in review, members discussed a range of topics, including economic and financial market developments and risks, and the implications of international regulatory developments for the EMEAP region. At the Deputy Governor level, the Monetary and Financial Stability Committee continued to focus on monitoring economic and financial system risks, including through maintaining close relations with international institutions such as the IMF and the BIS and through dialogue with the private sector.

The Working Group on Financial Markets focuses on the analysis and development of foreign exchange, money and bond markets in the region. Over the past year, the working group has held regular discussions on the impact of global policy developments and regulatory reform measures on regional financial markets. It is also closely involved at a working level with the operation and development of the Asian bond funds – ABF1, which is a US dollar-denominated Asian bond fund, and ABF2, which comprises eight local currency-indexed bond funds, and a Pan Asia Index Bond Fund (PAIF). EMEAP Deputy Governors are responsible for the ongoing oversight of the Asian bond funds (see the chapter on 'Operations in Financial Markets' for further details on these funds).

Chief Information Officer, Sarv Girn (front, third from left), with EMEAP IT Directors, November 2014

The Working Group on Banking Supervision (which comprises representatives of EMEAP members' central banks and prudential supervision authorities, including APRA) provides a regional forum for sharing experiences about best practices in banking supervision and the implementation of international reforms such as Basel III. The group has also carried out work on several issues, including recovery and resolution planning, macroprudential analysis and the implications of OTC derivatives market reforms for banking supervision.

The Working Group on Payment and Settlement Systems has focused on monitoring the progress of members' implementation of the G20 OTC derivatives market reforms and examining potential oversight issues arising from real-time retail payment systems. The group has also invited a number of external organisations to share information regarding their financial infrastructure or cross-border initiatives.

Organisation for Economic Co-operation and Development (OECD)

Objective

The OECD comprises the governments of 34 countries and is committed to promoting policies that improve economic and social development globally.

Reserve Bank Involvement

In early 2015, the Assistant Governor (Financial System) stepped down after four years as Chair of the OECD's Committee on Financial Markets. The Bank's involvement with the Committee is ongoing, with the Chief Representative in Europe continuing as a member.

An officer in Economic Group remains on secondment to the OECD, working on macroeconomic policy issues.

The OECD Committee on Financial Markets is the main OECD body with responsibility for financial market issues and aims to promote efficient, open, stable and sound financial systems. Recent topics of discussion by the Committee have included implicit guarantees for banks, financing for SMEs and long-term investment finance.

Technical Cooperation and Engagement in the Asia-Pacific Region

Government Partnership Fund (GPF)

Objective

The Australian Government's GPF program has supported an exchange of skills and knowledge between Australian public sector institutions and their Indonesian counterparts through a series of attachments and workshops since 2005/06.

Reserve Bank Involvement

At various times in 2014/15, a total of seven Bank Indonesia officers were attached to the Reserve Bank, covering the areas of economic research, financial stability and regional economic analysis. Those visits brought the total number of individual attachments since the start of the program to 182.

South East Asian Central Banks (SEACEN)

Objective

SEACEN consists of 20 central bank members from the Asia-Pacific region, alongside seven Associate Members and eight Observers. SEACEN aims to promote a better understanding of financial, monetary, banking and economic issues that are of interest to the central banks and monetary authorities in the region, including through research and training programs.

Reserve Bank Involvement

On 1 January 2015, the Reserve Bank became an Associate Member of SEACEN, representing a change in status from being an invitee central bank to SEACEN events.

During 2014/15, a senior officer from Domestic Markets Department was appointed as a Visiting Research Economist to the SEACEN Expert Group on Capital Flows.

The Reserve Bank fosters close ties with South Pacific countries through participation in Governor-level meetings, staff exchanges and the provision of technical assistance.

In December 2014, the Reserve Bank participated in the annual meeting of South Pacific Central Bank Governors. The main issues discussed at the annual meeting focused on recent economic developments and the role of SMEs in Pacific region economies. The governors also met with the major regional commercial banks to discuss banking issues.

A senior officer from the Financial Markets Group participated in an IMF technical assistance mission to the Solomon Islands in March 2015, which was followed by the Reserve Bank hosting a short-term attachment of several officers from the Central Bank of Solomon Islands.

The Reserve Bank continued to provide financial support to an officer of the Bank of Papua New Guinea undertaking postgraduate studies at an Australian university in the area of economics, finance or computing. The Reserve Bank of Australia Graduate Scholarship was first awarded in 1992.

Bilateral Relations and Cooperation

As in previous years, the Reserve Bank received a number of visitors from overseas. Predominantly from foreign central banks, the visits covered the full range of the Bank's activities and included delegations from China, France, Indonesia, New Zealand, Pakistan, the Solomon Islands, Thailand and Vietnam.

Community Engagement

The Reserve Bank seeks to keep the general public fully informed about its activities. In addition to its Head Office in Sydney, the Bank has offices in Adelaide, Brisbane, Melbourne and Perth, which play an important role in the Bank's business liaison program and communication with the public. The Bank also maintains its Museum of Australian Currency Notes and consults with its Small Business Finance Advisory Panel. In addition, the Bank sponsors Australian and international economic research in areas of macroeconomics, econometrics and finance and has a corporate philanthropy program.

Activities of the State Offices

The Reserve Bank meets regularly with businesses and associations in every state and across industries in the Australian economy. The information collected under the liaison program complements what is available from official sources and helps the Bank to monitor cyclical and structural developments, as well as the effects of unusual events on the Australian economy. The broad messages gathered through liaison by the Bank's State Offices are incorporated into policy discussions and public communication. A comprehensive overview of the business liaison program was outlined in an article published in the Reserve Bank *Bulletin* in September 2014.[1] This included material on how the Bank gathers its business liaison information and how the information is used (including some recent examples). While much of this information is used internally in helping to shape the Bank's assessment of the Australian economy, a number of the topical articles that feature regularly in the *Bulletin* draw on the broad themes and messages coming from the liaison program.

1 Reserve Bank of Australia (2014), 'The RBA's Business Liaison Program', *Bulletin*, September, pp 1–5.

As noted in the chapter on 'Governance', the Reserve Bank Board meets in state capitals from time to time, with the Board meeting usually held in the Bank's office in the particular city. A dinner with senior members of the local community is usually held on the evening of the day of the Board meeting, which is attended by representatives of the State Government and political Opposition, business and public sector leaders, as well as representatives of the educational, not-for-profit and other sectors. These dinners provide an opportunity to strengthen relationships between local communities and the Bank. A dinner with senior members of the Sydney community is held every two to three years with the same objective.

Staff in the State Offices also play a role in the Reserve Bank's efforts to keep the public informed of its evolving views on the economy. They interact with a broad cross-section of the community, regularly giving presentations on economic developments to business groups, community organisations and educational institutions in state capitals and regional centres. The staff in the State Offices facilitate regular visits by senior staff from Head Office to meet with liaison contacts and provide briefings on

(Image above) the Reserve Bank Board hosted a dinner with senior members of the Adelaide community at the Exhibition Hall, National Wine Centre for Australia, September 2014; (image below) the Board with senior members of the Sydney community, at a dinner at the Bank's Head Office, December 2014

the economy to various groups in the community. Staff from the State Offices also visit Tasmania and the Northern Territory to gather information on economic conditions in those parts of Australia.

Liaison with Small Businesses

The Reserve Bank's Small Business Finance Advisory Panel was established in 1993. It meets annually to discuss issues relating to the provision of finance

Senior members of the Melbourne community, prior to a dinner with the Reserve Bank Board at The Cube, Australian Centre for the Moving Image, March 2015

and the broader economic environment for small businesses. Membership of the Panel is drawn from a range of industries across the country. The Panel provides a valuable source of information on the financial and economic conditions faced by small businesses. The Bank's liaison program also involves Bank staff meeting with a number of small businesses and small business groups.

Museum of Australian Currency Notes

The Reserve Bank's Museum houses a permanent collection of artefacts, hosts periodic exhibitions and offers regular talks and tours for visitors. The permanent collection portrays the story of Australia's banknotes against the background of the nation's broader social and economic history. It welcomes visitors with a display of the types of money used before Federation – from an early colonial rum bottle through to Australia's first gold coins. Visitors can then view various banknotes produced since the first Australian note series in 1913–15. Finally, the Museum focuses on Australia's polymer banknotes, describing their design, security features and potential for recycling. When viewing the collection, visitors can observe the evolution of the nation's identity as expressed through its banknotes, learn about the influential men and women depicted on them and the artwork used in banknote design.

To mark the centenary of the commencement of World War I, an exhibition entitled *Before Sunset: The Bank & World War I* was introduced in 2014. It explores the fact that the First World War saw the emergence of central banking in Australia. These functions were originally performed by a part of the Commonwealth Bank of Australia that later became the Reserve Bank. The exhibition showcases the Bank's fund-raising efforts during the war and honours those staff who enlisted. It displays rare letters sent to the Governor of the day from the battlefields, including Gallipoli, along with a range of other artefacts related to the Bank's involvement in the war.

More than 16 500 people visited the Museum during the year to June 2015, with visitor numbers continuing to grow in recent years. There were

More than 16 500 people visited the Museum

1 900 visitors on Australia Day 2015, a record for one day. More generally, Museum attendance was boosted by the Reserve Bank's participation in the NSW Office of Communities' 'Go Play' initiative, NAIDOC Week and History Week. The Bank also participated in Sydney Open for the first time, with over 1 400 visitors enjoying access to selected parts of the Head Office building and learning about its unique architectural features. A wide cross-section of the public visited the Museum, with educational groups accounting for over one-third of total visitors. Presentations and tours have been prepared to cater for more stages of learning. As a result, in addition to talks to senior high school students about the economy and the role of the Bank, there has been a significant increase in the number of talks to students in primary and junior high school, groups of new migrants, those with English as a second language and those from disadvantaged communities, all of whom were interested in learning about the nation's currency. Most of the information in the Museum is depicted on the Museum's website.

Information Department's Kaja Troa distributing Australia Day flyers for the Museum of Australian Currency Notes, Australia Day 2015

Assistance for Research and Education

The Reserve Bank sponsors Australian and international economic research in areas that are closely aligned with its primary responsibilities. This sponsorship includes financial support for conferences, workshops, data gathering, journals and special research projects, and encompasses areas of study such as macroeconomics, econometrics and finance. In addition, the Bank provides financial support for the activities of the Centre for Independent Studies and the Sydney Institute. It is also a member organisation of the Committee for Economic Development of Australia (CEDA); membership includes an annual research contribution.

In 2014/15, the Reserve Bank continued its longstanding contribution towards the cost of a monthly survey of inflation expectations undertaken by the Melbourne Institute of Applied Economic and Social Research at the University of Melbourne. A contribution was also made

(Image above) visitors to the Museum of Australian Currency Notes, Australia Day 2015; (image below) Note Issue Department's Amanda Evans assisting a visitor to navigate the Banknotes microsite towards a trial survey using a different approach to questioning consumers about their inflation expectations. The Bank maintained its contribution towards a quarterly survey of union inflation and wage expectations undertaken by the Workplace Research Centre at the University of Sydney.

The Reserve Bank continued to provide financial support for the *International Journal of Central Banking*, the primary objectives of which are to disseminate first-class, policy-relevant and applied research on central banking and to promote communication among researchers both inside and outside central banks. The Bank continued its financial support for the International Accounting Standards Board and also its longstanding practice of providing financial support for the Group of Thirty's program of research into issues of importance to global financial markets. Following an invitation in 2014, the Governor became a member of the Bretton Woods Committee, whose programs and publications aim to promote economic growth, reduce poverty and maintain financial stability globally. This membership entails a modest annual financial contribution.

Financial assistance to Australian universities each year includes contributions towards the costs of conferences on economics and closely related fields. In 2014/15, these conferences included: the Paul Woolley Centre's Study of Capital Market Dysfunctionality Conference, held at the University of Technology, Sydney in October 2014; the University of New South Wales 27th Australasian Finance and Banking Conference in December 2014; the Economic Society of Australia's Conference of Economists, held jointly with Griffith University, Queensland University of Technology and the University of Queensland in July 2015; and the 20th Melbourne Money and Finance Conference in July 2015. The Reserve Bank also supports the discussion of economic issues in the community by providing a venue for the Economic Society of Australia's Lunch Time Seminar Series and the Emerging Economist Series.

More than
$225 000
in assistance for research and education

The total value of support offered for research and education in 2014/15 was $226 825.

The Reserve Bank sponsors an annual essay competition across Australia designed to engage and support undergraduate students of economics. The competition is organised jointly with the University of New South Wales Economics Society and the Economic Society of Australia. In 2014, students were invited to discuss the short- and long-run implications of the productivity slowdown for the Australian economy. Michael Read wrote the winning essay, the runner-up was Angus Gibbs and the best essay from a first-year student was written by Kenny Jia Wei Ng. In a first in the eight-year history of this competition, all three winners were from the same university, namely, the University of Sydney. These students were presented with prizes by the Governor at a ceremony at the Bank in October 2014. For the 2015 competition, students have been invited to submit an essay on commodity prices and the Australian economy, considering the end of the mining boom and transition from the investment phase to the production phase in activity in the mining sector.

In conjunction with the Australian Prudential Regulation Authority (APRA), the Reserve Bank has continued to sponsor the Brian Gray Scholarship Program, initiated in 2002 in memory of a former senior officer of the Bank and APRA. Three scholarships were awarded under this program in 2015: for commerce honours in actuarial studies combined with science honours in statistics at the University of New South Wales; PhD studies in accounting at the University of Queensland; and commerce honours in finance combined with economics, also at the University of Queensland. The cost to the Bank of these scholarships in 2014/15 was $22 500.

Over the past year, the Reserve Bank hosted visits by numerous researchers (including academics, post-graduate students, authors, journalists, numismatists, heritage architects and designers) interested in accessing the Bank's archives. Some of these researchers travelled from overseas to access the archive facility, which contains a rich collection of records about the Bank's own activities as well as those of financial institutions in Australia that predate the creation of the central bank as a separate institution. Because the central bank was formerly the government printer for materials other than banknotes, the Bank's archives also include a historical collection of Australian stamps, posters and vouchers. There has been a substantial increase in the number of requests relating to historical episodes of financial crisis and the involvement of financial institutions in the two World Wars, along with requests related to significant anniversaries – most notably the approaching 50th anniversary on 14 February 2016 of the introduction of decimal currency in Australia. And there were numerous requests relating to historical design images to be reproduced in publications. The program to digitise the Bank's most significant historical records continues, with many thousands of records (including photographs and rare glass negatives) scanned and made available electronically to researchers in recent years. The Bank's Historian,

Governor Glenn Stevens launched the Banking and Finance Oath Young Ambassador Program, which is designed to create a closer link between current and future leaders in the banking and finance industry. He is with, from left, Martin Foo, Thomas Guy, Sarah Park, Alex Hasiotis and Edward Sainsbery, August 2015

Professor Selwyn Cornish of the Australian National University, is at an advanced stage of his research for the next volume of the official history of the Reserve Bank, which covers the period 1975–2000.

Charitable Activities

During 2014/15, the Reserve Bank made its 13th annual contribution of $50 000 to the Financial Markets Foundation for Children, which is chaired by the Governor. In July 2015, in its 10th public event to raise funds, the Governor addressed the Anika Foundation, which was established in 2005 to support research into adolescent depression and suicide.

The Reserve Bank's corporate philanthropy program involves several initiatives, key among which is dollar-matching staff payroll deductions (totalling $81 600 in 2014/15) to the Reserve Bank Benevolent Fund. The Bank also matched donations of $380 to the MS Society, which were raised by Bank staff participating in the 'Sydney to the Gong' charity bike ride in November 2014, as well as $4 685 donated by Bank staff to the Nepal Earthquake Appeal in May 2015.

Reserve Bank staff participated in a number of volunteering activities in 2014/15, including the Cancer Council's Biggest Morning Tea fundraiser, the Smith Family skilled volunteer program, the Cancer Council's Pink Ribbon and Daffodil Days and Foodbank's volunteer program.

The Reserve Bank's contributions under all these initiatives in 2014/15 totalled $144 633. In addition, the Bank facilitates staff salary sacrificing under a Workplace Giving Program.

Several Reserve Bank staff volunteered to pack food orders and undertake general light warehouse duties at Foodbank's NSW distribution centre, December 2014

The multitude of flowers laid in Martin Place in the days following the siege at the Lindt Café on 15 December 2014 reflected the outpouring of grief and sympathy in the community of Sydney. The Governor laid flowers on behalf of the Reserve Bank in the week following the siege. This photograph was taken from Level 3 of the Bank's Head Office building, directly across the road from the Lindt Café, on 19 December.

Part 3:

Management and Accountability

Our People

The total number of Reserve Bank employees increased by 4 per cent during 2014/15. More than 80 per cent of the people who joined the Bank during the year were recruited on a limited-duration basis, largely to handle project work. The Bank continues to attract diverse and talented new employees through its graduate and cadetship programs.

Staff Profile

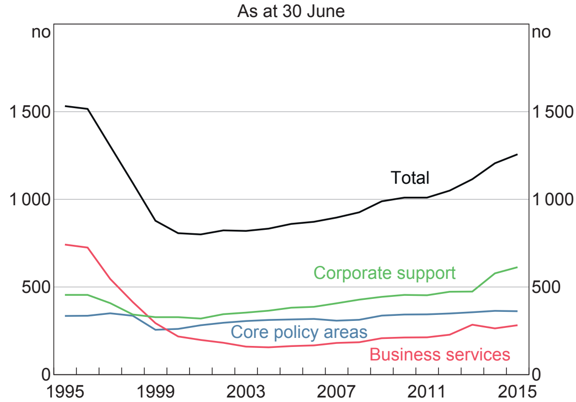
Over the year to June 2015, the total number of employees at the Reserve Bank (excluding Note Printing Australia Limited) increased by 4 per cent to 1 255. This is attributable largely to the continuation of major, multi-year projects that commenced in 2014 and which have required growth in employee numbers in the corporate service areas of the Bank in particular.

Of the 209 people who joined the Reserve Bank since July 2014, more than 80 per cent were recruited on a limited-duration basis, largely to handle the volume of project work at the Bank. Most of these new recruits were IT professionals. An important recruitment channel for the Bank continues to be the graduate and cadetship programs. During the year to June 2015, the Bank hired 33 graduates and 20 cadets (students in their final year of study who undertake vacation work at the Bank), representing one-quarter of all new employees. The new employees work in the Bank's policy, business and corporate service areas and hold degrees in economics, finance, accounting, law, science and other relevant disciplines.

During 2014/15, around 13 per cent of staff left the Reserve Bank. This is a slightly higher turnover rate than the Bank has experienced in the past and can largely be attributed to temporary staff leaving following the completion of various projects during

RBA Employee Numbers*

As at 30 June

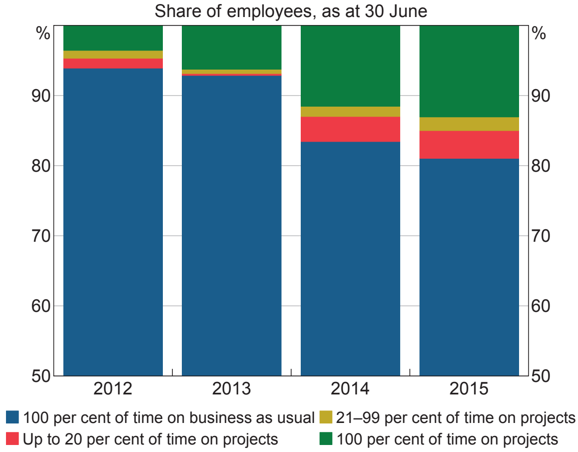


* Excludes NPA

Source: RBA

RBA Employees Allocated to Projects*

Share of employees, as at 30 June



* Excludes NPA

Source: RBA

The Reserve Bank's 2015 graduate recruits on the final day of their offsite induction program, February 2015

the year. Such exits accounted for one-quarter of all departures. Given the high level of project-related work the Bank is currently undertaking, this trend is expected to continue over the next few years.

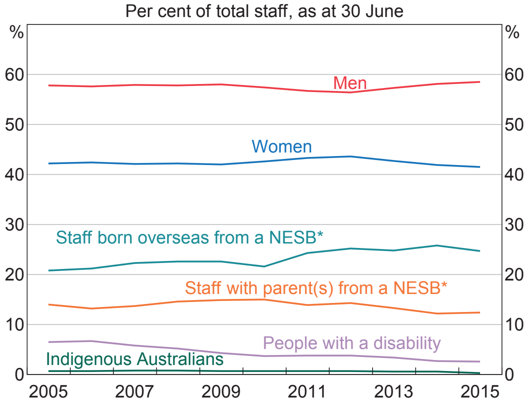
The Reserve Bank reviews its workforce diversity profile each year and reports on developments in its *Equity & Diversity Annual Report*. The Bank also has a Diversity Plan, which assists it in meeting its diversity and inclusion objectives by establishing key priorities every three years, as well as setting out the initiatives it will pursue to support those priorities. These priorities are determined through consultation with employees, workforce diversity profile analysis, and consideration of recent developments in diversity and inclusion practices. The Bank's current diversity and inclusion priorities are to:

- gain an understanding of the issues related to work-life balance that are important to employees and to use that information to contribute to equity and diversity policy deliberations and enhance workplace flexibility practices
- better understand the factors influencing the career experience of women
- achieve at least 35 per cent of female representation in management positions by 2020 and 40 per cent thereafter (discussed further below)
- continue improving the accessibility of the Bank's computing systems, information and building facilities for its employees and the community
- understand the needs of a maturing workforce and use that information to assist in workforce planning and knowledge retention.

Over the past decade, within a relatively stable diversity profile in the Reserve Bank overall, there has been an increase in the share of employees from a non-English speaking background and a decline in the share of employees with a disability.

