RESERVE BANK
OF AUSTRALIA

# RESERVE BANK OF AUSTRALIA ANNUAL REPORT

2011

Reserve Bank

# Reserve Bank of Australia

## ANNUAL REPORT 2011

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# Governor's Foreword

In some respects, 2010/11 was less unusual than the preceding two or three years. The exceptional balance sheet operations seen in 2008 and 2009 were not needed again, and the Reserve Bank's financial market activities were relatively uneventful over the past year. After a period in which monetary policy changes had been frequent and sometimes quite large, as the Board responded to the financial crisis and then normalised settings afterward, there was only one change to the cash rate in 2010/11, the most stable outcome for five years. The Australian economy ended the financial year with an unemployment rate of around 5 per cent, inflation in underlying terms close to target, and a strong and stable financial system.

The respect in which the past 12 months have been exceptional is in the extent of ongoing appreciation of the Australian dollar, which rose by more than 25 per cent against the US dollar over the 2010/11 financial year. To some degree this reflected the weakness of the US currency itself, as the US authorities employed highly unusual policies in their efforts to help the American economy recover from a serious financial crisis and deep recession. But even measured in terms of the trade-weighted index, the increase was around 15 per cent. The cumulative rise in trade-weighted terms since the most recent low in October 2008 is around 50 per cent.

As previous annual reports have explained at length, a rising currency, though reflecting improved prospects for the Australian economy, reduces the Australian dollar value of the Reserve Bank's foreign assets. The Bank holds net foreign reserves of around $40 billion as Australia's official reserves. These reserves, which cannot be hedged, are held so as to provide a capacity to intervene under conditions of serious market turmoil. Under such conditions, which are typically associated with a decline in the currency, valuation gains on the reserves are observed and often realised. The last such occasion was during the financial crisis. But at times when the Australian dollar is in favour in global markets, as over the past couple of years, the valuation changes go the other way.

As a result, the Reserve Bank again sustained valuation losses on its assets, amounting to $5.8 billion in 2010/11. Net interest (or 'underlying') earnings were $0.9 billion, which is lower than historical norms mainly because interest rates around the world remain unusually low. The overall loss of $4.9 billion was, consistent with the *Reserve Bank Act 1959*, absorbed by the Reserve Bank Reserve Fund (RBRF), a capital reserve held for this purpose. Similarly to last year's outcome, the overall loss means that no dividend is payable to the Commonwealth from the 2010/11 results. The rundown in the RBRF still leaves the Bank's financial position strong, with net interest-earning assets of over $50 billion. Nonetheless, the prudent course will be to apply future earnings to rebuilding the RBRF before the resumption of dividend payments. The Australian Government's budget projections have been made on this assumption.

An activity that has been absorbing more of the Reserve Bank's staff resources has been international engagement, and particularly participation in international groups working towards international regulatory reform. The Financial Stability Board, the G-20 and various committees at the Bank for International Settlements have been increasingly active as key deadlines for delivery of major projects have loomed. Some of the proposed changes have significant implications for Australian regulatory structures and have required increased work by the Bank and other agencies, co-ordinated through the Council of Financial Regulators. This workload shows no sign of lessening.

The banking and payments group continued to upgrade key systems so as to provide greater efficiency and resilience. A notable activity was the use of the real-time payments system to make payments for the Australian Government to assist people affected by the Queensland floods in January.

The Reserve Bank's staff complement at the end of June 2011 was unchanged from a year earlier, although there were some changes in how those resources were allocated across the Bank. More resources were required for the Bank's broader risk management activities, for the upgrading of IT systems in the banking and payments areas, and for analytical work on Asian economies, particularly China and India. Some reduction in resources was appropriate in the area of the Bank that operates the Government's Guarantee Scheme for short-term funding and capital market instruments. There were also staffing reductions as a result of efficiency gains in some administrative support functions. Total operating costs increased by 4.1 per cent, the lowest rate of increase for seven years.

The Reserve Bank Board farewelled three members over the past year: Ken Henry AC, Donald McGauchie AO and Warwick McKibbin. I want to thank all for their contribution to the Board's deliberations and their support of the Bank more generally over the past decade. The Board welcomed the appointment of three new members – Catherine Tanna, Martin Parkinson PSM and John Edwards – each of whom brings extensive knowledge and experience to the deliberations of the Board.

The Bank and the Board also marked the retirement of David Emanuel after 47 years of service, more than 20 years of which had been in the position of Secretary.

Finally, I want to thank senior colleagues and the Reserve Bank staff once again for their professional and dedicated service in the interests of the Australian people.

**Glenn Stevens**

Chairman, Reserve Bank Board

25 August 2011

# Functions and Objectives of the Reserve Bank

The Reserve Bank of Australia was established as Australia's central bank by the *Reserve Bank Act 1959*. This act sets out the powers of the Bank and the objectives of the Bank's policies. Section 10(2) of the Reserve Bank Act 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.'

For almost 20 years now, this general mandate has found concrete expression in the form of a medium-term inflation target. Monetary policy aims to keep the rate of consumer price inflation at 2–3 per cent, on average, over the cycle. The fifth *Statement on the Conduct of Monetary Policy*, signed by the Treasurer and the Governor in September 2010, records the common understanding of the Government and the Reserve Bank on key aspects of the monetary policy framework.

In addition to conducting monetary policy, the Reserve Bank:

- promotes the overall stability of the financial system;
- holds and manages Australia's foreign currency reserves;
- operates Australia's main high-value payments system;
- provides banking services to government and overseas official institutions; and
- designs, produces and issues Australia's banknotes.

Amendments to the Reserve Bank Act in 1998 removed from the Bank responsibility for the prudential supervision of banks but gave it responsibility for ensuring the stability, efficiency and competitiveness of the payments system. These amendments also established the Payments System Board, which is separate from the Reserve Bank Board and issues its own annual report. The Reserve Bank's main powers in relation to the payments system are set out in the *Payment Systems (Regulation) Act 1998*.

# Governance

## The Reserve Bank Board

The Reserve Bank Board comprises the Governor (Chairman), Deputy Governor (Deputy Chairman), Secretary to the Treasury and six external members appointed by the Treasurer, a total of nine. Three members retired from the Board during the year, after serving 10 years each; the resolutions passed by the Board to mark the retirement of Ken Henry AC, Donald McGauchie AO and Warwick McKibbin during the past year are shown on page 9. Current members of the Board are shown here and on pages 7–8.

The Board meets 11 times a year, on the first Tuesday of each month except in January. Five members form a quorum. Most meetings are held at the Reserve Bank's Head Office in Sydney. From time to time, Board meetings are held in other Australian capitals. During the past financial year, the September 2010 meeting was held in Adelaide and the April 2011 meeting was held in Melbourne.

The Board has an Audit Committee and a Remuneration Committee.

**Board Meetings in 2010/11 – Attendance by Members[a]**

| | | |
|---|---|---|
| Glenn Stevens | 11 | (11) |
| Ric Battellino | 11 | (11) |
| Ken Henry[b] [c] | 8 | (9) |
| Martin Parkinson[d] | 2 | (2) |
| John Akehurst | 11 | (11) |
| Jillian Broadbent | 10 | (11) |
| Roger Corbett | 10 | (11) |
| Graham Kraehe | 9 | (11) |
| Donald McGauchie[e] | 7 | (8) |
| Warwick McKibbin[f] | 10 | (11) |
| Catherine Tanna[g] | 3 | (3) |

(a) Figures in brackets show the number of meetings each member was eligible to attend
(b) Martin Parkinson attended one meeting in place of Ken Henry, as provided for in section 22 of the *Reserve Bank Act 1959*
(c) Ken Henry's term as a member ended on 26 April 2011
(d) Martin Parkinson's term on the Board commenced on 27 April 2011 following his appointment as Secretary to the Treasury
(e) Donald McGauchie's term as a member ended on 29 March 2011
(f) Warwick McKibbin's term as a member ended on 30 July 2011
(g) Catherine Tanna was appointed to the Board on 30 March 2011

## Conduct of Reserve Bank Board Members

On appointment to the Reserve Bank Board, each member is required under the *Reserve Bank Act 1959* to sign a declaration to maintain confidentiality in relation to the affairs of the Board and the Reserve Bank. Further, by law, members must meet the general obligations of directors of statutory authorities, as set out in the *Commonwealth Authorities and Companies Act 1997* (CAC Act). Directors must:

- discharge their duties with care and diligence;
- act in good faith, and in the best interests of the Reserve Bank;
- 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 person; and
- declare any material personal interest where a conflict arises with the interests of the Reserve Bank.

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 Reserve Bank in all respects. Members have 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.

## Audit Committee

The objectives of the Audit Committee of the Reserve Bank Board are to:

- ensure that both the internal and external audit processes are effective and carried out to a very high standard; and
- assist the Governor and the Board in fulfilling their obligations relating to financial reporting, compliance with laws and regulations, internal control and risk assessment, employee conflicts of interest, business ethics and prevention of fraud.

Jillian Broadbent AO, an external member of the Reserve Bank Board, has been Chairman of the Audit Committee since August 2008. Other members of the Committee are Ric Battellino, Deputy Governor, Roger Corbett AO, an external member of the Reserve Bank Board, and Terry Williamson, a company director and former senior audit partner with extensive control experience in the financial sector. Mr Williamson replaced George Bennett, a former National Executive Chairman of KPMG Peat Marwick, who retired from the Audit Committee in November 2010 after 12 years distinguished service.

During 2010/11, the Committee met on four occasions. The external members of the Audit Committee also meet, at least annually, with the external auditors in the absence of management. At its July 2011 meeting, the Committee considered the draft consolidated financial statements for the Reserve Bank for the year ended 30 June 2011 and agreed that the statements be presented to the Reserve Bank Board with its endorsement.

## Remuneration Committee

The Remuneration Committee of the Reserve Bank Board was established in terms of section 24A of the Reserve Bank Act to determine 'terms and conditions relating to the remuneration and allowances' for the Governor and Deputy Governor. Up until late July 2011, the Committee recommended to the Board remuneration and allowances for each Governor and Deputy Governor at the time of their appointment, following consultation with the Treasurer. It reviewed the remuneration packages of the Governor and Deputy Governor annually and recommended adjustments to the Board for approval. Commencing in the current financial year, the offices of Governor and Deputy Governor have been declared Principal Executive Offices in terms of the *Remuneration Tribunal Act 1973*, which provides for the Remuneration Tribunal to advise the Remuneration Committee as to the applicable remuneration reference rate for these offices, following consultation with the Committee. The Remuneration Committee is also kept informed of the remuneration arrangements for Reserve Bank staff.

During the year, Roger Corbett AO, a non-executive member of the Board, replaced Donald McGauchie AO as Chairman of the Remuneration Committee following Mr McGauchie's retirement from the Board. Other members of the Committee are Jillian Broadbent AO and Graham Kraehe AO, both non-executive members of the Board. The Committee meets as often as necessary, but at least twice each year. In terms of section 21A of the Reserve Bank Act, the Governor and Deputy Governor do not take part in discussions of the Remuneration Committee or the Board relating to the determination or application of any terms or conditions on which they hold office.

Remuneration and allowances for the non-executive members of the Reserve Bank Board are determined by the Remuneration Tribunal.

## Indemnities

Members of the Reserve Bank Board and the Payments System Board have been indemnified in accordance with section 27M of the CAC Act against liabilities incurred by reason of their appointment to the relevant Board or by virtue of holding and discharging such office.

# Reserve Bank Board

## August 2011

### Glenn Stevens (Chairman)

Governor since 18 September 2006
Present term ends 17 September 2013

Chairman – Payments System Board
Chairman – Council of Financial Regulators

### Ric Battellino

Deputy Governor since 14 February 2007
Present term ends 13 February 2012

Member – Reserve Bank Board Audit Committee

### Martin Parkinson PSM

Secretary to the Treasury
Member since 27 April 2011

Member – Council of Financial Regulators

### John Akehurst

Member since 31 August 2007
Present term ends 30 August 2012

Director – CSL Limited
Director – Origin Energy Limited
Director – Securency International Pty Ltd
Director – University of Western Australia Business School

### Jillian Broadbent AO

Member since 7 May 1998
Present term ends 6 May 2013

Chairman – Reserve Bank Board Audit Committee
Member – Reserve Bank Board Remuneration Committee

Director – Australian Securities Exchange
Director – Woolworths Limited
Chancellor – University of Wollongong
Chairman – Sydney Theatre Company Foundation

## Roger Corbett AO

Member since 2 December 2005
Present term ends 1 December 2015

Chairman – Reserve Bank Board Remuneration Committee
Member – Reserve Bank Board Audit Committee

Chairman – Fairfax Holdings Limited
Chairman – Mayne Pharma Group Limited
Chairman – PrimeAg Australia Limited
Director – Wal-Mart Stores Inc

## John Edwards

Member since 31 July 2011
Present term ends 30 July 2016

Adjunct Professor – John Curtin Institute of Public Policy, Curtin Business School, Curtin University
Visiting Fellow – Lowy Institute for International Policy

## Graham Kraehe AO

Member since 14 February 2007
Present term ends 13 February 2012

Member – Reserve Bank Board Remuneration Committee

Chairman – BlueScope Steel Limited
Chairman – Brambles Limited
Director – Djerriwarrh Investments Limited
Director – European Australian Business Council

## Catherine Tanna

Member since 30 March 2011
Present term ends 31 March 2016

Executive Vice-President – BG Group
Regional Managing Director – BG Australia

Ken Henry AC retired from the Board on 26 April 2011

Donald McGauchie AO retired from the Board on 29 March 2011

Warwick McKibbin retired from the Board on 30 July 2011

# Resolutions Passed by the Board

## 1 March 2011 Meeting

**Ken Henry AC**

**Donald McGauchie AO**

Members noted that this was the final meeting for Ken Henry and Donald McGauchie. Both had served two terms on the Board, covering a period of 10 years, with professionalism and distinction. Their skills, extensive knowledge and broad-ranging experience had contributed enormously to the deliberations of the Board, both on monetary policy and other matters. Mr McGauchie had also chaired the Board's Remuneration Committee over the past eight years. Members thanked Dr Henry and Mr McGauchie for their contributions and wished them well in the future.

## 5 July 2011 Meeting

**Warwick McKibbin**

Members noted that this was the final meeting for Warwick McKibbin, who had served two terms on the Board, covering a period of 10 years, with professionalism and distinction. The Governor paid tribute to Professor McKibbin's active and probing role as a Board member, which had been based on his wide expertise in the field of international economics, an expertise widely recognised both in Australia and around the world. Members recorded their appreciation for Professor McKibbin's contribution to the sound conduct of monetary policy throughout his time on the Board. Members wished him well in the future.

# Accountability and Communication

## Relationship with Government

Section 11 of the *Reserve Bank Act 1959* sets out the relationship between the Government and the Reserve Bank Board. It confers substantial independence on the Board, but balances this with an obligation to inform the Government of its policies 'from time to time' and a requirement for parliamentary accountability. Regular discussions between the Governor and the Treasurer serve to keep the Government informed.

## Reporting Obligations

For the purposes of the *Commonwealth Authorities and Companies Act 1997* (CAC Act), the Reserve Bank is a Commonwealth authority and the members of the Reserve Bank Board are the directors of the Reserve Bank. The directors are responsible for the preparation of the annual report. At its meeting on 2 August 2011, the Board resolved that the Chairman sign the annual report and financial statements as at 30 June 2011, and give them to the Treasurer for presentation to the Parliament, in accordance with the CAC Act.

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 hearings, at which the Bank presents its views on the economy and responds to questions from Committee members. In 2010/11, the Governor and senior officers attended hearings of this Committee in Canberra in November 2010 and February 2011. These appearances, 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 fifth *Statement on the Conduct of Monetary Policy*, an update of which was issued in September 2010 following the re-election of the Labor Government).

During the year, the Reserve Bank made a written submission to the inquiry into competition in the Australian banking sector held by the Senate Economics References Committee, and the Governor and senior staff appeared before the Committee in December 2010 and March 2011. The Bank also made a Submission to the Inquiry into Access for Small and Medium Business to Finance held by the Parliamentary Joint Committee on Corporations and Financial Services, and senior staff appeared before the Committee in March 2011.

## Communication

The Reserve Bank seeks to ensure a high degree of transparency about its goals, decision-making processes and the basis of its policy decisions. Transparency facilitates the accountability of an independent central bank in a democracy. Importantly, it also increases the effectiveness of policy decisions by promoting more informed decision-making by the community.

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

The quarterly *Statement on Monetary Policy* informs the financial markets, media and general public about the Reserve Bank's thinking on monetary policy and financial markets. It also provides a basis for the Parliamentary

Committee's questioning of the Bank. The *Statements* provide an analysis of conditions in the economy and financial markets, the outlook for inflation and economic growth and a further explanation of recent decisions on interest rates.

The Reserve Bank quarterly *Bulletin* documents economic and financial developments as well as the Bank's operations. *Bulletin* articles over the past year covered topics ranging from regular articles on bank fees and margins, developments in foreign exchange markets, domestic market operations and reviews of payments system reform. There was an educative piece on the payments settlements system. There was also a series of features on the increasingly important economies of China and India. In addition, there were articles that complemented the *Statement on Monetary Policy* by providing more detail about particular economic developments.

The *Financial Stability Review*, published in March and September each year, gives a detailed assessment of the condition of Australia's financial system. It also contains analysis and views on issues of specific interest. In the past year, such issues included the experience of households during the global financial crisis and economic downturn that followed, banking systems in some troubled European economies along with an explanation of the shadow banking system in Australia. The *Review* also reports on the Reserve Bank's involvement in financial regulatory policy, including through its work with the Council of Financial Regulators.

The most direct form of communication is delivery of speeches. During 2010/11, the Governor, Deputy Governor and senior officers gave 30 on-the-record speeches on various topics. Many addressed the challenges associated with the economy absorbing an historic mining boom that has seen the terms of trade rise to record levels. In addition to speeches on economic conditions and prospects, there were more specific assessments of inflation, the financial situation since the onset of the global financial crisis, bank funding and risk and uncertainty. There were also explanations of developments in the payments system, securitisation markets, and thinking on prudential regulation. Audio files of these speeches, along with the associated Q&A, were published on the Reserve Bank's website to further enhance accountability and communication.

The Reserve Bank disseminates research conducted by the staff in the form of Research Discussion Papers (RDPs). While the views expressed in these papers are those of the authors and do not necessarily represent those of the Bank, their publication encourages discussion and comment on economic issues among a broad range of researchers.

During 2010/11, RDPs were released on several topics, including monetary policy and the exchange rate, sources of Chinese demand for resource commodities and estimating inflation expectations with inflation-indexed bonds. Reserve Bank staff published in various journals, such as the *Journal of Financial Stability*, *Applied Economics Letters*, *Economic Record*, *The B.E. Journal of Macroeconomics*, *Journal of Macroeconomics*, and *Journal of Economic Dynamics and Control*.

Research undertaken at the Reserve Bank is frequently presented at external conferences. Domestic presentations in 2010/11 included the 2011 Australasian Macroeconomics Workshop in Hobart; the Society for Computational Economics in Sydney; the 21st Annual East Asia Seminar on Economics, also in Sydney; and a gathering of the Econometrics Society in Canberra. Papers were also presented at international conferences, including the Bank of Israel's Lessons from the World Financial Crisis conference, held in Jerusalem; the Workshop of the Asian Research Network on Monetary Policy and Exchange Rates, held in Tokyo; a workshop jointly sponsored by the Bank of England and the European Central Bank on Central Counterparty Risk Controls, held in Frankfurt; and the Chinese Economists' Society Annual Conference in Xiamen.






**1.** Deputy Governor Ric Battellino (centre) at the Property Council of Australia Downtown Luncheon with (from left) Kathy MacDermott (Property Council of Australia), Mark Burow (Rider Levett Bucknall), Susan Playford (PDT Architects) and Peter Verwer (Property Council of Australia) **2.** Assistant Governor Guy Debelle addresses the KangaNews Australian DCM Summit **3.** Assistant Governor Philip Lowe speaking at the ABS NatStats conference **4.** Ric Battellino speaking at the Annual Stockbrokers Conference **5.** Governor Glenn Stevens delivering the American Australian Association 2011 Annual Spring Lecture

The Reserve Bank hosts regular conferences to foster interaction between academics, central bankers and other economic practitioners. The Bank's annual conference for 2011 was held in August. The theme for this year was the Australian Economy in the 2000s. The conference reviewed the performance of the Australian economy over the preceding decade, the third such conference to do so following those in 1990 and 2000. A volume containing the Conference papers and discussions will be published in late 2011.

