

Governance and Accountability

The Reserve Bank is an independent central bank, accountable to the Parliament of Australia. The Bank has two boards: the Reserve Bank Board, which has responsibility for monetary and banking policy and the Bank's policy on other matters excluding payments system policy; and the Payments System Board, which has responsibility for payments system policy.

Governance

The Reserve Bank is a body corporate distinct from the Commonwealth of Australia. This body corporate, established under the *Commonwealth Bank Act 1911* and continued in existence under the *Commonwealth Bank Act 1945*, was preserved and continued in existence with the name Reserve Bank of Australia under the *Reserve Bank Act 1959*.

The Reserve Bank has two boards: the Reserve Bank Board and the Payments System Board. The Reserve Bank's two boards have operational independence under the Reserve Bank Act to determine and implement the policies of the Bank, as will best contribute to the objectives set out in the Act.

In terms of monetary policy, 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 Payments System Board issues a separate annual report, which outlines its role and activities.

The Reserve Bank's governance structure is set out in the Reserve Bank Act. Under this Act, the Bank is managed by the Governor. 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'. For further details, see the chapter on 'Management of the Reserve Bank'.

Accountability

The Reserve Bank Board has an obligation to inform the government of its monetary policy 'from time to time'. This obligation is discharged mainly by regular contact between the Governor and other senior executives and the Treasurer, who is the Bank's responsible Minister (the Hon Josh Frydenberg MP, who succeeded the Hon Scott Morrison MP on 28 August 2018), usually by way of regular discussions. The Governor also meets regularly with the House of Representatives Standing Committee on Economics. The Reserve Bank Act sets out a clear process for managing differences of opinion between the Reserve Bank Board and the government on policy matters.

The House of Representatives Standing Committee on Economics has, in its Standing Orders, an obligation 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 2018/19, the Governor and senior Bank officers attended hearings of this committee for this purpose in Canberra in August 2018 and in Sydney in February 2019. The committee issued its report on the August 2018 hearing – *Review of the Reserve Bank of Australia Annual Report 2017* (Second Report) – on 15 October 2018. The committee's report on the February 2019 hearing – *Review of the Reserve Bank of Australia Annual Report 2018* (First Report) – was issued on 4 April 2019.

The Bank seeks to ensure a high degree of transparency about its goals, activities and the basis of its policy decisions. Transparency facilitates the Bank's accountability and increases the effectiveness of policy decisions by promoting a better understanding of those decisions in the community. The Bank communicates regularly through its publications and speeches and engages with the community through its regional and industry liaison

program. For more details, see the chapter on 'Communication and Community Engagement'.

Under section 46 of the PGPA Act, the Governor is responsible for preparing this annual report and for providing it to the Treasurer for presentation to the Parliament, following approval by the Reserve Bank Board of the Bank's annual financial statements. That approval was given by the Board at its meeting on 6 August 2019.

No report on the Reserve Bank was issued in 2018/19 by the Commonwealth Ombudsman, the Office of the Australian Information Commissioner or the Auditor-General, apart from that dealing with the audit of the Bank's annual financial statements.

Reserve Bank Board

The Reserve Bank Board comprises the Governor (Chair), Deputy Governor (Deputy Chair), Secretary to the Treasury and six non-executive members appointed by the Treasurer, a total of nine. New appointments to the Board are made by the Treasurer from a register of eminent candidates of the highest integrity maintained by the Secretary to the Treasury and the Governor. Attendance by members at meetings of the Board during

Board Meetings – 2018/19 Attendance by members

	No. of meetings attended	No. of meetings eligible to attend
Philip Lowe (Governor)	11	11
Guy Debelle (Deputy Governor)	11	11
John Fraser (Secretary to the Treasury) ^(a)	1	1
Philip Gaetjens (Secretary to the Treasury) ^(b)	10	10
Mark Barnaba	10	11
Wendy Craik	10	11
Ian Harper	10	11
Allan Moss	10	11
Carol Schwartz	11	11
Catherine Tanna	10	11

(a) John Fraser's term on the Board ended on 31 July 2018; Mr Fraser's retirement from the Board was recorded in the 2018 annual report

(b) Philip Gaetjens' term on the Board commenced on 1 August 2018

2018/19 is shown in the table and members' qualifications and experience are provided in the chapter on the 'Reserve Bank Board'.