Diversity Profile at the RBA

Per cent of total staff, as at 30 June



* Non-English speaking background

Source: RBA

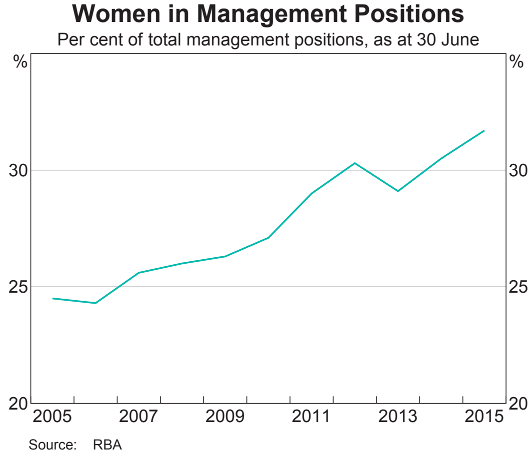
People and Culture

The Reserve Bank needs high-quality people working together productively to be able to fulfil its responsibilities. To support this, the Bank developed a multi-year strategy for People and Culture in 2013, which sought to:

- identify aspects of the Bank's culture and work environment that are our strengths, as well as areas in which we need to improve, and measuring our progress in making improvements
- develop a deep and diverse pool of well-trained potential leaders
- fully utilise the talents of our people
- foster an inclusive and flexible work environment.

The Reserve Bank has made steady progress in implementing its People and Culture strategy. During the past year, a new Diversity and Inclusion Policy was launched to help communicate the Bank's commitment to building a culture of diversity and inclusion, in which the contributions of people with different backgrounds, experiences and perspectives are both respected and utilised effectively. The policy sets out the Bank's objectives in this area, which are to provide equal opportunities for all employees and promote an inclusive and collaborative culture.

A key commitment made as part of this policy is to achieve an appropriate representation of women in management positions. To track progress, the policy introduced a gender target, which is for 35 per cent of management positions to be filled by women within five years, with a longer-term aim of 40 per cent. Women currently hold 32 per cent of management positions. When launching the new policy, the Reserve Bank also announced a range of gender-related initiatives it will pursue to support its target. Some of these initiatives are internally facing and aim to support women in the Bank, while others aim to promote economics, finance, mathematics and IT as career options for women in the community more broadly.



The Reserve Bank took the opportunity to review its performance management arrangements during the year to help support the objectives of the People and Culture strategy. This resulted in various changes to the overall framework and process in order to better align individual, team and organisational objectives while providing employees with clarity around the required standards of performance.

The People and Culture strategy places emphasis on ensuring that the talents of employees are being utilised and the Reserve Bank has a deep and diverse pool of well-trained potential leaders.

Making progress in leadership development is a priority of the People and Culture strategy. To support this, a mechanism was introduced for senior staff to obtain feedback from others on their leadership behaviours, which has helped to identify development opportunities that the Bank should provide. The Bank is also in the process of redeveloping its Leadership Development Program, with a focus on enhancing managers' abilities in the ongoing period of significant change. The objective of the program overall is to enhance the strategic leadership of management teams and at the same time emphasise participants' people-management skills, communication abilities and personal and professional development.

The Reserve Bank has a range of development opportunities for employees. While on-the-job training is an important component, this is supplemented by formal training programs, such as:

- a two-year Graduate Development Program, consisting of a range of tailored training programs to develop effective business writing, critical thinking, presentation and communication and negotiation skills. A total of 76 graduates are in this program for 2014/15
- programs supporting technical and professional development, including training in project management and IT change management
- training in management and leadership skills, as well as other general competencies, such as communication skills
- training in the Bank's compliance obligations, including in relation to work health and safety, fraud awareness and anti-money laundering and counter-terrorism financing.

The Reserve Bank provides development opportunities to employees by supporting secondments to other policy institutions in Australia and overseas. That is being replicated internally, with short-term staff secondments among different areas of the Bank. At the same time, the Bank has hosted secondees from the Department of the Prime Minister and Cabinet, Australian Prudential Regulation Authority, Australian Competition and Consumer Commission, Australian Treasury and Bank of England.

Women currently hold 32 per cent of management positions

Financial support is provided to current employees for part-time study in disciplines related to their work, and around 57 employees studied part-time during 2014/15. In addition, each year the Reserve Bank provides support for full-time postgraduate study at universities in Australia and overseas; in December 2014, five employees were awarded such assistance.

The Reserve Bank also offers traineeships under the Australian Government's Apprenticeship Scheme. Designated positions are available to Aboriginal and Torres Strait Islander people, as well as people with disabilities and the long-term unemployed.

The Reserve Bank employed two Operations Assistants in 2015 through the Australian Government's Disability Employment Services initiative, Jobsupport, whose Open Employment Program places people with an intellectual disability into paid jobs in the regular workforce. The objective of this program is to place, train and maintain people with an intellectual disability in quality jobs

Myfwny Saboisky (far left), coordinator of the Bank's Jobsupport program, which placed Uziel Malifa and Daniela Balzarano (centre); Jobsupport's Deb Holloway (far right)

Around the table, from left, the Reserve Bank's Catherine Parr, Jennifer Royle, Sarah Hepburn, Bruce Harries, Laura Berger-Thomson, Adam Cagliarini, Marija Dumovic, Adam Gorajek and Michele Bullock at an International Women's Day breakfast function, March 2015

that meet both their employment needs and the needs of the employer. Participation in this program provides the Bank with an opportunity to employ someone with an intellectual disability, give them a satisfying job and enhance their quality of life.

Workplace Agreement and Remuneration

In 2014/15, the Reserve Bank commenced negotiating a new Workplace Agreement. The Bank's objectives for the negotiations were to ensure that its working arrangements were consistent with contemporary standards and enabled the Bank to be an efficient and effective organisation.

While the negotiations were in progress, the 2014 remuneration review for employees was delayed, with adjustment being deferred pending an outcome on the Agreement. The Workplace Agreement negotiations took place in an environment in which the pace of pay gains in the general community had slowed significantly and the Government was requiring pay restraint in the public sector. It was the Reserve Bank's assessment that it could increase staff pay only if it was able to demonstrate efficiency improvements.

Despite a lengthy negotiation process, the Reserve Bank ultimately was not able to reach agreement with the Finance Sector Union. As a result, the Bank put the proposal directly to its employees in June 2015. This proposal included, among other things, freezing the bases of the salary bands, an increase in standard working hours, arrangements to facilitate 24/7 operations and a mechanism to better align salary outcomes with individual employee performance. A majority of employees accepted the proposed Agreement in July and it came into effect on 11 August 2015.

Management of the Reserve Bank

The major consideration affecting the Reserve Bank's costs in 2014/15 was the ongoing work on the program of major strategic projects initiated in recent years. Apart from this, operating costs were well contained in the past year.

The Reserve Bank's Costs

The major consideration affecting costs in 2014/15 was again the ongoing work on the program of major strategic projects initiated by the Reserve Bank in recent years, as explained in the 2014 Annual Report. Other ongoing costs, which still represent 90 per cent of total operating costs, remained well contained.

Some policy-driven projects begun in previous years were completed in 2014/15. Further progress was made on the delivery of others, and some new projects were added to the program, partly in response to industry-led initiatives that will provide new infrastructure to the public and contemporary services to the Reserve Bank's customers. This extensive program of work is driven by several broad influences, namely:

- to meet operational obligations placed on the Bank by its legislation in an environment of new demands, rising risk and evolving technology
- evolving practice in the implementation of monetary and payments policy
- the aim to control strategic risk of different kinds more effectively.

While each element of this portfolio is justified in terms of the public interest, some projects will result in additional revenue streams, others will lower costs over the medium term and, in other cases, benefits will be reflected in reduced risk or better control.

The largest set of initiatives is associated with the issue of the new series of banknotes. In addition to the effort to design, print and issue the new series of banknotes, these initiatives include key projects to strengthen logistics for this activity, introduce new equipment to process banknotes more efficiently, and build a new facility for storing, distributing and processing them. As well as introducing a materially more secure series of banknotes, completion of these complementary projects will place Australia's arrangements for issuing banknotes at the forefront of international best practice in this activity. The construction of the new banknote storage facility, the National Banknote Site (NBS), at the Reserve Bank's site at Craigieburn in Victoria was endorsed by the Parliamentary Public Works Committee in March 2014. Construction of the NBS began in June 2015 and is scheduled for completion in the first half of 2017.

Major development activity in the banking, payments and settlements functions is substantially in response to the industry-led initiative to develop

Construction of the NBS scheduled for completion in the first half of 2017

Assistant Governor (Currency), Michele Bullock, and Mark Baker, CFO, Watpac Limited, builder of the new National Banknote Site, in Craigieburn, Victoria, June 2015

the New Payments Platform to allow low-value, 'every day' payments by consumers and businesses to be cleared and settled in near 'real time'. The Reserve Bank is making a major contribution to this infrastructure by developing systems that will immediately clear and settle transactions by ADIs associated with these transfers. In parallel, the Bank is adapting its own banking services to participate in these system-wide initiatives. The project to introduce contemporary banking platforms for the Bank's own customers, the largest of which is the Australian Government, continues to be progressively implemented.

A number of initiatives are under way, or are about to begin, centred on the Reserve Bank's market operations. These projects will see these operations become more efficient, strengthen control and substantially reduce costs for counterparties. They will also strengthen support for key facilities recently provided by the Bank, including the 'open repo' facility and the Committed Liquidity Facility. This work includes projects to:

- undertake operations in securitised instruments and manage the associated risks more efficiently
- upgrade the core trading system, including middle and back-office systems
- strengthen forecasting systems that underpin liquidity management operations.

(From left) Head of Facilities Management Department, Grant Baldwin, Deputy Governor Philip Lowe and Senior Manager (Facilities Services), Ed Jacka, at the National Banknote Site Ground Breaking Ceremony, Craigieburn, Victoria, June 2015

New work to develop systems to improve the quality and efficiency of data collections from financial institutions places these collections on more suitable platforms; automating the collection of information from over-the-counter (OTC) derivatives markets is consistent with undertakings given by Australia in international forums. The Reserve Bank's work in collecting and managing the extensive information it holds – primarily as the basis of advice on monetary policy and financial stability and in support of its operations – is being strengthened by the introduction of contemporary technology for this purpose.

The Reserve Bank encounters risk from diverse sources and pursues initiatives over time to improve its management of a variety of material threats to its key activities. This sometimes requires building physical infrastructure, such as the NBS. Another such investment, completed in 2007, was the construction of the Bank's Business Resumption Site (BRS) in the outer suburbs of Sydney. Its importance was demonstrated after the siege at the Lindt Café in Martin Place in December 2014, which occurred in premises adjacent to the Bank's Head Office building, where most of its operations are conducted each day. As access to Head Office was not available following this incident, the Bank transferred its critical operations to the BRS, thereby avoiding any interruption to the services it must provide on a virtually continuous basis to the financial system and the community, including those for 'real time' interbank settlement, market operations and banking. When access was restored, critical systems were returned to Head Office smoothly.

A major infrastructure project currently under way is to strengthen perimeter security at the Reserve

General Operating Costs[a]

$ million

	2010/11	2011/12	2012/13	2013/14	2014/15
Staff costs	148.1	156.7	169.0	184.6	195.3
Other costs	72.1	72.7	76.8	87.4	89.0
General operating costs	220.2	229.4	245.8	272.0	284.3
Of which:					
Cost of projects	6.3	9.1	11.8	18.4[b]	28.0

(a) Excluding NPA and banknote management expenses, and costs directly linked with transaction-based revenue
(b) Some activities have been subsequently reclassified as business as usual

Capital Costs[a]

$ million

	2010/11	2011/12	2012/13	2013/14	2014/15
Capital Costs	24.9	19.4	29.8	44.2	56.5
Of which:					
Cost of significant projects[b]	2.9	1.7	7.8	18.6	42.9

(a) Excluding NPA
(b) Projects on the Bank's Enterprise Master Schedule

Bank's Craigieburn site. The existing infrastructure had largely been in place since the 1980s and the risk was rising that it would no longer provide satisfactory protection for a site of this kind. Within the Head Office building, operating mechanisms of passenger lifts and the industrial lifts that transport banknotes between locations are being replaced; this work replaces equipment that has been in use since the building was first occupied early in 1965. Separately, one floor has been recovered from tenants and will be refurbished to help accommodate the rising number of staff associated with the Bank's heavy project workload.

A major project is under way to transfer governance of the staff superannuation fund to an external master trust, to more effectively manage risks associated with the changing regulatory landscape and the increasingly demanding responsibilities on trustees.

As many of these initiatives draw heavily on information and communication technologies, the investment in technology assets and in ICT skills has been large. These skills are of a kind similar to those currently in high demand elsewhere in the financial sector. New resources have also been made available in risk management, compliance and project governance. These new resources have the aim of ensuring that the Reserve Bank's senior executives are able to maintain awareness of progress with this complex portfolio of work, that individual initiatives proceed efficiently, risks are managed effectively and the work is delivered as specified. Significant steps have also been taken in the Bank's IT activities to secure the Bank's systems against the threat of cyber attack.

While the rise in staffing and capital expenditure associated with the major projects is large and expected to rise further in the next year, this is expected to be largely temporary as projects are progressively delivered. The total of operating and capital outlays is expected to peak next year. Outlays on projects are then expected to return towards the historical norm, though depreciation costs on new assets will likely be higher over the medium term.

General operating expenses associated with running the Reserve Bank, as opposed to those associated with holding assets, making transactions or purchasing banknotes, rose by 4.5 per cent in 2014/15, with operating costs, excluding spending on projects, increasing by 1.1 per cent. This moderate increase partly reflects the deferred salary adjustment in 2014/15 as the Bank carried out negotiations for a new Workplace Agreement (see the chapter on 'Our People' for details). Operating costs associated with projects increased by 52.2 per cent, to $28.0 million.

The progress evident in delivery of the range of initiatives is also apparent in capital outlays, which rose by about $12 million in 2014/15. This is heavily concentrated in major initiatives to develop technology and communications systems for banking, payments and settlements, though it also reflects work to strengthen security at the Craigieburn site. Spending on the new highly secure banknote storage facility is expected to be concentrated in 2015/16.

Facilities

The Reserve Bank owns premises in locations where there is a business need to do so, including its Head Office in Sydney; the HC Coombs Centre for Financial Studies in Kirribilli, Sydney; office buildings in Melbourne and Canberra; the note printing facility at Craigieburn, north of Melbourne; and the Business Resumption Site in outer Sydney. In addition to the buildings it owns, the Bank leases accommodation for its State Offices in Adelaide, Brisbane and Perth – where its requirements for space are modest – and for its offices in London, New York and Beijing.

The value of the Reserve Bank's property assets increased by $21 million to about $354 million in 2014/15, mainly reflecting increases in the value of the Sydney and Melbourne CBD facilities. Surplus accommodation in the Bank's properties is leased to external tenants. Gross income from these leases in 2014/15 amounted to $13.3 million. During the year in review, the Bank carried out the usual program to maintain the plant and equipment that supports the occupation of these facilities at an acceptable standard.

Environmental Management

The Reserve Bank is committed to improving the environmental performance of its operations. The Environmental Management Committee in the Facilities Management Department has developed policies that are in accordance with the principles of ecologically sustainable development as set out in the *Environment Protection and Biodiversity Conservation Act 1999*. These policies reduce the impact of the Bank's operations on the environment and include the following initiatives:

- reducing energy, water and paper consumption
- procuring 10 per cent of electricity needs from renewable (green) sources
- increasing the recycling of paper, co-mingled waste and printer cartridges
- adopting environmentally sustainable designs for office fit-outs
- use of 50/50 recycled paper
- greater use of fuel-efficient vehicles.

Electricity consumption by the Reserve Bank declined by 2.6 per cent in 2014/15, compared with the five-year average. The biggest reduction in electricity consumption occurred at Head Office and was associated with the installation of a more efficient system for chilling water for the data centre.

Lower production at Craigieburn contributed to reductions in:

- gas use, which was 5 per cent lower than the five-year average
- water, which was 10 per cent lower than the five-year average
- waste, which was 8 per cent lower than the five-year average.

The Reserve Bank will continue to pursue lower targets for the use of energy and water, including by developing systems to measure consumption of these resources more accurately.

Consultancies

The Reserve Bank employs outside contractors and professional service providers to carry out specific tasks where necessary and also, from time to time, uses consultants, who are engaged where the Bank lacks specialist expertise or when independent research, review or assessment is required. Consultants are typically engaged to investigate or diagnose a defined issue or problem; carry out defined reviews or evaluations; or provide independent advice or information to assist in the Bank's decision-making. Prior to engaging consultants, the Bank takes into account the skills and resources required for the task, the skills available internally and the cost-effectiveness of engaging external expertise.

As in previous years, consultancies during 2014/15 covered a range of activities, including compliance, corporate governance and the Reserve Bank's operations, with spending again significantly boosted by ongoing work on several major projects, including the development of the new series of banknotes.

Spending on consultancies over the past eight years is shown below.

Spending on Consultancies[(a)]
$

2007/08	260 000
2008/09	63 000
2009/10	61 000
2010/11	102 000
2011/12	535 000
2012/13	1 190 000
2013/14	387 000
2014/15	773 000

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

Risk Management

The Reserve Bank seeks to carefully manage all the risks related to its role and responsibilities. The Risk Management Committee oversees the Bank's risk management processes and framework.

Objectives and Governance Structure

Risk management is integral to all aspects of the Reserve Bank's activities and is the responsibility of all staff. Managers have a particular responsibility to evaluate their risk environment, put in place appropriate controls and ensure that these controls are well developed and implemented effectively. The Bank identifies, assesses and manages risk at both an enterprise ('top-down') and business ('bottom-up') level, a process that is subject to regular review. These risks are managed to a level that is consistent with the Bank's risk appetite through processes that emphasise the importance of integrity, intelligent inquiry, maintaining high-quality staff and public accountability. The development and maintenance of an active risk management culture that acknowledges the need for careful analysis and management of risk in all business processes is an important element of this framework.

Oversight of the Reserve Bank's arrangements for risk management is undertaken by the Risk Management Committee (RMC). The RMC is responsible for ensuring the proper assessment and effective management of all the risks the Bank faces, with the exception of those arising directly from its monetary and banking policy, financial stability and payments policy functions. These risks remain the responsibility of the Governor, the Reserve Bank Board and the Payments System Board. The risks associated with the Bank's shareholding in Note Printing Australia Limited (NPA) are not the responsibility of the RMC. Instead, these risks are overseen by the Reserve Bank Board and covered by the NPA Charter, though responsibility for the day-to-day activities of NPA rests with the NPA Board and management. The Reserve Bank's risk management framework covers the relationships that the Bank has with NPA other than its shareholding – for example, joint participation in projects and the relationships of supplier, customer, landlord and tenant.

The RMC is chaired by the Deputy Governor and comprises the Assistant Governors for the Banking and Payments, Corporate Services, Currency and Financial Markets Groups; Chief Financial Officer; Chief Information Officer; Heads of the Audit, Human Resources, Information and Risk and Compliance Departments; and the General Counsel. The RMC meets six times a year, or more frequently if required, and keeps the Executive Committee and Reserve Bank Board Audit Committee informed about its activities.

Risk management process is both 'top-down' and 'bottom-up'

The Risk Management Committee at work

The RMC is assisted in its responsibilities by the Risk and Compliance Department (RM), whose main role is to assist individual business areas to manage their risk environment effectively within a broadly consistent framework. RM also monitors risk and performance associated with the Bank's activities in financial markets and provides support to the business areas in the implementation of fraud control and business continuity systems, and the management of compliance-related risks. The Head of RM reports directly to the Deputy Governor.

The Audit Department undertakes a risk-based audit program to provide assurance that risks are identified and key controls to mitigate these risks are well designed and working effectively. This includes reviewing the Reserve Bank's risk management framework and testing controls on a sample basis. The Head of Audit Department reports to the Deputy Governor and Chair of the Audit Committee, which meets at least every three months.

Portfolio Risks

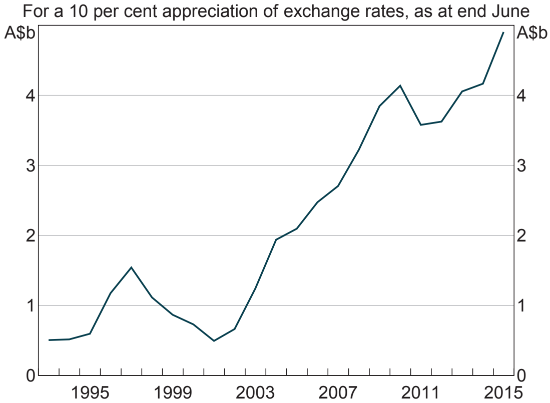
The Reserve Bank holds domestic and foreign currency-denominated financial instruments to support its operations in financial markets in pursuit of its policy objectives. These instruments account for the majority of the Bank's assets and expose its balance sheet to a number of financial risks, the largest of which is exchange rate risk. The primary responsibility for managing these risks rests with the Financial Markets Group. The role of RM is to monitor these risks and report on compliance with approved authorities and limits. In that regard, the Assistant Governor (Financial Markets), Head of RM and other senior staff are provided with timely reports on limits compliance, portfolio risks and performance.