The Bank held a workshop in December 2010 on China and East Asia in the Global Economy. The workshop featured nine papers by academics and central bankers from Asia and Australia, and was attended by Australian and international academics and bankers. A macroeconomic workshop will be held in December 2011.

The Bank also hosted a number of academics through the year, who presented seminars and participated in research activities at the Bank during their visits.

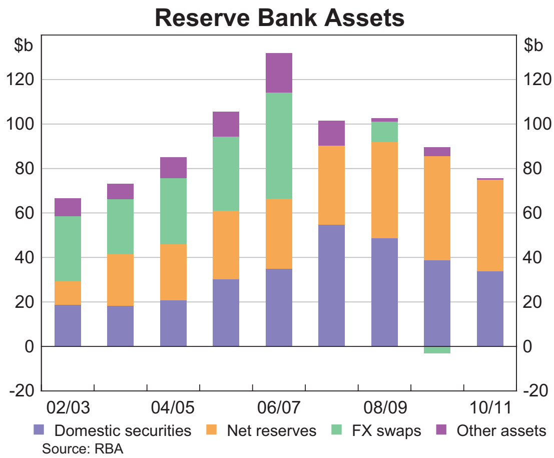
The Reserve Bank publishes information in both electronic and hard copy formats, though most access to information is online. In 2010/11, the number of page views/downloads of information on the website averaged about 185 000 per day, up from 90 000 per day the previous year. To help cater for the increased demand for information from the Reserve Bank, the Bank further improved the functionality of its website during the financial year. It also introduced a new alert system via Twitter. This was one of the factors that saw the number of subscribers to the conventional email service for information published on the website fall to around 14 000 at the end of June 2011, from around 15 500 in recent years. In addition, users are increasingly utilising the expanded RSS facility, which allows them to receive alerts about updates to selected data, media releases, speeches, research papers and documents released under Freedom of Information legislation.

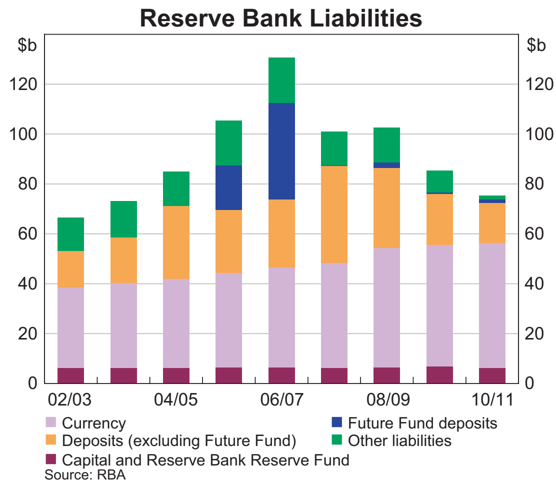
# Operations in Financial Markets

## The Balance Sheet

There was a decline in the size of the Reserve Bank's balance sheet over the past year, in contrast to the significant expansion and subsequent contraction of the balance sheet around the time of the global financial crisis.

While in net terms the size of the balance sheet fell by $10 billion over the past financial year, within the year it ranged from $70 billion to $90 billion. This largely reflected movements in deposits of the Australian Government with the Bank, which the Government uses to smooth its cash flows. On the assets side, the variation in liabilities was primarily matched by repurchase agreements (repos) using domestic securities and foreign assets (in the form of foreign exchange swaps).




The Australian dollar value of net reserves declined by $5.7 billion over the year to $41.0 billion. The appreciation of the Australian dollar reduced the value of net reserves, in Australian dollar terms, by $6.1 billion. This was partially offset by interest earnings. There were minimal foreign exchange swaps outstanding at the end of June. As a result, the level of gross reserves, which is the level of net reserves adjusted for foreign exchange held or lent under foreign exchange swaps, also stood at $41.0 billion at the end of June.

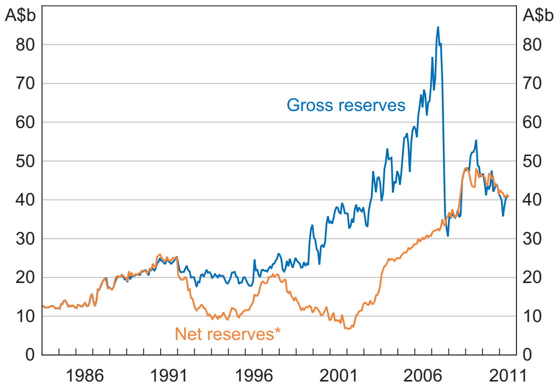
Implementation of the Basel Committee on Banking Supervision's new global liquidity standard has the potential to affect the size of the Bank's balance sheet in future years. The standard, which will take effect from 1 January 2015, imposes stricter requirements for financial institutions' holdings of liquid assets. In most jurisdictions, these regulatory holdings will consist of government securities. However, in Australia the level of government and semi-government debt outstanding will be insufficient to satisfy required regulatory holdings, and the Bank has announced that it will offer a 'committed secured liquidity facility'.

**Reserve Bank Balance Sheet**
$ billion

| | June 2009 | June 2010 | June 2011 |
|---|---|---|---|
| *Assets* | *103* | *86* | *75* |
| Foreign | 54 | 47 | 41 |
| – Net reserves | 43 | 47 | 41 |
| – FX swaps | 9 | –3 | 0 |
| – Other | 1 | 3 | 0 |
| Domestic | 48 | 39 | 34 |
| *Liabilities* | *103* | *86* | *75* |
| Deposits | 34 | 21 | 18 |
| Currency | 48 | 49 | 50 |
| Other (including capital) | 20 | 16 | 8 |

Source: RBA

**RBA Official Reserve Assets**




* Net reserves exclude FX swaps
Source: RBA

Authorised deposit-taking institutions (ADIs) will be able to establish, for the payment of a fee, a standing arrangement with the Bank that covers the shortfall between their liquid asset holdings and the regulatory requirement. In the normal course of events, the standing arrangement with ADIs would not affect the size or composition of the Reserve Bank's balance sheet. In the event that an ADI makes a call on its committed facility, however, the Bank's balance sheet would expand (other things equal). This is because the Bank would receive securities as collateral against the liquidity provided. Further details of the facility and APRA's prudential standard on liquidity risk management, which will give effect to the global liquidity framework in Australia, will be subject to consultation during 2011 and 2012. The facility is not expected to impair the Bank's ability to manage system liquidity or meet the Board's target for the cash rate.

## Domestic Market Operations

To implement monetary policy, the Reserve Bank Board sets a target for the cash rate – the rate at which banks borrow and lend to each other on an overnight unsecured basis. To achieve the Board's target, the Reserve Bank operates in the market to maintain an appropriate level of exchange settlement (ES) balances. ES balances are liabilities of the Reserve Bank and are used by financial institutions to settle their payment obligations with each other and with the Bank. The Reserve Bank pays interest on ES balances at a rate 25 basis points below the cash rate target. Similarly, the Reserve Bank stands ready through a standing facility to lend cash overnight to financial institutions at an interest rate 25 basis points above the cash rate target. In general, the latter is only accessed by banks that have experienced unforeseen payments flows late in the day and are unable to readily source covering funds. This 'corridor' provides an incentive for ES account holders to recycle their balances within the market and means that, in normal times, aggregate ES balances are kept at low levels.

During 2010/11, the cash rate traded at target on all business days. The Reserve Bank's standing facility for overnight repos was accessed only twice, continuing a trend toward less usage over time.

### Usage of Overnight Standing Facility

| | Number of times used | Value ($m) |
|---|---|---|
| 2006/07 | 24 | 3 589 |
| 2007/08 | 18 | 4 220 |
| 2008/09 | 15 | 3 257 |
| 2009/10 | 5 | 1 035 |
| 2010/11 | 2 | 363 |

Source: RBA

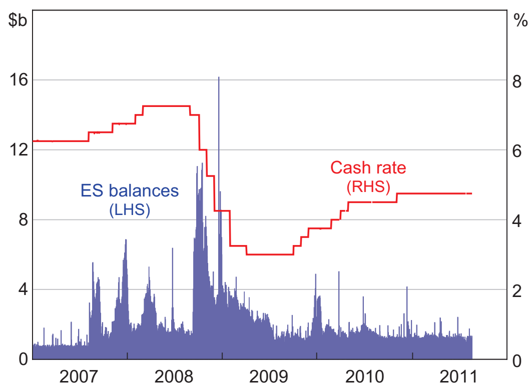
Payment flows each day between ES account holders and the Reserve Bank's customers (principally, the Australian Government) can alter the aggregate level of ES balances. As a result, the Bank needs to transact in the market on most days in order to offset the impact of its customer flows. For further details, see 'Domestic Market Operations and Liquidity Forecasting' in the Bank's December 2010 *Bulletin*. In the past year, unexpected liquidity flows saw the Bank conduct a second round of dealing on two occasions, the same as in the previous year.

Over the past year, aggregate ES balances averaged a little over $1¼ billion, with the Reserve Bank facilitating temporarily higher levels around key balancing dates in order to keep the cash market operating smoothly. While this is less than the level of balances held during the financial crisis, it is higher than the levels recorded before the crisis, reflecting a desire on the part of some ADIs to hold higher precautionary balances.

Most of the Reserve Bank's transactions within the domestic market are contracted as repos. Under a repo, one party agrees to sell a security to another with an agreement to repurchase the security at a future date at a pre-agreed price. In its market operations, the Reserve Bank is willing to purchase both government-related debt securities ('general collateral') and private debt securities under repo. To guard against a fall in the value of the security in the event that the counterpart to the transaction may not be able to repurchase their security at the agreed time, the Bank requires the value of collateral to be higher than the cash lent by some percentage of the security's initial price. These percentages range from 2 to 10 per cent, increasing with the risk profile of the security.

Over the past year, the value of securities held under repo has ranged between $20 billion and $35 billion as the balance sheet has fluctuated with the movements in Government deposits discussed earlier. In contrast to recent years, government-related securities now account for the bulk of securities held under repo. During the period of financial market turbulence in 2008 and 2009, many ADIs created securities backed by residential mortgages they were holding on their balance sheets and sold them to the Bank under repurchase agreement. Although highly rated residential mortgage-backed securities (RMBS) remain eligible for the Bank's market operations, the Bank expects ADIs to present related-party mortgages only in extraordinary circumstances.

### Balances Held at RBA




Source: RBA

## Australian Dollar Securities Held under Repurchase Agreements

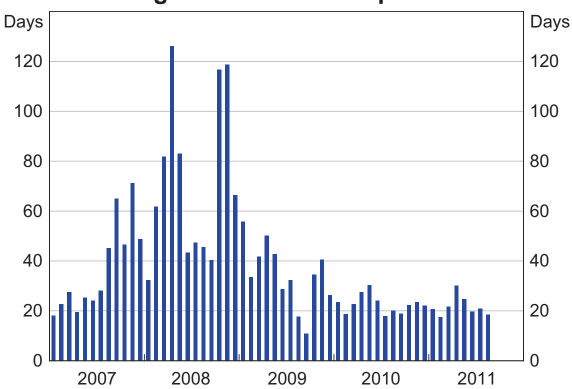
| | June 2009 | | June 2010 | | June 2011 | |
|---|---|---|---|---|---|---|
| | $ billion | Per cent of total | $ billion | Per cent of total | $ billion | Per cent of total |
| General collateral | | | | | | |
| – CGS | 2.5 | 6 | 3.3 | 9 | 3.9 | 18 |
| – Semis | 1.2 | 3 | 10.8 | 31 | 8.7 | 41 |
| – Supras | 0.4 | 1 | 2.2 | 6 | 2.0 | 10 |
| – Government guaranteed | 0.3 | 1 | 5.6 | 16 | 4.0 | 19 |
| Private Securities | | | | | | |
| – ADI issued | 11.8 | 28 | 8.8 | 25 | 1.2 | 5 |
| – RMBS | 26.1 | 61 | 3.6 | 10 | 1.5 | 7 |
| – Other | 0.2 | 0 | 0.5 | 1 | 0.0 | 0 |
| Total | 42.5 | | 34.8 | | 21.4 | |

Source: RBA

The average term of the repos contracted by the Bank in its market operations has been fairly stable during the past year at around three to four weeks, similar to its level prior to mid 2007. While the Bank remains willing occasionally to deal for longer terms, short-term repos generally provide the Bank with the appropriate degree of flexibility to manage its balance sheet.

In addition to repurchase transactions, the Reserve Bank is willing to purchase Commonwealth Government securities (CGS) and semi-government securities on an outright basis in its daily operations for domestic liquidity management purposes, provided those securities have a term to maturity not exceeding 18 months. Outright purchases of longer-dated government securities are transacted through separate, less regular, operations. During 2010/11, the Bank conducted five 'long-dated' operations, purchasing $100 million in semi-government securities each time. From time to time the Bank also purchases very small amounts of CGS at Australian Office of Financial Management (AOFM) tenders. At present, the Bank holds around $3 billion of longer-dated securities on an outright basis, almost all of which are semi-government securities.

### Average Term of RBA Repos Dealt



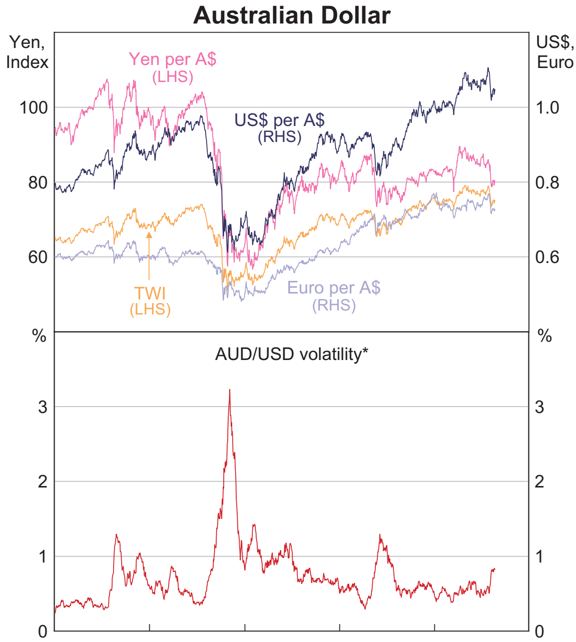

Source: RBA

On behalf of the AOFM, the Reserve Bank operates a lending facility for CGS. This facility allows market participants to borrow specific lines of CGS via a repo with the Reserve Bank. An offsetting repo in other CGS or government-related securities is transacted at the same time. As the spread between the two repo rates is set at a significant penalty for the Bank's counterparty (300 basis points), the facility is used only as a last resort by dealers to avoid settlement fails. With liquidity in the CGS market having improved in recent years, dealers are almost always able to borrow stock without recourse to the facility. Consequently, usage of the AOFM facility has declined substantially, with only $1.3 billion of CGS lent during the whole of 2010/11.

## Foreign Exchange Operations

The Reserve Bank is an active participant in the foreign exchange market. Most of its transactions are undertaken on behalf of the Reserve Bank's clients, mainly the Australian Government. The Government purchases foreign currency from the Bank to meet foreign currency obligations arising from certain defence expenditures, foreign aid commitments and the cost of maintaining its diplomatic missions around the world. In 2010/11, the Reserve Bank sold $7.4 billion of foreign currency to the Australian Government. In the normal course of events, the Bank offsets the sale of foreign currency to the Government in the market within a short time frame.

The Reserve Bank also operates in the foreign exchange market to manage its international reserves. The currency exposure of international reserves is managed to a benchmark that has fixed target shares for each foreign currency (see below). Daily fluctuations in the relative values of these currencies shift the actual exposures to these currencies away from the targets. The Bank undertakes transactions each day to rebalance the currency exposures to the benchmark targets. These transactions are conducted in both the spot and forward markets and do not involve the Australian dollar.



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

In addition, the Reserve Bank undertakes transactions from time to time for a range of policy reasons:

- Foreign exchange swaps are used periodically to smooth large domestic liquidity flows. These transactions work in the same way as repurchase agreements using domestic securities. The swaps can be for large amounts but are usually very short term. While turnover in these transactions totalled $50 billion for the year, the Bank had a negligible outstanding swap position at the end of June.
- On occasion, the Bank operates in the foreign exchange market with the objective of influencing the level of the exchange rate or market conditions. The factors behind the decision to conduct these operations, which are commonly known as foreign exchange intervention, tend to be specific to the particular episode. The most recent round of intervention took place in late 2008, when liquidity in the local foreign exchange market was compromised following the collapse of Lehman Brothers.
- From time to time, the Bank also undertakes transactions to adjust the level of its foreign currency holdings. These transactions might be undertaken to unwind the impact of intervention on the level of reserves or to move to a new target level. The transactions are conducted with the aim of having the minimum possible impact on the exchange rate and market conditions.

The Australian dollar appreciated against most currencies over the year but particularly against the US dollar. The local currency was underpinned by further increases in commodity prices, the relatively strong domestic economy and expectations of tighter monetary policy. In July, the Australian dollar reached a post-float high against the US dollar and on a trade-weighted basis. Despite bouts of risk aversion associated with the sovereign debt crisis in Europe and the earthquake in Japan, market conditions remained generally favourable. Volatility in the Australian dollar remained at an elevated level relative to pre-crisis years.

## Reserves Management

The foreign currency assets and gold that are held on the balance sheet of the Reserve Bank comprise the major part of Australia's official reserve assets. The Bank has responsibility for the management of these assets, which are held primarily to facilitate policy operations in the foreign exchange market. As these assets expose the Bank's balance sheet to foreign currency risk, the level of reserves is managed to meet expected policy needs.

Given the policy roles of the reserves portfolio, the investment mandate under which it is managed places a high priority on the liquidity and credit quality of the assets in which the funds are invested. While portfolio return is an input to the management process, it is subordinated to limiting liquidity, credit and reputation risk. Reflecting this, the Reserve Bank has adopted a cautious approach to the management of the reserves portfolio. Under this approach, the risk profile of the funds under management is defined largely by a benchmark.

The benchmark is a hypothetical portfolio that represents the Reserve Bank's estimate of the optimal strategic allocation to foreign currencies, and the assets in which they are invested, given the policy objectives of the portfolio. The composition of the benchmark is reviewed periodically to take into account updated performance and credit data, any structural changes in financial markets and changes in the Bank's risk tolerance.

The most recent review of the benchmark was completed in 2010. This exercise reviewed the implications of the financial crisis for the composition of the benchmark and the Reserve Bank's investment framework more broadly. This process recommended a number of changes, which were implemented over 2010/11:

- The portfolio allocation to the Japanese yen was reduced from 10 to 5 per cent and an allocation of 5 per cent to the Canadian dollar was established. This change took into account updated performance data across a range of currencies as well as the results of portfolio tail-risk analysis.
- The benchmark duration target for the Japanese portfolio was reduced from 18 to 12 months. This decision followed a reassessment of the risk/return trade-off in the portfolio given the level of yields and the shape of the yield curve in Japan.
- The benchmark allocation to commercial bank deposits was removed and the Reserve Bank's use of such deposits was reduced to a minimum. This decision reflected a reassessment of unsecured credit exposures in the portfolio. This review took into account the contribution of such exposures to portfolio return, the availability of alternative secured-cash investments and the potential difficulties for central banks posed by exposures to commercial banks at times of market stress.

**The Benchmark Portfolio**

| | US | Europe | Japan | Canada |
|---|---|---|---|---|
| Asset allocation (% of total) | 45 | 45 | 5 | 5 |
| Currency allocation (% of total) | 45 | 45 | 5 | 5 |
| Duration (months) | 18 | 18 | 12 | 18 |

Source: RBA

Over 2010/11, the return on foreign currency assets, measured in Special Drawing Rights, was 1.8 per cent, the lowest annual return since 2005/06. The low return was mainly due to the very low level of global bond yields; the net capital gain on holdings of securities was negligible. The higher average Australian dollar exchange rate over the year reduced the Australian dollar value of foreign earnings by 17 per cent.