The Reserve Bank Board meets 11 times a year, on the first Tuesday of each month except in January. Five members form a quorum for a meeting of the Board. Consistent with the Reserve Bank Act, the Board makes decisions by a majority of the members present, with the chair having a casting vote, if necessary.

Reserve Bank Board meetings are usually held at the Reserve Bank's Head Office in Sydney. Meetings are held in two other Australian cities each year. The Board met in Perth in September 2018 and in Darwin in July 2019.

The Reserve Bank Board has an Audit Committee and a Remuneration Committee, whose activities are described below.

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:

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

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.

Six of the eight members of the Payments System Board, including the Governor, are appointed by the Treasurer, with one member each appointed by the Reserve Bank and the Australian Prudential Regulation Authority.

The Payments System Board 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 the statutory obligations for officials 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 stability policies, notwithstanding any material personal interest in the outcome, the Reserve Bank Act requires them to furnish a confidential disclosure of material personal interests to the Treasurer annually and, during the year, to notify any substantial change since their most recent annual disclosure. Members must declare to the other members of the Reserve Bank Board any material personal interest they have in a matter relating to the affairs of the

Board other than monetary policy and financial stability. Members may give standing notice to other members outlining the nature and extent of a material personal interest in such matters.

A Code of Conduct for Reserve Bank Board members supplements these statutory requirements and imposes obligations on members that are designed to ensure that members observe the highest possible standards of ethical conduct. The Code of Conduct, which is available on the Reserve Bank's website, addresses a range of matters including conflicts of interest and restrictions on undertaking, or being involved in, financial transactions of certain types at certain times.

Audit Committee

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

- preparation of the annual report, including a report of operations, the financial statements and a performance statement
- reviewing the appropriateness of systems of risk oversight and management
- reviewing the appropriateness of systems of internal control.

Membership of the Audit Committee is comprised of two non-executive members of the Reserve Bank Board, one of whom chairs the committee, and two external members, typically former senior audit partners of major accounting firms with extensive experience in auditing in the finance sector. Attendance by members at meetings of the Audit Committee during 2018/19 is shown below and members' qualifications and experience are provided in the chapter on the 'Reserve Bank Board'.

Consistent with contemporary governance standards, no Reserve Bank executive is a member of the Audit Committee. Representatives of the Bank's internal and external auditors 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 on a regular basis or as required.

During 2018/19, the Audit Committee met on five occasions. At its July 2019 meeting, the committee considered the draft consolidated financial statements for the Reserve Bank for the year ended 30 June 2019 and agreed that the statements be presented to the Governor and the Reserve Bank Board with its endorsement. The Committee meets at least annually with the external auditors without management present; in respect of 2018/19, this occurred immediately prior to the July 2019 meeting.

Audit Committee Meetings – 2018/19

Attendance by members

	No. of meetings attended	No. of meetings eligible to attend
Mark Barnaba ^{(a),(b)}	5	5
Sandra Birkenleigh	5	5
Rahoul Chowdry	5	5
Allan Moss ^(a)	5	5

(a) Member of the Reserve Bank Board

(b) Mark Barnaba's term on the Audit Committee commenced on 23 July 2018

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 Catherine Tanna (Chair), Ian Harper and Carol Schwartz. During 2018/19, the committee met on three occasions.

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) applying to the Governor and Deputy Governor annually and recommends adjustments to the Reserve Bank Board for approval, providing that such terms and conditions are consistent with the framework for Principal Executive Offices determined by the Remuneration Tribunal. In accordance with section 21A of the Reserve Bank Act, neither the Governor nor the Deputy Governor takes part in decisions of the Reserve Bank Board relating to the determination or application of any terms or conditions on which either of them holds office.