Exchange rate risk

Holdings of foreign currency-denominated assets expose the Reserve Bank's balance sheet to fluctuations in exchange rates as the Bank's financial statements are reported in Australian dollars. Given the policy function of these assets, the Bank does not seek to eliminate this exposure. Rather, the Bank mitigates the risk by diversifying foreign currency assets across several currencies. The diversification of foreign currency investments was expanded in 2014/15 to include assets denominated in pound sterling. The allocation to the Chinese renminbi was also increased. These changes shifted the benchmark portfolio composition to 55 per cent in US dollars, 25 per cent in euros, 5 per cent in Japanese yen, 5 per cent in Canadian dollars, 5 per cent in pound sterling and 5 per cent in Chinese renminbi (see the chapter on 'Operations in Financial Markets' for details). This

Exchange Rate Risk on RBA Foreign Currency Portfolio

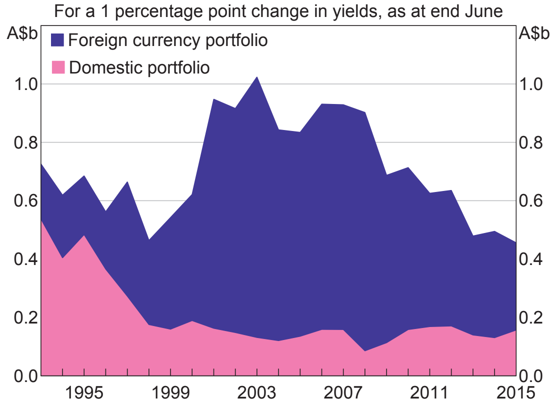
For a 10 per cent appreciation of exchange rates, as at end June



Source: RBA

Interest Rate Risk on RBA Portfolio

For a 1 percentage point change in yields, as at end June



Source: RBA

benchmark portfolio composition reflects the Bank's long-term risk and return preferences subject to requirements for liquidity and security. The portfolio is rebalanced to these benchmark shares daily, taking into account changes in market rates and transactions. The Bank's holdings of gold and Special Drawing Rights and its investments in the Asian bond funds are not managed relative to an internal benchmark.

The Australian dollar value of the Reserve Bank's portfolio rose over 2014/15, resulting in an increase in exchange rate risk. Based on the current level of reserves, a 10 per cent appreciation of the Australian dollar would result in mark-to-market losses of $4.92 billion.

Interest rate risk

The value of the Reserve Bank's financial assets is also exposed to movements in market interest rates, as the bulk of the domestic and foreign portfolios comprise fixed-income securities. The value of these securities is affected by movements in market yields because the payment stream on these securities is fixed from the date of purchase. In general, the value of these securities will decline as market yields rise, while a fall in market yields will increase their value. Other things being equal, securities that have a longer maturity contain a greater degree of interest rate risk as their fixed cash flows extend further into the future. In contrast, securities with floating cash flows carry very little interest rate risk.

The Reserve Bank holds domestic securities for policy-related purposes. Total holdings of domestic securities increased by $13.4 billion over 2014/15 to around $86 billion. The average term of the Bank's domestic repo book at the end of June 2015 was around three weeks, little changed from the previous year. For domestic securities held outright, the sensitivity to movements in market yields increased over 2014/15 because of an increase in both the holdings and duration of semi-government securities and Australian Government Securities.

The Reserve Bank is exposed to very little interest rate risk on its balance sheet liabilities. Banknotes on issue account for about 42 per cent of total liabilities and carry no interest cost to the Bank. The other sizeable obligations include deposits held by the Australian Government and government agencies, and exchange settlement account balances held by ADIs. These deposits have short maturities that broadly match the Bank's domestic assets held under repo. Interest paid on these deposits reflects domestic short-term interest rates, effectively hedging part of the interest rate exposure of the domestic asset portfolio.

In contrast to the domestic portfolio, the Reserve Bank's foreign currency assets are managed relative to a benchmark duration target that reflects the Bank's long-term appetite for risk and return. During 2014/15, the benchmark duration target was reduced for the European portfolio from 18 months to 6 months, increased for the Chinese portfolio from 18 months to 30 months and left unchanged at 6 months for the US, Canadian and Japanese portfolios. The benchmark duration target for the new UK portfolio is 3 months.

The overall level of interest rate risk on the Reserve Bank's domestic and foreign financial assets declined over 2014/15, owing to a fall in the modified duration of the foreign currency portfolio, which mainly reflected the reduced duration target for the European portfolio and the low duration target for the UK portfolio. The Bank would incur a valuation loss of around $456 million if interest rates in Australia and overseas rose uniformly by 1 percentage point across the yield curve.

Credit risk

Credit risk is the potential for financial loss arising from the default of a debtor or issuer, as well as declines in asset values following deterioration in credit quality. The Reserve Bank manages its credit exposure by applying a strict set of criteria to its investments, confining its dealings to highly creditworthy counterparties and holding only highly rated securities. In addition, the Bank's transactions are executed under internationally recognised legal agreements.

The Reserve Bank is exposed to very little credit risk on its outright holdings in the domestic portfolio as it invests only in securities issued by the Australian Government or by state and territory government borrowing authorities. The Bank is exposed to a small amount of counterparty credit risk as a large portion of its domestic assets are held under repo. However, the credit risk on repos is inherently limited and ultimately reflects changes in the market value of the securities provided as collateral. The Bank would face a loss only if a counterparty fails to repurchase securities sold under repo and the market value of the securities fell below the agreed repurchase amount. The Bank manages this exposure by applying an appropriate margin ('haircut') to the securities and requiring that these securities meet certain eligibility criteria. The degree of over-collateralisation increases with the risk profile of the security (see the chapter on 'Operations in Financial Markets' for details).

Given its policy role, the Reserve Bank does not apply specific credit criteria to the counterparties with which it is willing to deal in its domestic market operations. However, counterparties must be subject to an appropriate level of regulation and be able to ensure efficient and timely settlement of transactions within the Austraclear system.

The Reserve Bank's investments in the foreign currency portfolio are also typically confined to highly rated and liquid securities. The majority of the Bank's outright holdings are securities issued by the national governments of the United States, Germany, France, the Netherlands, Japan, Canada, the United Kingdom and China, with modest holdings of securities issued by select highly rated supranational institutions and government agencies.

The Reserve Bank also holds a portion of its foreign currency portfolio in short-term repos. This exposes the Bank to the small amount of residual credit risk that is inherent in repos, as noted above. The Bank manages this risk by requiring 2 per cent over-collateralisation and accepting only high-quality and liquid securities as collateral. Credit exposure on foreign repos is further managed by imposing limits on individual counterparty exposures. The credit risk framework utilises credit ratings and market-based credit measures to manage risk exposures.

The Reserve Bank uses foreign exchange swaps as part of its policy operations and as a means to enhance returns on the foreign currency portfolio. Credit risk on these instruments is managed to a low level by executing foreign exchange transactions with counterparties that meet strict eligibility criteria and are subject to internationally recognised legal agreements. The Bank further limits risk associated with foreign exchange swaps through margining under two-way credit support annexes. This involves the Bank receiving and remitting collateral to cover exposures on foreign exchange swaps generated by movements in exchange rates away from the contracted rate.

Operational Risk

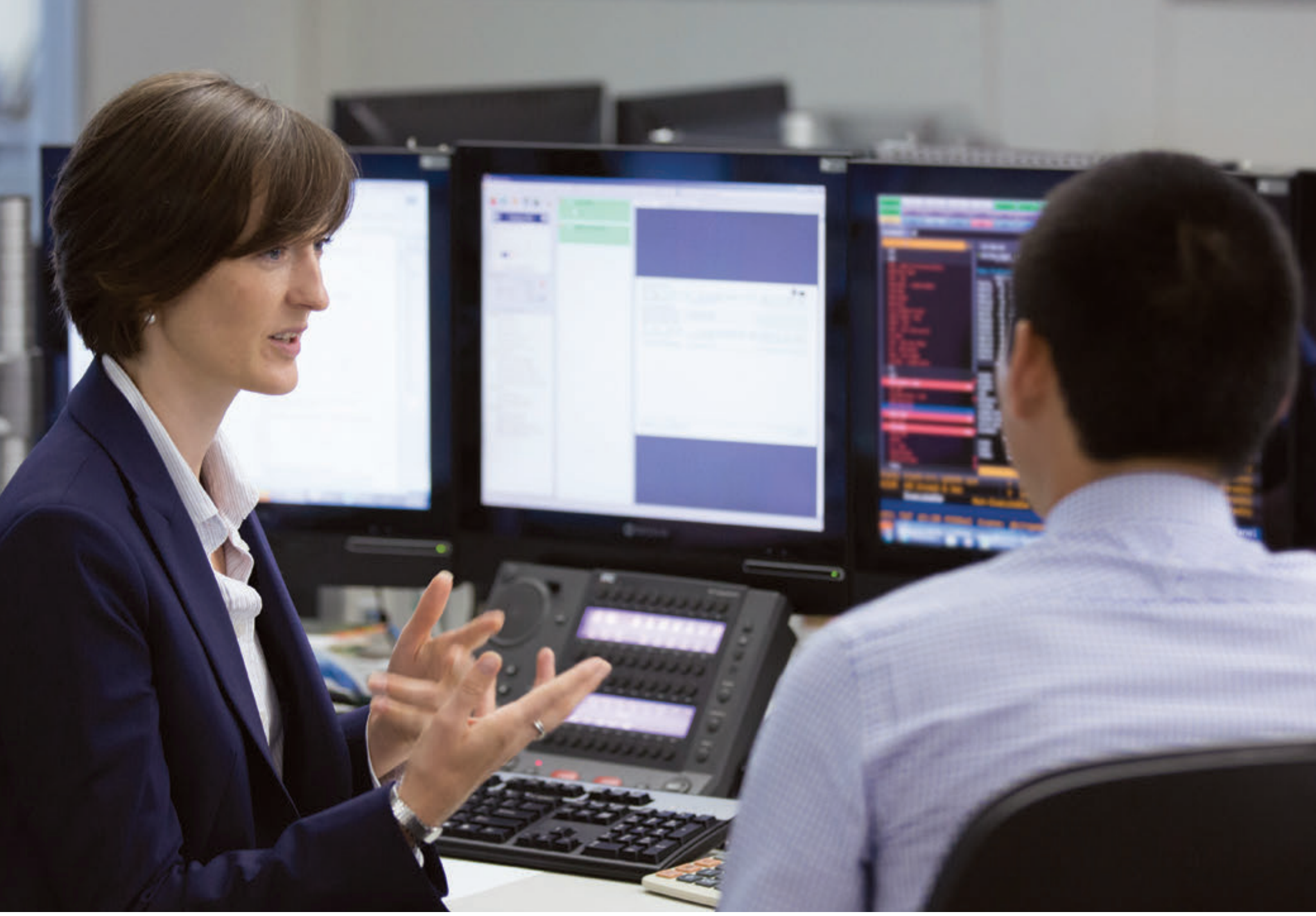
The Reserve Bank faces a broad range of operational risks associated with its day-to-day activities. These risks range from the potential for loss of access to its key IT infrastructure to the possibility that services might not be delivered to the required standard. The appetite for this type of risk is generally low, reflecting the Bank's view that satisfactory fulfilment of its important public policy responsibilities could be seriously undermined if its risk profile is poorly managed. That said, the Bank recognises that it cannot completely eliminate risk from its operations.

While all parts of the Reserve Bank are exposed to operational risk of varying degrees, the most significant risks are those associated with financial transactions undertaken by the Bank for its own activities and that of its clients. During 2014/15, Financial Markets Group executed around 94 000 transactions, generating an average daily settlement value of around $38 billion. The Bank is also the primary banker for a number of government agencies, including the Australian Taxation Office and Department of Human Services, and it maintains the infrastructure to facilitate real-time interbank payment and settlement services through the Reserve Bank Information and Transfer System (RITS). Given the pivotal nature of these activities, any operational failures could have widespread consequences for the financial system. To ensure that the control environment remains suitably robust, the Bank has a range of processes in place to facilitate ongoing and effective management of its operational risks.

Average daily transactions value of around $38 billion

The provision of the Reserve Bank's policy and business operations is highly dependent on complex IT systems. Therefore, the Bank's risk management framework supports ongoing focus on controlling the risks associated with these systems. A key element of this framework is the Technology Committee, which is chaired by the Assistant Governor (Corporate Services) and collaborates with the RMC and relevant business areas to facilitate the assessment, monitoring and management of IT-related risks and ensure that IT-related initiatives are consistent with the Bank's IT strategy. This work is supported by the continual evaluation of industry developments to confirm that the Bank's systems conform to current IT standards and remain robust. Assessment of appropriate staff resourcing, the adequacy of controls over IT processes and the level of security over information management are all incorporated in the Bank's risk management framework.

Resources continue to be directed towards the delivery of a number of large and complex multi-year projects. These include the renovation of the Reserve Bank's banking applications and systems, the development of infrastructure to facilitate real-time retail payments and the upgrade of Australia's banknotes. Successful completion of these projects will ensure high-quality services are maintained for the Bank's clients and the Australian public. The risks associated with project work are carefully managed so that adequate resources are available, nominated project deadlines are met and change management is effectively implemented.



The Reserve Bank's policy and business operations are highly dependent on complex IT systems

The continuity of critical business services during a disruptive event such as a natural disaster or terrorist attack is a key area of focus for the Reserve Bank. As such, considerable resilience has been developed for its operations, including the use of a dedicated Business Resumption Site (BRS) in outer Sydney. Permanent staff from some of the Bank's most critical operational areas are located at the BRS to enable virtual continuity of operations if a disruption to Head Office were to occur. Each department is required regularly to test back-up plans to gauge their readiness for a range of contingencies, including those experienced during the Lindt Café siege in December 2014 (see below). The Bank also participates in contingency event exercises with external organisations to ensure that its staff are well briefed in their roles during these types of events and that effective internal and external communication arrangements are in place. The RMC is briefed on the results of these exercises.

The effective management of compliance risk is central to the Reserve Bank's activities. A small, central compliance unit within RM collaborates with business areas to develop a broadly consistent approach to managing this risk and keeps the RMC informed regarding the level of compliance in key areas within the Bank.

Another type of operational risk is that the Reserve Bank's staff may engage in fraud or other unethical behaviour. To mitigate this risk, the Bank has several layers of controls in place. These include having a clear decision-making hierarchy, separation of duties and controls over computer access at both the user and administrator levels. All staff involved in financial dealing have well-defined limits to their authority to take risks or otherwise commit the Bank. These arrangements are further enhanced by independent front-, back- and middle-office functions, where staff who initiate trades, those who settle them and those who monitor and report on exposures and compliance with trading and investment guidelines remain physically separate and have separate reporting lines.

The Reserve Bank remains strongly committed to establishing and maintaining a culture that encourages and supports the highest standards of behaviour. The Code of Conduct for employees articulates the values that the Bank expects its staff to demonstrate when pursuing its objectives (see the chapter on 'Our Charter, Core Functions and Values' for details). The Bank has arrangements in place to enable fraud or unethical behaviour to be reported anonymously, either by a member of staff or the public, and fully investigated. Ongoing training and awareness programs are also conducted, covering appropriate standards for staff behaviour and awareness of specific risk areas such as fraud and foreign bribery.

Notwithstanding these measures, operational failures can occur, which could adversely affect the Reserve Bank's reputation or lead to financial or other costs. The RMC receives timely reports on any disruptions, which document and review the relevant circumstances and identify areas where new controls may be needed or where existing controls should be strengthened.

Anti-Money Laundering and Counter-Terrorism Financing Program

As a provider of designated services, the Reserve Bank is a 'reporting entity' under the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF Act) and, as such, is required to have and comply with an anti-money laundering and counter-terrorism financing program (AML/CTF program). The AML/CTF Act mandates that an AML/CTF program be divided into Part A and Part B. The primary purpose of Part A is to identify, manage and mitigate the money laundering or terrorism financing risks faced by the Bank, while Part B sets out its customer identification procedures. In accordance with the AML/CTF Rules, Part A was approved by the Executive Committee and the Reserve Bank Board in mid 2013. At its August 2015 meeting, the Reserve Bank Board received a report, prepared by RM, on the operation of the Bank's AML/CTF program during 2014/15.

Government Guarantee Scheme

On behalf of the Australian Government, the Reserve Bank manages the Guarantee Scheme for Large Deposits and Wholesale Funding and the Guarantee of State and Territory Borrowing. Applications for new guaranteed liabilities under both schemes closed in 2010. The Guarantee Scheme for Large Deposits and Wholesale Funding has entered its first stage of closure, with the last wholesale funding securities that were guaranteed under the scheme maturing in March 2015. The guaranteed deposit accounts remain covered by the scheme and will retain this guarantee until October 2015. As administrator for the Guarantee of State and Territory Borrowing, the Bank will continue to be responsible for collecting fees on existing liabilities under the scheme for some years. Around $45 million in fees was collected on behalf of the Australian Government in 2014/15.

Contingency Plans Enacted

The Reserve Bank's location on Martin Place and Phillip Street in Sydney meant that its Head Office building and staff were significantly affected by the siege and tragic loss of life at the Lindt Café in December 2014.

Well-rehearsed contingency plans were enacted, including putting the Head Office building into lockdown. The Reserve Bank's executives prioritised accounting for staff and cooperating with the police, who occupied the lower floors of the building. No Bank staff were among the 17 hostages.

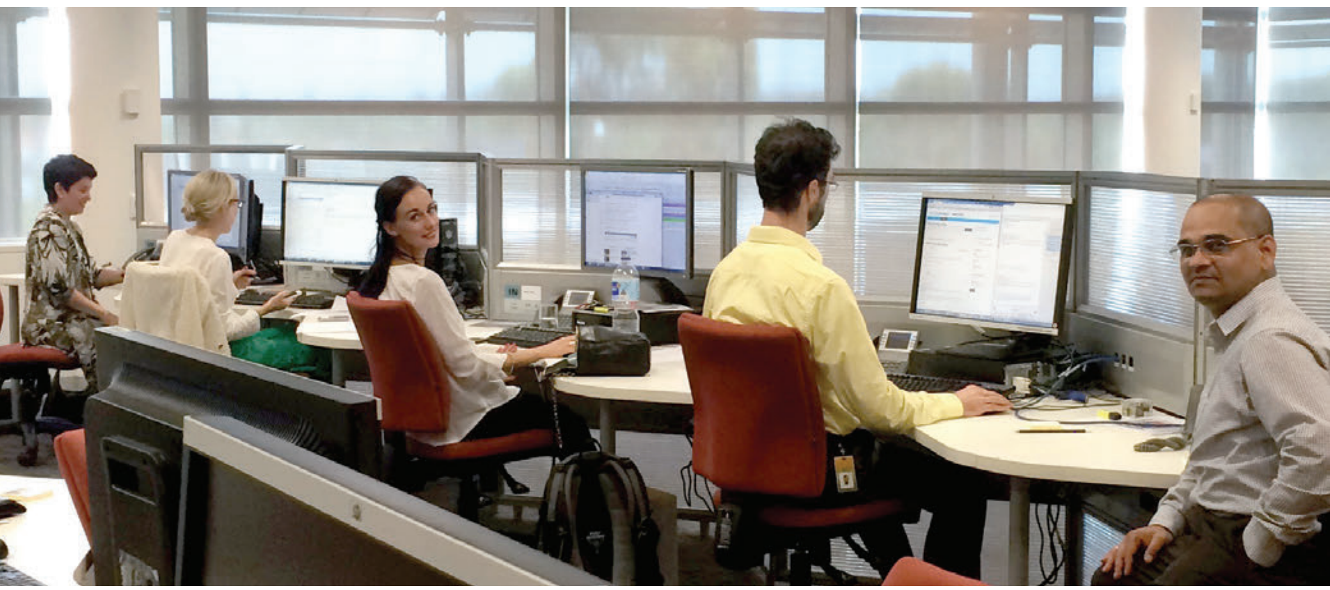
Safeguarding all critical operational functions of the Reserve Bank was also a priority. Staff in Banking Department relocated from their ground floor premises to other levels and continued operational

Around $45 million in fees for guarantees, collected on behalf of the Government

functions until off-site personnel were able to move to the BRS. Payments Settlements Department also followed their normal contingency arrangements on the day of the siege and the services they provide to the financial system were unaffected. Communication with contacts in the payments industry was established to reassure them that operations were unchanged by the unfolding incident. RITS and other core systems were already operating from the BRS at the time of the siege as the Bank has a practice of rotating these critical systems between Head Office and the BRS.

As it became evident that the events in the Lindt Café were not going to be resolved quickly, arrangements were made for key Information Technology Department staff to leave Head Office for the BRS, where they helped ensure that critical operational systems and other business systems continued to run smoothly. An orderly and safe evacuation of the Head Office building was assisted by police in the mid afternoon on 15 December. Critical staff continued to conduct the essential business of the Bank from the BRS on 16 December, including liquidity management and foreign exchange operations. Most business activities resumed at Head Office from 17 December.

Throughout the event, there were regular communications to all staff through a variety of channels (email, voice messages and web messages), so that key instructions and status updates were accessible to staff regardless of their location. There was additional communication with managers to assist them in implementing their business continuity plans, which is a key element of the Reserve Bank's risk management framework.



Information Department staff at the Reserve Bank's Business Resumption Site on Tuesday, 16 December 2014, the day after the Lindt Café siege, (from left) Jacqui Dwyer (Head of Information Department), Rhiannon Hornsey, Renée Mitchell, Jens Korff and Raj Kannori

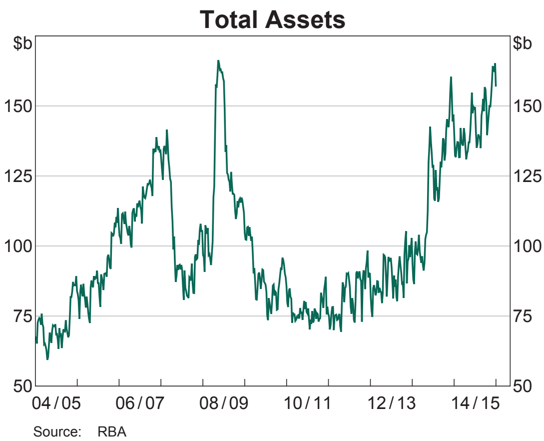
Earnings and Distribution

The Reserve Bank's balance sheet fluctuates in size according to operations in financial markets conducted to pursue monetary policy and other objectives, including supporting an efficient and orderly payments system in Australia. The Bank earns a profit in most years. It holds reserves that are sufficient to cover potential financial losses. In 2014/15, the Bank recorded a net profit of around $6.9 billion, with earnings available for distribution of about $3.5 billion.