## Rates of Return in Local Currency by Portfolio

Per cent

| | US | Europe | Japan | Canada |
|---|---|---|---|---|
| 2004/05 | 4.1 | 5.8 | 1.1 | na |
| 2005/06 | 1.2 | 0.1 | –0.9 | na |
| 2006/07 | 5.6 | 2.2 | 1.1 | na |
| 2007/08 | 8.1 | 4.0 | 1.7 | na |
| 2008/09 | 5.2 | 8.1 | 1.8 | na |
| 2009/10 | 2.3 | 2.7 | 0.8 | na |
| 2010/11 | 1.1 | 0.4 | 0.2 | 1.0 |

Source: RBA

The Reserve Bank also maintains a modest allocation of funds to two regional bond funds: Asian Bond Fund 1 and Asian Bond Fund 2. These funds are part of the Asian Bond Fund Initiative, which was established by the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) to assist in the development of local currency bond markets in the region. The Bank has a total of $383 million invested in these funds. The return on these investments over 2010/11 was 8.8 per cent measured in US dollar terms. The two funds are passively managed by external managers.

In addition to foreign currency assets, the Reserve Bank holds 80 tonnes of gold on its balance sheet. Over 2010/11, the price of gold rose by 21 per cent in US dollar terms but declined by 4 per cent in Australian dollar terms. As a result, the value of the Bank's holdings of gold declined slightly to $3.6 billion at the end of June. The lack of activity in the gold lending market, noted in recent annual reports, continued in 2010/11. Reflecting this, income from gold lending fell to just $0.1 million for the year and, at the end of June 2011, there was only 1 tonne of gold on loan.

# Banking and Payments

The Reserve Bank provides a range of banking, registry and payment settlement services to participants in the Australian financial system, the Australian Government, and other central banks and international bodies. These include services associated with the operation of the Australian Government's principal public accounts; transactional banking services to government agencies; custodial, registry and related services; and the operation of the real-time gross settlement (RTGS) system for high-value Australian dollar payments.

## Banking

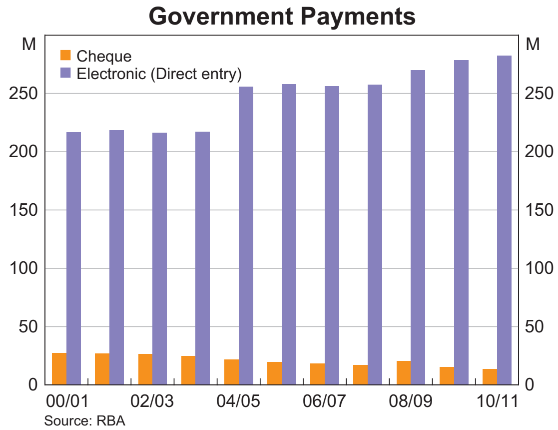
The Reserve Bank's banking services comprise two broad components: core and transactional banking services. Both are provided by the Reserve Bank's Banking Department with the common objective of delivering secure and efficient arrangements to meet the banking and payment needs of the Australian Government and its various agencies.

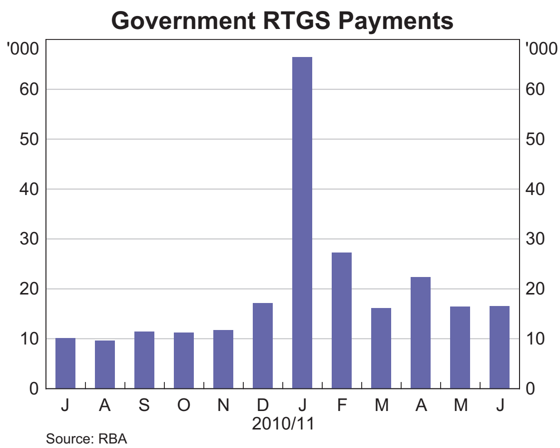
Core banking services are provided to the Department of Finance and Deregulation on behalf of the Australian Government, the Australian Office of Financial Management (AOFM) and a number of overseas central banks and other official institutions. These services derive directly from the Reserve Bank's role as Australia's central bank. Among other things, that role requires the Bank to manage the consolidation of all Australian Government Agency account balances – irrespective of which financial institution each agency banks with – into the Government's Official Public Accounts (OPA) at the Reserve Bank on a daily basis. This involves 'sweeping' each agency's balances from accounts with their transactional bank to the OPA at the end of the business day and back again the following morning. The 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.

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 and for investing excess funds in approved investments, including term deposits with the Reserve Bank.

The Reserve Bank's transactional banking services involve the provision of more traditional banking and payment-related facilities. Principal among these is the delivery of direct entry payments from government agencies to recipients' accounts – some 282 million direct entry payments, totalling $291 billion, were delivered by the Reserve Bank in 2010/11. The Government also makes payments by cheque, though its use of cheques has fallen in recent years relative to electronic payment methods. Cheques now make up less than 5 per cent of agency payments. In addition to payments, the Bank provides its government agency customers with access to a number of bill collection services, including BPAY, over-the-counter, phone, internet and card-based payment facilities.

In contrast to core banking services, transactional banking services do not derive from the Reserve Bank's function as a central bank. They are, instead, provided on a commercial basis in line with the Australian Government's competitive neutrality guidelines. To deliver these services, the Bank must compete with other commercial financial institutions, in most instances bidding for business at tenders conducted by the agencies themselves. These agencies can require features that are common to government but not generally requested by other users of payment and collection services. Of particular importance are purpose-built overnight reporting and a demonstrated capacity to react quickly when changes in government policy require consequent alterations to the payments and collection processes of individual agencies. Because of its particular focus on the government sector, the Bank is well placed to respond to these specific requirements and tailor its systems accordingly. Some 90 government agencies are customers of the Bank's transactional banking services.




In recent years the Reserve Bank has worked closely with its government customers to ensure that their choice of payment and collection options is consistent with their needs, particularly for faster funds availability. In 2009, for example, the Reserve Bank introduced a service that allows agencies to use their own business systems to send urgent payments via RTGS throughout the day. The service was used extensively in early 2011 to make urgent relief payments to many victims of the floods and other disasters which affected various parts of Australia. Some 67 000 assistance payments were made via RTGS at the peak of the flood crisis in Queensland in January. Payments through this system had averaged around 13 000 per month up until that time.

During the year, the Reserve Bank also continued to work closely with other payments industry participants to improve important elements of the payments communication infrastructure, changes that will benefit all users, including the Bank's government clients. During the course of 2010/11, the exchange of direct entry and other low-value payments files between major payment services providers was successfully migrated to the Community of Interest Network (COIN) and away from a complex series of bilateral communication links. Work also started with industry participants to improve arrangements for settling low-value payments, known as the Low Value Settlement Service (LVSS). Additional information on this work is provided in the 'Settlement Services' section of this chapter.

In common with other financial institutions, the Reserve Bank has commenced a program of investment in its banking systems so that these will continue to provide customers with the highest levels of service and efficiency. The first stage of the program began in late 2010 and involves an upgrade of its online banking services – RBAnet and ReserveLink – combining them into one platform and offering access to a broader range of banking services. This stage of the program is expected to be completed in mid 2012.

After-tax earnings from the Reserve Bank's transactional banking services were $4.8 million in 2010/11, compared with $3.8 million in the previous year.

## Registry

The Reserve Bank provides registry services to the Australian Government and a number of foreign official institutions that have Australian dollar debt programs. The services include registration of new debt issues, ongoing maintenance of ownership records, distribution of interest payments and redemption of securities at maturity. Those provided to the Australian Government cover issues of Commonwealth Government securities (CGS) and are undertaken under agreement with the AOFM.

The Reserve Bank also provides a small-investor facility that enables retail investors to buy and sell CGS. Increased interest from overseas investors, associated with the strength in the Australian dollar, saw the number of transactions through the facility rise slightly over 2010/11. Overall, though, the level of transaction activity remains quite low.

The Australian Government announced in December that it intends to allow retail investors to trade CGS on a suitable exchange. The announcement was part of a package of measures to improve competition in the Australian banking system. As exchange trading of CGS will impact on the functions of the registry, the Reserve Bank and the AOFM are reviewing the arrangements under which registry services are provided to the Government. The Bank has operated the registry for CGS for almost 40 years.

Earnings after tax for the CGS registry business were $0.2 million in 2010/11, similar to earnings in the previous year.

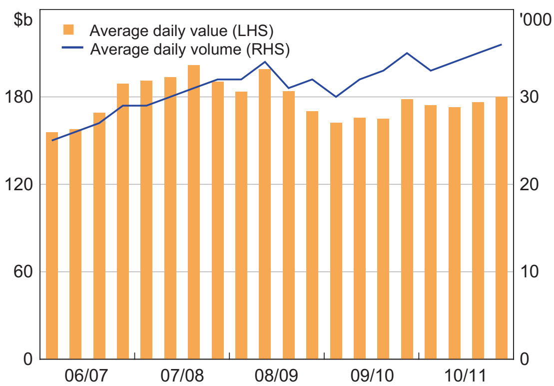
## Settlement Services

The Reserve Bank owns and operates the Reserve Bank Information and Transfer System (RITS), which provides a real-time payments and settlement service for institutions that have been approved by the Bank to operate an Exchange Settlement Account (ESA). As at end June 2011, there were 58 such approved institutions; 10 other institutions hold an ESA but have appointed another ESA holder to act as a settlement agent in RITS. A further 28 institutions were Non-Transaction Members of RITS for the purpose of either being a Batch Administrator or to participate in the Bank's domestic open market operations.

Payments between institutions are settled in RITS across their respective ESAs. By value, about 90 per cent of all payments settled in RITS are settled individually on an RTGS basis. These include time-critical customer payments, all wholesale debt and money market transactions and the Australian dollar legs of foreign exchange transactions. The latter includes Australian dollar trades involved in continuous linked settlement (CLS), for which net amounts are paid to and received from CLS Bank each day.

In addition to RTGS payments, RITS settles batches of netted payments. One batch is a dedicated multilateral settlement at 9.00 am each day for payments arising from cheque, direct entry and retail card transactions that are cleared through low-value systems prior to settlement the next business morning across RITS. A batch settlement facility in RITS also allows approved Batch Administrators to submit batches of netted payments to RITS at any time during the business day. This facility is used once each day by the Australian Securities Exchange for settlement of payments arising from equity transactions.

**RTGS Transactions**



Source: RBA

After falling in the previous two years, the average daily value of RTGS transactions in 2010/11 grew by 4.8 per cent, to $176 billion. Even so, values settled were still about 10 per cent less than in 2007/08, before the depth of the global financial crisis. By contrast, the number of transactions settled has recovered strongly, and averaged 34 300 on a daily basis during 2010/11. A new daily transaction record was set on 27 April, when 59 846 transactions were settled.

The Reserve Bank devotes significant operational resources and undertakes an ongoing program of capital investment to ensure that RITS operates to the extremely high standards of availability and resilience appropriate to its critical importance to the Australian financial system. As part of the RITS capital maintenance program, the infrastructure supporting the RITS user interface was replaced during 2010/11. Work also commenced to replace the SWIFT infrastructure which supports RITS and the Bank's own high-value payment transactions and that of its official customers.

Last year's annual report described the RITS Low Value Feeder (LVF) project, aimed at introducing new infrastructure for low-value payments. The key components of this work are the provision of the RITS Low Value Clearing Service and Low Value Settlement Service (LVCS and LVSS). The LVCS connects the Reserve Bank to all institutions directly involved in payments clearing using SWIFT and the industry COIN. This enables RITS Members to choose either network to exchange clearing files (for example, in respect of the direct entry system used for payments such as payroll credits) with institutions that have chosen to use the other network. It commenced operations in June 2010. Currently 10 institutions use the LVCS to exchange files for 14 RITS Members.

The LVSS builds on the LVCS infrastructure to provide enhanced functionality in three ways. It will:

- enable RITS Members to provide file settlement instructions to RITS, for low-value clearings, by either SWIFT or the COIN, at around the same time as clearing activity takes place between institutions; currently, the settlement instructions for all clearing information exchanged during the day are aggregated and sent to the Reserve Bank on the evening of exchange, prior to settlement across RITS at 9.00 am on the next business day;
- upgrade instructions to a modern message format using the global ISO 20022 messaging standards framework, replacing formats introduced in 1993; and
- allow greater flexibility in the settlement of these instructions by RITS, either at 9.00 am as now, or at intervals during the day of exchange.

In April 2011, the Reserve Bank implemented the initial changes to RITS to enable submission and settlement of file settlement instructions. Changes specifically required for 9.00 am Settlement (such as calculation of clearing interest) are targeted to be complete in the fourth quarter of 2011. It is expected that RITS Members who participate in the 9.00 am Settlement will have completed development and testing of the new LVSS settlement instructions with the Reserve Bank in the first quarter of 2012, with the new arrangements becoming fully operational later that year.

As noted earlier, the LVSS infrastructure will also support future migration to allow settlement as clearing files are exchanged, rather than on the next day as occurs at present. This reduction of the gap between clearing and settlement will reduce risk and may assist in faster access to funds, particularly when larger value payments are made using the direct entry system. The industry is currently exploring the benefits of such 'same-day settlement'.

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, overseas central banks and official institutions. In addition, the Bank has used RTGS settlement to provide Centrelink emergency benefit payments where funds were urgently required. As noted earlier, this service was used heavily during the flood crisis in January.

The number of central banks holding accounts at the Reserve Bank increased from 46 to 49 over the year. The Bank provides these institutions with settlement and safe custody services to settle their Australian dollar transactions. Reflecting increased overseas demand for Australian dollar investments, the amount held in custody by the Bank for these institutions increased by $11.1 billion to $40.9 billion over the year.

# Currency

The Reserve Bank is responsible for ensuring that there are sufficient high-quality banknotes in circulation to meet the public's demand. This demand stems from the role of banknotes as a payment mechanism and a store of wealth. To ensure that the public retains confidence in the capacity of banknotes to perform these roles, the Bank:

- ensures that sufficient banknotes are printed to meet public demand;
- maintains the quality of banknotes in circulation by withdrawing old, used banknotes and replacing them with new banknotes; and
- conducts research to ensure that the currency remains secure against counterfeiting.

## Banknotes on Issue

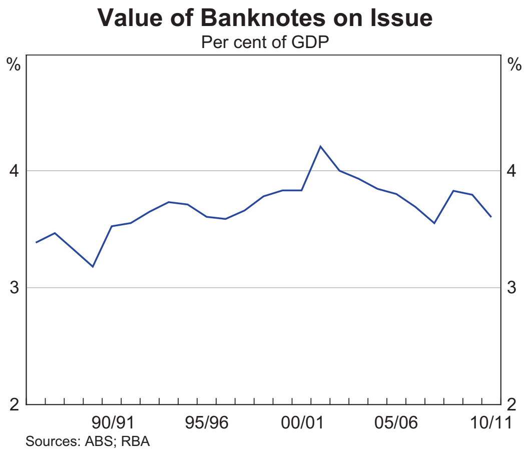
At the end of June 2011 there were 1.1 billion banknotes worth $50.1 billion on issue. This is equivalent to around 48 banknotes worth $2 227 for every Australian. The two highest denominations continued to account for the majority of banknotes on issue. In particular, the $50 denomination accounted for around half the value and 45 per cent of the number of banknotes on issue, while the $100 denomination accounted for 42 per cent of the value and 20 per cent of the number of banknotes on issue.

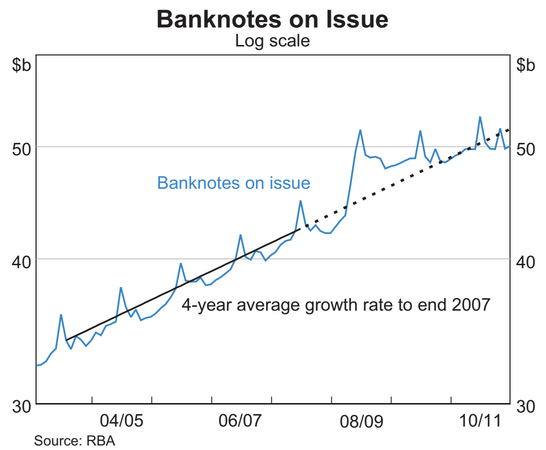
**Banknotes on Issue**
$ million

| At end June | $5 | $10 | $20 | $50 | $100 | Total |
|---|---|---|---|---|---|---|
| 2004 | 533 | 791 | 2 533 | 15 941 | 14 224 | 34 022 |
| 2005 | 539 | 837 | 2 584 | 16 740 | 14 924 | 35 624 |
| 2006 | 572 | 857 | 2 690 | 18 044 | 15 903 | 38 066 |
| 2007 | 591 | 894 | 2 846 | 19 228 | 16 730 | 40 289 |
| 2008 | 614 | 917 | 2 732 | 20 111 | 17 690 | 42 064 |
| 2009 | 644 | 954 | 2 651 | 23 721 | 20 117 | 48 087 |
| 2010 | 673 | 983 | 2 653 | 23 711 | 20 740 | 48 760 |
| 2011 | 731 | 1 010 | 2 796 | 24 288 | 21 234 | 50 059 |

Source: RBA

Historically, the growth in the value of banknotes on issue has tended to reflect growth in nominal GDP. In the second half of 2008, however, banknote demand increased sharply as a result of heightened public concerns associated with the global financial crisis. Since then, the growth in banknotes on issue has been subdued, and it was only towards the end of 2010 that the value of banknotes on issue returned to levels consistent with the long-run trend evident before the financial crisis.



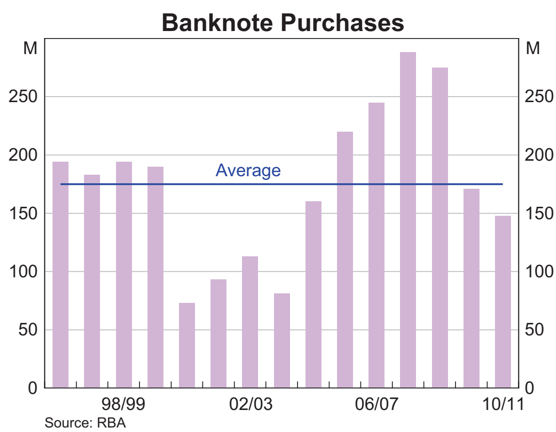

## Distribution

The Reserve Bank manages the issuance and distribution of banknotes to commercial banks. Commercial banks purchase banknotes directly from the Reserve Bank. Banknotes are then stored by the commercial banks at approved cash centres located throughout Australia to ensure there is sufficient stock to meet normal and unexpected public demand. The Reserve Bank also maintains a contingency holding of banknotes to meet seasonal fluctuations in demand, and to mitigate the risks associated with financial shocks and production disruptions.

## New Banknote Purchases

With demand for banknotes growing more slowly since the financial crisis, the Reserve Bank's purchases of banknotes from Note Printing Australia Limited (NPA) in 2010/11 were 22 million fewer than the previous year, at 148 million banknotes. Only $50 banknotes were purchased, as the Bank had sufficient stocks of the other denominations to meet public demand.

## Banknote Quality




In order to maintain a high quality of banknotes in circulation, the Reserve Bank withdraws unfit banknotes and issues new banknotes. This ensures the efficient handling of banknotes by the community and processing through banknote acceptance equipment such as ticketing machines. Maintaining the quality of banknotes in circulation also assists the public in identifying counterfeits.

The commercial banks and armoured car companies play an important role in achieving the Reserve Bank's quality objectives. As such, the Reserve Bank provides incentives for commercial banks and armoured car companies to remove unfit banknotes from their holdings, and to invest in banknote processing equipment. Banknotes deemed unfit by the commercial banks and armoured car companies are returned to the National Note Processing and Distribution Centre (NNPDC), where they are processed to confirm their quality and authenticity. Returned banknotes verified as fit are reissued, while unfit banknotes are destroyed. Of the 106 million banknotes returned to the NNPDC during 2010/11, 82 million were destroyed.

Some banknotes are damaged in circulation beyond the normal levels of wear and tear. The Reserve Bank's policy is to pay value for severely damaged banknotes that can be authenticated as genuine Australian banknotes. This includes banknotes significantly damaged or contaminated as a result of natural disasters. Most damaged banknotes receive full value, but where a large piece of the banknote is missing an appropriate partial value is paid.

