

The Reserve Bank Board and Governance

The Role of the Board

Sections 8A and 10 of the *Reserve Bank Act 1959* give the Reserve Bank Board responsibility for “monetary and banking policy”. The relationship of the Board and the government-of-the-day is set out in Section 11. Routinely, the “Government is to be informed, from time to time, of the Bank’s monetary and banking policy”. In practice this is done in the regular monthly meetings which the Governor, Deputy Governor and senior officers have with the Treasurer shortly after each Board meeting.

The Act itself has not been changed with respect to the mandate for monetary policy, but procedures and practices have evolved over time, in order to keep the RBA’s policy-making process relevant to the changing environment, and in parallel with developments overseas. In 1996, the responsible Minister, the Treasurer, and the Governor jointly signed the *Statement on the Conduct of Monetary Policy*, which confirmed the RBA’s independence in making monetary policy, and endorsed the RBA’s inflation target. The Governor’s twice-yearly appearances before the House of Representatives Standing Committee on Economics, Finance and Public Administration, and the quarterly *Statement on Monetary Policy*, have reinforced this process. An updated, though basically unchanged, second *Statement on the Conduct of Monetary Policy* was released at the time of the announcement by the Treasurer in July 2003 of the appointment of the Governor for a term of a further three years.

When the Australian Prudential Regulation Authority was established in 1998, it took on the prudential supervision of banks, but the RBA retained responsibility for overall financial system stability. In March 2004 the RBA began publishing a separate *Financial Stability Review* containing its assessment of the state of the financial system. This stand-alone publication will be published half-yearly.

The *Reserve Bank Act 1959* was amended in 1998 to establish the Payments System Board, which is responsible for payments system policy, and reports separately in its own Annual Report.

Composition of the Board

The Board comprises the Governor, who is Chairman, the Deputy Governor, the Secretary to the Treasury and six external members, appointed by the Treasurer – a total of nine. Details of the current members are set out on pages 90 and 91. Five members form a quorum for a meeting of the Board.

Meetings of the Board

The *Reserve Bank Act 1959* does not stipulate the frequency of Board meetings. For many years the Board’s practice has been to meet eleven times each year, on the first Tuesday of each month, except January. Most meetings are held at the Head Office in Sydney. By custom, one meeting

each year is held in Melbourne and, from time to time, the Board also meets in other State capitals; the Board held its June 2004 meeting in Brisbane.

Number of meetings attended by each member in 2003/04:		
IJ Macfarlane	11	(11)
GR Stevens	11	(11)
KR Henry *	10	(11)
JR Broadbent	11	(11)
RG Gerard	9	(11)
FP Lowy	9	(11)
DG McGauchie	10	(11)
WJ McKibbin	11	(11)
HM Morgan	10	(11)

* ML Parkinson attended one meeting in place of KR Henry, in terms of the provisions of Section 22 of the *Reserve Bank Act 1959*.
(The figure in brackets is the number of meetings the member was eligible to attend.)

Conduct of Board Members

On appointment to the Board, each member is required under the *Reserve Bank Act 1959* to sign a declaration to maintain secrecy in relation to the affairs of the Board and the RBA. Further, members must by law meet the general obligations of directors of statutory authorities, as set out in the *Commonwealth Authorities and Companies (CAC) Act 1997*. The *CAC Act* sets standards of conduct for directors and officers of Commonwealth authorities, with many of these requirements being modelled on comparable areas of the Corporations Law. As such, directors must:

- discharge their duties with care and diligence;
- act in good faith, and in the best interests of the RBA;
- not use their position to benefit themselves or any other person, or to cause detriment to the RBA or any person;
- not use any information obtained by virtue of their position to benefit themselves or any other person, or to cause detriment to the RBA or any person; and
- declare any material personal interest where a conflict arises with the interests of the RBA.

Over and above these legislated requirements, members recognise their responsibility for maintaining a reputation for integrity and propriety on the part of the Board and the RBA in all respects. Hence, during the past year, they have agreed to adopt a Code of Conduct which provides a number of general principles as a guide for the conduct of individual members in fulfilling their duties and responsibilities as members of the Board.

Audit Committee

The primary objectives of the Audit Committee are to:

- ensure a high-quality, independent and effective audit process;
- assist the Governor and the Board in fulfilling their obligations relating to financial reporting, compliance with laws and regulations, internal control, employee conflicts of interest, business ethics and prevention of fraud; and

- enhance contact between management and the Audit Department.