The Remuneration Committee is also kept informed of the general remuneration arrangements for Reserve Bank staff.

The Committee communicates with the Remuneration Tribunal as required.

Remuneration and Allowances

Remuneration and travel allowances for the non-executive members of the Reserve Bank Board are set by the Remuneration Tribunal. Remuneration of Board members for their membership of the Audit Committee is determined by the Remuneration Tribunal. The Bank’s longstanding practice has been to provide the same level of remuneration to members of the Audit Committee who are not also members of the Reserve Bank Board. Membership of the Remuneration Committee is not remunerated.

Policy Risk Management Framework and Board Review

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 these risks periodically as part of their decision-making processes. Operational risks are managed by executives in terms of the Reserve Bank’s risk management framework, as discussed in the chapter on ‘Risk Management’.

Towards the end of 2018, the Reserve Bank Board conducted its annual review of the key risks inherent in the formulation of monetary policy and the monetary policy risk register and control framework. The Board endorsed modest refinements to the risk register and concluded that the monetary policy risk control framework had continued to operate effectively.

At the same time, the Reserve Bank Board conducted its annual review of its own operation

Remuneration Committee Meetings – 2018/19

Attendance by members

	No. of meetings attended	No. of meetings eligible to attend
Catherine Tanna	3	3
Ian Harper	3	3
Carol Schwartz	3	3

and processes, based on a survey of Board members. It concluded that Board processes were functioning effectively. The performance of the Board's Audit and Remuneration committees is assessed as part of the annual review of the effectiveness of the Board itself. The most recent review concluded that the committees and their processes were functioning effectively.

Note Printing Australia Limited

Note Printing Australia Limited (NPA) is a wholly owned subsidiary of the Reserve Bank operating under a charter reviewed and approved annually by the Reserve Bank Board. NPA's prime function is the efficient and cost-effective production of high-quality and secure Australian banknotes, in accordance with specifications and requirements set by the Reserve Bank. NPA also produces banknotes for other issuing authorities and Australian passport booklets.

NPA is governed by a board of directors appointed by the Reserve Bank. As at the date of this report, the NPA Board comprised five Reserve Bank executives and an external director with experience in manufacturing: Chris Aylmer (Head of Risk and Compliance Department) as Chair; Michelle McPhee (Head of Banking Department); Robert Middleton-Jones (Chief Financial Officer); Greg Johnston (Head of Payments Settlements Department); Susan Woods (Assistant Governor, Corporate Services) and Ross Pilling (Chair of the Victorian Government's Advanced Manufacturing Advisory Council). The NPA Board has an Audit and Risk Committee, whose membership comprises Michelle McPhee (Chair), Robert Middleton-Jones 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, was a member of the NPA Audit Committee until July 2019, when his term ended.

More detail about the activities and operational structure of NPA is provided in the chapters on 'Banknotes' and 'Operational Structure'.

Indemnities for Members of Boards and Staff

Members of the Reserve Bank Board and the Payments System Board are indemnified against liabilities incurred by reason of their appointment to the relevant board or by virtue of holding and discharging such office. Indemnities for those members appointed prior to 1 July 2014 were in accordance with section 27M of the *Commonwealth Authorities and Companies Act 1997* (CAC Act), which specified when indemnity for liability and legal costs was not allowed. Indemnities for members appointed after 1 July 2014, when the CAC Act was repealed, have reflected the substance of the previous CAC Act restrictions. A revised form of the indemnity for new members of both boards, which continues to reflect the substance of the previous CAC Act restrictions, was approved by the Reserve Bank Board in March 2017. In December 2017, the Reserve Bank Board approved indemnities being given to members of the Audit Committee who are not also members of the Reserve Bank Board on substantially the same terms as the indemnities given to Board members.