All damaged banknotes are returned to the Reserve Bank for assessment and destruction. In 2010/11, the Reserve Bank processed around 18 500 damaged banknote claims, and paid out $11.6 million, which is $4.9 million more than in the previous year. Of the damaged banknote claims processed in 2010/11, 249 claims worth $7.6 million were for banknotes that had been contaminated as a result of the floods in Queensland, Victoria and New South Wales.

Hundreds of claims were received at the Damaged Notes Laboratory in Craigieburn after the Queensland floods early in 2011, including these banknotes covered in mud from Caltex in Goodna, west of Brisbane

## Counterfeiting in Australia

The level of counterfeiting in Australia was higher in 2010/11 compared with previous years, with a total of 17 802 counterfeits detected. This corresponds to around 16 counterfeits detected per million genuine banknotes in circulation. The $50 banknote continues to be the most counterfeited denomination, accounting for 93 per cent of the counterfeits detected in 2010/11. Notwithstanding the increase last year, counterfeiting activity remains low compared with most other countries.

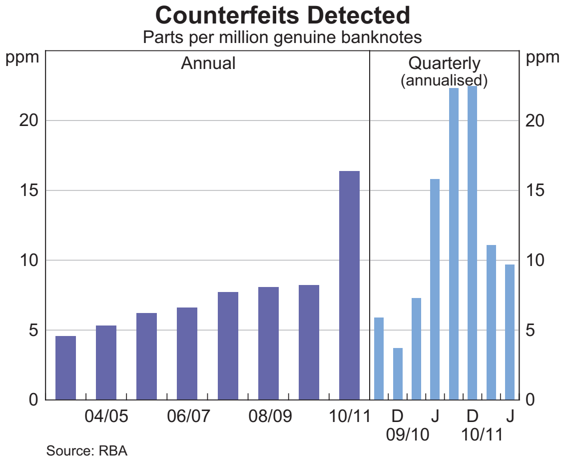
**Counterfeit Banknotes in Australia**
2010/11

| | $5 | $10 | $20 | $50 | $100 | Total |
|---|---|---|---|---|---|---|
| Number | 28 | 175 | 567 | 16 568 | 464 | 17 802 |
| Nominal value ($) | 140 | 1 750 | 11 340 | 828 400 | 46 400 | 888 030 |
| Parts per million | 0.2 | 1.7 | 4.0 | 33.8 | 2.2 | 16.4 |

Source: RBA

The increase in counterfeiting in 2010/11 is attributable to alleged activities of a well-organised criminal operation in NSW. The arrests of several persons and the seizure of more than 1 800 counterfeits in November 2010 were the culmination of a seven-month investigation by the Australian Federal Police and NSW Police, which involved the Reserve Bank, the United States Secret Service, the NSW Crime Commission as well as the Australian Customs and Border Protection Service. Following the arrests, counterfeiting rates have fallen sharply, returning to levels consistent with previous experience.

This incident highlights the importance of the Reserve Bank working closely with law enforcement agencies in Australia and overseas, providing counterfeit examination services to these agencies, and educating the




public about banknotes and counterfeit detection. It also highlights the dangers posed by modern reproduction technologies to the integrity of banknotes in circulation.

The Reserve Bank works closely with other central banks and the security printing industry to gain a better understanding of the threat posed by emerging reproduction technologies available to counterfeiters, and to develop new security features. As part of its efforts to combat counterfeiting, the Reserve Bank is involved in the Central Bank Counterfeit Deterrence Group (a group of 32 central banks that investigates counterfeiting threats and develops strategic solutions) and the Reproduction Research Centre (an anti-counterfeiting laboratory operated by a small number of central banks). In the assessment of new technologies for banknote security and the development of innovative features, the Bank also collaborates with a number of private companies, research institutions and universities.

## Numismatic Banknote Sales

The Reserve Bank conducted a numismatic banknote sale in July and August 2011 for all denominations of banknotes produced in 2010. These banknotes were sold to the public at fixed prices during a six-week sale period.

## Note Printing Australia

Note Printing Australia Limited (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 established by the Reserve Bank Board. Specifically, NPA's prime function is the efficient and cost-effective production of Australian banknotes of high quality and security, in accordance with the specifications and requirements of the Bank. The charter also permits NPA to undertake other 'non-core' activities, including the development and production of passports for the Department of Foreign Affairs and Trade (DFAT), and other security products as well as the production of banknotes for other issuing authorities. In recent years, these activities have included the production of banknotes for some countries in the Asia-Pacific region.

NPA is governed by a Board of Directors appointed by the Reserve Bank. As at 30 June 2011, the Board comprised five Bank executives: Michele Bullock, Assistant Governor (Currency) as Chair; Keith Hall, Assistant Governor (Banking and Payments); Darryl Ross, Chief Financial Officer; Lindsay Boulton, Head of Banking Department; and Michelle McPhee, Head of Risk Management. The Chief Executive Officer of NPA is Bernhard Imbach.

In 2010/11, NPA produced 148 million banknotes for Australia and 320 million banknotes for a number of other countries, including Brunei, Chile, Papua New Guinea and Vanuatu. NPA also produced 2.7 million passports for DFAT over the year.

NPA earned a profit after tax of $4.4 million in 2010/11, compared with a profit of $4.3 million in 2009/10. The financial accounts of NPA are consolidated with those of the Reserve Bank.

## Securency

Securency manufactures polymer substrate for banknotes used in Australia and many other countries. It is a joint venture between the Reserve Bank and Innovia Films, a UK-based company which manufactures the base polymer film used by Securency to manufacture its substrate products.

Securency is governed by a Board of Directors, of which equal numbers are appointed by the two joint-venture partners. At present, the Reserve Bank appointed directors are Bob Rankin (Chairman), John Akehurst, a non-executive member of the Reserve Bank Board, and Darryl Ross, the Chief Financial Officer of the Bank.

Securency achieved a profit after tax of $2.0 million in 2010, on revenues of $128.7 million. These results compare with a profit of $24.1 million and revenue of $172.5 million in the previous year. The Reserve Bank equity accounts for its interest in Securency.

On 23 November 2010, the Reserve Bank and Innovia Films announced their intention to undertake a joint sale of the company, after having been made aware of strong interest from potential buyers and following Innovia's decision that it wished to sell its half share in the company. A sale process has commenced.

## Proceedings against NPA and Securency

In July 2011, charges were laid against NPA and Securency, which, in summary, allege that between 1999 and 2003, the two companies and a number of individuals had engaged in conspiracy to bribe foreign public officials in Indonesia and Malaysia. In August 2011, a further two charges were laid against Securency for similar alleged conduct relating to Vietnam in the period between 2001 and 2004. A number of former employees of the companies, including two former chief executives, were also charged. The Australian Federal Police (AFP) stated on 1 July 2011 that the charges against the companies result from the alleged actions of former senior managers of the companies.

These charges follow an investigation that resulted from a referral to the AFP by the Board of Securency when allegations were raised by the media in May 2009 about Securency's use of overseas agents. The AFP's inquiries were subsequently widened to include the use of overseas sales agents by NPA. The companies' Boards and the Reserve Bank have extended their full support to the AFP inquiry and continue to do so. The companies are considering, in consultation with the authorities, their responses to the charges laid against them.

The Governor issued a statement on 1 July 2011, saying that the Reserve Bank deeply regrets that the governance arrangements and processes in the companies at the time were not able to prevent or detect the alleged behaviour that led to the charges. That statement noted that, over recent years, the Reserve Bank and the two companies have taken numerous steps to tighten controls and strengthen governance:

- those charged had all left the companies prior to the charges being laid;
- the use of sales agents has ceased at both companies;
- policies and procedures at both companies have been overhauled; and
- the Reserve Bank added executive resources in the currency area and replaced its representatives on the Boards of the two companies, drawing all of its appointees from the Bank's executive or the Reserve Bank Board.

# International Financial Co-operation

The Reserve Bank actively participates in work aimed at improving the global financial architecture and addressing the ongoing challenges facing the global economy. It does so through its membership of global and regional fora and its close bilateral relationships with other central banks.

## Group of Twenty (G-20)

The G-20 continues to play a prominent role in co-ordinating international efforts to address global economic and regulatory issues. G-20 leaders met in Seoul in November 2010, and the ongoing work of the G-20 continues to be overseen by G-20 finance ministers and central bank governors and their deputies.

At the Seoul Summit, G-20 leaders released the 'Seoul Action Plan' outlining policy commitments by G-20 members as part of the 'Framework for Strong, Sustainable and Balanced Growth'. The Framework initiative, which was launched at the Pittsburgh Summit in September 2009, provides a mechanism for countries collectively to assess the consistency of their policies with a durable global economic recovery. A recent focus of the Framework exercise has been members' external positions, and finance ministers and central bank governors announced at their April 2011 meeting that they had agreed on a set of guidelines to assist in identifying 'persistent imbalances' that may require policy actions. It is intended that a more detailed assessment of the nature and causes of such imbalances will inform the 2011 'Action Plan', which is due to be discussed by leaders at their Summit in Cannes in November. The Reserve Bank and the Australian Treasury are members of a working group that is guiding the Framework exercise.

In Seoul, G-20 leaders also endorsed measures to strengthen international financial regulatory arrangements, including new bank capital and liquidity standards. Ongoing work on other regulatory issues such as regulation of shadow banking remains a priority for the G-20. Another priority for the G-20 has been to ensure that the international financial institutions, including the International Monetary Fund (IMF), have appropriate resources and governance arrangements. As discussed below, there were some significant reforms in this regard over the past year.

Two additional areas of focus for the G-20 to which the Reserve Bank is contributing are reform of the international monetary system and issues pertaining to commodity prices. On the former, the Bank is represented on a working group that is considering issues regarding the management of global liquidity and capital flows, including the composition of the Special Drawing Right (SDR), financial safety nets, the development of local currency capital markets, and members' experiences with managing capital flows. On commodity prices, the Bank is represented on a G-20 study team that has been analysing the main determinants of commodity prices, and on an experts' group on fossil fuel price volatility. The Australian Treasury is also participating in each of these groups.

## Financial Stability Board (FSB)

The FSB has an ongoing role in assessing vulnerabilities in the global financial system, as well as co-ordinating the reform of the financial system architecture to minimise the probability and severity of future financial crises. The FSB has a broad membership, including representatives from 24 economies (including all of the G-20 countries), the main international financial institutions (including the IMF, the Bank for International Settlements (BIS) and the World Bank) and the standard-setting bodies, such as the Basel Committee on Banking Supervision (BCBS) and the Committee on Payment and Settlement Systems (CPSS).

The Reserve Bank and the Australian Treasury jointly represent Australia on the FSB. The Governor is a member of the FSB Plenary (the ultimate decision-making body) and two of the FSB's committees. The Head of Financial Stability Department is a member of a group that provides analytical support on assessing global financial vulnerabilities.

A major area of the FSB's recent work relates to systemically important financial institutions (SIFIs). In late 2010, the FSB presented a report and policy options to G-20 leaders on reducing the moral hazard posed by SIFIs. A key feature of this report was to distinguish between those institutions that are systemically important in a global context – termed global SIFIs (G-SIFIs) – and those that are important only in a domestic context. Given the greater risk they pose to the global financial system, the G-20 agreed that, along with other measures, G-SIFIs should have higher capital than the new Basel III minimum. Senior Bank staff are also involved in a macroeconomic assessment of the impact of the FSB's G-SIFI recommendations, especially the likely capital surcharge; this task is being undertaken by the FSB in co-operation with the BCBS, the BIS and the IMF.

Other main areas of the FSB's work over the past year include[1]:

- Improving resolution frameworks, including through the development of key attributes of effective resolution regimes that identify the essential features that countries should have in their resolution regimes for financial institutions. A package was released for public consultation in July. Related to this, national authorities are being asked to improve the 'intensity and effectiveness of SIFI supervision' – with such efforts guided by an FSB report in this area. National authorities are also assessing how existing frameworks for banking and insurance supervision compare with relevant standards.
- Strengthening the regulation and oversight of the 'shadow banking system', that is, those non-bank financial institutions that engage in bank-like activities and hence are in the credit intermediation chain but do not face the same prudential regulation as banks. The Head of Financial Stability Department has been on an FSB task force developing initial recommendations for discussion, while senior staff from that department have also participated in a group providing information and data to the task force.
- Working jointly with the IMF and the BIS on macroprudential frameworks and tools. A report was released on this issue in February, with a progress report expected later in the year outlining advances in the state of knowledge and covering national and international developments.
- Examining options for reform of over-the-counter (OTC) derivatives markets and market infrastructure, to reduce the scope for contagion (discussed further below).
- Establishing regional consultative groups to broaden the circle of countries engaged in work to promote international financial stability. Six regional groups comprising FSB members and non-members have been established, with Australia included in the grouping for Asia. The first meetings of the groups will take place later in 2011. The Bank, along with the Australian Treasury, will participate in these meetings as required.

The FSB undertook a country peer review of Australia in 2011. The review is part of an FSB program that examines all of its members' financial sectors, especially reviewing progress in implementing the IMF Financial Sector Assessment Program recommendations. The Reserve Bank contributed material to help inform the review, along with other agencies of the Council of Financial Regulators. The results of the review will be published later in 2011. The FSB also recently published thematic reviews on risk-disclosure practices of financial institutions and mortgage underwriting and origination practices. The Head of Financial Stability

1 For details on these measures, see RBA, *Financial Stability Review*, March 2011.

Department was part of the expert team reviewing mortgage practices and is part of a follow-up group developing an international principles-based framework for sound lending practices. A senior official from the Australian Treasury is participating in a follow-up thematic review of compensation practices to assess country progress since a 2010 review. A thematic review of deposit insurance systems was initiated in July 2011.

## Bank for International Settlements (BIS)

The BIS and its associated committees have continued to play an important role in the response to recent challenges, by bringing together high-level officials from central banks and other financial regulatory bodies to exchange information and consider lessons from the crisis.

The Governor or Deputy Governor attends the regular bimonthly meetings of governors at the BIS, which discuss the global economic and financial conjuncture. They also participate in meetings of the Asian Consultative Council (ACC), which focuses on financial and monetary developments in Asia and provides direction for the work of the BIS in Asia.

The Assistant Governor (Financial Markets) represents the Reserve Bank on two BIS committees: the Committee on the Global Financial System (CGFS) and the Markets Committee. The CGFS discusses vulnerabilities in the global financial system and structural developments in financial markets, while the Markets Committee focuses on the implications of current events for the functioning of financial markets. In the past year, the CGFS has considered issues such as: the interactions of sovereign debt management with monetary and financial stability; sovereign credit risk and bank funding conditions; macroprudential frameworks and instruments; the financial stability implications of fixed-income strategies of institutional investors; and access to central counterparties in OTC derivatives markets.

The Assistant Governor (Financial Markets) is chairing a Markets Committee study group on high-frequency trading in foreign exchange markets. The Head of International Department is participating in a CGFS working group on global liquidity, and a senior manager from the Financial Markets Group is participating in a CGFS study group on the system-wide implications of liquidity regulation.

## Basel Committee on Banking Supervision (BCBS)

The work of the BCBS over the past year has focused on finalising the reforms to the key capital and liquidity standards for banks and other deposit-taking institutions. The reforms, known as Basel III, aim to increase the resilience of the global banking system and ensure greater financial stability, by requiring banks to have more, and better quality, capital and hold larger amounts of liquid assets than prior to the crisis. The changes represent a major overhaul of the standards under which banks will operate. The reform efforts have been led by the BCBS and its oversight body, the Group of Governors and Heads of Supervision (GHOS). The Assistant Governor (Financial System) and the Chairman of the Australian Prudential Regulation Authority (APRA) represent Australia on the BCBS, while the Governor and Chairman of APRA represent Australia on GHOS. Key details of the reforms were announced by GHOS following its meetings in July and September 2010. The final package of reforms was presented to the November 2010 G-20 Leaders' Summit in Seoul before being published by the BCBS in December 2010.

As reported in the March 2011 *Financial Stability Review*, one of the key issues requiring clarification was the treatment under the liquidity reforms of countries such as Australia, where the supply of government and quasi-government securities is limited and banks therefore cannot hold enough eligible liquid assets to meet the liquidity requirement in that way. To make the requirement workable for countries in Australia's position, the BCBS' framework incorporates three alternative treatments for the holding of liquid assets. The first option, and the one that APRA and the Reserve Bank have agreed should be adopted in Australia, involves allowing banks to establish contractual committed secured liquidity facilities with their central banks, subject to an appropriate fee; the committed amount would cover the shortfall between an ADI's liquid asset holdings and the regulatory requirement (see chapter on 'Operations in Financial Markets'). The Reserve Bank has been working with APRA on finalising the details of how the facility would work, including its pricing and the range of assets that would be eligible as collateral.

The BCBS has also worked, at the request of the FSB, on developing a methodology for identifying global systemically important banks, and for determining the size of, and instruments to be used for, the additional capital that such institutions will be required to hold. A consultation paper outlining this methodology was released by the BCBS in July 2011. A senior manager from Financial System Group has been involved in the Macroprudential Supervision Group of the BCBS that has undertaken much of this work.

## Committee on Payment and Settlement Systems (CPSS)

The CPSS serves as a forum for central banks to monitor and analyse developments in payment and settlement infrastructures and set standards for them. The primary focus of the CPSS over the past year has continued to be the setting of international standards for financial market infrastructures. In conjunction with the Technical Committee of the International Organization of Securities Commissions (IOSCO), the CPSS released a draft of the new Principles for Financial Market Infrastructures in March 2011 for consultation. The principles seek to consolidate, update and strengthen existing standards for systemically important payment systems, central counterparties and securities settlement systems, and extend their coverage to trade repositories. The principles also incorporate specific guidance for infrastructures serving OTC derivatives markets. The Head of Payments Policy Department is a member of the Steering Group undertaking the review, and the department also continues to contribute to specific work streams. The final principles are expected to be published in early 2012.

A key issue arising from the work on the new principles, along with the ongoing reform of OTC derivatives markets, is how to achieve fair and open access to central-clearing services. The Reserve Bank has been engaged in this work from an early stage through its membership of the OTC Derivatives Regulators' Forum, an international group that provides regulators with a means to co-operate and share information in relation to OTC derivatives, central counterparties and trade repositories. Questions of access to central-clearing services are now being addressed by two complementary working groups, one under the CGFS and another under the CPSS and IOSCO. Payments Policy Department continues to be involved in this ongoing work.

The Reserve Bank is also participating directly in two further working groups: a CPSS working group on innovation in retail payments; and a joint CPSS–BCBS working group considering settlement risk in foreign exchange transactions.

## International Monetary Fund (IMF)

The IMF has continued to play a prominent role in the international response to the lessons of the financial crisis. In the past year, the IMF has provided a substantial amount of financial assistance to its members. There has also been ongoing reform in areas such as governance and surveillance.

In 2010/11, the most prominent forms of assistance to IMF members were the loan facilities provided to Ireland and Portugal and the ongoing assistance to Greece. These lending packages were organised in conjunction with the European Union, with the IMF providing around one-quarter of the €85 billion pledged to Ireland and one-third of Portugal's €78 billion assistance package. This followed the IMF's contribution of €30 billion to the May 2010 assistance package for Greece.

To ensure that the IMF has adequate resources to cover members' future financing needs, the Executive Board approved an enlargement of the New Arrangements to Borrow (NAB). Under the expanded NAB, a total of SDR 211 billion (around US$335 billion) was made available, if required, to supplement the resources from members' subscription payments (quotas) to the Fund.

Some significant changes to the IMF's governance arrangements were approved over the past year. Following earlier G-20 commitments to better align IMF quota shares with members' present importance in the world economy, the IMF Board of Governors approved both a doubling of IMF quotas and a shift of around 6 per cent in quota shares to dynamic emerging market and developing countries. Other governance reforms agreed included a shift to electing all members of the Executive Board and increasing the number of representatives from emerging market and developing countries.