The Reserve Bank's Balance Sheet

The Reserve Bank's balance sheet consists mainly of financial assets held to conduct operations in financial markets, to pursue monetary policy objectives and support an efficient and orderly payments system in Australia. Monetary policy is implemented by transacting in these assets to manage liquidity in the cash market. The Bank's assets include both domestic securities and Australia's foreign exchange reserves. The Bank's financial liabilities mainly comprise banknotes on issue, deposits of the Australian Government and other customers, and capital and reserves.

The Reserve Bank's balance sheet was $157 billion on 30 June 2015, compared with $141 billion a year earlier. Banknotes on issue, the Reserve Bank's largest liability, rose by about 8 per cent, to $65 billion, while deposits of the Australian Government rose by about $6 billion. Financial reserves also increased, as valuation gains on foreign exchange resulting from the depreciation in the Australian dollar were transferred to the unrealised profits reserve and a transfer was made to the Reserve Bank Reserve Fund (RBRF). Management of the Bank's assets is discussed in the chapter on 'Operations in Financial Markets'; the associated risks are considered in the chapter on 'Risk Management'.



The Reserve Bank's balance sheet was **$157 billion** on 30 June 2015

The Reserve Bank's Earnings

The Reserve Bank's earnings arise from two sources: underlying earnings – comprising net interest and fee income, less operating costs – and valuation gains or losses. Net interest income arises because the Bank earns interest on almost all of its assets, albeit currently at very low rates, while it pays no interest on a large portion of its liabilities, such as banknotes on issue and capital and reserves. Fees paid by ADIs, with the introduction on 1 January 2015 of the Committed Liquidity Facility (CLF), also increased underlying earnings in the year in review.

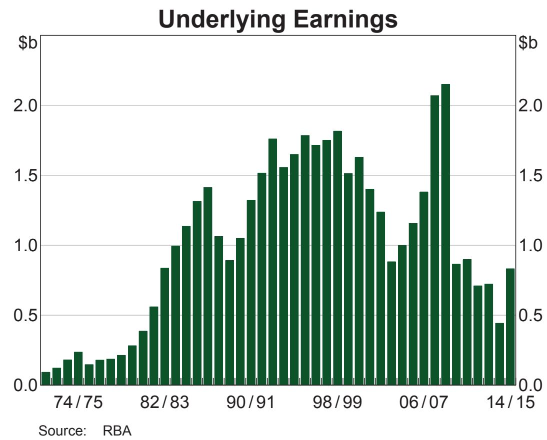
Valuation gains and losses result from fluctuations in the value of the Reserve Bank's assets, in response to movements in exchange rates or in yields on securities. An appreciation of the Australian dollar or a rise in market yields reduces the value of assets and leads to valuation losses. Conversely, a depreciation of the Australian dollar or a decline in interest rates results in valuation gains. Valuation gains and losses are realised only when the underlying asset is sold or matures. Experience shows that valuation gains and losses are volatile, as both exchange rates and market interest rates fluctuate in wide ranges over time. These market risks are managed by the Bank within strict parameters determined by its responsibility for monetary policy.

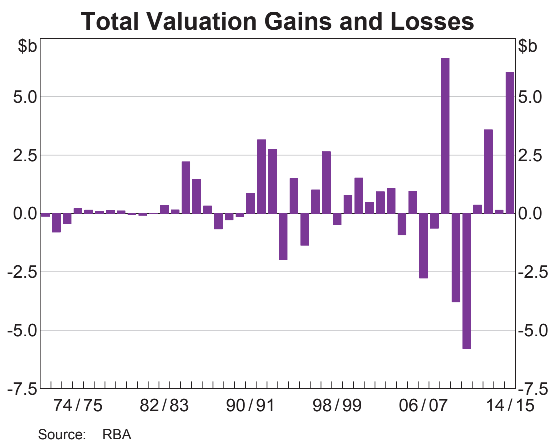
The Reserve Bank reports net profit as income from all sources in accordance with the accounting standards, while the distribution of profits is determined by section 30 of the *Reserve Bank Act 1959*. In terms of the Reserve Bank Act, net profit is distributed in the following way:

- unrealised gains (or losses) are not available for distribution and are transferred to (absorbed by) the unrealised profits reserve. The remaining net profit after this transfer is available for distribution
- the Treasurer determines, after consultation with the Board, any amounts to be placed from distributable earnings to the credit of the RBRF, the Bank's permanent reserve
- the remainder of distributable earnings after any transfer to the RBRF is payable as a dividend to the Commonwealth.

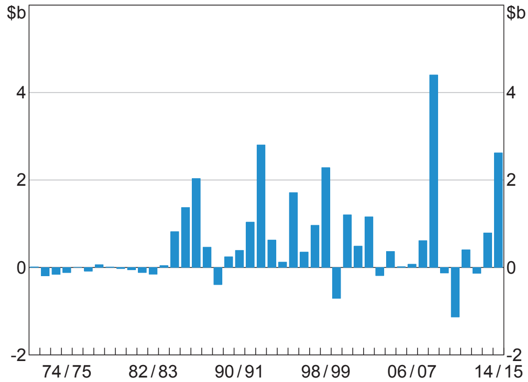
In 2014/15, the Reserve Bank recorded a net profit of $6 888 million, comprising:

- underlying earnings of $832 million, which were $390 million higher than the previous year because of higher net interest income and fee income from providing the CLF. Underlying earnings nevertheless remained near a historically low level with interest rates around the world also remaining very low
- total net valuation gains of $6 056 million, mainly because of the depreciation of the Australian dollar during the year, of which $2 622 million was realised mainly as a result of the sale of foreign currency in the normal course of managing the foreign currency portfolio.



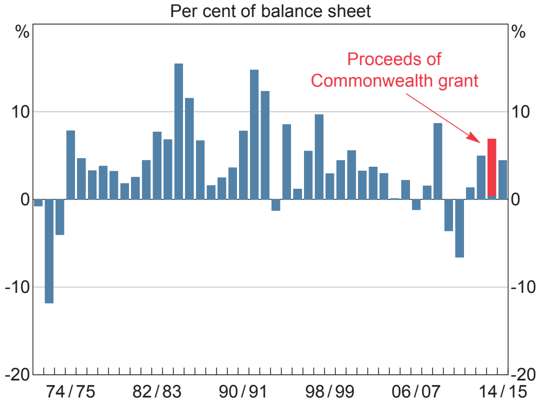


Realised Valuation Gains and Losses



Source: RBA

Net Profits*
Per cent of balance sheet



* Net profit is estimated prior to 1998
Source: RBA

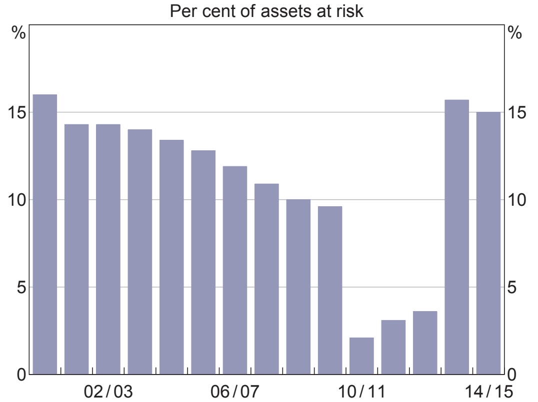
With unrealised gains of $3 434 million being transferred to the unrealised profits reserve, earnings available for distribution amounted to $3 454 million in 2014/15. The pattern of net profit over the longer term is shown in the graph on net profits above.

Capital, Reserves and Distribution

The RBRF is the Reserve Bank's general reserve and essentially its capital. The RBRF is funded from transfers from earnings available for distribution. Its purpose is to provide the capacity to absorb losses when it is necessary to do so. The large valuation losses recorded in 2009/10 and 2010/11, as the Australian dollar appreciated, were largely absorbed by the RBRF, as intended. This, however, left the balance of the reserve at a level lower than the Reserve Bank Board regarded as prudent in the medium term. While the process of replenishing the RBRF began in the years immediately following these losses, restoring its balance to an appropriate level appeared likely to be slow and uncertain. Consequently, the Australian Government provided a grant of $8.8 billion in 2013/14, which added to the Bank's net profit to the same extent and the Treasurer determined that the equivalent of this sum be transferred from net profit to the RBRF. This, in one step, returned the RBRF to a level the Board regarded as providing the Bank with strong resources to absorb potential losses from the risks it carries on its balance sheet.

With the Reserve Bank's assets at risk rising further in 2014/15, the Treasurer determined, after consulting the Board, that a sum of $1 570 million be placed from earnings available for distribution to the RBRF, to maintain this reserve in a position of appropriate strength. The balance of the RBRF now stands at $12 729 million. Following this transfer, a sum of $1 884 million was payable as a dividend to the Commonwealth. The Treasurer decided that an amount of $942 million of this dividend would be paid to the Commonwealth in September 2015,

Reserve Bank Reserve Fund
Per cent of assets at risk



Source: RBA

Signing of the Reserve Bank's accounts for 2014/15, (from left) Frank Campbell, Assistant Governor (Corporate Services), Governor Glenn Stevens, Michael Watson, Group Executive Director, Australian National Audit Office, Grant Hehir, Auditor-General of Australia, and John Akehurst, Chair of the Audit Committee

together with a sum of $618 million deferred from 2013/14 profits. The remainder of 2014/15 earnings available for distribution would be paid in 2016/17.

Unrealised gains of $3 434 million were added to the unrealised profits reserve in 2014/15, resulting in the balance of this reserve rising to $6 590 million at the end of the financial year. This balance is available to absorb future valuation losses or may be distributed over time as these accumulated gains are realised when relevant assets are sold.

Asset revaluation reserves are held for non-traded assets, such as gold holdings and property, plant and equipment. Balances in these reserves represent the difference between the market value of these assets and the cost at which they were acquired. The total balance for these reserves stood at $4 376 million at 30 June 2015, $398 million higher than at the end of the previous financial year, largely reflecting the increase in the Australian dollar value of the Reserve Bank's holdings of gold.

The balance of the superannuation reserve was a credit of $134 million at 30 June 2015, compared with a debit of $23 million a year earlier.

Details on the composition and distribution of the Reserve Bank's profits are shown in the table on page 108.

The Financial Statements (and accompanying Notes to the Financial Statements) for the 2014/15 financial year were prepared in accordance with Australian Accounting Standards, consistent with the Financial Reporting Rule issued under the *Public Governance, Performance and Accountability Act 2013*.

Composition and Distribution of Reserve Bank Profits

$ million

	Composition of profits[a]				Distribution of profits				Payments to government		
					Transfer to/from(–)						
	Underlying earnings	Realised gains and losses(–)[b]	Unrealised gains and losses(–)	Net profit or loss(–)	Unrealised profits reserve	Asset revaluation reserves	Reserve Bank Reserve Fund	Dividend payable	Payment from previous year's profit	Payment delayed from previous year	Total payment
1997/98	1 750	966	1 687	4 403	1 687	–558	548	2 726	1 700	–	1 700
1998/99	1 816	2 283	–2 773	1 326	–2 349	–1	–	3 676	2 726	–	2 726
1999/00	1 511	–708	1 489	2 292	1 489	–	–	803	3 000	–	3 000
2000/01	1 629	1 200	320	3 149	320	–5	–	2 834	803	676	1 479
2001/02	1 400	479	–11	1 868	–11	–10	–	1 889	2 834	–	2 834
2002/03	1 238	1 157	–222	2 173	–222	–2	133	2 264	1 889	–	1 889
2003/04	882	–188	1 261	1 955	1 261	–	–	694	1 300	–	1 300
2004/05	997	366	–1 289	74	–1 289	–	–	1 363	374	964	1 338
2005/06	1 156	4	933	2 093	933	–17	–	1 177	1 063	320	1 383
2006/07	1 381	72	–2 846	–1 393	–2 475	–3	–	1 085	1 177	300	1 477
2007/08	2 068	614	–1 252	1 430	27	–	–	1 403	1 085	–	1 085
2008/09	2 150	4 404	2 252	8 806	2 252	–	577	5 977	1 403	–	1 403
2009/10	866	–128	–3 666	–2 928	–2 248	–	–680	–	5 227	–	5 227
2010/11	897	–1 135	–4 651	–4 889	–23	–	–4 866	–	–	750	750
2011/12	710	405	–39	1 076	–20	–	596	500	–	–	–
2012/13	723	–135	3 725	4 313	3 725	–	588	–	500	–	500
2013/14	9 242[c]	790	–640	9 392	–640	–3	8 800	1 235	–	–	–
2014/15	832	2 622	3 434	6 888	3 434	–	1 570	1 884	618	–	618
2015/16									942	618	1 560
2016/17										942	

(a) As originally published
(b) Excludes gains or losses realised from the sale of fixed assets that had been held in Asset Revaluation Reserves
(c) Includes the Commonwealth grant of $8 800 million

Pro Forma Business Accounts

The Pro Forma Business Accounts for the Reserve Bank's contestable business have been prepared in accordance with competitive neutrality guidelines. They do not form part of the audited financial statements.

	Transactional Banking	
	2013/14 **$ million**	**2014/15** **$ million**
Revenue		
– Service fees	83.1	95.0
– Other revenue	5.4	3.5
Total	88.5	98.5
Expenditure		
– Direct costs	81.1	91.0
– Indirect costs	0.2	0.1
Total	81.3	91.1
Net profit/(loss)	7.2	7.4
Net profit/(loss) after taxes[(a)]	5.1	5.5
Assets[(b)]		
– Domestic markets investments	524.8	981.3
– Other assets	25.4	28.5
Total	550.2	1,009.8
Liabilities[(b)]		
– Capital and reserves	25.0	25.0
– Deposits	509.8	968.8
– Other liabilities	15.4	16.0
Total	550.2	1,009.8

(a) In accordance with competitive neutrality guidelines, income tax expense has been calculated and transferred to the Commonwealth as a notional part of the Reserve Bank's annual profit distribution.
(b) As at 30 June

Statutory Reporting Requirements

The Reserve Bank has a number of statutory reporting requirements that extend beyond its policy objectives. These include: reporting to the Parliament each year on its equity and diversity program; reporting to the Safety, Rehabilitation and Compensation Commission on work health and safety and related matters; and publishing Freedom of Information material on the Bank's website.

Equal Employment Opportunity

The Reserve Bank is required under the *Equal Employment Opportunity (Commonwealth Authorities) Act 1987* to report to the Parliament each year on its equity and diversity program. The *Equity & Diversity Annual Report 2014,* which reported on the Bank's diversity profile, employee engagement with existing policies and progress with the program in 2013/14, was tabled on 2 October 2014.

The Reserve Bank aims to ensure that all employees are treated with dignity and respect and experience equal opportunity throughout their careers with the Bank. This commitment is underpinned by the two key elements of the Diversity Program, namely existing policies and procedures and the current Diversity Plan (covering 2012–15). Existing policies and procedures seek to embed equity, diversity and inclusion principles in work practices and the current Diversity Plan provides specific initiatives that highlight priorities, raise awareness and aim for continuous improvement.

The priorities of the current Diversity Plan are covered in the chapter on 'Our People'. The major focus in 2014/15 was on gender diversity and the Reserve Bank's culture of inclusiveness and flexible work practices, to encourage diversity of people, ideas and approaches to work such that no employee is disadvantaged on the basis of their individual differences.

The Diversity Program is governed by the Executive Committee, in consultation with the Diversity & Inclusion Policy Committee, a consultative group responsible for monitoring the development and implementation of equity and diversity initiatives, policies and practices in the Reserve Bank. Full details and outcomes of the Diversity Program are included in the *Equity & Diversity Annual Report 2015*.

Work Health and Safety, Compensation and Rehabilitation

The Reserve Bank continued to foster a safety culture that is preventative, proactive and based on due diligence, by demonstrating the visible commitment to safety of the Bank's senior and executive management. During the year in review, the Bank continued to implement and monitor initiatives associated with its Work Health and Safety (WHS) strategic plan. The Bank continued to provide ongoing training to WHS representatives and management on contemporary work health and safety matters, including mental health. The Bank's Health & Wellbeing Program continued to provide education and promote physical and psychological health through the implementation of initiatives targeted at WHS risks, attitudinal and behavioural change, and the provision of a supportive and safe working environment.

The Reserve Bank's policies and framework documents covering WHS have been endorsed by the Reserve Bank Board. The Board and the Bank's executive management receive regular reports on WHS matters in the Bank, including an annual review covering WHS indicators and key activities.

There were 42 reported WHS incidents between 1 July 2014 and 30 June 2015, which was lower than the previous year. Around a third of the incidents were sporting injuries sustained during breaks. Of the 42 reported incidents, five required notification to Comcare, although none of these resulted in injuries to workers. Incidents resulting in accepted workers compensation claims remained steady at five in 2014/15, with one involving a sporting injury sustained during a break and four occurring at the usual place of work. Overall, the Bank's Lost Time Injury Frequency Rate (number of lost time injuries per million hours worked) for 2014/15 was 0.5, compared with 1.2 in 2013/14 and a little lower than the finance-industry average.

In terms of the *Work Health and Safety Act 2011* (WHS Act) and the conditions of its licence as a Licensed Authority under the *Safety, Rehabilitation and Compensation Act 1988,* the Reserve Bank is required to report to the Safety, Rehabilitation and Compensation Commission each year on WHS and workers compensation and rehabilitation matters as they affect the Bank. Compliance with the relevant legislation – and the conditions of its licence as a Licensed Authority – was validated during the period by external audits of the Bank's safety, compensation and rehabilitation arrangements. The Commission subsequently confirmed that the Bank retained the highest rating (Tier 3) for its prevention, claims management and rehabilitation practices in each area for 2015/16. The Bank's workers compensation licence extension application was approved and its self-insurance licence was extended to 30 June 2023.

21 FOI requests for access to documents

Freedom of Information (FOI)

The Reserve Bank is an Australian Government agency subject to the *Freedom of Information Act 1982* (FOI Act). As required by Part II of the FOI Act, the Bank publishes information to the public as part of the Information Publication Scheme (IPS).[1]

Twenty-one requests for access to documents under the FOI Act were received in 2014/15. Access was granted in part in response to six requests. No relevant documents were found in response to six requests. Access to documents was denied in response to two requests and six requests were withdrawn. One request was outstanding at the end of the financial year. The Reserve Bank continued to publish information that has been released in response to FOI access requests on its website, as required by the FOI Act, with RSS feeds to these releases available from the website.

One application was received for the internal review of a decision in 2014/15. As required by the FOI Act, a fresh decision was taken, with the original decision being affirmed in this instance.

1 Details of the Bank's obligations under the FOI Act and IPS can be found on the Bank's website at <http://www.rba.gov.au/foi/index.html>.

The estimated amount of time spent by Reserve Bank staff dealing with all aspects of FOI requests in 2014/15 was around 323 hours, compared with around 250 hours in 2013/14. The total cost to the Bank of administering the FOI Act in 2014/15 is estimated at about $81 400, compared with $76 300 the previous year. Charges levied and received in 2014/15 amounted to $460.

Amendments to Enabling and Other Relevant Legislation

The *Public Governance, Performance and Accountability Act 2013* (PGPA Act) replaced the *Commonwealth Authorities and Companies Act 1997* (CAC Act) on 1 July 2014, subject to various transitional arrangements. On the same date, consequential changes were made to the *Reserve Bank Act 1959*.

The combined effect of these changes was that, from 1 July 2014, the Governor became the 'accountable authority' of the Reserve Bank, with several specific responsibilities in relation to the governance of, and reporting by, the Bank. Some of these responsibilities were newly created under the PGPA Act and some had rested with the Reserve Bank Board under the CAC Act. Notwithstanding the broader responsibilities of the Governor following the changes, the Reserve Bank Board remains responsible for approving the Bank's annual financial statements and the charter of the Audit Committee.

The Reserve Bank Act was subsequently amended on 14 April 2015 to ensure that material personal interest disclosure requirements for members of the Reserve Bank Board allow for their responsibilities in relation to monetary policy decisions and the Bank's role in financial system stability, consistent with the arrangements under the Reserve Bank Act prior to the introduction of the PGPA Act and under the class order under the CAC Act issued by the Treasurer in 2001. The amendments also provide for the disclosure of material personal interests by members of the Reserve Bank Board and the Payments System Board relating to more general matters being considered by the respective Board, consistent with similar arrangements applicable prior to the introduction of the PGPA Act.

Ministerial Directions

The Reserve Bank received no new directions from its responsible Minister, the Treasurer, or from any other Minister during 2014/15.

No government policy orders under section 22 of the PGPA Act were applied in relation to the Reserve Bank during 2014/15.

As one of the corporate Commonwealth entities 'prescribed' under section 30 of the *Public Governance, Performance and Accountability Rule 2014*, the Reserve Bank continues to be required to apply the Commonwealth Procurement Rules (CPRs) when performing duties relating to certain procurements.

The CPRs were amended and re-issued under section 105B(1) of the PGPA Act, effective from 1 July 2014, and apply to the Reserve Bank whenever it undertakes a procurement where the expected value of the property or service being procured exceeds $400 000 for non-construction services or $7.5 million for construction services. For purchases of lower value, the Bank follows its own guidelines based on the principles contained in the CPRs. The broad objective is to ensure that all goods and services procured by the Bank represent value for money and support its policy and operational responsibilities in an ethical, efficient and cost-effective manner.

Other Statutory Obligations

Other statutory reporting obligations applying to the Reserve Bank that are covered elsewhere in this report are identified in the Statutory Reporting Requirements Index on page 165.

