

Governance

The Payments System Board is responsible for the Reserve Bank's payments system policy. Members of the Board comprise representatives from the central bank, the prudential regulator and five other non-executive members.

Payments System Board

The Payments System Board has responsibility for the Bank's payments system policy. The Board comprises the Governor, who is the Chair; one representative of the Bank appointed by the Governor, who is the Deputy Chair; one representative of the Australian Prudential Regulation Authority (APRA) appointed by APRA; and up to five other members appointed by the Treasurer for terms of up to five years. Members of the Board during 2016/17 are shown below and details of the qualifications and experience of members are provided on pages 11 to 19. In September 2016, Philip Lowe succeeded Glenn Stevens as Governor and Chair of the Board. The Board's tribute to Mr Stevens on the occasion of his retirement is shown on page 17. In November 2016, Michele Bullock succeeded Malcolm Edey as Deputy Chair of the Board, following Dr Edey's retirement from the Bank and Ms Bullock's appointment as Assistant Governor (Financial System). The Board's tribute to Dr Edey is shown on page 18.

Meetings of the Payments System Board

The *Reserve Bank Act 1959* does not stipulate the frequency of Board meetings. Since its inception, the Board's practice has been to meet at least

four times a year and more often as needed. Four meetings were held in 2016/17, all at the Bank's Head Office in Sydney. Five members form a quorum at a meeting of the Board or are required to pass a written resolution.

Table 1: Board Meetings in 2016/17
Number of meetings

	Attended	Eligible
Glenn Stevens ^(a)	1	1
Philip Lowe (Governor) ^(b)	4	3
Malcolm Edey (RBA) ^(c)	1	1
Michele Bullock (RBA) ^(d)	3	3
Wayne Byres (APRA)	4	4
Gina Cass-Gottlieb	3	4
Paul Costello	3	4
Robert McLean ^(e)	1	2
Deborah Ralston ^(f)	2	2
Catherine Walter	4	4
Brian Wilson	4	4

(a) Glenn Stevens' term as Governor ended on 17 September 2016

(b) Philip Lowe's term as Governor commenced on 18 September 2016. He attended the August 2016 meeting as an observer

(c) Malcolm Edey's term on the Board ended on 28 October 2016

(d) Michele Bullock's term on the Board commenced on 29 October 2016 following her appointment as Assistant Governor (Financial System)

(e) Robert McLean's term on the Board ended on 28 November 2016

(f) Deborah Ralston's term on the Board commenced on 15 December 2016

Conduct of Payments System Board Members

On appointment to the Payments System 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 Bank.

Members of the Board must comply with their statutory obligations in that capacity. The main sources of those obligations are the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and the Reserve Bank Act. Their obligations under the PGPA Act include 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 Bank or any other person. 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. Members may give standing notice to other members outlining the nature and extent of a material personal interest.

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 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; a copy of the Code is on the Bank's website.

Remuneration and Allowances

Remuneration and travel allowances for the non-executive members of the Payments System Board are set by the Remuneration Tribunal.

Induction of Board Members

An induction program assists newly appointed Board members in understanding their role and responsibilities, and provides them with an overview of the Bank's role in the payments system and details of relevant developments in preceding years. Separate briefing sessions are tailored to meet particular needs or interests.

Policy Risk Management Framework and Board Review

Towards the end of 2016, the Payments System Board conducted its annual review of the key risks inherent in the consideration of payments policy and the payments policy risk register and control framework. Some changes were made to the risk register, mainly to incorporate feedback from regulated entities and consultation within the Bank to mitigate risks associated with poor policy processes and advice. The control framework was assessed to be operating effectively and managing risks adequately.

At the same time, the Board conducted its annual review of its own operation and processes. It concluded that Board processes were functioning effectively. Further enhancements were introduced to refine the management of meeting agendas and presentations to ensure optimal input from Board members.

Indemnities

Members of the Payments System Board are indemnified against liabilities incurred by reason of their appointment to the Board or by virtue of holding and discharging such office. Prior to 1 July 2014 these indemnities 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 given since 1 July 2014, when the CAC Act

was repealed, have reflected the substance of the previous CAC Act restrictions. The terms of indemnification for new members of the Payments System Board were reviewed by the Reserve Bank Board in early 2017 and a revised form of indemnity, which continues to reflect the substance of the previous CAC Act restrictions, was approved in March 2017.

As the 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 2016/17.

Conflict of Interest Audit

The Bank has several distinct areas of responsibility in the Australian payments system: it owns, operates and participates in Australia's real-time gross settlement (RTGS) system, the Reserve Bank Information and Transfer System (RITS); it is a provider of transactional banking services to the Australian Government and its agencies; and it is the principal regulator of the payments system through the Board. This combination of functions is conventional internationally. The operation of the high-value payment system is a core central banking function in most major economies. In addition, central banks in the advanced economies typically have regulatory responsibilities for the payments system (though the breadth of mandates varies) and most also provide banking services to government.

While the various functions are conceptually distinct, their existence in the one institution may give rise to concerns about actual or perceived conflicts of interest. The Board and senior management of the Bank take very seriously the possibility of any perception that the Bank's policy and operational roles may be conflicted, especially since this could undermine public confidence in the regulatory and policy process.

Accordingly, the Bank has policies in place for avoiding conflicts and dealing with them when they do occur. The Board has formally adopted a policy on the management of conflicts of interests, which is published on the Bank's website.¹ Details of the steps taken to achieve compliance with these arrangements, including the minutes of informal meetings between departments, are audited annually, with the results presented to the Board. The most recent audit was conducted in July 2017 and reviewed by the Board in August 2017.

In the case of the Bank's oversight of RITS, the Board plays a governance role in managing conflicts of interest. In particular, while from February 2017 an internal FMI Review Committee has been given the formal responsibility to review and approve assessments of other FMIs, the Board has retained primary responsibility for approving the staff's periodic assessments of RITS.

¹ Available at <<https://www.rba.gov.au/payments-and-infrastructure/payments-system-regulation/conflict-of-interest.html>>.