The Reserve Bank works with the Australian Treasury to provide regular briefings to Australia's Constituency Office at the IMF on issues being considered by the IMF Executive Board. During the year, some of the main issues discussed by the Executive Board have related to: the ongoing review of the IMF's surveillance, particularly its multilateral and financial sector surveillance activities; potential reforms to the international monetary system, including the role and composition of the SDR; and the governance reforms noted above. The Bank supports the Constituency Office directly by providing an advisor with expertise in financial markets and financial sector issues. It also provides support to other IMF activities – for example, the Assistant Governor (Banking and Payments) has participated in the IMF's Financial Sector Assessment Program in China over the past 12 months.

As part of its regular annual review of the Australian economy and policy, known as the Article IV Consultation, an IMF team visited Australia in July 2011. In November 2010, the IMF released its 'Report on the Observance of Standards and Codes', which reviewed the quality of economic data gathered by various Australian agencies including the Reserve Bank.

## Organisation for Economic Co-operation and Development (OECD)

The OECD is an international organisation comprising the governments of 34 countries, which is committed to promoting policies that improve economic and social development globally. The OECD conducts economic research as well as regular assessments of member countries' economic conditions and policies. Australia joined the OECD in 1971, and the Bank has participated in its activities mainly through staff secondments and membership of several economics-related working groups and committees. More recently, in December 2010, the Assistant Governor (Financial System) was elected Chair of the OECD's Committee on Financial Markets, which is the main OECD body dealing with issues in financial markets, such as banking, securities, and derivatives.

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

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 monetary and financial stability, seek ways to foster closer co-operation, and exchange information and expertise on issues of common interest. The Reserve Bank participates in EMEAP at a number of levels, including the Governor and Deputy Governor. The Governor of the Reserve Bank was Chair of the EMEAP Governors in 2010, with the responsibility having passed to the Governor of the Bank of Korea, Dr Choongsoo Kim, for 2011.

At the Deputy Governor level, the Monetary and Financial Stability Committee (MFSC) considered ways to further enhance regional co-operation and the monitoring of economic and systemic risks. In addition, the Bank continued to participate in the three working groups that report to the Deputies and support the surveillance work of the MFSC: the Working Group on Financial Markets, the Working Group on Banking Supervision, and the Working Group on Payment and Settlement Systems.

EMEAP also retained responsibility for the ongoing oversight of Asian Bond Fund 1, a US dollar-denominated Asian bond fund, and Asian Bond Fund 2, comprising eight local currency-indexed bond funds and a Pan Asia Index Bond Fund (PAIF). The Reserve Bank's Deputy Governor continued to chair the PAIF Supervisory Committee.

Economic activity in most EMEAP economies has been growing at a faster pace than in the large advanced economies that were at the centre of the global financial crisis, and there have been strong capital inflows to the region. As a result, the focus of discussions at EMEAP meetings in the past year was on the potential risks arising from capital flows and possible policy responses, as well as the implications of recent developments in commodity prices.

The Reserve Bank hosted one of the biannual EMEAP Deputies' Meetings, as well as meetings of the MFSC and the ABF Oversight Committee and the PAIF Supervisory Committee, in Perth in May 2011. The Bank also hosted:

- the Working Group on Bank Supervision (with APRA) in Sydney in October 2010 to discuss the implications of the Basel III reform proposals for EMEAP economies and issues related to financial system stability across the region; and
- an EMEAP/BIS Forum on Foreign Exchange Markets and a meeting of the Working Group on Financial Markets in Sydney in December 2010.

In addition to these meetings, the Reserve Bank attended the 6th EMEAP-Eurosystem High-level Seminar in June 2011 in Amsterdam, which brought together Governors or Deputy Governors from EMEAP and euro area central banks to discuss issues of mutual interest and develop closer ties between the two regions. The seminar discussed economic policy challenges facing both regions, against the background of the sovereign debt issues in the euro area.

Four meetings in Perth in May 2011 were attended by senior EMEAP representatives and co-ordinated by a team of Reserve Bank staff

## Government Partnership Fund (GPF)

The Reserve Bank continued its activities with Bank Indonesia (BI) under the auspices of the Australian Government's GPF. The GPF program supports an exchange of skills and knowledge between Australian public-sector institutions and their Indonesian counterparts through a series of attachments and workshops.

In 2010/11, there were 26 staff exchanges between the Reserve Bank and BI, bringing the total number of exchanges to around 175 officers since the start of the program in 2005/06. In the past year, attachments of BI officers to the Bank covered both policy and operational aspects of the Bank's activities, including economic analysis, financial markets, financial stability, auditing and financial administration. The Bank's Information Department hosted an attachment of BI officers for the first time. Reserve Bank officers visited BI to discuss regional and industry analysis and risk management issues.

## South Pacific Central Bank Co-operation

The Reserve Bank maintains close relationships with the central banks of the South Pacific region through regular meetings, staff exchanges, participation in workshops and the regular sharing of information on technical issues.

In December 2010, the annual meeting of the South Pacific Central Bank Governors was held in New Zealand. This group comprises the central banks of those countries in the region with their own currencies – that is, Australia, Fiji, New Zealand, Papua New Guinea, Samoa, Solomon Islands, Tonga and Vanuatu. Representatives from the IMF's Pacific Financial Technical Assistance Centre (PFTAC) and the World Bank also participated in the meeting. The main issues discussed were recent economic developments and the transmission mechanism of monetary policy in the island states, with the World Bank also providing an update on a project relating to payments systems in the region. The Governors and a representative from APRA also met with the major commercial banks operating in the Pacific to discuss banking developments, including interest margins, the cost of remittances and access to banking services.

Among staff exchanges, a Reserve Bank officer completed a nine-month secondment to the Reserve Bank of Vanuatu. Reserve Bank officers also participated in the annual meeting of the Association of Financial Supervisors of Pacific Countries in Fiji and the Bank of England's Centre for Central Banking Studies/PFTAC workshop in Tonga.

Several staff from the National Reserve Bank of Tonga attended a Reserve Bank management training course and the Bank hosted officers from the Central Bank of Solomon Islands and the Reserve Bank of Fiji. The Bank has also renewed a scholarship scheme to enable Bank of Papua New Guinea staff to pursue postgraduate studies at an Australian university.

## Bilateral Relations and Co-operation

As in previous years, the Reserve Bank continued to receive 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 Brazil, China, Ghana, Malaysia, Tonga and Vanuatu.

# The Reserve Bank in the Community

## Activities of the State Offices

In addition to its Head Office located in Sydney, the Reserve Bank has offices in Melbourne, Brisbane, Adelaide and Perth. These offices play an important role in the Bank's business liaison program and form a key component of the Bank's communication with members of the public, business, government and academia in their respective states.

Since 2001, the Reserve Bank has devoted significant resources to building relationships across the business community, with a view to gaining first-hand insights into conditions in different industries and regions within the national economy. The staff involved in the business liaison program conducted almost 1000 interviews around the country over the past year, with information from these meetings reported to Head Office and incorporated in the material prepared for the monthly Board meetings and in the quarterly *Statement on Monetary Policy*. In this way, information obtained from liaison is used to complement standard sources, such as data from the Australian Bureau of Statistics and business surveys, in forming the Bank's assessments of the economy.


1.


2.


3.

Photo: Rio Tinto

**1.** Marileze van Zyl (Economist) (left) and Karen Hooper (Senior Representative, Queensland) at Ensham open-cut coal mine, north of Emerald in Central Queensland, where the largest dragline in the southern hemisphere is used **2.** Marileze van Zyl and Karen Hooper in front of a dragline bucket **3.** Ships at Rio Tinto's Parker Point terminal in Western Australia

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 both state capitals and regional centres. They also facilitate regular visits by senior staff from Head Office's Economic Group to meet with liaison contacts and provide briefings on the economy. Staff from the State Offices also visit Tasmania and the Northern Territory to gather information on economic conditions in those regions.

## Liaison with Small Businesses

The Reserve Bank continues to convene its Small Business Advisory Panel. This Panel was established in 1993 and meets annually to discuss issues relating to the provision of finance and the broader economic environment for small businesses. Membership of the Panel is drawn from a range of industries across the country. The Panel represents a valuable source of information on the financial and economic conditions faced by small businesses.

The Bank's business 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 contains a permanent collection and also hosts periodic exhibitions. The permanent collection exhibits the story of Australia's banknotes against the backdrop of the nation's broader social and economic history. It displays 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 1913–1915. 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 Australian identity as expressed through the nation's currency, learn about the influential men and women depicted on the banknotes and the artwork used in banknote design.

Some temporary exhibitions held during the second half of the financial year were a legacy of the Reserve Bank's 50th anniversary celebrations. One exhibition, 'Hidden History of Banking', displayed convict banking records and was used to show the progress of convicts to citizens whose contribution to society resulted in them being represented on the nation's banknotes. Another exhibition, 'Reflections of Martin Place', included historic photographs from the Bank's collection of landmark financial events in Martin Place, with these photographs displayed on the façade of the Head Office building. And there was a display of the early artworks and interior design commissioned by the Bank's first Governor, HC ('Nugget') Coombs, who was committed to modernism and progress.

Around 13 500 people visited the Museum in 2010/11, including over 1 300 visitors on Australia Day 2011. Attendance was also boosted by the Reserve Bank's participation in History Week and its collaboration with other museums in the city precinct through 'The History Trail' schools program. A wide cross-section of the public visit the Museum, including school groups. Many school groups receive a short presentation on the role of the Reserve Bank or, in the case of senior economics students, a talk on the Australian economy. Increasingly, the Museum is hosting primary school groups, with these students receiving presentations on the role of money and the features of Australian banknotes. During the year, the Museum was also visited by groups of new migrants learning about the nation's currency. Most of the information in the Museum is on the Bank's website. There were around 750 000 page views/downloads of information from the Museum site in the past year, up significantly from levels of recent years; the site is visited in roughly equal numbers by domestic and overseas users, with the level of overseas interest increasing in recent years.


**1.** Over 1 300 people came through the Reserve Bank's Museum on Australia Day **2.** Students from Castle Cove Primary School in Sydney were the first to come into the Bank via the History Trail **3.** Terence Turton (Note Issue Department) conducting a school presentation on banknotes

## 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 research activities of the Sydney Institute and the Centre for Independent Studies.

In 2010/11, 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, and 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 support of the International Accounting Standards Committee Foundation, and also its longstanding practice of contributing to the Group of Thirty's program of research and publications in the area of international finance.

Financial assistance to Australian universities each year includes contributions towards the costs of their organising conferences in economics and closely related fields. In 2010/11, these conferences included the 23rd Conference for PhD Students in Economics and Business, held at the Australian National University; the Economic Society of Australia's 39th Conference of Economists, held in Sydney; the 16th Melbourne Money and Finance Conference; the Australasian Meeting of the Econometric Society, held at the University of Adelaide; the University of New South Wales 23rd Australasian Finance and Banking Conference; the Financial Integrity Research Network PhD Tutorial and the Paul Woolley Conference, both held at the University of Technology, Sydney; the National Honours Colloquium at the University of New South Wales; the 6th Annual Workshop on Macroeconomic Dynamics at the University of Queensland; the Australian Bureau of Statistics National Statistics 2010 Conference in Sydney; and the 16th Australasian Macroeconomic Workshop at the University of Tasmania. The Reserve Bank is also continuing to support a research project on real-time forecasting, convened by Professor Shaun Vahey of the Australian National University.

The total value of support offered for research and education in 2010/11 was $256 000.

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. In 2010, students were required to address issues surrounding trends in Australia's real exchange rate over the past decade. Ganesh Viswanath Natraj (University of Western Australia) wrote the winning essay, the runner-up was George Cunningham (University of Queensland) and the best essay from a first-year student was by Ashvini Ravimohan (University of New South Wales). These students were presented with their prizes by the Governor at a ceremony in October 2010. For the 2011 competition, students have been invited to submit an essay on 'The Economics of Natural Disasters'.

In conjunction with the Australian Prudential Regulation Authority (APRA), the Reserve Bank has continued sponsorship of the Brian Gray Scholarship Program, initiated in 2002 in memory of a former senior officer of the Bank and APRA. Four scholarships were awarded under this program in 2011. All are for honours studies in the areas of commerce, banking and finance and will be undertaken at the Australian National University, Monash University, the University of Melbourne and the University of New South Wales. The cost to the Bank of these scholarships in 2010/11 was $25 000.

Over the past year, the Reserve Bank hosted numerous visits by researchers (including academics, heritage architects, curators and postgraduate students) who were interested in accessing the rich archive of records about the Bank's own activities as well as banking activities in Australia that predate the creation of the central bank. Archival records have been inherited from other financial institutions, with some dating back to colonial settlement. Since the Reserve Bank was formerly the government printer for materials other than banknotes, the Bank's archives contain more than documents, including a historical collection of Australian stamps, vouchers and posters that are of interest to researchers. The Bank also dealt with many written requests from researchers that required Bank staff to research and retrieve archival records, and it has provided access to the archives to members of the public making specific enquiries. Research continued on a further volume of the official history of the Reserve Bank by Professor Selwyn Cornish of the Australian National University, covering the period 1975–2000.

## Charitable Activities

During the year the Reserve Bank made its ninth annual contribution of $50 000 to the Financial Markets Foundation for Children, of which the Governor is Chairman. In July 2011, in its sixth 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 two major initiatives, namely dollar-matching staff payroll deductions to the Reserve Bank Benevolent Fund and donating the value of leave days given up by staff to work for charitable organisations under a Volunteer Day Program. In late 2010, the Bank also matched donations of $7 745 to the MS Society that were raised by Reserve Bank staff participating in the 'Sydney to the Gong' charity bike ride. And in early 2011, the Bank matched one-off staff donations of $26 692 towards the Queensland Premier's Disaster Relief Appeal (established to raise funds to help those affected by the Queensland floods and cyclone in early 2011).

The Reserve Bank's contributions under all these initiatives in 2010/11 totalled $139 577. In addition, the Bank facilitates staff salary sacrificing under a Workplace Giving Program.

Reserve Bank staff also interacted with the community in a number of volunteering capacities in the past year, including the Cancer Council's Biggest Morning Tea fundraiser and Foodbank's corporate volunteer program.



**1.** Governor Glenn Stevens talking with Adrian Blundell-Wignall at an annual Anika Foundation Luncheon to raise funds for research into adolescent depression and suicide **2.** Reserve Bank staff doing volunteer work at Foodbank in December 2010

# Management of the Reserve Bank

## Operating Costs

In 2010/11 the Reserve Bank's business initiatives were focused on enhancing settlement systems, and migrating banking and currency systems to alternative platforms that will be better supported in the years ahead. This included the upgrade of network connections for the Community of Interest Network (COIN), and the commencement of projects to transfer existing legacy systems to new IT infrastructure.

The modernisation of the RBA's human resources system was completed during the year, streamlining administrative processes by making more staff-related services available electronically. A similar programme of work to modernise financial administrative systems has commenced. In most cases, additional staff have been hired on a temporary basis to assist with this work. In commemoration of the Bank's 50th Anniversary, the Research Library was also refurbished and re-opened as the A.S. Holmes Library in November 2010.

Operating costs increased by about 4.1 per cent over the last financial year, to $234.1 million. More than half of this expenditure is associated with the implementation of monetary and payments system policies, and a quarter is related to the provision of banking and settlement services. About 15 per cent arises from the issuance of banknotes.

Expenditure on staff continues to be the largest category of operating expenses, with salaries and allowances, on-costs and other staff-related costs accounting for around 63 per cent of total spending in 2010/11. Staff redundancies related to the restructure of departments to meet changing business requirements, and to improve the efficiency of operations, resulted in payments of $1.3 million.

**Operating Costs[(a)]**
$ million

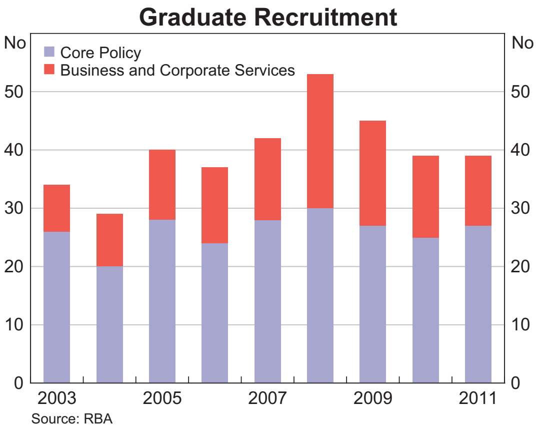
| | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 |
|---|---|---|---|---|---|
| Staff costs | 110.2 | 119.1 | 132.6 | 141.6 | 148.1 |
| Other costs | 74.7 | 77.2 | 82.8 | 83.3 | 86.0 |
| Underlying operating costs | 184.9 | 196.3 | 215.4 | 224.9 | 234.1 |
| Cost of redundancies | 0.2 | 0.2 | 2.0 | 0.5 | 1.3 |

(a) Costs associated with the ongoing operation of the Reserve Bank, excluding NPA

## Our People

The Reserve Bank is able to discharge its responsibilities effectively because of the high quality of people in its employ. As at the end of June 2011, the total number of employees at the Bank was 1 010, which was largely unchanged from the previous year. Most employees are located at the Reserve Bank's Head Office. Just over 5 per cent work at the Bank's Business Resumption Site, reflecting the Bank's ongoing focus on risk management and contingency planning. A further 5 per cent are located elsewhere in Australia – at the Bank's Canberra Branch and in the State Offices in Adelaide, Brisbane, Melbourne and Perth. Some Bank staff are also located at Note Printing Australia Limited (NPA) in Craigieburn, where they undertake banknote research & development, counterfeit examination and facility-management functions. (The staff of NPA itself are not employees of the Bank.) Staff in the State Offices assist in the Bank's monitoring of economic and financial developments across the country, liaise with individual firms and agencies in both the public and private sectors, and provide a vehicle for communicating the operation of monetary policy to the wider community. The Bank also maintains a presence in London and New York as part of its foreign exchange reserves management and financial market analysis.

The Reserve Bank recruited 121 people over the past financial year. Thirty-nine graduates, representing about one-third of all new employees, began the Reserve Bank's two-year Graduate Development Program. The trend to a higher representation of recruits from fields other than economics and finance continued, with areas such as law, accounting and information technology well represented. A number of these graduates are working in the Bank's business and corporate services areas as well as those covering the core policy functions.




The Bank's cadetship scheme has been particularly effective as a recruitment vehicle. The program provides two months of work experience, before the university honours year begins, for high-potential students who have completed three years of undergraduate study. The program provides financial support during the honours year for those who accept a place on the next Graduate Development Program. In 2010/11, 23 per cent of the new graduates had previously been cadets.

The Reserve Bank employed 15 staff under the Australian Government's traineeship scheme. The scheme is designed to assist those without post-secondary qualifications to enter the workforce, with formal training (and accreditation) part of the program. An important aspect of the program is ensuring that the applicant pool includes individuals with disabilities and those from Aboriginal and Torres Strait Islander (ATSI) backgrounds. Since the commencement of the Bank's participation in the scheme in 1991, 30 ATSI recruits have participated in this training.

The majority of Reserve Bank staff are employed on individual contracts, which provide flexibility in awarding remuneration based on performance and market relativities. Independent consultants are engaged to ensure that remuneration policies are consistent with market practice. The terms of employment for the minority of staff not employed on individual contracts continue to be determined by the Reserve Bank's Workplace Agreement. The Bank provided for a 3.5 per cent salary increase in 2010/11 for staff covered by the Agreement, with scope for a modest additional payment in recognition of good performance. Staff on individual contracts received, on average, a salary increase comparable to those on the Workplace Agreement.

The Reserve Bank supports continuous professional development, with the aim of ensuring that employees continue to improve their skills, knowledge and experience to enable the Bank to pursue its objectives to the expected standard. This takes a number of forms, including financial support for employees undertaking part-time study in disciplines related to their work and for full-time, postgraduate study at universities in Australia and overseas. Other training is provided on the job, through formal courses and, for a limited number of staff, through attachments to other organisations. Over the past year, for example, the Bank has had staff on secondment with the Departments of the Commonwealth Treasury and Prime Minister and Cabinet, the International Monetary Fund, the Bank for International Settlements and the Federal Reserve Bank of New York. At the same time, the Bank has hosted secondees from the Federal Reserve Bank of New York, the Bank of England, the Sveriges Riksbank, the Commonwealth Treasury and the West Australian Treasury.