Part 4:
Financial Statements

Financial Statements

For the year ended 30 June 2015

Statement of Assurance

In the opinion of each of the Governor, as the accountable authority of the Reserve Bank, and the Assistant Governor (Corporate Services) of the Reserve Bank, the financial statements for the year ended 30 June 2015 present fairly the Reserve Bank's financial position, financial performance and cash flows, comply with the accounting standards and any other requirements prescribed by the rules made under section 42 of the *Public Governance, Performance and Accountability Act 2013* and have been prepared from properly maintained financial records. These financial statements have been approved by a resolution of the Reserve Bank Board on 4 August 2015.

Glenn Stevens	Frank Campbell
Governor and Chair, Reserve Bank Board	Assistant Governor (Corporate Services)

2 September 2015

Statement of Financial Position – as at 30 June 2015

Reserve Bank of Australia and Controlled Entity

	Note	2015 $M	2014 $M
Assets			
Cash and cash equivalents	6	438	273
Australian dollar investments	1(b), 15	86,294	72,886
Foreign exchange	1(b), 15	65,241	63,807
Gold	1(c), 15	3,915	3,584
Property, plant and equipment	1(d), 8, 16	549	523
Loans, advances and other assets	7	476	412
Total Assets		156,913	141,485
Liabilities			
Deposits	1(b), 9	60,486	53,574
Distribution payable to the Commonwealth	1(g), 3	2,501	1,235
Australian notes on issue	1(b), 15	65,481	60,778
Other liabilities	10	4,576	7,588
Total Liabilities		133,044	123,175
Net Assets		23,869	18,310
Capital and Reserves			
Reserves:			
Unrealised profits reserve	1(f), 5	6,590	3,156
Asset revaluation reserves	1(f), 5	4,376	3,978
Superannuation reserve	1(f), 5	134	(23)
Reserve Bank Reserve Fund	1(f), 5	12,729	11,159
Capital	1(f), 5	40	40
Total Capital and Reserves		23,869	18,310

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

Statement of Comprehensive Income – for the year ended 30 June 2015

Reserve Bank of Australia and Controlled Entity

	Note	2015 $M	2014 $M
Revenue			
Interest revenue	2	2,165	1,834
Net gains on securities and foreign exchange	2	6,056	150
Dividend revenue	2	4	3
Fees and commissions	2	306	86
Commonwealth grant	2	–	8,800
Other income	2	79	118
Total Revenue		8,610	10,991
Expenses			
Interest expense	2	1,245	1,086
General administrative expenses	2	368	405
Other expenses	2	109	108
Total Expenses		1,722	1,599
Net Profit		6,888	9,392
Other Comprehensive Income			
Items that may be reclassified to profit or loss			
Gains/(losses) on:			
Gold	5	331	284
Shares in international and other institutions	5	52	(20)
		383	264
Items that will not be reclassified to profit or loss			
Gains/(losses) on:			
Property, plant and equipment	5	15	12
Superannuation	5	157	155
		172	167
Total Other Comprehensive Income		555	431
Total Comprehensive Income		7,443	9,823

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

Statement of Distribution – for the year ended 30 June 2015

Reserve Bank of Australia and Controlled Entity

	Note	2015 $M	2014 $M
Net Profit		6,888	9,392
Transfer from/(to) unrealised profits reserve	5	(3,434)	640
Transfer from asset revaluation reserves	5	–	3
Earnings available for distribution		3,454	10,035
Distributed as follows:			
Transfer to Reserve Bank Reserve Fund	5	1,570	8,800
Payable to the Commonwealth	3	1,884	1,235
		3,454	10,035

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

Statement of Changes in Capital and Reserves – for the year ended 30 June 2015

Reserve Bank of Australia and Controlled Entity

	Note	Unrealised profits reserve $M	Asset revaluation reserves $M	Superannuation reserve $M	Earnings available for distribution $M	Reserve Bank Reserve Fund $M	Capital $M	Total capital and reserves $M
Balance as at 30 June 2013		**3,796**	**3,705**	**(178)**	**–**	**2,359**	**40**	**9,722**
Net Profit/(Loss)	1(g), 2	(640)			10,032			9,392
Gains/(losses) on:								
Gold	1(c), 5		284					284
Shares in international and other institutions	1(b), 5		(20)					(20)
Property, plant and equipment	1(d), 5		12					12
Superannuation	1(i), 5			155				155
Other comprehensive income			276	155				431
Total comprehensive income for 2013/14								**9,823**
Transfer from asset revaluation reserves	1(f), 3		(3)		3			–
Transfer to Reserve Bank Reserve Fund	1(f), 3				(8,800)	8,800		–
Transfer to distribution payable to the Commonwealth	1(g), 3				(1,235)			(1,235)
Balance as at 30 June 2014		**3,156**	**3,978**	**(23)**	**–**	**11,159**	**40**	**18,310**
Net Profit/(Loss)	1(g), 2	3,434			3,454			6,888
Gains/(losses) on:								
Gold	1(c), 5		331					331
Shares in international and other institutions	1(b), 5		52					52
Property, plant and equipment	1(d), 5		15					15
Superannuation	1(i), 5			157				157
Other comprehensive income			398	157				555
Total comprehensive income for 2014/15								**7,443**
Transfer from asset revaluation reserves	1(f), 3		–		–			–
Transfer to Reserve Bank Reserve Fund	1(f), 3				(1,570)	1,570		–
Transfer to distribution payable to the Commonwealth	1(g), 3				(1,884)			(1,884)
Balance as at 30 June 2015		**6,590**	**4,376**	**134**	**–**	**12,729**	**40**	**23,869**

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

Cash Flow Statement – for the year ended 30 June 2015

Reserve Bank of Australia and Controlled Entity

This statement meets the requirements of AASB 107 – *Statement of Cash Flows* and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*. For the purposes of this statement, cash includes the notes and coin held at the RBA and overnight settlement balances due from other banks.

	Note	2015 Inflow/ (outflow) $M	2014 Inflow/ (outflow) $M
Cash flows from operating activities			
Interest received on investments		2,168	1,719
Interest received on loans, advances, and on net overnight settlements balances		8	13
Banking service fees received		96	81
Banking service fees paid		(76)	(61)
CLF fees received		242	–
Dividends received		3	–
Rents received		9	10
Commonwealth government grant received	1(j)	–	8,800
Net payments for investments		(12,243)	(40,686)
Cash collateral received/(pledged)		545	382
Interest paid on deposit liabilities		(1,188)	(964)
Interest paid on currency note holdings of banks		(71)	(62)
Staff costs (including redundancy)		(228)	(215)
Premises and equipment		(47)	(45)
Other		(17)	(19)
Net cash used in operating activities	6	(10,799)	(31,047)
Cash flows from investment activities			
Proceeds from the sale of Securency		8	7
Net expenditure on property, plant and equipment		(42)	(50)
Net cash used in investment activities		(34)	(43)
Cash flows from financing activities			
Distribution to the Commonwealth		(618)	–
Net movement in deposit liabilities		6,912	27,391
Net movement in loans and advances		1	–
Net movement in notes on issue		4,703	3,835
Net cash provided by financing activities		10,998	31,226
Net increase/(decrease) in cash		165	136
Cash at beginning of financial year		273	137
Cash at end of financial year	6	438	273

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

Notes to and Forming Part of the Financial Statements – for the year ended 30 June 2015

Reserve Bank of Australia and Controlled Entity

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Note 1 – Accounting Policies

The Reserve Bank of Australia (RBA) reports its consolidated financial statements in accordance with the *Reserve Bank Act 1959* and the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). The PGPA Act has applied since 1 July 2014, when it replaced the *Commonwealth Authorities and Companies Act 1997* (CAC Act). The requirements of the PGPA Act do not materially change these financial statements from previous disclosures. These financial statements for the year ended 30 June 2015 have been prepared under Australian Accounting Standards (AAS), other accounting standards and accounting interpretations issued by the Australian Accounting Standards Board, in accordance with the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (FRR), which is issued pursuant to the PGPA Act. In preparing these financial statements, the RBA has not 'early adopted' new accounting standards or amendments to current standards that apply from 1 July 2015. The RBA is exempt from one requirement of the FRR, as detailed in Note 1(n).

These financial statements and accompanying notes are a general purpose financial report prepared in accordance with relevant AAS. Specific elections of accounting treatment under AAS are noted appropriately. All amounts are expressed in Australian dollars, the functional and presentational currency of the RBA, unless another currency is indicated. The RBA is classified as a for-profit public sector entity for purposes of financial disclosure. Fair values are used to measure the RBA's major assets, including Australian dollar and foreign marketable securities, gold and foreign currency, and property, plant and equipment. Revenue and expenses are brought to account on an accruals basis. All revenues, expenses and profits of the RBA are from ordinary activities.

These financial statements were approved by a resolution of the Reserve Bank Board on 4 August 2015 in accordance with the Reserve Bank Act.

(a) Consolidation and joint venture

The financial statements show information for the economic entity only; this reflects the consolidated results for the parent entity, the Reserve Bank of Australia, and its wholly owned subsidiary, Note Printing Australia Limited (NPA). The results of the parent entity do not differ materially from the economic entity and have therefore not been separately disclosed.

Note Printing Australia Limited

NPA was incorporated as a wholly owned subsidiary of the RBA on 1 July 1998, with an initial capital of $20.0 million. The RBA provided NPA with additional capital of $15.0 million in July 2008 and a further $25.0 million in July 2009. NPA's total assets, liabilities and equity as at 30 June 2015 were $144.2 million, $19.2 million and $125.0 million respectively ($143.4 million, $22.0 million and $121.4 million as at 30 June 2014).

The assets, liabilities and results of NPA have been consolidated with the accounts of the parent entity in accordance with AASB 10 – *Consolidated Financial Statements*. All internal transactions and balances have been eliminated on consolidation. These transactions include items relating to the purchase of Australian banknotes, lease of premises and the provision of general administrative services.

Innovia Security Pty Ltd (formerly Securency International Pty Ltd)

In February 2013, the RBA completed the sale of its 50 per cent interest in Securency International Pty Ltd (Securency). The sale of the RBA's shares was made to a related entity of Innovia Films, a UK-based film manufacturer, which prior to the sale owned the other half share of Securency. Under the terms of the sale agreement, additional payments arising from the sale may be made to the RBA in future periods, including if

Innovia Security exceeds certain earnings benchmarks. In 2014/15, an amount of $7.7 million was received under these arrangements and recognised in the Statement of Comprehensive Income ($7.3 million was received in 2013/14). These receipts are shown within the Gain on sale of Securency in Note 2. As the possibility of further additional payments is uncertain at the reporting date, they are not recognised in the financial statements.

Legal issues

Charges were laid against NPA and Securency and against former employees of these companies in the period between 2011 and 2013. These charges related to allegations that these employees and the companies had conspired to provide, or offered to provide, benefits to foreign public officials that were not legitimately due. The RBA has accounted for these matters in accordance with the relevant accounting standards. Specific information about these charges and the associated costs has not been disclosed in the notes to the accounts as these legal matters remain before the courts.

(b) Financial instruments

A *financial instrument* is defined as any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. The RBA's financial instruments include its Australian dollar securities, foreign government securities, repurchase agreements, deposits with the Bank for International Settlements (BIS) and other central banks, interest rate futures, foreign currency swap contracts, holdings in the Asian Bond Fund (ABF), gold loans, cash and cash equivalents, notes on issue, deposit liabilities and a shareholding in the BIS. The RBA accounts for its financial instruments in accordance with AASB 139 – *Financial Instruments: Recognition and Measurement* and reports these instruments under AASB 7 – *Financial Instruments: Disclosures* and AASB 13 – *Fair Value Measurement*.

The RBA brings its securities transactions and foreign exchange transactions to account on a trade date basis; that is, it recognises the effects of purchases and sales of securities in the financial statements on the date these transactions are arranged (not when they are settled). Deposits and repurchase agreements are brought to account on settlement date.

Financial assets

Australian dollar securities

The RBA holds Australian Government Securities and securities issued by the central borrowing authorities of state and territory governments. These holdings include fixed coupon, inflation indexed and discount securities. It also holds under reverse repurchase agreements: bank bills, certificates of deposit and debt securities of authorised deposit-taking institutions licensed in Australia; Australian dollar denominated securities issued by foreign governments, foreign government agencies that have an explicit government guarantee (or equivalent support) and by certain highly rated supranational organisations; and eligible Australian dollar domestic residential and commercial mortgage-backed securities, asset-backed commercial paper and corporate securities.

Australian dollar securities, except those held under reverse repurchase agreements, are classified under AASB 139 as 'at fair value through profit or loss', as they are held for the purpose of conducting monetary policy and may be sold or lent, typically for short terms, under repurchase agreements. In accordance with this standard, the securities are valued at market bid prices on balance date; realised and unrealised gains or losses are taken to profit. Only realised gains and losses are available for distribution in accordance with the Reserve Bank Act (Note 1(g)). Interest earned on these securities is accrued over the term of the security and included as revenue in the Statement of Comprehensive Income.

Interest on fixed coupon securities is received biannually at the coupon rate and the principal is received at maturity. Inflation indexed bonds are coupon securities with the nominal value of the security indexed in line with movements in the Consumer Price Index each quarter until maturity; interest is paid quarterly. Interest earned on discount securities is the difference between the purchase cost and the face value of the security; this is accrued over the term the securities are held. The face value is received at maturity.

Repurchase agreements and reverse repurchase agreements

In carrying out operations to manage domestic liquidity and foreign reserves, the RBA enters into repurchase agreements and reverse repurchase agreements in Australian dollar and foreign currency securities. A repurchase agreement involves the sale of securities with an undertaking to repurchase them on an agreed future date at an agreed price. A reverse repurchase agreement initially involves the purchase of securities, with this transaction being reversed in the second leg. A reverse repurchase agreement provides the RBA's counterparties with cash for the term of the agreement and is treated as an asset as the RBA records a cash receivable. Repurchase agreements result in cash being paid to the RBA and are treated as a liability, reflecting the obligation to repay cash. The accounting treatment of this financial liability is discussed further below.

Securities purchased and contracted for sale under reverse repurchase agreements are classified under AASB 139 as 'loans and receivables' and valued at amortised cost, the equivalent of fair value. The difference between the purchase and sale price is accrued over the term of the agreement and recognised as interest revenue.

RBA open repurchase agreements were introduced in November 2013 to assist eligible financial institutions manage their liquidity after normal business hours following the introduction of same-day settlement of Direct Entry payments. An RBA open repurchase agreement is an Australian dollar reverse repurchase agreement contracted without an agreed maturity date. The RBA accrues interest revenue daily on open repurchase agreements at the target cash rate.

Foreign exchange

Foreign exchange holdings are invested mainly in securities issued by the governments of the United States, Germany, France, the Netherlands, Canada, Japan, China and the United Kingdom, and in deposits with the BIS and other central banks. The RBA transacts in interest rate futures and foreign currency swaps.

Foreign exchange translation

Assets and liabilities denominated in foreign currency are converted to Australian dollar equivalents at the relevant market exchange rate ruling on balance date in accordance with AASB 121 – *The Effects of Changes in Foreign Exchange Rates*. Realised and unrealised gains or losses on foreign currency are taken to profit, but only realised gains and losses are available for distribution in accordance with the Reserve Bank Act (Note 1(g)). Interest revenue and expenses and revaluation gains and losses on foreign currency assets and liabilities are converted to Australian dollars using the relevant market exchange rate on the date they are accrued or recognised.

Foreign government securities

Foreign government securities include coupon and discount securities. Coupon securities have biannual or annual interest payments depending on the currency and type of security; the principal is received at maturity. Interest earned on discount securities is the difference between the purchase cost and the face value of the security; this is accrued over the term the securities are held. The face value is received at maturity. Foreign securities, except those held under reverse repurchase agreements, are classified under AASB 139 as 'at fair value through profit or loss', as they are available to be traded in managing the portfolio of foreign exchange reserves. In accordance with this standard, these securities are valued at market bid prices on balance date. Realised and unrealised gains or losses are taken to profit; only realised gains and losses are available for distribution in accordance with the Reserve Bank Act (Note 1(g)). Interest earned on securities is accrued as revenue in the Statement of Comprehensive Income.

Foreign deposits

Some foreign currency reserves are invested in deposits with the BIS and other central banks, while small working balances are also maintained with a small number of commercial banks. Deposits are classified as 'loans and receivables' under AASB 139 and recorded at face value, which is equivalent to their amortised cost using the effective interest method. Interest is accrued over the term of deposits and is received periodically or at maturity. Interest accrued but not received is included in Accrued interest (Note 15).

Foreign currency swaps

The RBA uses foreign currency swaps with market counterparties both to assist daily domestic liquidity management and in managing foreign reserve assets. A foreign currency swap is the simultaneous purchase and sale of one currency against another currency for specified maturities. The cash flows are the same as borrowing one currency for a certain period and lending another currency for the same period. The pricing of the swap therefore reflects the interest rates applicable to these money market transactions. Interest rates are implicit in the swap contract but interest itself is not paid or received.

Interest rate futures

The RBA uses interest rate futures contracts on overseas exchanges to manage interest rate risk on its portfolio of foreign securities. An interest rate futures contract is a contract to buy or sell a specific amount of securities for a specific price on a specific future date.

Interest rate futures positions are classified under AASB 139 as 'at fair value through profit or loss'. Futures positions are marked to market on balance date at the relevant market price and valuation gains and losses are taken to profit. Only realised gains and losses are available for distribution in accordance with the Reserve Bank Act (Note 1(g)).

Asian Bond Fund

The RBA invests in a number of non-Japan Asian debt markets through participation in the EMEAP Asian Bond Fund Initiative. The RBA has modest holdings in the US dollar-denominated fund, ABF1, and the local currency-denominated fund, ABF2. The two funds are classified under AASB 139 as 'at fair value through profit or loss'. The funds are marked to market on balance date at the relevant unit price of the fund and valuation gains and losses are taken to profit. Only realised gains and losses are available for distribution in accordance with the Reserve Bank Act (Note 1(g)).

Bank for International Settlements

Under AASB 139, the RBA's shareholding in the BIS is classified as 'available for sale' for accounting purposes. The shareholding is valued at fair value and revaluation gains and losses are transferred directly to the revaluation reserve for shares in international and other institutions (Note 5). When declared, dividends are recognised as revenue in the Statement of Comprehensive Income.

Financial liabilities

Deposit liabilities

Deposits are classified as financial liabilities under AASB 139. Deposits include deposits at call and term deposits. Deposit balances are shown at their amortised cost, which is equivalent to their face value. Interest is accrued over the term of deposits and is paid periodically or at maturity. Interest accrued but not paid is included in Other Liabilities (Note 10). Details of deposits are included in Note 9.

Australian notes on issue

Notes on issue are recorded at face value. Prior to 2005/06, the RBA periodically reduced its liability for note series that had ceased to be issued – to reflect the likelihood that the remaining notes on issue from these series would not be presented for redemption – and the gains were included in net profit. If the written-down notes are subsequently presented, the RBA charges an expense against profits. In 2014/15, notes with a face value of $162,170 which had previously been written down were presented to the RBA and expensed ($214,034 in 2013/14).

The RBA pays interest on working balances of banknotes held by banks under cash distribution arrangements. Details of the interest expense are included in Note 4.

Costs related to the production of banknotes are included in General administrative expenses in Note 2.

Repurchase agreements

Securities sold and contracted for repurchase under repurchase agreements are classified under AASB 139 as 'at fair value through profit or loss', as these securities are held for trading, and reported on the balance sheet within the relevant investment portfolio. The counterpart obligation to repurchase the securities is reported in Other Liabilities (Note 10) at amortised cost; the difference between the sale and purchase price is accrued over the term of the agreement and recognised as interest expense.

(c) Gold

Gold holdings (including gold on loan to other institutions) are valued at the Australian dollar equivalent of the 3 pm fix in the London gold market on balance date. Revaluation gains and losses on gold are transferred to the gold revaluation reserve. The RBA lends gold to institutions participating in the gold market. As outlined in Note 1(b), gold loans are a financial instrument and the RBA accounts for them in accordance with AASB 139 and reports them under AASB 7.

(d) Property, plant and equipment

The RBA accounts for its property, plant and equipment at fair value in accordance with AASB 116 – *Property, Plant and Equipment* and AASB 13. Valuation gains (losses) are generally transferred to (from) the relevant revaluation reserve. Any part of a valuation loss that exceeds the balance in the relevant asset revaluation reserve is expensed. Subsequent valuation gains which offset losses that were previously treated as an expense are recognised as revenue in the Statement of Comprehensive Income.

Property

The RBA's Australian properties are formally valued by an independent valuer annually; overseas properties are independently valued on a triennial basis. The most recent independent valuation of overseas properties was at 30 June 2013. The RBA's properties are recognised in accordance with AASB 116 at fair value, which reflects the price that would be received from an orderly sale between market participants at the reporting date, having regard also to the highest and best use of an asset as required by AASB 13. Reflecting its specialised nature, the RBA's Business Resumption Site is valued at depreciated replacement cost. Annual depreciation is calculated on a straight line basis using fair values and assessments of the remaining useful life of the relevant asset, as determined by the independent valuer.

Plant and equipment

Plant and equipment is valued by an independent valuer on a triennial basis. The most recent independent valuation was at 30 June 2014. Between revaluations, plant and equipment is carried at the most recent valuation less any subsequent depreciation. Annual depreciation is calculated on a straight line basis using fair values and the RBA's assessment of the remaining useful life of individual assets.

Depreciation rates for each class of depreciable assets are based on the following range of useful lives:

	Years
Buildings	20–50
Fit-out and furniture	5–10
Computer hardware	3–5
Office equipment	4–5
Motor vehicles	5
Plant	4–20

The RBA's assets are assessed for impairment at the end of each financial year. If indications of impairment are evident, the asset's recoverable amount is estimated and an impairment adjustment is made if the asset's recoverable amount is less than its carrying amount.

Details of annual net expenditure, revaluation adjustments and depreciation of buildings and plant and equipment are included in Note 8.

