

## THE RESERVE BANK BOARD AND GOVERNANCE

### THE ROLE OF THE RESERVE BANK BOARD

The Reserve Bank Act 1959 provides the core source of the RBA's governance mandate with Sections 8A and 10 giving the Reserve Bank Board clear responsibility for the RBA's "monetary and banking policy". The relationship of the Board with 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 and Deputy Governor 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 augmented this over time, in order to keep the RBA's policy-making process relevant to the evolving environment, and in parallel with developments overseas. After the current Government came to power 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 Bank's inflation target. The higher profile of the RBA's regular appearances before the House of Representatives Standing Committee on Economics, Finance and Public Administration, and the quarterly *Statements on Monetary Policy*, have reinforced this process.

When the Australian Prudential Regulation Authority was established, the RBA's role as prudential supervisor for banks passed to it. The RBA retained responsibility for overall financial system stability – the Treasurer's statement in Parliament of 2 September 1997 confirmed that the RBA, in addition to monetary policy, was responsible for overall financial system stability and regulation of the payments system.

The main focus of discussions at the Board's meetings each month is on monetary policy. This discussion occurs against the background of papers prepared by RBA staff about developments in the domestic and foreign economies, and in financial markets. These papers are supplemented by staff presentations at each Board meeting.

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

**COMPOSITION OF THE RESERVE BANK BOARD**

The Board comprises the Governor, who is Chairman, the Deputy Governor, the Secretary to the Treasury and six external members, appointed by the Governor-General – a total of nine; at 30 June 2001, there was one vacant position on the Board and, subsequently, Professor WJ McKibbin was appointed as a member of the Board, commencing from 31 July 2001. Five members form a quorum for a meeting of the Board.

In terms of Section 17(1) of the Reserve Bank Act, members of the Board may not be a director, officer or employee of an authorised deposit-taking institution for the purposes of the Banking Act 1959.

**MEETINGS OF THE RESERVE BANK BOARD**

The Board meets eleven times each year, on the first Tuesday of each month, except January. Meetings are generally held at the RBA's Head Office in Sydney but occasionally the Board meets in other State capitals. During 2000/01, the Board met twice in Melbourne and once in Perth.

The number of meetings attended by each member in 2000/01 was:

IJ Macfarlane	11	(11)
SA Grenville	11	(11)
EA Evans	9	(9)
KR Henry	2	(2)
JR Broadbent	11	(11)
AR Jackson	5	(6)
FP Lowy	9	(11)
DG McGauchie	3	(3)
HM Morgan	9	(11)
AR Pagan	3	(5)
RFE Warburton	10	(11)

(The figure in brackets is the number of meetings the member was eligible to attend.)

## AUDIT COMMITTEE

The primary objectives of the Audit Committee are to:

- assist the Governor and the Board in fulfilling their obligations relating to financial reporting, internal control and compliance with laws, regulations, business ethics and employee conflicts of interest, and fraud;
- enhance contact between management and the Audit Department;
- encourage high-quality auditing of the RBA's activities; and
- strengthen audit independence.

The Committee also acts, at the request of the NPA Board, as NPA's Audit Committee.

The Audit Committee is made up of SA Grenville, Deputy Governor (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 2000/01, the Committee met on four occasions; all members attended each of these meetings.

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 at the time of the presentation of the annual accounts.

## OBLIGATIONS UNDER THE COMMONWEALTH AUTHORITIES AND COMPANIES (CAC) ACT 1997

The CAC Act is one of three Acts which deal with the financial management, accountability and audit of Commonwealth agencies, authorities and companies. 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. The CAC Act was amended in 1999 to incorporate reforms in the *Corporate Law Economic Reform Program (CLERP) Act 1999*, rewriting the conduct provisions in the Corporations Law relating to the duties of directors and other officers.

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 RBA's *Annual Report* and, at the meeting of the Board on 7 August 2001, they resolved that the Chairman sign the Report, and the Financial Statements as at 30 June 2001, 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. On 5 March 2001, the Committee tabled in the Parliament an interim report on the 2000 RBA *Annual Report*, the 2000 *Payments System Board Annual Report*, the Committee's 1 December 2000 public hearing with the RBA in Wagga Wagga and the associated November 2000 *Statement on Monetary Policy*. The Committee held another public hearing with the RBA in Melbourne on 11 May 2001, and on 25 June 2001 it tabled a report based on further discussions at this public hearing on the Annual Reports for 2000 of both the Reserve Bank Board and the Payments System Board, as well as the May 2001 *Statement on Monetary Policy*.

#### **REMUNERATION**

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

#### **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: IJ Macfarlane**

Governor since 18 September 1996

Present term expires 17 September 2003

Chairman – Payments System Board

Board member – Australian Prudential  
Regulation Authority

**JR Broadbent**

Member since 7 May 1998

Present term expires 6 May 2003

Director – Coca Cola Amatil Limited

Director – Woodside Petroleum Limited

**SA Grenville**

Deputy Governor since 1 December 1996

Present term expires 30 November 2001

**FP Lowy AC**

Member since 27 June 1995

Present term expires 26 June 2003

Chairman – Westfield Holdings Limited

Director – Daily Mail and General Trust  
PLC (UK)

**KR Henry**

Secretary to the Treasury

Member since 27 April 2001

**DG McGauchie**

Member since 30 March 2001

Present term expires 29 March 2006

Chairman – Woolstock Australia Limited

Deputy Chairman – Australian Wool Testing Authority  
Limited

Director – Telstra Corporation Limited

Chairman – Telstra Country Wide Advisory Board

Director – Australian Centre for International  
Agriculture Research

Director – GrainCorp Limited

Director – National Foods Limited

Director – Ridley Corporation Limited

**HM Morgan AO**

Member since 14 August 1996

Present term expires 28 July 2002

Managing Director and

Chief Executive – WMC Limited

Director – Alcoa Inc

Director – Business Council of Australia

**RFE Warburton**

Member since 22 December 1992

Present term expires 21 December 2002

Chairman – Caltex Australia Limited

Chairman – David Jones Limited

Chairman – Goldfields Limited

Chairman – HIH Claims Support Limited\*

Director – Note Printing Australia Limited

Director – Nufarm Limited

Director – Southcorp Limited

Director – Tabcorp Holdings Limited

\* Non-profit company formed to process the Commonwealth Government support package for HIH policy-holders in hardship.

Professor WJ McKibbin was appointed a member of the Reserve Bank Board from 31 July 2001, replacing Professor AR Pagan, whose term ended on 28 November 2000. Professor Pagan had been a member of the Board since 29 November 1995.

The term of Mr AR Jackson AO as a member of the Reserve Bank Board ended on 28 January 2001; he had been a member of the Board since 29 January 1991. He was replaced on 30 March 2001 by Mr DG McGauchie.

Mr EA Evans AC ceased to be a member of the Reserve Bank Board following his retirement as Secretary to the Treasury on 26 April 2001. Mr Evans had been a member of the Board since 10 May 1993. Dr KR Henry was appointed Secretary to the Treasury from 27 April 2001 and became a member of the Reserve Bank Board from that date.