The Reserve Bank has also provided an indemnity in accordance with section 27M of the CAC Act to senior staff of the Bank in relation to liabilities they may incur in the conduct of their duties at the Bank. In relation to events on or after 1 April 2017, the Bank's policy on assistance to staff for legal proceedings applies. This policy applies to all staff, not only senior staff, and is closely based on the rules that apply to the provision of assistance to staff for legal proceedings in non-corporate Commonwealth entities set out in Appendix E to the *Legal Services Directions 2017*.

Certain other indemnities given prior to 1 July 2014 in accordance with section 27M of the CAC Act continue. These indemnities were provided by the Reserve Bank to current and former senior staff 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 CCL Secure Pty Limited (formerly Innovia Security Pty Ltd and, prior to that, Securrency International Pty Ltd).

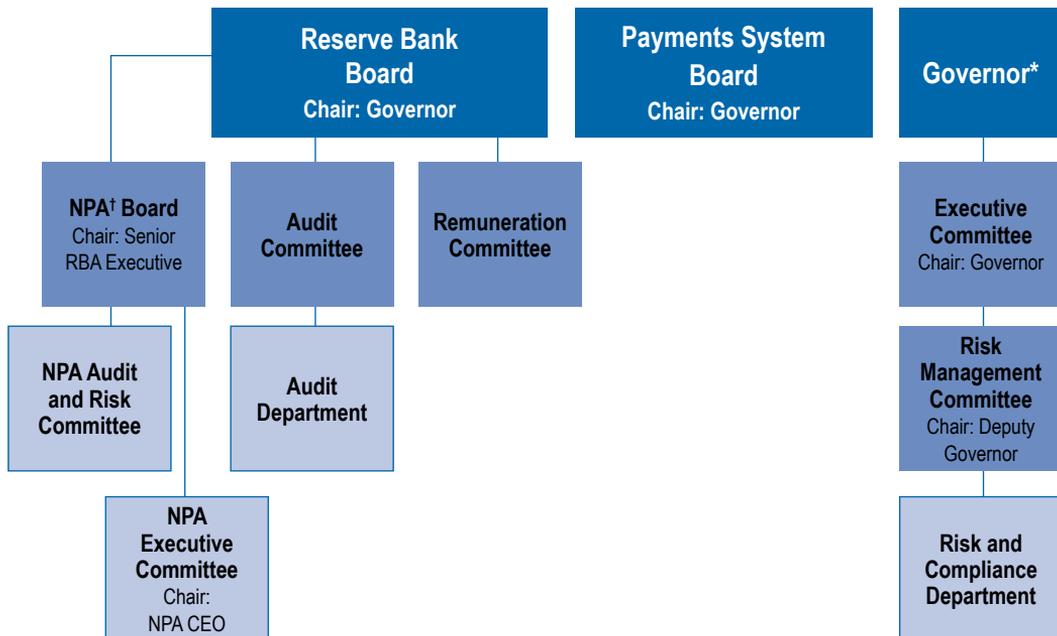
As the Reserve Bank does not take out directors' and officers' insurance in relation to members of its boards or other officers, no premiums were paid for any such insurance in 2018/19.

Other Policy Matters

As part of the governance arrangements to assist the Reserve Bank Board to discharge its obligations in relation to the Reserve Bank's policies other than monetary policy, the Governor reports annually to the Board on the process of review and implementation of the key Reserve Bank policies that are determined and managed by the Governor. This report includes information on compliance arrangements. An annual report covering matters relating to work health and safety in the Bank is also presented to the Board. The reports for 2018/19 were provided to the Board at its August 2019 meeting.

Reserve Bank of Australia Governance Structure

August 2019



† Note Printing Australia Limited

* Under section 12 of the *Reserve Bank Act 1959*, the Governor is responsible for managing the Bank and under section 7A of the Reserve Bank Act, the Governor is the accountable authority of the Bank for the purposes of the *Public Governance, Performance and Accountability Act 2013*.