## Facilities

The Reserve Bank owns premises in locations where there is a business need to do so, including its Head Office building in Sydney, a conference/training centre in Kirribilli, Sydney, office buildings in Melbourne and Canberra, the NPA 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 quite small – and for its offices in London and New York.

The value of the Reserve Bank's property assets increased by $3.9 million to $315.9 million in 2010/11, reflecting the overall improvement in the Australian commercial property market. Surplus accommodation in these properties is leased to external tenants; gross income from these leases amounted to $7.3 million in 2010/11.

During the year, the Reserve Bank continued to strengthen the resilience of facilities supporting critical operations. At Head Office, this involved upgrading the mechanical infrastructure with more reliable and efficient chillers for the building's air-conditioning plant. In Melbourne, mechanical and electrical infrastructure works were completed to improve the auxiliary power system. Interior upgrade works were also completed to enhance and update lift lobbies and other public areas consistent with the building code. At the Craigieburn facility, mechanical works to upgrade and replace air-conditioning plant were completed to enhance system resilience further and meet the operational needs of NPA.

## Environmental Management

The Reserve Bank is committed to improving the environmental performance of its operations. The Environmental Management Committee within the facilities management function has developed relevant policies. An Environmental Management System (EMS) aims to reduce the impact of the Bank's operations on the environment through the following initiatives:

- reducing energy, water and paper consumption;
- increasing the recycling of paper, co-mingled waste and printing cartridges;
- adopting environmentally sustainable designs for office fit-outs;
- use of 50/50 recycled paper; and
- greater use of fuel-efficient vehicles.

During the year, electricity and water sub-meters were progressively installed throughout the Reserve Bank's buildings; energy-saving measures were implemented for PC monitors and photocopiers; and the Bank continues to meet relevant government guidelines on emissions for its fleet of vehicles.

The Reserve Bank continues to measure the impact of its environmental initiatives. NPA's print works at Craigieburn accounts for a high proportion of the Bank's total energy use as well as water consumption and waste. While NPA has undertaken a number of initiatives on trade waste and the recycling of water in the printing process, energy and water use and waste products still fluctuate largely according to the plant's operating rate. Use of electricity, gas and water at NPA rose significantly in 2010/11, as did waste products, mainly in response to a large increase in production. Reflecting the ongoing effects of earlier initiatives, however, the use of electricity remains 5 per cent – and water 11 per cent – below their respective levels in 2006/07.

As for the Reserve Bank's mainstream activities, use of electricity fell by 2 per cent and gas consumption was unchanged in 2010/11. Water consumption rose by 2 per cent, reflecting work associated with installing and testing new, more energy-efficient air-conditioning plant at the offices in Sydney and Melbourne. This plant is expected to reduce energy and water use in future years. The volume of waste products fell by 8 per cent, although the proportion recycled fell slightly. There was also a reduction in paper use of 7 per cent per employee, with 86 per cent of paper 50/50 recycled, similar to 2009/10.

## 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. In 2010/11, the following major consultancies were undertaken across the Bank.

**Consultancies[(a)]**
2010/11

| Consultant | Cost ($)[(b)] | Purpose |
|---|---|---|
| Blackthorn Heuristics and Qualia Sensory Consulting | 17 500 | Literature review and experimental proposals on tactile perception of banknotes |
| PricewaterhouseCoopers | 60 000 | Remuneration benchmarking review |
| Cato Counsel | 24 945 | Advice on public communication |

(a) Costing $10 000 or more
(b) Excluding GST

# Risk Management

## Objectives and Governance Structure

As a result of carrying out its central banking responsibilities, the Reserve Bank faces a broad range of both operational and financial risks. The most significant risks are those associated with the financial assets held by the Bank to underpin its operations in financial markets. However, the Bank is also exposed to significant operational risks through its banking and settlement transactions and from the administration of the organisation itself. As with most central banks, the Reserve Bank seeks to manage its risk profile carefully. This reflects the view that accomplishing its public policy and other responsibilities to the expected standard would be undermined if the risks it faces were managed inadequately since this could result in significant financial losses and/or damage to the Bank's reputation. That said, the Bank recognises that it cannot eliminate the risks involved in its activities completely.

The underlying principle of the Reserve Bank's risk management framework is that the prime responsibility for controlling and mitigating risks on a day-to-day basis lies with management of each operational area. Under this approach, line managers play a key role in identifying and assessing the risks associated with their business, including the development and monitoring of mitigating controls. Management also promotes an active risk management culture, which emphasises careful analysis and control of risk as a vital part of all business processes in the Bank.

Oversight of the Reserve Bank's arrangements for risk management is undertaken by the Risk Management Committee. This is a committee of senior executives responsible for ensuring that all the risks facing the organisation, with the exception of those arising directly out of the Bank's monetary, financial stability and payments policy functions, are properly evaluated and managed. It is chaired by the Deputy Governor and comprises the Assistant Governors for Banking and Payments, Corporate Services, Currency and Financial Markets; the Chief Financial Officer; the Heads of Audit, Human Resources and Risk Management; and the General Counsel and Deputy Secretary. The Committee meets every three months, or more frequently if required, and informs the Bank's Executive Committee and the Board's Audit Committee of its activities. The Risk Management Committee is supported in its responsibilities by the Risk Management Unit (RMU). The RMU's main role is to help groups and departments manage their risk environment in a manner which is broadly consistent across the Bank. The RMU also monitors performance and risk associated with the Bank's activities in the financial markets.

The Audit Department co-ordinates closely with – but remains separate from – the RMU. Audit provides an independent assurance that the Bank's risk management framework is effective and applied across the Bank. The Audit Department also has a separate brief to test the adequacy of procedures and controls at all levels of the Bank. The RMU itself is subject to audit review. The Audit Department reports to the Board's Audit Committee, which meets quarterly or more frequently if required.

As noted, the Bank's risk management policy covers financial, market, credit, operational and other risks inherent in carrying out its central banking activities, but not the risks associated with the Bank's core monetary, financial stability and payments policy functions. These remain the responsibility of the Governor and the Reserve Bank and Payments System Boards. Governance of the business risks in Note Printing Australia Limited and Securency International Pty Ltd – companies that are respectively fully owned and partly owned by the Reserve Bank – is the responsibility of the Boards of the companies. The risks inherent in the ownership of the companies are managed by the Bank.

## Portfolio Risks

The vast majority of the Reserve Bank's assets comprise domestic and foreign currency-denominated financial instruments that are used to help meet its policy objectives. These assets expose the balance sheet to a number of financial risks, of which the most important are exchange rate, interest rate and credit risks. The responsibility for managing these risks rests with the Financial Markets Group. However, the RMU is responsible for monitoring these risks and ensuring compliance with the control framework.

The Bank cannot eliminate its portfolio risks as this would interfere with its ability to implement its policy objectives. The risks are instead managed to a level consistent with the Reserve Bank's objectives through a number of controls, which are discussed below. In addition, the Assistant Governor (Financial Markets), the Head of Risk Management and other senior staff are provided with daily reports on limits compliance, portfolio risks and performance.

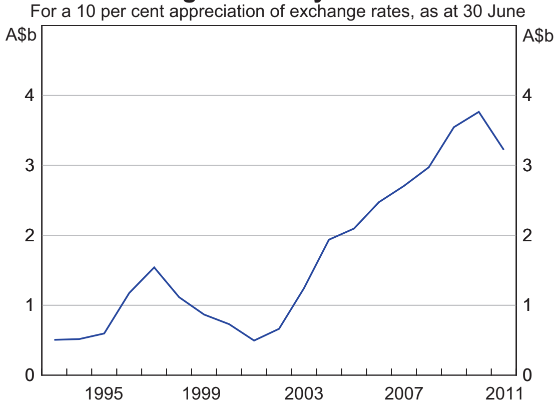
### Exchange rate risk

The Reserve Bank invests in foreign currency-denominated assets as holder of Australia's official foreign currency reserves. This exposes the Bank's balance sheet to fluctuations in exchange rates, commonly referred to as exchange rate risk.

Given its policy role, the Reserve Bank cannot eliminate this exposure. Rather, the Bank mitigates its exchange rate risk by diversifying its foreign-currency assets across four highly liquid currencies. The allocation was changed over the course of 2010/11 to include assets denominated in Canadian dollars, taking the portfolio composition to 45 per cent in US dollars, 45 per cent in euros, 5 per cent in Japanese yen and 5 per cent in Canadian dollars (see chapter on 'Operations in Financial Markets'). The allocation to Canadian dollars was effected gradually to avoid disrupting markets. The portfolio is rebalanced daily taking into account changes in market rates or transactions.

Exchange Rate Risk on RBA Foreign Currency Portfolio

For a 10 per cent appreciation of exchange rates, as at 30 June




Source: RBA

The exchange rate risk on the portfolio declined over the year as the value of the foreign currency reserves portfolio fell, in Australian dollar terms, owing to the appreciation in the Australian dollar exchange rate. The portfolio was unchanged when measured in foreign currency terms. At the current level of reserves, the potential loss from a 10 per cent appreciation in the Australian dollar would result in valuation losses of around $3.2 billion.

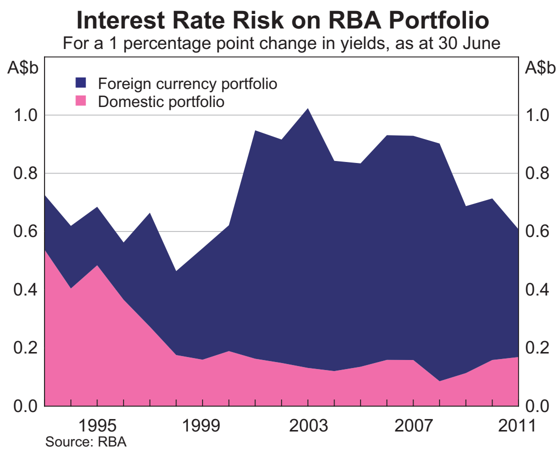
### Interest rate risk

The Reserve Bank's financial assets largely comprise domestic and foreign fixed-income securities. The value of these assets is affected by movements in interest rates as the payment stream of these securities is fixed. In general, longer-dated securities are more sensitive to movements in interest rates than shorter maturity instruments.

A little less than half of the Bank's financial assets are invested in highly rated domestic securities, which are held for policy-related purposes. At the end of June 2011, total holdings of domestic securities were $32 billion, around $5 billion lower than a year earlier with a fall in holdings of securities held under repurchase agreements (repos) more than offsetting an increase in securities held outright. This generated only a modest rise in interest rate risk on the domestic portfolio as outright holdings comprise a relatively small portion of total domestic assets and the purchases were concentrated in securities of very short duration. The majority of domestic securities is invested under repos with short terms to maturity. While already quite short, the average term to maturity of the Bank's domestic repo book declined from 24 days at the end of June 2010 to around 14 days at end June 2011 (See chapter on 'Operations in Financial Markets').

The Reserve Bank's balance sheet liabilities are unique and carry little overall interest rate risk. Banknotes on issue make up around two-thirds of total liabilities and carry no price risk. The other significant obligations are deposits held by the Australian Government and government agencies, and settlement balances held by authorised deposit-taking institutions (ADIs). These deposits have short maturities that broadly match the Bank's domestic assets held under repo, and the interest paid reflects domestic short-term interest rates. This means the level of interest rate risk on the Bank's liabilities is low and is mainly offset by the exposure on its domestic assets.

Unlike the domestic portfolio, the Bank's foreign currency assets are managed relative to a benchmark. The benchmark is specified in terms of a target duration that reflects the Bank's long-term risk and return preferences. The different approaches to the domestic and foreign portfolios reflect different objectives. The domestic portfolio is held solely for domestic policy purposes, while the foreign portfolio is held to provide capacity for foreign exchange intervention. To ensure the foreign portfolio is able to meet this objective, it is invested in highly liquid marketable securities of the highest credit quality. The benchmark duration remained at 18 months for the US and European portfolios, but was reduced to 12 months for the Japanese portfolio. When fully implemented, the benchmark duration for the Canadian portfolio will be 18 months.




Looking at the portfolios together, the overall level of interest rate risk on the Bank's financial assets declined over the year. The Bank would expect to incur a valuation loss of a little over $600 million if interest rates in Australia and overseas rose uniformly by 1 percentage point across the yield curve. This is around $100 million less than the same time last year, mainly reflecting the valuation effects on the foreign portfolio when measured in Australian dollar terms.

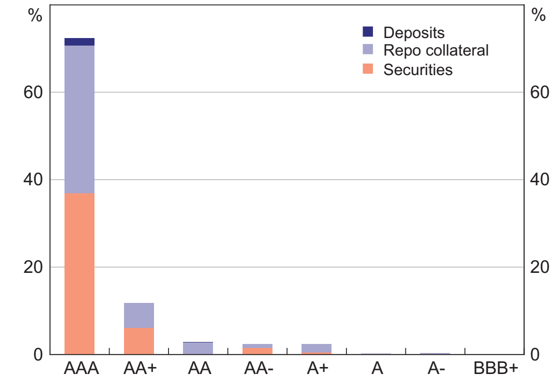
## Credit risk

The Reserve Bank applies a strict set of criteria to its investments to manage its credit exposure to a very low level. These mainly involve investing only in highly rated assets and dealing with highly rated counterparties. In addition, where possible, the Bank's transactions are executed in terms of internationally recognised legal agreements.

The Reserve Bank minimises its credit exposure on its outright holdings in the domestic portfolio by investing only in securities issued by the Australian Government or by state and territory government borrowing

## Credit Exposure

Per cent of balance sheet, as at 30 June 2011




Source: RBA

authorities. As discussed above, a large portion of the Bank's domestic assets are held under repo. The credit risk on repos is inherently limited and ultimately reflects the quality and market value of the collateral provided. The residual exposure is low – the Bank faces a potential loss only if the counterparty fails to repurchase securities sold under repo *and* the market value of the securities provided as collateral is less than the initial cash consideration. The Bank manages this exposure by applying an appropriate margin ('haircut') to the collateral and requiring that repo collateral is of high quality.

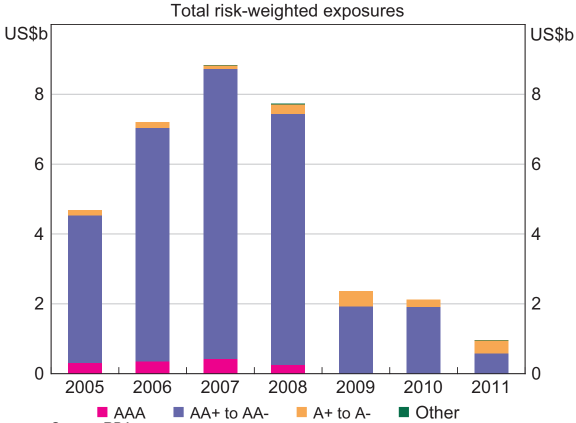
The degree of over-collateralisation is generally set at 2 per cent for government-backed securities or other securities regarded as 'general collateral', but up to 10 per cent for some long-dated privately issued securities. The amount of over-collateralisation is monitored daily by the RMU and advice is given to the Bank's dealers when a margin call is required to maintain the degree of over-cover. The composition of domestic securities held under repo changed slightly during 2010/11 (see chapter on 'Operations in Financial Markets'). For example, 'private securities' as a proportion of total domestic repo collateral declined from around 40 per cent at the start of the financial year to around 25 per cent in June 2011. These financial assets were largely replaced by highly rated government, semi-government and supranational securities.

Given that the Reserve Bank's market operations are conducted for policy reasons, all members of the Reserve Bank Information and Transfer System (RITS) are eligible repo counterparties. As noted previously, credit risk inherent in these transactions is controlled largely through contracts on eligible collateral. All counterparties must also be co-signatories to legal documentation underpinning repos and must be able to ensure efficient and timely settlement of transactions within the Austraclear system.

Like the domestic portfolio, the Bank's investments in the foreign portfolio are mainly confined to highly rated securities. The majority of the Reserve Bank's outright holdings are limited to highly liquid securities issued by the national governments of the United States, Germany, France, the Netherlands, Japan and Canada. The foreign asset portfolio also comprises securities issued by select highly rated supranational institutions, US agencies and foreign government-guaranteed securities.

## Foreign Currency Credit Exposures

Total risk-weighted exposures




Source: RBA

The Reserve Bank holds a portion of its foreign portfolio in short-term repos, which is the main instrument used for day-to-day portfolio cash management. As mentioned above, a small amount of residual credit risk is inherent in repos. The Bank manages this risk in a similar way to the domestic portfolio by requiring 2 per cent over-collateralisation. The credit risk on foreign repos is limited further by dealing only with counterparties rated at least BBB+. The Reserve Bank also uses foreign exchange swaps as part of its policy operations. Credit risk on these instruments is managed to a low level by executing foreign exchange transactions under internationally recognised legal agreements only with counterparties rated at least A-.

As a result of the decision to reduce significantly the Bank's exposure to unsecured commercial bank deposits, risk-adjusted counterparty exposures declined to around US$1.0 billion over the course of 2010/11. Funds previously invested in commercial bank deposits were largely switched into secured repo instruments, resulting in a modest increase in risk-adjusted exposures to counterparties rated A+ to A- as the minimum credit rating on repo counterparties is lower than the minimum rating for deposit counterparties. This shift was acceptable because the risk profile of these secured instruments is lower than for deposits with commercial banks. The underlying credit quality of the Bank's financial assets remained very high, with around 90 per cent rated at AA- or higher.

## Operational Risk

The Reserve Bank faces operational risks that can arise from inadequate or failed internal processes and systems or from external events. These risks are similar to those faced by other financial institutions. They range from the possibility that access to key financial infrastructure might be lost to the possibility that services might not be delivered to the required standard.

While all parts of the Reserve Bank are exposed to operational risks of varying degrees, the most significant are those associated with the financial transactions undertaken by the Bank for its own business and that of its clients. Over the course of 2010/11, the Bank's Financial Markets Group executed around 66 000 transactions, generating an average daily settlement value of around $24 billion, to achieve its policy objectives. Although the number of transactions was slightly higher than in 2009/10, it remains well below the levels seen in previous years because of the lower levels of repos in both the foreign and domestic portfolios.

In addition to these activities, the Reserve Bank is the main banker for a number of government agencies – including the Australian Taxation Office, Medicare Australia and Centrelink – and maintains the infrastructure to facilitate real-time interbank payment and settlement services through RITS. Given the pivotal nature of these activities, any operational failure could have widespread consequences for the financial system. As such, the Bank's risk management framework supports a continuing focus on controlling the main operational risks associated with these functions.

The operational risks associated with the complexity of the Reserve Bank's computerised systems are controlled by extensive monitoring, reconciliation and reporting systems. There are comprehensive procedures in place that cover any changes to system infrastructure or applications, with staff on-call to ensure that any system problems are quickly assessed and remedial action put into place where required. Technology enhancements to improve data security and information management processes are routinely evaluated and implemented to ensure that Bank practices in these areas remain current and secure. The Bank has an ongoing program of development work for its main systems to ensure that they reflect best practice and remain robust. This work is typically carried out under standard guidelines for project management, with all new hardware and newly developed software, and their links to existing management systems, thoroughly tested before entering the production environment.

Appropriate staff resourcing, tight controls over information technology processes, security over information management and robust business contingency planning are all actively addressed in the Bank's ongoing planning and monitoring processes.

The loss of Head Office facilities or IT systems caused by a natural disaster or other disruptive event represents a key risk to the Reserve Bank. Extensive back-up plans and capacity have been put in place to ensure that its critical business services can continue efficiently and reliably if access to Head Office facilities and IT systems is lost. The centrepiece of these arrangements is the Bank's Business Resumption Site located in the north-west of the Sydney metropolitan area. Some staff are based permanently at the site to ensure that a number of critical services can be maintained if Head Office is unexpectedly inaccessible. Business areas within the Bank regularly test their back-up arrangements to cover a range of contingency scenarios. The results of the tests are monitored by the Risk Management Committee.

A significant operational risk facing any financial institution is that its staff may engage in fraud or undertake unauthorised transactions, exposing the institution to significant financial loss or reputational damage. The Reserve Bank has a number of controls in place to mitigate this risk. These include having a clear decision-making hierarchy, with all staff involved in financial dealing having well-defined limits to their authority to take risks or otherwise commit the Bank, and controls over computer access at both the user and administrator levels. 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 are physically separate and have separate reporting lines within the organisation. Regular staff training in fraud awareness is also conducted.