(e) Computer software

Computer software that is internally developed or purchased is accounted for in accordance with AASB 138 – *Intangible Assets*. Intangibles are recognised at cost less accumulated amortisation and impairment adjustments (if any), details of which are included in Note 7.

Amortisation of computer software is calculated on a straight line basis using the estimated useful life of the relevant asset, which is usually for a period between three and five years. The useful life of core banking software may be up to 15 years, reflecting the period over which future economic benefits are expected to be realised from this asset. Amortisation of computer software is disclosed in Note 2.

(f) Capital and Reserves

The capital of the Reserve Bank is established by the Reserve Bank Act.

The Reserve Bank Reserve Fund (RBRF) is also established by the Reserve Bank Act and is regarded essentially as capital. The RBRF is a permanent reserve maintained by the RBA to provide for events which are contingent and not foreseeable, including to cover losses from exceptionally large falls in the market value of the RBA's holdings of Australian dollar and foreign currency securities that cannot be absorbed by its other resources. The RBRF also provides for other risks such as fraud and operational risk. In accordance with the Reserve Bank Act, this reserve is funded only by transfers from earnings available for distribution.

The Reserve Bank Board assesses the adequacy of the balance of the RBRF each year. In line with section 30 of the Reserve Bank Act, the Treasurer, after consulting the Board, determines any amounts to be placed to the credit of the RBRF from earnings available for distribution (refer Note 1(g)). Accordingly, the Treasurer, after consulting the Board, has determined that a sum of $1,570 million is to be transferred from the 2014/15 net profit to the RBRF. The balance of the RBRF currently stands at a level that the Board regards as appropriate for the risks the Bank holds on its balance sheet.

The RBA also holds a number of other reserves which form part of its equity.

Unrealised gains and losses on foreign exchange, foreign securities and Australian dollar securities are recognised in net profit. Such gains or losses are not available for distribution and are transferred to the unrealised profits reserve, where they remain available to absorb future unrealised losses or become available for distribution if gains are realised when assets are sold or mature.

The balance of the Superannuation reserve represents accumulated re-measurement gains and losses on the RBA's defined benefit superannuation obligations (refer Note 1 (i)). These unrealised gains and losses are included in Other Comprehensive Income in accordance with AASB 119 – *Employee Benefits*.

Balances of asset revaluation reserves reflect differences between the fair value of relevant assets, mainly non-traded assets, and their cost. These assets are: gold; property, plant and equipment; and shares in international and other institutions. These unrealised gains are transferred directly to the relevant reserves and are included in Other Comprehensive Income. The unrealised gains on these assets are not distributable unless an asset is sold and these gains are realised. The RBA sold a residential property in 2013/14 and recognised a gain of $4.0 million, of which $2.6 million represented gains from earlier periods held in the asset revaluation reserve; the balance of this gain, a sum of $1.4 million, was recognised in net profit in 2013/14.

(g) Profits

Profits of the RBA are dealt with in the following terms by section 30 of the Reserve Bank Act:

(1) Subject to subsection (2), the net profits of the Bank in each year shall be dealt with as follows:

(aa) such amount as the Treasurer, after consultation with the Reserve Bank Board, determines is to be set aside for contingencies; and

(a) such amount as the Treasurer, after consultation with the Reserve Bank Board, determines shall be placed to the credit of the Reserve Bank Reserve Fund; and

(b) the remainder shall be paid to the Commonwealth.

(2) If the net profit of the Bank for a year is calculated on a basis that requires the inclusion of unrealised gains on assets during the year, the amount to which subsection (1) applies is to be worked out as follows:

(a) deduct from the net profit an amount equal to the total of all amounts of unrealised gains included in the net profit; and

(b) if an asset in respect of which unrealised gains were included in the net profit for a previous year or years is realised during the year – add to the amount remaining after applying paragraph (a) the total amount of those unrealised gains.

(h) Provisions

The RBA maintains provisions for accrued annual leave and long service leave, including associated payroll tax, and post-employment benefits in the form of health insurance and housing assistance, and the associated fringe benefits tax; these provisions are made on a present value basis consistent with AASB 119. The RBA also makes provision for future workers compensation claims for incidents, if any, which have occurred before balance date.

(i) Superannuation funds

The RBA includes in its Statement of Financial Position an asset or liability representing the position of its defined benefit superannuation funds measured in accordance with AASB 119. Movements in the superannuation asset or liability are reflected in the Statement of Comprehensive Income. Re-measurement gains and losses are transferred to the Superannuation reserve. Details of the superannuation funds and superannuation expenses are included in Note 14.

(j) Commonwealth grant

On 23 October 2013, the Australian Government announced it would make a grant of $8,800 million to strengthen the financial position of the RBA, and enhance its capacity to conduct its monetary policy and foreign exchange operations. The grant was paid to the RBA on 7 May 2014.

The grant was recognised as revenue in the Statement of Comprehensive Income.

(k) Committed Liquidity Facility

From 1 January 2015, the RBA has provided a Committed Liquidity Facility (CLF) to eligible authorised deposit-taking institutions. Fees received from providing the CLF are recognised as fee income in the Statement of Comprehensive Income. Additional information on the CLF is provided in Note 11.

(l) Rounding

Amounts in the financial statements are rounded to the nearest million dollars unless otherwise stated.

(m) Application of new or revised Australian accounting standards

A number of new and revised Australian accounting standards will apply to the RBA's financial statements in future reporting periods. The RBA's assessment of the main effects of these standards on its financial statements is set out below.

AASB 9 – Financial Instruments

A revised version of the pending AASB 9 was issued in December 2014. The new standard, which will be applicable for annual reporting periods beginning on or after 1 January 2018, contains revised requirements for the classification, measurement and de-recognition of financial assets and liabilities. It will replace the corresponding requirements currently in AASB 139. Application of the new standard is not expected to have a material impact on the RBA's financial statements.

AASB 15 – Revenue from Contracts with Customers

AASB 15 contains requirements for the recognition, measurement, classification and disclosure of revenue arising from contracts with customers. It will replace corresponding requirements currently contained in AASB 118 – *Revenue* and AASB 111 – *Construction Contract*s. The RBA is assessing the impact of the new standard, which will be applicable for annual reporting periods beginning on or after 1 January 2018.

(n) Exemption from FRR

As a for-profit Commonwealth entity for reporting purposes, the RBA is exempt from subsection 25(2) of the FRR, which requires entities that report under this Rule to discount employee benefit obligations with reference to the yield on Australian government bonds. In accordance with AASB 119, the RBA, accordingly, is required to use the market yield on high-quality corporate bonds to discount these obligations.

Note 2 – Net Profits

	Note	2015 $M	2014 $M
Interest revenue			
Foreign investments	1(b), 4	148	153
Australian dollar investments	1(b), 4	2,006	1,667
Overnight settlements	4	7	13
Cash collateral provided	4	3	1
Loans, advances and other	4	1	–
		2,165	1,834
Net gains/(losses) on securities and foreign exchange			
Foreign investments	1(b)	40	94
Australian dollar securities	1(b)	(130)	(90)
Foreign currency	1(b)	6,146	146
		6,056	150
Dividend revenue			
Investment in Bank for International Settlements	1(b)	4	3
Fees and commissions			
Banking services fee income		98	86
Committed Liquidity Facility fee income	1(k)	208	–
		306	86
Commonwealth grant revenue	1(j)	–	8,800
Other income			
Rental of Bank premises		10	10
Sales of note and security products		41	78
Gain on sale of Securency		8	7
Other		20	23
		79	118
Total		8,610	10,991
Less:			
Interest expense			
Deposit liabilities	1(b), 4	1,174	1,010
Banknote holdings of banks	1(b), 4	63	72
Cash collateral received	4	8	2
Repurchase agreements	1(b), 4	–	2
		1,245	1,086
General administrative expenses			
Staff costs		186	189
Superannuation costs	1(i), 14	54	60
Special redundancy/retirement payments		2	1
Depreciation of property	1(d), 8	8	9
Depreciation of plant and equipment	1(d), 8	24	21
Amortisation of computer software	1(e), 7	4	3
Premises and equipment		47	45
Materials used in note and security products		28	61
Travel		3	3
Consultants' fees, legal fees and payments to contractors		3	4
Other		9	9
		368	405

Note 2 – Net Profits (continued)

	Note	2015 $M	2014 $M
Other expenses			
Banking service fee expenses		79	67
Subsidiary income tax		1	2
Banknote distribution expenses		4	4
Other		25	35
		109	108
Total		1,722	1,599
Net Profit		6,888	9,392

Staff costs in 2014/15 include a valuation gain of $9.0 million associated with the decline in the balance of the provision for post-employment benefits, mostly for post-employment health insurance (in 2013/14 there was an expense of $4.4 million) (refer Note 10). This post-retirement benefit ceased to be available for new staff appointed after 30 June 2013. The decrease in this provision in 2014/15 reflects an increase in the discount rate.

The RBA incurred aggregate research and development expenditure of $1.1 million in 2014/15 ($1.1 million in 2013/14); this is included in Other expenses.

Note 3 – Distribution Payable to the Commonwealth

Section 30 of the Reserve Bank Act requires that the net profits of the RBA, less amounts set aside for contingencies or placed to the credit of the RBRF as determined by the Treasurer after consulting the Reserve Bank Board, shall be paid to the Commonwealth (see Note 1(g)). Also under section 30, unrealised profits from foreign exchange, foreign securities and Australian dollar securities are not available for distribution. Instead they are transferred to the unrealised profits reserve, where they remain available to absorb future valuation losses or are realised when relevant assets are sold or mature. Unrealised losses are, in the first instance, absorbed within the unrealised profits reserve and are offset against unrealised profits accumulated from previous years. For purposes of distribution, if such losses exceed the balance in this reserve, the amount by which they do so is initially charged against other components of income, with any remaining loss absorbed by the RBRF.

In 2014/15, the RBA recorded a net profit of $6,888 million. Unrealised gains of $3,434 million were transferred to the unrealised profits reserve. Earnings available for distribution therefore amounted to $3,454 million in 2014/15.

After consulting the Board, the Treasurer determined that a sum of $1,570 million was to be placed from distributable earnings in 2014/15 to the credit of the RBRF. Accordingly, a sum of $1,884 million is payable as a dividend to the Commonwealth from earnings available for distribution. The Treasurer has determined that an amount of $1,560 million be paid to the Commonwealth in September 2015, consisting of $942 million from 2014/15 earnings and a sum of $618 million deferred from 2013/14 earnings. The balance of 2014/15 earnings of $942 million will be paid early in 2016/17. A dividend of $618 million was distributed in August 2014 from earnings in 2013/14.

Note 3 – Distribution Payable to the Commonwealth (continued)

	Note	2015 $M	2014 $M
Opening balance		1,235	–
Distribution to the Commonwealth		(618)	–
Transfer from Statement of Distribution		1,884	1,235
As at 30 June		2,501	1,235

Note 4 – Interest Revenue and Interest Expense

Analysis for the year ended 30 June 2015.

	Average balance $M	Interest $M	Average annual interest rate %
Interest revenue			
Foreign investments	59,054	148	0.3
Australian dollar investments	75,487	2,006	2.7
Overnight settlements	346	7	2.1
Cash collateral provided	231	3	2.3
Gold loans	46	–	0.3
Loans, advances and other	30	1	2.0
	135,194	2,165	1.6
Interest expense			
Exchange Settlement balances	21,614	506	2.3
Deposits from governments	27,774	655	2.4
Deposits from overseas institutions	1,192	13	1.1
Banknote holdings of banks	2,991	63	2.1
Foreign repurchase agreements	2,358	(2)	(0.1)
Australian dollar repurchase agreements	76	2	2.4
Cash collateral received	416	8	2.3
Other deposits	18	–	0.8
	56,439	1,245	2.2
Analysis for the year ended 30 June 2014			
Interest revenue total	111,469	1,834	1.6
Interest expense total	46,780	1,086	2.3

Interest revenue for 2014/15 includes $1,625 million calculated using the effective interest method for financial assets not at fair value through profit or loss ($1,259 million in 2013/14). Interest expense for 2014/15 includes $1,245 million calculated using the effective interest method for financial liabilities not at fair value through profit or loss ($1,086 million in 2013/14).

Note 5 – Capital and Reserves

Changes in the RBA's Capital and Reserves (Note 1(f)) are shown below.

	Note	2015 $M	2014 $M
Asset revaluation reserves			
Gold	1(c)		
Opening balance		3,457	3,173
Net revaluation adjustments		331	284
Transfers (to)/from Statement of Distribution		–	–
As at 30 June		3,788	3,457
Shares in international and other institutions	1(b), 7		
Opening balance		304	324
Net revaluation adjustments		52	(20)
Transfers (to)/from Statement of Distribution		–	–
As at 30 June		356	304
Property, plant and equipment	1(d), 8		
Opening balance		217	208
Net revaluation adjustments		15	12
Transfers (to)/from Statement of Distribution		–	(3)
As at 30 June		232	217
Total asset revaluation reserves	1(f)		
Opening balance		3,978	3,705
Net revaluation adjustments		398	276
Transfers (to)/from Statement of Distribution		–	(3)
As at 30 June		4,376	3,978
Superannuation reserve	1(f)		
Opening balance		(23)	(178)
Net revaluation adjustments		157	155
As at 30 June		134	(23)
Unrealised profits reserve	1(f)		
Opening balance		3,156	3,796
Net transfers (to)/from Statement of Distribution		3,434	(640)
As at 30 June		6,590	3,156
Reserve Bank Reserve Fund	1(f)		
Opening balance		11,159	2,359
Transfers (to)/from Statement of Distribution		1,570	8,800
As at 30 June		12,729	11,159
Capital	1(f)		
Opening and closing balance		40	40

Note 6 – Cash and Cash Equivalents

This includes net amounts of $405 million owed to the RBA for overnight clearances of financial transactions through the payments system; an amount of $256 million was owed to the RBA at 30 June 2014. Other cash and cash equivalents include NPA's bank deposits.

Cash and cash equivalents exclude Australian and foreign short-term investments held to implement monetary policy or as part of Australia's foreign reserve assets. These investments are disclosed as Australian dollar investments and foreign exchange, respectively; further detail is disclosed in Note 15.

	2015 $M	2014 $M
Cash	33	17
Overnight settlements	405	256
As at 30 June	438	273

Reconciliation of net cash used in operating activities to Net Profits	**Note**	**2015 $M**	**2014 $M**
Net Profit		6,888	9,392
Increase/(decrease) in interest payable		(6)	48
Net loss/(gain) on overseas investments	2	(40)	(94)
Net loss/(gain) on Australian dollar securities	2	130	90
Net loss/(gain) on foreign currency	2	(6,146)	(146)
Decrease/(increase) in income accrued on investments		11	(100)
Cash collateral received/(pledged)		545	382
Depreciation of property	8	8	9
Depreciation of plant and equipment	8	24	21
Amortisation of computer software	7	4	3
Net payments for investments		(12,243)	(40,686)
Other		26	34
Net cash used in operating activities		(10,799)	(31,047)

Note 7 – Loans, Advances and Other Assets

	Note	2015 $M	2014 $M
Shareholding in Bank for International Settlements	1(b)	399	348
Computer software	1(e)	34	18
Officers' Home Advances		3	4
Other		40	42
As at 30 June		476	412

At 30 June 2015, the gross book value of the RBA's computer software amounted to $53.2 million and the accumulated amortisation on these assets was $18.9 million ($33.2 million and $15.1 million, respectively, at 30 June 2014). During 2014/15, there were $20.0 million in net additions to computer software ($10.8 million in 2013/14) and $4.0 million in amortisation expense ($3.5 million in 2013/14). The RBA had contractual commitments of $11.7 million as at 30 June 2015 for the acquisition of computer software ($1.9 million at 30 June 2014). Other assets include receivables of $21.6 million as at 30 June 2015 ($30.1 million at 30 June 2014), none of which are impaired.

Note 8 – Property, Plant and Equipment

	Land $M	Buildings $M	Plant and Equipment $M	Total $M
Gross Book Value as at 30 June 2014	129	232	182	543
Accumulated depreciation	–	–	(20)	(20)
Net Book Value	129	232	162	523
Additions	–	14	30	44
Depreciation expense	–	(8)	(24)	(32)
Net revaluation increment/(decrement)	1	14	–	15
Disposals	–	–	(1)	(1)
Net additions to net book value	1	20	5	26
Gross Book Value as at 30 June 2015	130	253	207	590
Accumulated depreciation	–	(1)	(40)	(41)
Net Book Value	130	252	167	549

The net book value of the RBA's property, plant and equipment includes $39.7 million of work in progress ($27.5 million at 30 June 2014).

As at 30 June 2015, the RBA had contractual commitments of $81.2 million to acquire plant and equipment ($8.4 million at 30 June 2014); contractual commitments of $59.6 million are due within one year ($6.5 million at 30 June 2014). Included within these contractual commitments is an amount of $55.0 million which relates to the construction of the new National Banknote Site in Craigieburn ($40.3 million of which is due within one year).

Note 9 – Deposits

	2015 $M	2014 $M
Exchange Settlement balances	23,360	22,379
Australian Government	36,294	30,304
State governments	59	–
Foreign governments, foreign institutions and international organisations	758	872
Other depositors	15	19
As at 30 June	60,486	53,574

Note 10 – Other Liabilities

	Note	2015 $M	2014 $M
Provisions	1(h)		
Provision for accrued annual leave		17	17
Provision for long service leave		39	40
Provision for post-employment benefits		92	101
Other		1	–
		149	158
Other			
Securities sold under agreements to repurchase	1(b)	1,780	5,244
Payable for unsettled purchases of securities		1,556	1,693
Interest accrued on deposits		59	65
Superannuation liability	1(i), 14	64	197
Other		968	231
		4,427	7,430
Total Other Liabilities as at 30 June		4,576	7,588

The provision for workers compensation at 30 June 2015 was $416,000 ($237,000 at 30 June 2014).

During 2014/15, annual leave of $11.9 million was accrued by staff, while $11.5 million of accrued leave was used. Staff accrued and used long service leave of $4.1 million and $2.8 million respectively in 2014/15.

The RBA's provision for its post-employment benefits was $9.0 million lower in 2014/15, largely due to an increase in the discount rate. Benefits of $4.3 million were paid out of the provision for post-employment benefits in 2014/15. The balance of the provision for post-employment benefits will change if assumptions about the length of staff service, the longevity of retired staff, future movements in medical costs or the discount rate vary.

At 30 June 2015, $12.1 million of the provision for accrued annual leave was expected to be taken within 12 months ($11.4 million at 30 June 2014); $4.1 million of the provision for long service leave was expected to be taken within 12 months ($4.2 million at 30 June 2014); and $4.5 million of the provision for post-employment benefits was expected to be paid out within 12 months ($4.5 million at 30 June 2014).

The RBA's provisions for annual leave, long service leave and post-employment benefits at 30 June 2015 have been calculated by applying the yield on high-quality Australian dollar-denominated corporate bonds to discount the estimated future liabilities to their present value. The yield on Australian government bonds was applied in 2013/14. This change in discount rate is in accordance with AASB 119, which requires the use of corporate bond yields if the disclosing entity judges this market to be sufficiently deep. Consistent with practice of other corporate reporting entities, the Bank has concluded for disclosure purposes that this market is sufficiently deep to provide a reliable discount rate for future cash flows. As the yield on corporate bonds is higher than that on Australian government bonds of equivalent maturity, this change has reduced the value of the RBA's provisions, resulting in a reduction of $24.7 million in the expense charged to profit.

Note 11 – Contingent Assets and Liabilities

Bank for International Settlements

The RBA has a contingent liability, amounting to $65.8 million at 30 June 2015 ($59.0 million at 30 June 2014), for the uncalled portion of its shares held in the BIS.

Performance Guarantees

In the course of providing services to its customers, the RBA provides performance guarantees to third parties in relation to customer activities. Such exposure is not material and has not given rise to losses in the past.

Insurance

The RBA carries its own insurance risks except where external insurance cover is considered to be more cost-effective or required by legislation.

NPA and Securency

As outlined in Note 1, the RBA has accounted for the costs, and potential costs, to the consolidated entity associated with the charges laid against NPA, Securency and several former employees of these companies during 2011 and the charges against former employees laid in 2013. In light of the uncertainties, it is not possible to make reliable estimates of all of the potential costs associated with the charges, or potential claims in connection with them, at the date of preparing these accounts.

Regarding the sale of Securency in 2013, the RBA provided the owner of Innovia Security with a number of indemnities for the period during which the company had been jointly owned by the RBA and Innovia Films. It is not possible to reliably estimate the potential financial effect of these indemnities. The RBA, however, does not consider it probable at this time that it will have to make payments in terms of these indemnities. Accordingly, they are treated as contingent liabilities in accordance with AASB 137 – *Provisions, Contingent Liabilities and Contingent Assets*.

In addition, an amount covering 50 per cent of certain potential liabilities of Innovia Security relating to events prior to the sale has been placed in escrow. The RBA will receive the balance, if any, after relevant claims have been paid, settled or lapse. At this time it is not possible to estimate the likelihood of the RBA receiving any payments from the amounts that remain in escrow and they are treated as a contingent asset, in accordance with AASB 137.

Committed Liquidity Facility

From 1 January 2015, the RBA has provided a Committed Liquidity Facility (CLF) to eligible authorised deposit-taking institutions (ADIs) as part of Australia's implementation of the Basel III liquidity standards. The CLF provides ADIs with a contractual commitment to funding under repurchase agreements with the RBA, subject to certain conditions. It was established to ensure that ADIs are able to meet their liquidity requirements under Basel III. The CLF is made available to ADIs in Australia because the supply of High Quality Liquid Assets (HQLA) is lower in Australia than is typical in other major countries; in other countries, these liquidity requirements are usually met by banks holding HQLAs on their balance sheet. The RBA administers the CLF, although the Australian Prudential Regulation Authority (APRA) determines which institutions have access to the facility and the amount of the CLF available to individual ADIs.