The Committee also acts, at the request of the Note Printing Australia Limited (NPA) Board, as NPA's Audit Committee.

The Audit Committee is made up of the Deputy Governor as Chairman, a non-executive member of the Reserve Bank Board, JR Broadbent, and an external appointed member, GH Bennett, company director and former National Executive Chairman, KPMG Peat Marwick. During 2003/04, the Committee met on four occasions; all members attended each of these meetings. The two external members of the Committee also meet with the external auditor in the absence of management from time to time.

Minutes of Audit Committee meetings are circulated to the Reserve Bank Board for information, and discussion as appropriate, and a report on the Committee's activities for the year is prepared for the Board at the time of the presentation of the annual accounts.

Reporting Obligations under the *Commonwealth Authorities and Companies (CAC) Act 1997*

The RBA is a Commonwealth authority for the purposes of the *CAC Act* and, for these purposes, the members of the Reserve Bank Board are the directors of the RBA. As such, they are responsible for the preparation of the Annual Report and, at the meeting of the Board on 3 August 2004, they resolved that the Chairman sign the Report, and the Financial Statements as at 30 June 2004, transmit them in accordance with the requirements of the *CAC Act*, and arrange publication.

The House of Representatives Standing Committee on Economics, Finance and Public Administration has, in its Standing Orders, an obligation to review the Annual Report of the RBA, and the Annual Report of the Payments System Board.

Remuneration

Fees of the non-executive members of the Board are determined by the Remuneration Tribunal.

A committee of the non-executive Board members, currently chaired by DG McGauchie, reviews annually the remuneration of the Governor and Deputy Governor in terms of Section 24A of the *Reserve Bank Act 1959*.

Indemnities

Under the provisions of Section 27 of the *CAC Act*, and pursuant to a Board resolution on 3 November 1998, members of the Reserve Bank Board have been indemnified against liabilities incurred arising out of the proper discharge of their responsibilities, provided that any such liability does not arise from conduct involving a lack of good faith. This indemnity does not extend to claims by the RBA itself or any subsidiary of the RBA. A similar indemnity was extended to the members of the Payments System Board, pursuant to a resolution by the Reserve Bank Board on 3 November 1998.

Reserve Bank Board



Chairman: Ian Macfarlane AC

Governor since
18 September 1996
Present term ends
17 September 2006

Chairman – Payments System
Board

Chairman – Council of
Financial Regulators



Glenn Stevens

Deputy Governor since
21 December 2001
Present term ends
20 December 2008



Ken Henry

Secretary to the Treasury
Member since
27 April 2001



Jillian Broadbent AO

Member since 7 May 1998
Present term ends
6 May 2008

Director – Coca-Cola Amatil
Limited

Director – Special Broadcasting
Service

Director – Woodside Petroleum
Limited



Robert Gerard AO

Member since 20 March 2003
Present term ends
19 March 2008

Chairman & Managing
Director – Gerard
Corporation Pty Ltd



Frank Lowy AC

Member since 27 June 1995
Present term ends
9 December 2005

Chairman – Westfield Holdings
Limited

Chairman – Lowy Institute for
International Policy

Chairman – Australian Soccer
Association

Director – Daily Mail and
General Trust PLC (UK)



Donald McGauchie AO

Member since 30 March 2001
Present term ends
29 March 2006

Chairman – Telstra
Corporation Limited
Chairman – Rural Finance
Corporation of Victoria
Deputy Chairman – Ridley
Corporation Limited
Director – National Foods
Limited
Director – Nufarm Limited
Director – James Hardie
Industries NV



Warwick McKibbin

Member since 31 July 2001
Present term ends
30 July 2006

Executive Director, Centre
for Applied Macroeconomic
Analysis & Professor of
International Economics,
Research School of Pacific
& Asian Studies – Australian
National University
Professorial Fellow – Lowy
Institute for International
Policy
Non-Resident Senior Fellow
– The Brookings Institution,
USA
President – McKibbin Software
Group Inc (USA)
Director – McKibbin Software
Group Pty Ltd
Director –
EconomicScenarios.com
Pty Ltd



Hugh Morgan AC

Member since 14 August 1996
Present term ends
28 July 2007

Principal – First Charnock Pty
Ltd
President – Business Council of
Australia
Joint Chairman –
Commonwealth Business
Council
Member – Lafarge International
Advisory Board