Despite strong controls and a good risk management culture, operational failures occur from time to time, which can adversely affect the Reserve Bank's reputation or lead to other costs. These failures are reported in a timely way to the Risk Management Committee and monitored to identify areas where new controls may be needed or where existing controls should be strengthened.

The Reserve Bank's employee Code of Conduct outlines the high standard of integrity and propriety which is expected of staff in carrying out their duties. The Fraud Control Policy and arrangements by which suspicious behaviour can be reported anonymously are part of the framework, which endeavours to keep staff aware of their responsibilities in this area.

## Government Guarantee Scheme

On behalf of the Government, the Reserve Bank manages the Guarantee Scheme for Large Deposits and Wholesale Funding and the Guarantee for State and Territory Borrowing. Applications for new guaranteed liabilities under both schemes have closed, but the Bank will continue to have responsibility for collecting fees on existing liabilities for a few more years. A total of $1.2 billion in fees was collected on behalf of the Government in 2010/11.

# Earnings and Distribution

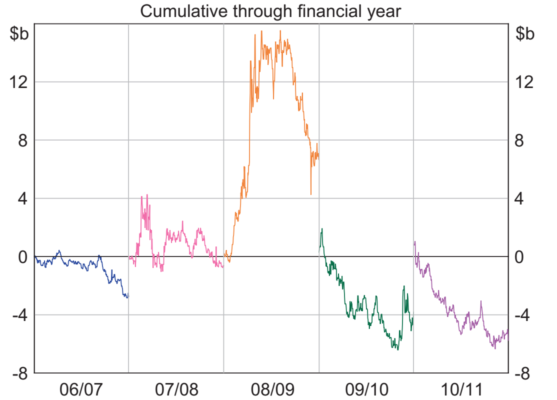
The Reserve Bank manages a large balance sheet of financial assets that are the basis of its policy and other operations in financial markets. While this balance sheet fluctuates in size according to these operations, total assets averaged $77 billion during 2010/11. These assets are composed of domestic and foreign assets, with the portfolio of domestic securities used for operations to manage liquidity in Australia and implement monetary policy. As the custodian of Australia's foreign exchange reserves, the Bank operates in the foreign exchange market to manage these reserves and to undertake transactions on behalf of its customers, mainly the Australian Government.

This balance sheet provides two broad sources of income. The first, underlying earnings, is essentially net interest earnings – the difference between interest income and interest paid. Most of the Reserve Bank's assets earn market rates of interest, but no interest is paid on a large component of liabilities, such as banknotes or capital and reserves. Second, the Bank records valuation gains and losses on its assets because their value fluctuates with changes in exchange rates and interest rates. An appreciation of the exchange rate or a rise in interest rates reduces the value of its securities, resulting in valuation losses; a depreciation of the exchange rate or a decline in market yields has the opposite effect, leading to valuation gains. These gains and losses are realised only when the Bank sells the underlying asset; until then they remain unrealised.

Valuation gains and losses are volatile because market interest rates and the exchange rate can fluctuate across wide ranges over time. Accordingly, the Reserve Bank faces substantial market risk on its assets, as discussed in the chapter on 'Risk Management'. Since assets are held for policy purposes, the Reserve Bank has very limited discretion to manage foreign exchange risk and interest rate risk on the portfolio. Consequently, if the exchange rate appreciates, as it did this year and in 2009/10, valuation losses are inevitable. The implications of this volatility for the Bank's profits have been discussed in past annual reports. The potential for such volatility to result in accounting losses is heightened when interest rates around the world are low, as at present.

**Valuation Gains and Losses**

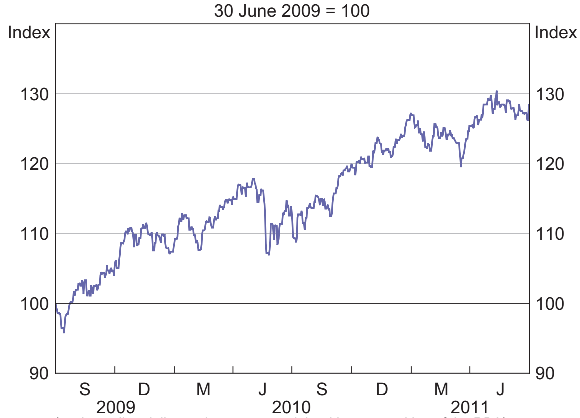
Cumulative through financial year




Source: RBA

**Reserves-weighted Exchange Rate***

30 June 2009 = 100




* Australian dollar exchange rate weighted by composition of the RBA's foreign reserves

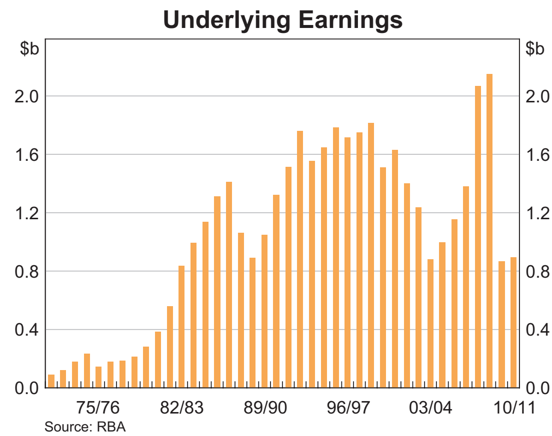
Source: RBA

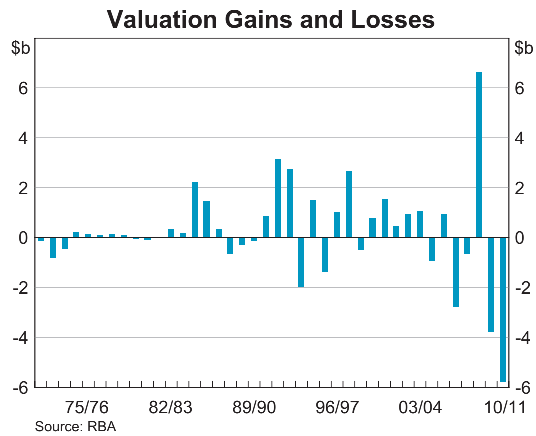
The Reserve Bank follows commercial standards – the Australian equivalents to International Financial Reporting Standards (AIFRS) – in all of its financial disclosures, including on profits. Consequently, all sources of income are included in profits, including underlying earnings and both realised and unrealised valuation gains and losses. The distribution of these earnings is determined by section 30 of the *Reserve Bank Act 1959*. Unrealised gains are not distributed, but are retained in the Unrealised Profits Reserve where they remain available to absorb future valuation losses or until the underlying assets are sold and the gains are realised. Unrealised losses are also transferred to this reserve, to be offset against accumulated unrealised gains when such gains are available. This feature of the legislative framework reflects sound central banking practice, as it prevents the distribution of unrealised gains which would reduce the Bank's capacity to absorb any future valuation losses. At the start of 2010/11, no unrealised gains were held in the Unrealised Profits Reserve as these had been exhausted by the large valuation loss recorded in the previous year. The Bank has recorded both unrealised and realised losses in 2010/11. These, in the first instance, have been offset against underlying earnings; the remainder has been absorbed by the Reserve Bank Reserve Fund (RBRF), the Bank's permanent general reserve, significantly depleting this reserve. Accordingly, no dividend is payable to the Australian Government from earnings in 2010/11.

## The Reserve Bank's Earnings

The Reserve Bank recorded an accounting loss of $4 889 million in 2010/11, following a loss of $2 928 million the previous year. The loss in 2010/11 comprised:

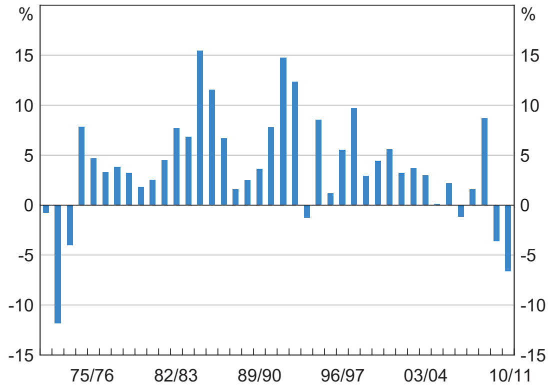
- Underlying earnings of $897 million. While this is a modest increase on 2009/10, underlying earnings are at a historically low level as interest rates around the world also remain low by historical standards. The appreciation of the exchange rate during the year also meant that foreign interest earnings were worth less in Australian dollar terms.
- Realised valuation losses of $1 135 million, arising primarily from foreign exchange transactions associated with managing the portfolio of foreign reserves; valuation losses of $52 million and $42 million were realised on the sale of foreign and domestic securities respectively.
- Unrealised valuation losses of $4 651 million, essentially due to the appreciation of 16 per cent in an index of the basket of currencies in which Australia's foreign reserves are invested.



As noted, with no unrealised gains held in the Unrealised Profits Reserve for investments, the net accounting loss is fully absorbed by a transfer of $4 866 million from the RBRF. This transfer reduced the balance of the RBRF from $6 183 million at the previous balance date to $1 317 million on 30 June 2011. As a consequence, no earnings are available to pay as a dividend to the Australian Government from the Reserve Bank's earnings in 2010/11.

The composition and distribution of the loss in 2010/11, and of profits and losses in earlier years, is summarised in the Table on page 62.




* Accounting profit is estimated prior to 1998
Source: RBA

## The Reserve Bank Reserve Fund (RBRF) and Other Reserves

The RBRF is a permanent reserve established by section 29 of the Reserve Bank Act. It has been built up over the years from transfers from profits and is regarded as the Bank's permanent capital. As with any corporate entity, a primary purpose of the Bank's capital is to provide capacity to absorb losses when it is necessary to do so.

The transfer of the loss of $4 866 million to the RBRF in 2010/11 is in accordance with the purpose of the reserve, in particular that it is available to absorb losses in the value of the Reserve Bank's assets that cannot be absorbed by the Bank's other resources. Importantly, no unrealised gains from previous years were available in the Unrealised Profits Reserve as these had been exhausted by the valuation loss in 2009/10. The transfer from the RBRF in 2010/11 has reduced the balance of the RBRF to a level below that which the Board regards as desirable. Consequently, the Board will seek to replenish the reserve from the Bank's future earnings. Consistent with the Reserve Bank Act, such future transfers to the RBRF will be determined by the Treasurer in consultation with the Board.

The Reserve Bank also has asset revaluation reserves. Although specific to non-traded assets such as gold and property, these reserves contribute to the Bank's net worth. Balances in these reserves represent the difference between the market price of non-traded assets and their cost. The total balance in these reserves stood at $3 921 million on 30 June 2011, $166 million lower than a year ago. The main factor was the decline in the Australian dollar value of the Bank's gold holdings.

The balance of the RBRF plus asset revaluation reserves stood at 7 per cent of total assets on 30 June 2011.

The Reserve Bank's financial statements (and accompanying Notes to the Accounts) are prepared in accordance with AIFRS, consistent with the Finance Minister's Orders issued under the *Commonwealth Authorities and Companies Act 1997*.

## Composition and Distribution of Reserve Bank Profits

$ million

| | Composition of Profits | | | | Distribution of Profits | | | | Payments to Government | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Transfer to/from(–) | | | | | | |
| | Underlying earnings | Realised gains and losses(–)[(a)] | Unrealised gains and losses(–) | Accounting 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 | | | | | | | | | – | – | – |

(a) Excludes gains or losses realised from the sale of fixed assets that had been held in asset revaluation reserves

Source: RBA

# Statutory Obligations

## Equal Employment Opportunity

The Reserve Bank is required under the *Equal Employment Opportunity (Commonwealth Authorities) Act 1987* to report to the Australian Parliament each year on its equity and diversity program. *The Equity & Diversity Annual Report 2010*, which reviews the Bank's diversity profile, employee engagement with existing policies and progress with the program, was tabled on 29 October 2010.

The Reserve Bank aims to ensure that all employees are treated with dignity and respect in the workplace, 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 Diversity Plan. While the existing policies and procedures aim to embed equity and diversity principles in work practices, the Diversity Plan provides specific initiatives that highlight priorities, raise awareness and ensure continuous improvement. The Program is governed by the Bank's Equity & Diversity Policy Committee, a consultative body responsible for monitoring the development and implementation of equity and diversity initiatives, policies and practices.

During the year, the Reserve Bank continued to work on initiatives outlined in the current Plan. The four priorities of the Plan are to:

- gain an understanding of the issues related to work/life balance that are important to staff, and use that information to contribute to equity and diversity policy deliberations;
- better understand the factors influencing the career experience of women;
- continue improving the accessibility of the Bank's computing systems, information and building facilities for its staff and the community; and
- understand the needs of a maturing workforce, and use that information to assist in workforce planning and knowledge retention.

While the focus for the previous reporting period was on gender-based employment trends at the Reserve Bank, the major focus this year was on enhancing the Bank's culture of inclusiveness, with a number of initiatives relating to gender, disability and indigenous employment. The Bank also focused on the accessibility of information and systems. As this marks the last year of the current Plan, a new Diversity Plan is currently being prepared.

Full details and outcomes of the equity and diversity program will be included in the Reserve Bank's *Equity & Diversity Annual Report 2011*.

## Work Health & Safety, Compensation and Rehabilitation

The Reserve Bank is required, in terms of the *Occupational Health and Safety Act 1991* and the conditions of its licence as a Licensed Authority under the *Safety, Rehabilitation and Compensation Act 1988*, to report each year on matters of health and safety, workers' compensation and rehabilitation as they affect the Bank.

The Reserve Bank is committed to the safety, health and wellbeing of its employees, contractors and visitors. The Bank's strong track record in all aspects of work health and safety, and compliance with the relevant legislation and the Bank's Conditions of Licence, was confirmed by Comcare audits of the Bank and robust performance against Commission benchmarks. In light of these results, the Safety, Rehabilitation and Compensation Commission renewed the Bank's licence for the period 1 July 2011 to 30 June 2015. The Commission also confirmed that the Bank has retained the highest possible rating for its prevention, claims management and rehabilitation practices during this year, with the Bank maintaining Tier 3 status in each area.

A key focus of the Bank's activities this year was ensuring that employees were aware of their work health and safety obligations. The Bank facilitated this by providing ongoing education for management in contemporary occupational health and safety issues, the prevention of injuries and the need for continuous improvement in the Bank's work practices. An online training module on occupational health and safety was made available to all employees to help raise awareness.

The Bank also continued to promote its Health & Wellbeing Program, which is designed to promote the physical and psychological health of employees. This is achieved through the implementation of a range of initiatives targeted at work health and safety risks, attitudinal and behavioural change, and the provision of a supportive and safe workplace environment. Some of these initiatives included the provision of ergonomic assessments for all new employees by the Bank's Occupational Health Centre, the Employee Assistance Program, lunchtime seminars, subsidised fitness classes and mental health awareness workshops for management.

During the year to June 2011, there were 42 reported incidents, which resulted in five accepted claims for workers' compensation, compared with 46 incidents and eight accepted claims in the previous financial year. Of the incidents that resulted in injury, almost all were minor in nature, requiring simple first-aid treatment. Ten occurrences required notification to Comcare.

## Freedom of Information (FOI)

The Reserve Bank is an Australian Government agency subject to the *Freedom of Information Act 1982* (FOI Act). Part 2 of the FOI Act establishes an Information Publication Scheme (IPS) for agencies subject to the FOI Act. The IPS commenced on 1 May 2011 and requires agencies to publish a broad range of information on their website. Agencies are also required to publish a plan that explains how they intend to implement and administer the IPS.

The Reserve Bank website has pages dedicated to the IPS and compliance with the FOI Act, which can be found at www.rba.gov.au/foi.

Eighteen requests for access to documents under the FOI Act were received in 2010/11. Access was granted in full in response to five requests and in part in response to seven requests. No relevant documents were found in response to two requests. Access to documents was denied in response to two requests, and two requests were withdrawn. One request outstanding at the end of 2009/10 was finalised early in the 2010/11 financial year, with access granted in part. Since 1 November 2010, the Reserve Bank has published on its website information that has been released in response to FOI access requests, in line with the requirements of the disclosure log under the FOI Act.

No applications were received in 2010/11 for the internal review of a decision.

The estimated number of staff hours spent dealing with all aspects of FOI requests in 2010/11 was around 450 hours. The total cost to the Reserve Bank of administering the FOI Act in 2010/11 is estimated to have been about $134 100, compared with around $35 600 in 2009/10. Application fees received prior to their abolition from 1 November 2010 totalled $150, while charges levied and received amounted to around $1 800. Of the 18 requests received during the 2010/11 financial year, four were received prior to the commencement of the revised FOI Act on 1 November, and 14 were received subsequently.

## Ministerial Directions

The Reserve Bank received no directions from its responsible Minister, the Treasurer, or from any other Minister during 2010/11. The Reserve Bank continues to be bound by:

- the Finance Minister's (CAC Act Procurement) Directions 2009, which require the Reserve Bank to apply the Commonwealth Procurement Guidelines when undertaking a covered procurement[1]; and
- the National Code of Practice for the Construction Industry and the Australian Government Implementation Guidelines for the National Code of Practice for the Construction Industry.

No General Policy Orders under section 48A of the *Commonwealth Authorities and Companies Act 1997* (CAC Act) were first applied, or continued to apply, to the Reserve Bank under section 28 of the CAC Act during 2010/11.

1 For the Reserve Bank, covered procurements are those where the value of the property or service being procured exceeds $400 000 for non-construction services or more than $9 million for construction services.

# Financial Statements

For the year ended 30 June 2011

# Directors' Statement

In the opinion of the directors, the financial statements for the year ended 30 June 2011 give a true and fair view of the matters required by the Finance Minister's Orders 2010–2011 made under the *Commonwealth Authorities and Companies Act 1997*. These statements have been prepared from properly maintained financial records and are signed in accordance with a resolution of the directors.