Any drawdown on this commitment is contingent on several conditions being satisfied, including: APRA not objecting to the drawdown; and the ADI having positive net worth in the opinion of the RBA. Accordingly, the potential funding under the CLF is disclosed as a contingent liability; repurchase agreements associated with providing such funding are disclosed as a contingent asset.

The aggregate undrawn commitment of the CLF at 30 June 2015 totalled about $255 billion for 13 ADIs.

Note 12 – Key Management Personnel

The key management personnel of the Reserve Bank are the Governor and Deputy Governor, non-executive members of the Reserve Bank Board, non-executive members of the Payments System Board and the Assistant Governors, who are the senior staff responsible for planning, directing and controlling the activities of the Bank. No new positions were added to this group in 2014/15. During the financial year, a total of 22 individuals occupied these positions for all or part of the year, the same as in the previous year.

The Reserve Bank Board determines the remuneration for the position of the Governor and Deputy Governor on a recommendation of the Board's Remuneration Committee, comprising three non-executive directors, and in terms of arrangements governed by the Remuneration Tribunal. Fees for non-executive members of the Reserve Bank Board, the Payments System Board and the Reserve Bank Board Audit Committee are determined by the Remuneration Tribunal. The Governor, in consultation with the Board Remuneration Committee, determines the remuneration of Assistant Governors and other staff. For staff generally, remuneration aims to be market competitive and designed to attract and retain appropriately skilled people. Remuneration levels for employees are externally benchmarked.

In May 2014, the Remuneration Tribunal determined that no adjustment would be made at that time to the remuneration of offices in its jurisdiction, including those of the Governor and Deputy Governor. Accordingly, remuneration of these positions was unchanged in 2014/15. Total remuneration for the position of Governor was $1,010,436 (including salary of $862,256) and for the Deputy Governor was $755,980 (including salary of $593,782).

The RBA discloses remuneration of directors and management in terms of both AAS and the FRR; these disclosures are set out below.

Disclosures under AAS

Under AAS, disclosure of remuneration of key management personnel is based on AASB 124 – *Related Party Disclosures*, as shown in Table A below. The figures are disclosed on an accruals basis and show the full cost to the consolidated entity; they include all leave and fringe benefits tax charges.

Table A: Remuneration of Key Management Personnel

	2015 $	2014 $
Short-term employee benefits	5,457,650	5,375,433
Post-employment benefits	1,026,138	1,010,678
Other long-term benefits	(65,074)	52,929
Share-based payments	–	–
Termination benefits	–	–
Total compensation	6,418,714	6,439,040

Short-term benefits include cash salary and, where relevant for executives, lump sum payments, motor vehicle benefits, car parking and health benefits and the fringe benefits tax paid or payable on these benefits. Post-employment benefits include superannuation benefits and, in the case of staff, health benefits. Other long-term benefits include long service leave and annual leave as well as the cost of (or gain on) revaluing previously accrued leave entitlements in accordance with AASB 119 (refer Note 10).

There were no loans during 2014/15 and 2013/14 by the RBA to any key management personnel.

There were no related party transactions with Board members or executives. Transactions with director-related entities which occurred in the normal course of the RBA's operations were incidental and conducted on terms no more favourable than similar transactions with other employees or customers; any vendor relationships with such entities were at arm's length and complied with the Bank's procurement policy.

Disclosure under FRR

The disclosures on senior management remuneration required under section 27 of the FRR are shown in Table B below. Aggregates in Table B are similar to those in Table A and correspond to the same group of 22 individuals with responsibility for planning, directing and controlling the activities of the RBA. The figures in Table B exclude valuation changes in accumulated annual and long service leave entitlements, consistent with the requirements of the FRR.

Table B: Remuneration of Senior Management[(a)]

	2015 $	2014 $
Short-term employee benefits		
Salary	4,383,444	4,348,568
Performance-related payments	57,105	62,015
Other[(b)]	236,392	234,374
Directors' fees	780,709	730,476
Total short-term employee benefits	5,457,650	5,375,433
Post-employment benefits		
Superannuation	996,003	981,976
Other[(c)]	30,135	28,702
Total post-employment benefits	1,026,138	1,010,678
Other long-term benefits[(d)]		
Annual leave	(16,130)	7,112
Long service leave	66,133	85,534
Total other long-term benefits	50,003	92,646
Termination benefits	–	–
Total employment benefits	6,533,791	6,478,757

(a) This table is based on remuneration of the 22 people who comprise key management personnel. It is prepared on an accruals basis.
(b) Other short-term employee benefits include car parking and health benefits and, for relevant executives, motor vehicle and related benefits.
(c) Other post-employment benefits include health benefits.
(d) Other long-term benefits include the net accrual of annual and long service leave in the relevant year but not the cost of revaluing leave entitlements previously accrued (as in Table A above).

Note 13 – Auditor's Remuneration

	2015 $	2014 $
Fees paid or payable to the statutory auditor (Australian National Audit Office) for audit services	411,600	412,272

KPMG has been contracted by the Australian National Audit Office (ANAO) to provide audit services in relation to the external audit of the RBA. This includes audit services for the RBA's subsidiary NPA and the Reserve Bank of Australia Officers' Superannuation Fund.

During 2014/15, KPMG earned additional fees of $143,085 for non-audit services that were separately contracted by the RBA ($538,827 in 2013/14). These fees are mainly included in Other expenses in Note 2.

Note 14 – Superannuation Funds

Overview

Based on independent actuarial estimates, the RBA defined benefit superannuation fund (the OSF) was in surplus at 30 June 2015. This actuarial analysis is based on the full actuarial valuation prepared as at 30 June 2014, and is consistent with AAS 25 – *Financial Reporting by Superannuation Plans*. As required by relevant legislation, the next actuarial review of the fund as at 30 June 2017 will be undertaken early in 2017/18.

For financial statement purposes, disclosures on superannuation follow AASB 119. Disclosures under AASB 119 are based on the assumption of future liabilities being discounted at the yield on high-quality Australian dollar corporate bonds. This places a higher present value on those liabilities than the funding assessment under AAS 25, which discounts them at the assumed return on fund assets. In terms of AASB 119, the RBA currently carries a liability for defined benefit superannuation.

Structure of funds

The RBA has two superannuation funds: the Reserve Bank of Australia Officers' Superannuation Fund (OSF) and the Reserve Bank of Australia UK Pension Scheme. Current and future benefits of these schemes are funded by member and RBA contributions and the existing assets of these schemes. The RBA's superannuation expenses for these schemes are included in net profits and shown in Note 2. Administration and other operational costs, and any recoupment of costs from the funds, are also included in Note 2. There were no other related party transactions between the RBA and the funds during 2014/15.

The OSF is a hybrid fund licensed by APRA, with a mix of defined benefit members, defined contribution members and pensioners. Defined benefit members receive a defined benefit in accordance with the Fund's Trust Deed. All members have unitised accumulation balances, which comprise employer contributions and members' personal contributions plus earnings on these contributions. The OSF is classified as a single-employer plan in terms of AASB 119. Defined benefit membership in the OSF was closed to new RBA staff from 1 August 2014. From that date, new staff have been offered defined contribution superannuation.

The UK Pension Scheme is a closed defined benefit scheme subject to relevant UK regulation.

Funding valuation – AAS 25

Full independent actuarial valuations of the OSF and UK Pension Scheme are conducted every three years. The most recent funding valuation of the OSF was at 30 June 2014. The latest valuation of the UK Pension Scheme was at 30 June 2013. At these valuations, the actuaries concluded that, on the basis of accrued benefits, both funds were in surplus and in a satisfactory financial position.

The funding valuation of the OSF in 2014 was based on the Attained Age Funding method, consistent with AAS 25. Accrued benefits were determined as the value of the future benefits payable to members (allowing for future salary increases), discounted by the expected rate of return on assets held to fund these benefits. At the time of this review, the surplus of the OSF was $110.3 million, as the assets of the OSF of $1,149.0 million exceeded the accrued benefits of $1,038.7 million. The OSF surplus measured on this basis as at 30 June 2015 amounted to $141.5 million (assets of $1,238.1 million less accrued benefits of $1,096.6 million).

The RBA maintained its contribution rate to the OSF defined benefit at 18.3 per cent of salaries in 2014/15. This is consistent with the actuary's recommendations at the 2014 triennial review.

The latest triennial funding valuation for the UK Pension Scheme was prepared as at 30 June 2013 and was also based on the Attained Age Funding method. On this basis, the UK Pension Scheme recorded a small deficit at 30 June 2015 (assets of $26.4 million compared with accrued benefits of $26.5 million), compared with a surplus of $0.1 million at 30 June 2014 (assets of $21.5 million compared with accrued benefits of $21.4 million). The Trustees of this scheme will keep its funding position under review.

Accounting valuation – AASB 119

For financial statement purposes, the financial positions of the OSF and UK Pension Scheme are valued in accordance with AASB 119. Information on these valuations and their impact on the financial statements are provided in a detailed reconciliation at the end of this Note.

The RBA's projected defined benefit superannuation obligation has been discounted to its present value by applying the yield on high-quality Australian dollar corporate bonds at 30 June 2015. The yield on Australian government bonds was applied in the previous year. The use of corporate bonds is in accordance with AASB 119 (refer to Note 10). As yields on corporate bonds are higher than those on Australian government bonds of equivalent maturity, this change has reduced by $241.7 million the value of the RBA's defined benefit obligation at 30 June 2015. This amount is reflected in the Bank's other comprehensive income; there is no effect on net profit in the current financial year.

AASB 119 requires disclosures of significant actuarial assumptions, a maturity analysis of the defined benefit obligation and key risk exposures. Unless otherwise stated, information is provided only for the OSF, as the UK Pension Scheme is not material.

Actuarial assumptions

The principal actuarial assumptions for the AASB 119 valuation of the OSF are:

	2015 Per cent	2014 Per cent
Discount rate (gross of tax)	4.9	4.6
Future salary growth[(a)]	3.0	3.0
Future pension growth[(a)]	3.0	3.0

(a) Includes a short-term assumption of 2.50 per cent for the first five years of the projections.

Maturity Analysis

The weighted-average duration of the defined benefit obligation for the OSF is 18 years (18 years at 30 June 2014). The expected maturity profile for defined benefit obligations of the OSF is as follows:

	2015 Per cent	2014 Per cent
Maturity profile		
Less than 5 years	19	19
Between 5–10 years	16	16
Between 10–20 years	26	26
Between 20–30 years	18	18
Over 30 years	21	21
Total	100	100

Risk exposures

The RBA is exposed to risk from its sponsorship of the OSF defined benefit plan. Key risks include investment, interest rate, longevity, salary and pension risks.

Investment risk is the risk that plan assets will not generate returns at the expected level.

Interest rate risk is the exposure of the defined benefit obligations to adverse movements in interest rates. A decrease in interest rates will increase the present value of these obligations. This may, however, be partially offset by an increase in value of the interest-bearing securities held by the OSF.

Longevity risk is the risk that OSF members live longer than actuarial estimates of life expectancy.

Salary risk is the risk that higher than assumed salary rises increase the cost of providing a salary-related pension.

Pension risk is the risk that pensions increase at a faster rate than assumed and increases the cost of providing pensions.

The OSF's member and accounting services were outsourced in 2013/14. Appropriate practices and procedures have been adopted to manage the associated risks.

The table below shows the estimated change in the defined benefit obligation resulting from movements in key actuarial assumptions. These estimates change each assumption individually, holding other factors constant; they do not incorporate any correlations among factors.

	2015 $M	2014 $M
Change in the defined benefit obligation from an increase of 0.25 percentage point in:		
Discount rate (gross of tax)	(50)	(53)
Future salary growth	13	13
Future pension growth	38	40
Change in the defined benefit obligation from a decrease of 0.25 percentage point in:		
Discount rate (gross of tax)	54	57
Future salary growth	(13)	(13)
Future pension growth	(36)	(38)
Change in the defined benefit obligation from an increase in life expectancy of 1 year	38	42

Asset Distribution

The distribution of the OSF's assets at 30 June is provided in the table below. This distribution relates to the option used by the OSF to fund members' defined benefits.

	Per cent of fund assets	
	2015	2014
Cash and short-term securities	5.2	7.0
Fixed interest and indexed securities	14.1	14.0
Domestic equities	36.1	40.2
Foreign equities	17.9	11.6
Property	14.0	10.5
Private equity and infrastructure	12.7	16.7
Total	100.0	100.0

AASB 119 Reconciliation

A detailed reconciliation of the AASB 119 valuation of the two superannuation funds is shown in the table below. In the case of the OSF, these details relate only to the defined benefit component of the fund as the RBA faces no actuarial risk on defined contribution accumulation balances. Excluding defined contribution balances has no effect on the measurement of the financial position of the OSF. At 30 June 2015, accumulation balances in the OSF totalled $265.0 million ($236.8 million as at 30 June 2014).

	OSF		UK Scheme		Total	
	2015 $M	2014 $M	2015 $M	2014 $M	2015 $M	2014 $M
Opening balances:						
Net market value of assets	906	830	22	20	927	850
Accrued benefits	(1,103)	(1,151)	(19)	(15)	(1,123)	(1,166)
Surplus/(deficit)	(197)	(321)	2	4	(195)	(317)
Effect of asset cap	–	–	(2)	(4)	(2)	(4)
Opening superannuation asset/(liability)	(197)	(321)	–	–	(197)	(321)
Change in net market value of assets	61	76	5	2	66	78
Change in accrued benefits	72	48	(3)	(4)	69	44
Change in asset cap	–	–	(2)	2	(2)	2
Change in superannuation asset/(liability)	133	124	–	–	133	124
Closing balances:						
Net market value of assets	967	906	26	22	993	927
Accrued benefits	(1,031)	(1,103)	(22)	(19)	(1,053)	(1,123)
Surplus/(deficit)	(64)	(197)	4	2	(60)	(195)
Effect of asset cap	–	–	(4)	(2)	(4)	(2)
Closing superannuation asset/(liability)	(64)	(197)	–	–	(63)	(197)
Interest income	41	39	1	1	42	39
Benefit payments	(43)	(37)	(1)	(1)	(44)	(38)
Return on plan assets	38	51	2	–	40	51
Contributions from RBA to defined benefit schemes	25	23	–	–	25	24
Exchange rate gains/(losses)	–	–	3	2	3	2
Change in net market value of assets	61	76	5	2	66	78

The components of this table may not add due to rounding.

Note 14 – Superannuation Funds (continued)

	OSF		UK Scheme		Total	
	2015 $M	2014 $M	2015 $M	2014 $M	2015 $M	2014 $M
Current service cost	(40)	(41)	–	–	(40)	(41)
Interest cost	(50)	(52)	(1)	(1)	(51)	(53)
Benefit payments	43	37	1	1	44	38
Gains/(losses) from change in demographic assumptions	–	–	–	–	–	–
Gains/(losses) from change in financial assumptions	88	59	(1)	(1)	87	58
Gains/(losses) from change in other assumptions	31	46	–	(1)	31	45
Exchange rate gains/(losses)	–	–	(2)	(2)	(2)	(2)
Change in accrued benefits	72	48	(3)	(4)	69	44
Current service cost	40	41	–	–	40	41
Net Interest expense/(income)	9	14	–	–	9	14
Productivity and superannuation guarantee contributions	5	5	–	–	5	5
Superannuation expense/(income) included in profit or loss	54	60	–	–	53	60
Actuarial re-measurement loss/(gain)	(157)	(155)	–	–	(157)	(156)
Superannuation expense/(income) included in Statement of Comprehensive Income	(103)	(96)	–	–	(103)	(95)

The components of this table may not add due to rounding.

Note 15 – Financial Instruments and Risk

As the central bank in Australia, the RBA is responsible for implementing monetary policy and managing Australia's foreign reserve assets. Consequently, the RBA holds a range of financial assets, including Australian dollar securities, foreign government securities, repurchase agreements, deposits with the BIS and other central banks, interest rate futures contracts, foreign currency swaps, gold loans, cash and cash equivalents. The RBA also holds shares in the BIS. As to financial liabilities, the RBA issues Australia's banknotes and takes deposits from its customers, mainly the Australian Government, and eligible financial institutions, including other central banks. Accordingly, the main financial claims on the RBA are banknotes on issue and deposit liabilities. The RBA also provides banking services to its customers and operates Australia's high-value payments and interbank settlement systems. These payments and settlements occur through accounts held on the RBA's balance sheet.

AASB 7 requires disclosure of information relating to financial instruments; their significance and performance; terms and conditions; fair values; risk exposures and risk management.

Financial Risk

The RBA is exposed to a range of financial risks that reflect its policy and operational responsibilities. These risks include market risk, credit risk and liquidity risk. The chapters in the Annual Report on 'Operations in Financial Markets' and 'Risk Management' provide additional information on the RBA's management of these financial risks.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises: foreign exchange risk; interest rate risk; and other price risk.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or cash flows of the RBA's foreign currency assets and liabilities will fluctuate because of movements in exchange rates. An appreciation in the exchange rate results in valuation losses, while a depreciation leads to valuation gains. The overall level of foreign currency exposure is determined by policy considerations. The RBA's net foreign currency exposure as at 30 June 2015 was $50.1 billion ($42.3 billion as at 30 June 2014). Within the overall exposure and to a limited extent, foreign currency risk can be mitigated by holding assets across a diversified portfolio of currencies. The RBA holds foreign reserves in six currencies – the US dollar, the euro, the Canadian dollar, the Japanese yen, the Chinese renminbi and the UK pound sterling.

The RBA also undertakes foreign currency swaps to assist its daily domestic liquidity management and in managing foreign reserve assets. These instruments carry no foreign exchange risk since the RBA agrees the exchange rates at which both legs of the transaction are settled at the time the swap is undertaken.

Concentration of foreign exchange

During 2014/15, the RBA began purchasing UK pound sterling and increased its holding of renminbi and US dollars by reducing the proportion of euros held in its reserves. The RBA's net holdings of foreign exchange (excluding its holding of Special Drawing Rights) were distributed as follows as at 30 June:

	Per cent of foreign exchange	
	2015	**2014**
US dollar	55	52
Euro	25	35
Canadian dollar	5	5
Japanese yen	5	5
Chinese renminbi	5	3
UK pound sterling	5	–
Total foreign exchange	100	100

Sensitivity to foreign exchange risk

The sensitivity of the RBA's profit and equity to a movement of +/–10 per cent in the value of the Australian dollar exchange rate as at 30 June is shown below. These figures are generally reflective of the RBA's exposure over the financial year.

	2015 $M	2014 $M
Change in profit/equity due to a 10 per cent appreciation in the reserves-weighted value of the A$	(4,547)	(3,849)
Change in profit/equity due to a 10 per cent depreciation in the reserves-weighted value of the A$	5,557	4,704

Interest rate risk

Interest rate risk is the risk that the fair value or cash flows of financial instruments will fluctuate because of movements in market interest rates. The RBA's balance sheet is exposed to interest rate risk because most of its assets are financial assets that have a fixed income stream, such as Australian dollar and foreign currency securities. The price of such securities increases when market interest rates decline, while it falls if market rates rise. Interest rate risk increases with the maturity of a security and, accordingly, interest rate risk on foreign assets is controlled through limits on the duration of the portfolio. Interest rate risk on Australian dollar assets is relatively low as the bulk of the portfolio is held under short-term reverse repurchase agreements.

Sensitivity to interest rate risk

The figures below show the effect on the RBA's profit and equity of a movement of +/–1 percentage point in interest rates, given the level, composition and modified duration of the RBA's foreign currency and Australian dollar securities as at 30 June.

	2015 $M	2014 $M
Change in profit/equity due to movements of +/–1 percentage point across yield curves:		
Foreign currency securities	–/+300	–/+365
Australian dollar securities	–/+156	–/+131

Other price risk

The RBA holds shares in the BIS. The RBA's membership of the BIS is mainly to maintain and develop strong relationships with other central banks, which is to Australia's advantage. Shares in the BIS are owned exclusively by its member central banks and monetary authorities. For accounting purposes, the RBA treats the BIS shares as 'available for sale' and the fair value of these shares is estimated as a discount to the BIS' net asset value. Accordingly, these shares are revalued to reflect movements in the net asset value of the BIS and in the Australian dollar. The price risk faced on the BIS shares is incidental to the policy reasons for holding them and is immaterial compared with other market risks faced by the RBA. For this reason, this asset is not included as part of the RBA's net foreign currency exposure outlined above.

Credit risk

Credit risk is the potential for financial loss arising from an issuer or counterparty defaulting on its obligations to: repay principal; make interest payments due on an asset; or settle a transaction. For the RBA, credit risk arises from exposure to the issuers of securities that it holds and counterparties which are yet to settle transactions. The RBA's credit exposure is managed within a highly risk-averse framework. In particular, credit risk is controlled by: holding securities issued by a limited number of highly rated governments, government-guaranteed agencies and supranational organisations; and holding high-quality collateral against reverse repurchase agreements.

Cash invested under reverse repurchase agreements in overseas markets is secured by collateral in the form of government securities or securities issued by US agencies; the RBA takes and maintains collateral to the value of 102 per cent of the cash invested. Cash invested under Australian dollar reverse repurchase agreements is secured by securities issued by Australian governments, banks and various corporate and asset-backed securities (see Note 1(b)). The RBA holds collateral equivalent to the amount invested plus a margin according to the risk profile of the collateral held. If the current value of collateral falls by more than a predetermined amount, the counterparty is required to provide additional collateral to restore this margin; the thresholds are specified in the legal agreements which govern these transactions. The management of collateral and cash associated with tri-party repurchase agreements is conducted through a third party, in this case the Australian Securities Exchange. The terms and requirements of tri-party repurchase agreements are broadly consistent with bilateral agreements and the RBA manages the risk of holding them in a similar way.

The RBA does not sell or re-pledge securities held as collateral under reverse repurchase agreements.

The RBA's maximum exposure to credit risk for each class of recognised financial assets, other than derivatives, is the carrying amount of those assets as indicated in the balance sheet.

The RBA's maximum credit risk exposure in relation to derivative financial instruments is:

1. ***Foreign exchange swaps*** – As at 30 June 2015, the RBA was under contract to purchase $17.2 billion of foreign currency ($5.5 billion at 30 June 2014) and sell $28.8 billion of foreign currency ($20.0 billion at 30 June 2014). As of that date there was a net unrealised gain of $218 million on these swap positions included in net profit ($42 million unrealised gain at 30 June 2014).

   The RBA has a credit exposure from foreign exchange swaps because of the risk that a counterparty might fail to deliver the second leg of a swap which would have to be replaced in the market, potentially at a loss if the exchange rate had moved from the level at which the second leg of the swap was to be completed. To manage credit risk on swaps, the RBA exchanges collateral with counterparties under credit support annexes (CSAs), which cover the potential cost of replacing the swap position in the market if a counterparty fails to deliver. The RBA's CSAs specify that only Australian dollar cash is eligible as collateral. Under CSAs, either party to the agreement may be obliged to deliver collateral with interest paid or received on a monthly basis. At 30 June 2015, cash collateral received was $673 million ($129 million at 30 June 2014), while cash collateral provided was nil (nil at 30 June 2014).

2. ***Interest rate futures*** – As at 30 June 2015, the amount of credit risk on margin accounts associated with interest rate futures contracts held by the RBA was approximately $0.5 million ($0.6 million at 30 June 2014). As at 30 June 2015 there was an unrealised loss brought to account on those contracts of $0.2 million ($0.2 million unrealised loss at 30 June 2014).

The RBA held no past due or impaired assets at 30 June 2015 or 30 June 2014.

Collateral pledged

At 30 June 2015, the carrying amount of securities sold and contracted for purchase under repurchase agreements was $1,781 million ($5,243 million at 30 June 2014). Terms and conditions of repurchase agreements are consistent with those for reverse repurchase agreements disclosed above.

Concentration of credit risk

As noted, the RBA operates to minimise its credit risk exposure through comprehensive risk management policy guidelines. The following table indicates the concentration of credit risk in the RBA's investment portfolio. This disclosure has been updated to align with the Bank's current internal credit framework, which utilises an average of the credit ratings of the three major ratings agencies. The prior period figures have been presented accordingly.

	Risk rating of security/issuer[a]	Risk rating of counterparties[a]	Per cent of investments	
			2015	2014
Australian dollar securities				
Holdings of Australian Government Securities	Aaa	na	3.8	3.3
Holdings of semi-government securities	Aaa	na	0.6	0.8
	Aa	na	2.0	1.8
Securities purchased under reverse repurchase agreements	Aaa	Aa	27.4	23.5
	Aaa	A	7.3	6.6
	Aaa	Other[b]	1.6	2.8
	Aa	Aa	6.8	7.3
	Aa	A	3.1	3.5
	Aa	Baa	0.2	0.0
	Aa	B	0.1	0.0
	Aa	Other[b]	0.3	0.6
	A	Aa	1.2	0.8
	A	A	0.6	0.4
	A	Other[b]	0.0	0.1
	Baa	Aa	0.0	0.1
Foreign investments				
Holdings of securities	Aaa	na	14.7	18.0
	Aa	na	3.9	16.7
	A	na	18.0	0.0
Securities sold under repurchase agreements	Aaa	Aa	0.9	0.0
	Aaa	A	0.2	3.7
Securities purchased under reverse repurchase agreements	Aaa	Aa	1.1	0.1
	Aaa	A	0.5	4.7
	Aaa	Baa	0.2	0.0
	Aa	A	0.1	0.4
	A	A	0.8	0.0
Deposits	na	Aaa	0.5	1.2
Other	Aaa	A	0.0	0.1
	A	A	0.4	0.0
	Other[b]	Aa	0.1	0.0
	Other[b]	A	0.1	0.0
Other			3.5	3.5
			100.0	100.0

(a) Average of the credit ratings of the three major rating agencies, where available.
(b) This category includes counterparties which are not rated.

Liquidity risk

Liquidity risk is the risk that the RBA will not have the resources required at a particular time to meet its obligations to settle its financial liabilities. As the ultimate source of liquidity in Australian dollars, the RBA can create liquidity in unlimited amounts in Australian dollars at any time. A small component of the RBA's liabilities is in foreign currencies, namely foreign repurchase agreements.

Liquidity risk is also associated with financial assets to the extent that the RBA may, in extraordinary circumstances, be forced to sell a financial asset at a price less than its fair value. The RBA manages this risk by holding a diversified portfolio of highly liquid Australian dollar and foreign currency assets.

The maturity analysis table that follows is based on the RBA's contracted portfolio as reported in the RBA's Statement of Financial Position. All financial instruments are shown at their remaining term to maturity, which is equivalent to the repricing period. Other liabilities include amounts outstanding under repurchase agreements. Foreign currency swaps reflect the gross settlement amount of the RBA's outstanding foreign currency swap positions.

Maturity Analysis – as at 30 June 2015

	Balance sheet total $M	Contracted maturity $M					No specified maturity $M	Weighted average effective rate %
		On demand	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Assets								
Cash and cash equivalents	438	32	405	–	–	–	1	1.75
Australian dollar investments								
Securities sold under repurchase agreements	–	–	–	–	–	–	–	na
Securities purchased under repurchase agreements	76,183	–	52,800	1,969	–	–	21,414	2.02
Other securities	9,930	–	1,404	6,318	899	1,309	–	2.15
Accrued interest	181	–	137	44	–	–	–	na
	86,294							
Foreign exchange								
Balances with central banks	832	116	716	–	–	–	–	0.13
Securities sold under repurchase agreements	1,780	–	544	1,118	118	–	–	0.02
Securities purchased under repurchase agreements	4,090	–	4,090	–	–	–	–	0.11
Other securities	58,467	–	33,609	12,037	5,832	495	6,494	0.16
Deposits	1	–	1	–	–	–	–	(0.03)
Cash collateral pledged	–	–	–	–	–	–	–	na
Accrued interest	71	–	42	29	–	–	–	na
	65,241							
Gold								
Gold loans	49	–	–	49	–	–	–	0.25
Gold holdings	3,866	–	–	–	–	–	3,866	na
	3,915							
Property, plant & equipment	549	–	–	–	–	–	549	na
Loans and advances	3	–	–	–	–	3	–	2.76
Other assets	473	–	23	3	–	–	447	na
Total assets	156,913	148	93,771	21,567	6,849	1,807	32,771	1.18
Liabilities								
Deposits	60,486	26,236	34,250	–	–	–	–	1.98
Distribution payable to the Commonwealth	2,501	–	1,559	–	942	–	–	na
Cash collateral received	673	–	673	–	–	–	–	2.00
Other liabilities	3,903	–	3,687	–	–	–	216	(0.02)
Australian notes on issue	65,481	–	–	–	–	–	65,481	0.07
Total liabilities	133,044	26,236	40,169	–	942	–	65,697	0.94
Capital and reserves	23,869							
Total balance sheet	156,913							
Swaps								
Australian dollars								
Contractual outflow	(40)	–	(40)	–	–	–	–	
Contractual inflow	11,676	–	11,676	–	–	–	–	
	11,636	–	11,636	–	–	–	–	
Foreign currency								
Contractual outflow	(28,846)	–	(28,846)	–	–	–	–	
Contractual inflow	17,210	–	17,210	–	–	–	–	
	(11,636)	–	(11,636)	–	–	–	–	

Maturity Analysis – as at 30 June 2014

	Balance sheet total $M	Contracted maturity $M					No specified maturity $M	Weighted average effective rate %
		On demand	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Assets								
Cash and cash equivalents	273	16	256	–	–	–	1	2.25
Australian dollar investments								
Securities sold under repurchase agreements	–	–	–	–	–	–	–	na
Securities purchased under repurchase agreements	64,394	–	42,587	1,206	–	–	20,601	2.50
Other securities	8,298	–	1,030	5,118	903	1,247	–	2.69
Accrued interest	194	–	131	63	–	–	–	na
	72,886							
Foreign exchange								
Balances with central banks	622	32	590	–	–	–	–	0.07
Securities sold under repurchase agreements	5,241	–	2,820	1,532	776	113	–	0.15
Securities purchased under repurchase agreements	7,421	–	7,421	–	–	–	–	0.12
Other securities	49,388	–	26,483	10,536	6,248	955	5,166	0.22
Deposits	1,067	2	1,064	–	–	–	1	0.02
Cash collateral pledged	–	–	–	–	–	–	–	na
Accrued interest	68	–	36	32	–	–	–	na
	63,807							
Gold								
Gold loans	45	–	–	45	–	–	–	0.40
Gold holdings	3,539	–	–	–	–	–	3,539	na
	3,584							
Property, plant & equipment	523	–	–	–	–	–	523	na
Loans and advances	4	–	–	–	–	4	–	2.92
Other assets	408	–	32	–	–	–	376	na
Total assets	141,485	50	82,450	18,532	7,927	2,319	30,207	1.39
Liabilities								
Deposits	53,574	26,474	27,100	–	–	–	–	2.43
Distribution payable to the Commonwealth	1,235	–	618	–	617	–	–	na
Cash collateral received	129	–	129	–	–	–	–	2.50
Other liabilities	7,459	–	7,101	–	–	–	358	(0.09)
Australian notes on issue	60,778	–	–	–	–	–	60,778	0.13
Total liabilities	123,175	26,474	34,948	–	617	–	61,136	1.12
Capital and reserves	18,310							
Total balance sheet	141,485							
Swaps								
Australian dollars								
Contractual outflow	(14)	–	(14)	–	–	–	–	
Contractual inflow	14,556	–	14,556	–	–	–	–	
	14,542	–	14,542	–	–	–	–	
Foreign currency								
Contractual outflow	(20,026)	–	(20,026)	–	–	–	–	
Contractual inflow	5,484	–	5,484	–	–	–	–	
	(14,542)	–	(14,542)	–	–	–	–	

Note 16 – Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date. This is determined by the quoted market price, if one is available. The RBA's financial assets measured at fair value include its holdings of Australian dollar securities, foreign government securities, interest rate futures, foreign currency swap contracts and its shareholding in the BIS. Non-financial assets carried on the balance sheet at fair value include the RBA's property, plant and equipment. Other than derivatives, there are no financial liabilities measured at fair value. The RBA's repurchase agreements, BIS deposits, cash and cash equivalents, payables, receivables, notes on issue and deposit liabilities are carried on the balance sheet at face value, which is equivalent to their amortised cost using the effective interest method; this approximates fair value.

AASB 7 requires the fair value of financial assets and liabilities to be disclosed according to their accounting classification under AASB 139.

	2015 $M	2014 $M
Financial assets accounted for under AASB 139		
At fair value through profit or loss	69,530	62,855
Loans and receivables	82,521	74,189
Available for sale	401	348
Assets accounted for under other standards	4,461	4,093
Total assets as at 30 June	156,913	141,485
Financial liabilities accounted for under AASB 139		
At fair value through profit or loss	198	45
Not at fair value through profit or loss	132,594	122,771
Liabilities accounted for under other standards	252	359
Total liabilities as at 30 June	133,044	123,175

AASB 13 requires financial and non-financial assets and liabilities measured at fair value to be disclosed according to their position in the fair value hierarchy. This hierarchy has three levels: valuation for Level 1 assets is based on quoted prices in active markets for identical assets; those for Level 2 assets is based on quoted prices or other observable market data not included in Level 1; Level 3 valuations include inputs other than observable market data. The following table presents the RBA's assets and liabilities measured and recognised at fair value and their classification within the fair value hierarchy at 30 June 2015. There were no transfers between levels within the fair value hierarchy during the financial year.

	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
As at 30 June 2015				
Financial assets				
At fair value through profit or loss				
Australian dollar securities	9,379	617	–	9,996
Foreign government securities	54,535	4,582	–	59,117
Foreign currency swaps	50	367	–	417
Available for sale				
Shares in international financial institutions	–	–	401	401
	63,964	5,566	401	69,931
Non-financial assets				
Land and buildings	–	–	382	382
Plant and equipment	–	–	167	167
	–	–	549	549
Financial liabilities				
At fair value through profit or loss				
Foreign currency swaps	–	198	–	198
	–	198	–	198
As at 30 June 2014				
Financial assets				
At fair value through profit or loss				
Australian dollar securities	7,284	1,097	–	8,381
Foreign government securities	52,823	1,564	–	54,387
Foreign currency swaps	7	80	–	87
Available for sale				
Shares in international financial institutions	–	–	348	348
	60,114	2,741	348	63,203
Non-financial assets				
Land and buildings	–	–	361	361
Plant and equipment	–	–	162	162
	–	–	523	523
Financial liabilities				
At fair value through profit or loss				
Foreign currency swaps	1	44	–	45
	1	44	–	45

The fair value of Level 2 financial instruments is determined by reference to observable inputs from active markets or prices from markets not considered active. Australian dollar-denominated discount securities and some foreign currency swaps are priced with reference to an active market yield or rate, but with an adjustment applied to reflect maturity dates. Prices for some Australian dollar and foreign currency denominated securities are derived from markets that are not considered active.

The RBA's shareholding in the BIS is valued using the net asset value, as published in annual financial statements of the BIS, less a discount of 30 per cent. The discount applied is based on a Hague Arbitral Tribunal decision on compensation paid to former private shareholders, and subsequent transactions involving the re-allocation of BIS shares. This financial asset is classified as a Level 3 financial instrument.

Level 3 non-financial assets include the RBA's property, plant and equipment, reflecting the use of market inputs that cannot be directly observed in their valuation.

The following table presents the changes in Level 3 assets during 2014/15 for recurring fair value measurements of financial and non-financial assets.

	Financial Assets	Non-financial Assets	
	Shareholding in international and other institutions $M	Land and buildings $M	Plant and equipment $M
Opening Balance as at 1 July 2013	367	349	142
Transfers	–	–	–
Additions	–	13	41
Disposals	–	(4)	(1)
Depreciation	–	(9)	(21)
Gains or losses recognised in Net Profit	–	1	–
Gains or losses recognised in Other Comprehensive Income	(19)	11	1
Closing Balance as at 30 June 2014	348	361	162
Transfers	–	–	–
Additions	1	14	30
Disposals	–	–	(1)
Depreciation	–	(8)	(24)
Gains or losses recognised in Net Profit	–	–	–
Gains or losses recognised in Other Comprehensive Income	52	15	–
Closing Balance as at 30 June 2015	401	382	167

The following table provides information about the significant inputs that cannot directly be observed used in Level 3 fair value measurements; the table also shows the sensitivity of fair value measurements to changes in these inputs.

	Valuation Technique	Unobservable Inputs	Range of Inputs		Fair Value Movement Due to Change in Unobservable Input:	
			2015	2014	Increase	Decrease
BIS Shares	Net asset value	Discount rate	30.0%	30.0%	Decrease	Increase
Land and Buildings	Income capitalisation and Discounted cash flow methods	Net market income	\$86 to \$543/m^2	\$86 to \$546/m^2	Increase	Decrease
		Discount rate	8.0% to 10.0%	8.3% to 10.0%	Decrease	Increase
		Terminal yield	6.8% to 13.0%	6.9% to 13.0%	Decrease	Increase
		Capitalisation rate	6.6% to 12.0%	6.8% to 12.0%	Decrease	Increase
	Depreciated replacement cost	Depreciation rate	2.0%	2.0%	Decrease	Increase
Plant and Equipment	Depreciated replacement cost	Indexation rate	0.2% to 5.3%	0.2% to 5.3%	Increase	Decrease
		Depreciation rate	4.8% to 25.0%	4.8% to 25.0%	Decrease	Increase

Note 17 – Subsequent Events

There are no events subsequent to 30 June 2015 to be disclosed.

Auditor-General for Australia

Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Treasurer

I have audited the accompanying annual financial statements of the Reserve Bank of Australia for the year ended 30 June 2015, which comprise:

- Statement of Assurance;
- Statement of Financial Position;
- Statement of Comprehensive Income;
- Statement of Distribution;
- Statement of Changes in Capital and Reserves;
- Cash Flow Statement; and
- Notes to and Forming Part of the Financial Statements, including a Summary of Accounting Policies.

The financial statements have been prepared for the consolidated entity comprising the Reserve Bank of Australia and its controlled entity, being the only entity controlled by the Reserve Bank at the year's end or from time-to-time during the year.

Accountable Authority's Responsibility for the Financial Statements

The Governor of the Reserve Bank of Australia is responsible under the *Public Governance, Performance and Accountability Act 2013* for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards and the rules made under that Act. The Governor is also responsible for such internal control as is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These auditing standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Accountable Authority of the entity, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

In conducting my audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

Opinion

In my opinion, the financial statements of the Reserve Bank of Australia:

(a) comply with Australian Accounting Standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and

(b) present fairly the financial position of the Reserve Bank of Australia as at 30 June 2015 and its financial performance and cash flows for the year then ended.

Australian National Audit Office

Grant Hehir
Auditor-General

Canberra
2 September 2015

Part 5:
Indexes

Statutory Reporting Requirements Index

The Reserve Bank Annual Report complies with the reporting requirements of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), rules made under the PGPA Act, related Orders and other applicable legislation. The passage of transitional rules in April 2015[1] means, however, that the relevant provisions of the *Commonwealth Authorities and Companies Act 1997* (CAC Act) and related Orders continue to apply to this Annual Report, with certain specified modifications, notwithstanding the repeal of the CAC Act on 1 July 2014.

To assist readers locate this information, the index of statutory reporting requirements identifies where relevant information can be found in the Annual Report.

1 Section 7AB of the *Public Governance, Performance and Accountability (Consequential & Transitional Provisions) Rule 2014*.

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Abbreviations

AAS	Australian Accounting Standards
ABF	Asian Bond Fund
ABF1	Asian Bond Fund 1
ABF2	Asian Bond Fund 2
ACC	Asian Consultative Council (of the BIS)
ADI	Authorised deposit-taking institution
AGS	Australian Government Securities
AGV	Analytical Group on Vulnerabilities (of the FSB)
AML/CTF	Anti-Money Laundering/Counter-Terrorism Financing
AOFM	Australian Office of Financial Management
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
BCBS	Basel Committee on Banking Supervision
BI	Bank Indonesia
BIS	Bank for International Settlements
BRS	Business Resumption Site
CAC Act	*Commonwealth Authorities and Companies Act 1997*
CCP	central counterparty
CFR	Council of Financial Regulators
CGFS	Committee on the Global Financial System (of the BIS)
CHESS	Clearing House Electronic Sub-register System
CLF	Committed Liquidity Facility
CLS	Continuous Linked Settlement
CPMI	Committee on Payments and Market Infrastructures (of the BIS)
CPRs	Commonwealth Procurement Rules
DFAT	Department of Foreign Affairs and Trade
EME	emerging market economies
EMEAP	Executives' Meeting of East Asia-Pacific Central Banks
eftpos	electronic funds transfer at point of sale
ES	Exchange Settlement (account, balances or funds)
ESA	Exchange Settlement Account
ESMA	European Securities and Markets Authority
FMI	financial market infrastructure
FOI	Freedom of Information
FSB	Financial Stability Board
FSS	Fast Settlement Service (of RITS)
FX	foreign exchange
G20	Group of Twenty
G-SIB	global systemically important bank
G-SIFI	Global SIFI
GHOS	Group of Governors and Heads of Supervision
GPF	Government Partnership Fund (with Indonesia)
HQLA	high-quality liquid assets
ICT	information and communications technology

IFC	International Finance Corporation
IMF	International Monetary Fund
IMSG	Implementation Monitoring Standing Group
IOSCO	International Organization of Securities Commissions
IPS	Information Publication Scheme
ISDA	International Swaps and Derivatives Association
IT	information technology
LCR	Liquidity Coverage Ratio
MFSC	Monetary and Financial Stability Committee
MMFs	money market funds
MoU	memorandum of understanding
NAIDOC	National Aborigines and Islanders Day Observance Committee
NBS	National Banknote Site
NGB	Next Generation Banknote
NNPDC	National Note Processing and Distribution Centre
NPA	Note Printing Australia Limited
NPP	New Payments Platform
OECD	Organisation for Economic Co-operation and Development
OPA	Official Public Account
OSSG	Official Sector Steering Group (of FSB)
OTC	over-the-counter (derivatives)
PAIF	Pan Asian Index Bond Fund
PBC	People's Bank of China
PEXA	Property Exchange Australia Limited
PFMI	Principles for Financial Market Infrastructures
PGPA Act	*Public Governance, Performance and Accountability Act 2013*
PSG	Policy Standing Group (a CPMI-IOSCO entity)
RBA	Reserve Bank of Australia
RBRF	Reserve Bank Reserve Fund
RCG	Regional Consultative Group
RDP	Research Discussion Paper
repo	repurchase agreement
ReSG	Resolution Steering Group (part of FSB)
RITS	Reserve Bank Information and Transfer System
RMB	renminbi
RM	Risk and Compliance Department
RMBS	residential mortgage-backed securities
RTGS	real-time gross settlement
SAR	Special Administrative Region
SCAV	Standing Committee on Assessment of Vulnerabilities (of the FSB)
SDR	Special Drawing Right
SEACEN	South East Asian Central Banks
semis	semi-government securities (Australian state and territory government securities)
SIFI	systemically important financial institution
SMEs	small and medium enterprises
SWIFT	Society for Worldwide Interbank Financial Telecommunication
WGBS	Working Group on Banking Supervision (of EMEAP)
WGFM	Working Group on Financial Markets (of EMEAP)
WGPSS	Working Group on Payment and Settlement Systems (of EMEAP)
WHS	work health and safety

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