**Glenn Stevens**
Chairman, Reserve Bank Board
25 August 2011

**Frank Campbell**
Assistant Governor (Corporate Services)

# Balance Sheet – As at 30 June 2011

## Reserve Bank of Australia and Controlled Entities

| | Note | 2011 $M | 2010 $M |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 6 | 1 209 | 852 |
| Australian dollar securities | 1(b), 15 | 31 834 | 36 972 |
| Foreign exchange | 1(b), 15 | 37 727 | 43 096 |
| Gold | 1(c), 15 | 3 599 | 3 747 |
| Property, plant and equipment | 1(d), 8 | 454 | 449 |
| Loans, advances and other | 7 | 490 | 536 |
| Total Assets | | 75 313 | 85 652 |
| **Liabilities** | | | |
| Deposits | 1(b), 9 | 17 504 | 20 987 |
| Distribution payable to Australian Government | 1(f), 3 | – | 750 |
| Other | 10 | 2 411 | 4 762 |
| Australian notes on issue | 1(b), 15 | 50 059 | 48 759 |
| Total Liabilities | | 69 974 | 75 258 |
| **Net Assets** | | 5 339 | 10 394 |
| **Capital and Reserves** | | | |
| Reserves: | | | |
| Unrealised profits reserves | 1(e), 5 | 61 | 84 |
| Asset revaluation reserves | 1(e), 5 | 3 921 | 4 087 |
| Reserve Bank Reserve Fund | 1(e), 5 | 1 317 | 6 183 |
| Capital | 1(e) | 40 | 40 |
| **Total Capital and Reserves** | | 5 339 | 10 394 |

*These Financial Statements should be read in conjunction with the accompanying notes.*

# Statement of Comprehensive Income – For the year ended 30 June 2011

## Reserve Bank of Australia and Controlled Entities

| | Note | 2011 $M | 2010 $M |
|---|---|---|---|
| **Income** | | | |
| Interest revenue | 2 | 1 930 | 1 994 |
| Dividend revenue | 2 | 4 | 11 |
| Fees and commissions | 2 | 20 | 20 |
| Other revenue | 2 | 98 | 69 |
| Total Income | | 2 052 | 2 094 |
| **Expenses** | | | |
| Interest expense | 2 | 798 | 918 |
| Net losses on securities and foreign exchange | 2 | 5 786 | 3 782 |
| General administrative expenses | 2 | 303 | 282 |
| Other expenses | 2 | 54 | 40 |
| Total Expenses | | 6 941 | 5 022 |
| **Net Profit** | | (4 889) | (2 928) |
| **Other Comprehensive Income** | | | |
| Gains/(losses) on: | | | |
| Gold | 5 | (147) | 790 |
| Shares in international and other institutions | 5 | (26) | 10 |
| Properties, plant and equipment | 5 | 7 | (21) |
| Total Other Comprehensive Income | | (166) | 779 |
| **Total Comprehensive Income** | | (5 055) | (2 149) |

*These Financial Statements should be read in conjunction with the accompanying notes.*

# Statement of Distribution – For the year ended 30 June 2011

## Reserve Bank of Australia and Controlled Entities

| | Note | 2011 $M | 2010 $M |
|---|---|---|---|
| **Net Profit** | | (4 889) | (2 928) |
| *Distributed as follows:* | | | |
| Unrealised gains transferred to/(from) Unrealised profits reserves | 5 | (23) | (2 248) |
| Transfer to/(from) Reserve Bank Reserve Fund | 5 | (4 866) | (680) |
| Payable to the Australian Government | 3 | – | – |
| | | (4 889) | (2 928) |

*These Financial Statements should be read in conjunction with the accompanying notes.*

# Statement of Changes in Capital and Reserves – For the year ended 30 June 2011

## Reserve Bank of Australia and Controlled Entities

| | Note | Asset Revaluation Reserves $M | Unrealised Profits Reserves $M | Reserve Bank Reserve Fund $M | Capital $M | Earnings Available for Distribution $M | Total Capital and Reserves $M |
|---|---|---|---|---|---|---|---|
| **Balance as at 30 June 2009** | | 3 308 | 2 332 | 6 863 | 40 | – | 12 543 |
| *Plus:* | | | | | | | |
| Net Profit | 2 | – | (2 248) | (680) | | – | (2 928) |
| Gains/(losses) on: | | | | | | | |
| Gold | 5 | 790 | | | | | 790 |
| Shares in international and other institutions | 5 | 10 | | | | | 10 |
| Properties, plant and equipment | 5 | (21) | | | | | (21) |
| Other comprehensive income | | 779 | | | | | 779 |
| Total comprehensive income for 2009/10 | | | | | | | (2 149) |
| *Less:* | | | | | | | |
| Transfer to the distribution payable to Australian Government | 3 | – | – | – | | – | – |
| **Balance as at 30 June 2010** | | 4 087 | 84 | 6 183 | 40 | – | 10 394 |
| *Plus:* | | | | | | | |
| Net Profit | 2 | – | (23) | (4 866) | | – | (4 889) |
| Gains/(losses) on: | | | | | | | |
| Gold | 5 | (147) | | | | | (147) |
| Shares in international and other institutions | 5 | (26) | | | | | (26) |
| Properties, plant and equipment | 5 | 7 | | | | | 7 |
| Other comprehensive income | | (166) | | | | | (166) |
| Total comprehensive income for 2010/11 | | | | | | | (5 055) |
| *Less:* | | | | | | | |
| Transfer to the distribution payable to Australian Government | 3 | – | – | – | | – | – |
| **Balance as at 30 June 2011** | | 3 921 | 61 | 1 317 | 40 | – | 5 339 |

*These Financial Statements should be read in conjunction with the accompanying notes.*

# Cash Flow Statement – For the year ended 30 June 2011

## Reserve Bank of Australia and Controlled Entities

This statement meets the requirements of AASB 107 – *Cash Flow Statements* and the Finance Minister's Orders 2010–2011. In the RBA's view, due to the nature of central banking activities, this statement does not shed additional light on the RBA's financial results. For the purpose of this statement, cash includes the notes and coin held at the Reserve Bank and overnight settlements balances due from other banks.

| | 2011 Inflow/ (outflow) $M | 2010 Inflow/ (outflow) $M |
|---|---|---|
| **Cash flows from operating activities** | | |
| Interest received on investments | 1 975 | 2 498 |
| Interest received on loans, advances, and on net overnight settlements balances | 42 | 27 |
| Loan management reimbursement | 1 | 1 |
| Banking service fees received | 20 | 20 |
| Dividends received | 4 | 11 |
| Rents received | 8 | 9 |
| Net payments for and proceeds from investments | 2 244 | 16 548 |
| Interest paid on deposit liabilities | (629) | (808) |
| Interest paid on currency note holdings of banks | (133) | (104) |
| Staff costs (including redundancy) | (174) | (155) |
| Property, plant and equipment | (39) | (37) |
| Other | (10) | (26) |
| Net cash provided by operating activities | 3 309 | 17 984 |
| **Cash flows from investment activities** | | |
| Net expenditure on property, plant and equipment | (25) | (56) |
| Net cash used in investment activities | (25) | (56) |
| **Cash flows from financing activities** | | |
| Profit payment to Australian Government | (750) | (5 227) |
| Net movement in deposit liabilities | (3 483) | (13 279) |
| Net movement in loans and advances | 1 | 1 |
| Net movement in notes on issue | 1 300 | 672 |
| Other | 5 | (15) |
| Net cash used in financing activities | (2 927) | (17 848) |
| Net increase/(decrease) in cash | 357 | 80 |
| Cash at beginning of financial year | 852 | 772 |
| Cash at end of financial year | 1 209 | 852 |

*These Financial Statements should be read in conjunction with the accompanying notes.*

# Cash Flow Statement – For the year ended 30 June 2011 (continued)

## Reserve Bank of Australia and Controlled Entities

| **Reconciliation of Cash** | **Note** | **2011 $M** | **2010 $M** |
|---|---|---|---|
| Cash | | 22 | 8 |
| Overnight settlements systems | 6 | 1 187 | 844 |
| | | 1 209 | 852 |

| **Reconciliation of net cash provided by operating activities to Net Profits in terms of the *Reserve Bank Act 1959*** | **Note** | **2011 $M** | **2010 $M** |
|---|---|---|---|
| Net Profit | | (4 889) | (2 928) |
| Increase/(decrease) in interest payable | | 13 | (7) |
| Net loss/(gain) on overseas investments | 2 | 94 | (416) |
| Net loss/(gain) on Australian dollar securities | 2 | 26 | (75) |
| Net loss/(gain) on foreign currency | 2 | 5 666 | 4 273 |
| Decrease/(increase) in income accrued on investments | | (25) | 544 |
| Depreciation of property | 8 | 8 | 9 |
| Depreciation of plant and equipment | 8 | 18 | 17 |
| Net payments for and proceeds from investments | | 2 399 | 16 559 |
| Other | | (1) | 8 |
| Net cash provided by operating activities | | 3 309 | 17 984 |

*These Financial Statements should be read in conjunction with the accompanying notes.*

# Notes to and Forming Part of the Financial Statements – 30 June 2011

## Reserve Bank of Australia and Controlled Entities

### Note 1 – Accounting Policies

The Reserve Bank of Australia (RBA) reports its financial statements in accordance with the *Reserve Bank Act 1959* and the *Commonwealth Authorities and Companies Act 1997 (CAC Act)*. These financial statements for the year ended 30 June 2011 have been prepared under Australian equivalents to International Financial Reporting Standards (AIFRS), other accounting standards and accounting interpretations issued by the Australian Accounting Standards Board, in accordance with the Finance Minister's Orders (FMOs) 2010–2011, which are issued pursuant to the *CAC Act 1997*. These financial statements comply fully with International Financial Reporting Standards. The RBA has not sought any exemptions from the requirements of the FMOs in 2010/11. In preparing these financial statements, the RBA has not 'early adopted' new accounting standards or amendments to current standards that will apply from 1 July 2011.

These financial statements and attached notes are a general purpose financial report prepared in accordance with relevant AIFRS. Elections as to the accounting treatment under AIFRS made by the Bank are noted appropriately. All amounts are expressed in Australian dollars 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 for the RBA's major assets, including domestic and foreign marketable securities, gold and foreign currency, as well as for properties, 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 and authorised for issue by a resolution of the Board of the Reserve Bank of Australia on 2 August 2011.

**(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***

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 of capital in July 2009. NPA's total assets, liabilities and capital as at 30 June 2011 were $143.3 million, $28.0 million and $115.3 million respectively ($129.9 million, $20.2 million and $109.7 million as at 30 June 2010).

The assets, liabilities and results of NPA have been consolidated with the parent entity accounts in accordance with AASB 127 – *Consolidated and Separate Financial Statements*. All internal transactions and balances have been eliminated on consolidation.

### *Securency*

The Reserve Bank of Australia has a 50 per cent share in Securency International Pty Ltd, a joint venture with Innovia Films. Securency International Pty Ltd markets and manufactures the polymer substrate on which Australia's bank notes are printed. The RBA equity accounts for its investment in Securency International Pty Ltd in accordance with AASB 131 – *Interests in Joint Ventures* as the RBA and its partner have joint control of the company. The RBA's investment in Securency International Pty Ltd is included in Note 7.

In November 2010, the RBA announced it was pursuing a joint sale with Innovia Films of its half share in Securency International Pty Ltd. Macquarie Capital Advisers has been appointed as the adviser to the two owners. Accordingly, the investment in Securency has been reclassified as held for sale.

### (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 are its Australian dollar securities, foreign government securities, repurchase agreements, deposits with the Bank for International Settlements, foreign currency working accounts, interest rate futures, foreign currency swap contracts, gold loans, cash and cash equivalents, notes on issue, deposit liabilities and its shareholding in the Bank for International Settlements. 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*.

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 these securities in the Statement of Comprehensive Income and the Balance Sheet on the date these transactions are arranged (not when the transactions are settled). Bank deposits and repurchase agreements are brought to account on settlement date.

### *Financial Assets*

#### Australian dollar securities

The RBA holds Commonwealth 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 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 selected Australian dollar domestic residential and commercial mortgage-backed securities, asset-backed commercial paper and corporate securities.

Domestic securities, except those held under buy repurchase agreements, are classified under AASB 139 as 'at fair value through profit or loss', as they are held for purposes 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 1959* (Note 1(f)). Interest earned on the 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 of the securities. The face value is received at maturity.

### Foreign exchange

Foreign exchange holdings are invested mainly in securities issued by the governments of the United States, Germany, France, the Netherlands, Canada and Japan and deposits with the Bank for International Settlements. The RBA engages in interest rate futures and foreign currency swaps.

Assets and liabilities denominated in foreign currency are converted to Australian dollar equivalents at the relevant market bid or offer 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 1959* (Note 1(f)). 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, in accordance with AASB 121.

### Foreign government securities

Foreign government securities comprise coupon and discount securities. Coupon securities have biannual or annual interest payments depending on the currency and type of security; the principal of these securities 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 of the securities. The face value is received at maturity. Foreign securities, except those held under buy repurchase agreements, are classified under AASB 139 as 'at fair value through profit or loss', as they are held for trading in the course of managing the portfolio of foreign exchange reserves. 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 1959* (Note 1(f)). Interest earned on securities is accrued over the term of the security as revenue in the Statement of Comprehensive Income.

### Foreign deposits

The RBA invests part of its foreign currency reserves in deposits with the Bank for International Settlements; in previous years it also held deposits with highly rated commercial banks. The Bank also maintains working accounts in foreign currencies. Deposits are classified as 'loans and receivables' under AASB 139 and recorded at their 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).

### Buy repurchase agreements

In the course of its financial market operations, the RBA engages in repurchase agreements involving foreign and Australian dollar marketable securities. Securities purchased and contracted for sale under buy repurchase agreements are classified under AASB 139 as 'loans and receivables' and valued at amortised cost. The difference between the purchase and sale price is accrued over the term of the agreement and recognised as interest revenue. (See page 80 for the treatment of sell repurchase agreements.)

Foreign currency swaps

The RBA uses foreign currency swaps with market counterparties to assist daily domestic liquidity management and to manage balance sheet holdings. 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 must therefore reflect 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.

Foreign exchange holdings contracted for sale beyond 30 June 2011 (including those under swap contracts) have been valued at market exchange rates (Note 15).

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'. In accordance with this standard, futures positions are marked to market on balance date at the relevant bid or offer price and valuation gains and losses taken to profit. Only realised gains and losses are available for distribution in accordance with the *Reserve Bank Act 1959* (Note 1(f)).

Bank for International Settlements

Under AASB 139 the RBA's shareholding in the Bank for International Settlements (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). The fair value is estimated on the basis of BIS' net asset value, less a discount of 30 per cent. When declared, dividends are recognised as revenue in the Statement of Comprehensive Income.

***Financial Liabilities***

Deposit liabilities

Deposits include deposits at call and term deposits. Deposits are classified as financial liabilities under AASB 139. 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 adjusted 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 accounting profits. If the written down notes are subsequently presented, the RBA charges an expense against profits. In 2010/11, notes with a face value of $227 643 which had previously been written down were presented to the RBA and expensed ($234 211 in 2009/10).

The RBA pays interest on working balances of currency notes held by banks under cash distribution arrangements. Interest is paid on balances up to certain limits.

### Sell repurchase agreements

Securities sold and contracted for purchase under sell repurchase agreements are classified under AASB 139 as 'at fair value through profit or loss', as they 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 financial 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 these loans under AASB 7.

### (d) Property, plant and equipment

The RBA accounts for its property, plant and equipment in accordance with AASB 116 – *Property, Plant and Equipment*. Valuation gains (and losses) are generally transferred to (from) the relevant revaluation reserve. Valuation losses which exceed the balance in the relevant asset revaluation reserve are expensed. Subsequent valuation gains are included in income, to the extent that the gains offset prior losses treated as an expense.

### Property

Formal valuations of all the RBA's Australian properties are conducted annually; overseas properties are formally valued on a triennial basis. Australian properties are valued by an independent valuer; overseas properties are valued by local independent valuers. The most recent independent valuation of overseas properties was at 30 June 2010. In accordance with AASB 116, properties are recognised at fair value, which reflects observable prices and is based on the assumption that assets would be exchanged between knowledgeable, willing parties at arm's length. Reflecting the specialised nature of the respective assets, the value of the Craigieburn property has been determined on the basis of vacant possession, while the RBA's Business Resumption Site in outer metropolitan Sydney is valued at depreciated replacement cost. The latest valuations have been incorporated in the accounts. Annual depreciation is based on fair values and assessments of the useful remaining life of the relevant asset, determined by the independent valuer.

### Plant and equipment

Plant and equipment is valued by independent valuers on a triennial basis. The most recent independent valuation was on 30 June 2011; these valuations have been incorporated in the accounts. Between revaluations, plant and equipment is carried at the most recent valuation less any subsequent depreciation. Annual depreciation is based on fair values and the RBA's assessments of the useful remaining life of individual assets. Computer software and other intangible assets are accounted for in accordance with AASB 138 – *Intangible Assets*. Intangibles are recognised at cost less accumulated amortisation, which is calculated on the basis of the estimated useful life of the relevant assets. Amortisation expense for intangibles is included in Other Expenses in Note 2.

The range of useful lives used for each class of newly-purchased assets is:

| | Years |
|---|---|
| Buildings | 20–50 |
| Fitout and furniture | 5–13 |
| Computer equipment | |
| – hardware | 3–5 |
| – software | 3–5 |
| Office equipment | 4–5 |
| Motor vehicles | 5 |
| Plant | 4–20 |

Details of annual net expenditure, revaluation adjustments and depreciation of buildings, and plant and equipment are included in Note 8; details of computer software and other intangibles are included in Note 7.

**(e) Capital and Reserves**

The capital of the Reserve Bank is established by the *Reserve Bank Act 1959*.

The Reserve Bank Reserve Fund (RBRF) is also established by the *Reserve Bank Act 1959* and is, in all respects, essentially capital. It is a general reserve maintained by the RBA to provide for events which are contingent and non-foreseeable, including to cover losses from exceptionally large falls in the market value of its holdings of domestic and foreign securities that cannot be absorbed by its other resources. The RBRF also provides for other risks to which the RBA is exposed, including fraud and operational risk. This reserve has been funded over the years 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 1959*, the Treasurer, after consultation with the Board, determines any amounts to be credited to the RBRF from earnings available for distribution (refer Note 1(f)). As accounting losses in 2009/10 and 2010/11 have reduced this reserve, the Board will seek to restore its balance to a level that it regards as satisfactory over time.

The Bank 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 profit from ordinary activities. However, until such gains or losses are realised, they are not available for distribution to the Australian Government; such unrealised gains are reflected in the Reserve for Unrealised Profits on Investments. Unrealised losses that exceed the balance held in the Unrealised Profits Reserve are initially charged against other sources of income, consistent with the *Reserve Bank Act 1959* and accounting practice. No balance was available in the Unrealised Profits Reserve for investments to absorb unrealised losses in 2010/11, since this reserve had been fully depleted the previous year.

Unrealised gains and losses on the asset which represents the staff superannuation funds are also recognised in the Statement of Comprehensive Income in accordance with the 'corridor' approach under AASB 119 – *Employee Benefits*. These amounts are reflected in the Reserve for Unrealised Profits on Superannuation (refer Note 1(h)). A sum of $23 million representing an unrealised loss on the RBA's superannuation asset was absorbed by this reserve in 2010/11. Apart from this, the accounting loss of $4 889 million in 2010/11 was absorbed in the RBRF, consistent with the purpose of the RBRF.

Balances of asset revaluation reserves reflect differences between the fair value of a number of the RBA's assets, mainly non-traded assets (gold; property, plant and equipment; and shares in international and other institutions), and their cost. These unrealised gains are transferred directly to the relevant reserve and are not included in accounting profits. The unrealised gains on these assets are not distributable until the gains are realised through the sale of the relevant asset.

The 'Earnings and Distribution' chapter in this Annual Report provides additional information on the RBA's capital and reserves.

**(f) Profits**

Profits of the RBA are dealt with in the following terms by section 30 of the *Reserve Bank Act 1959:*

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

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

  (b) 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

  (c) 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.

In 2010/11, the RBA's net profit was negative, as in the previous year. As no unrealised gains from earlier years were retained in the Unrealised Profits Reserve at 30 June 2011, the Board has resolved that the loss will be absorbed by a transfer from the RBRF as discussed above. Accordingly, the RBRF will be reduced by an amount of $4 866 million. No dividend will be payable to the Australian Government in 2011/12 from earnings in 2010/11.

**(g) Provisions**

The RBA maintains provisions for accrued annual leave in accordance with AASB 119 – *Employee Benefits,* based on expected salaries when leave is anticipated to be taken and including associated payroll tax. The RBA also maintains provisions for long service leave and post-employment benefits, in the form of health insurance and housing assistance, and associated fringe benefits tax; these provisions are made on a present value basis consistent with AASB 119. In addition, the RBA makes provision for future workers' compensation claims in respect of incidents which have occurred before balance date.

### (h) Superannuation funds

The RBA includes in its balance sheet an asset representing the position of its defined benefit superannuation funds. Actuarial gains and losses are included in the asset in accordance with the 'corridor' approach under AASB 119 – *Employee Benefits*. The counterpart to the superannuation asset is the Reserve for Unrealised Profits on Superannuation. Actuarial gains and losses in excess of 10 per cent of the greater of the funds' assets or its defined benefit obligations are charged or credited to income in subsequent years over the expected average remaining working life of members. Details of the superannuation funds and superannuation expenses are included in Note 14.

### (i) Rounding

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

### (j) New Accounting Standards

A number of new accounting standards and amendments to current standards may be applied from 1 July 2011. The main changes relevant to the RBA relate to: AASB 2009-5 – *Further Amendments to Australian Accounting Standards arising from the Annual Improvement Project*; AASB 9 – *Financial Instruments*; and Revised AASB 124 – *Related Party Disclosures*. These changes are not expected to have a material effect on the RBA's financial statements or the notes to the accounts.

## Note 2 – Net Profits

| | Note | 2011 $M | 2010 $M |
|---|---|---|---|
| **Interest revenue** | | | |
| Overseas investments | 1(b), 4 | 391 | 452 |
| Australian dollar securities | 1(b), 4 | 1 497 | 1 515 |
| Overnight settlements | 4 | 41 | 26 |
| Gold loans | 1(c), 4 | – | – |
| Loans, advances and other | 4 | 1 | 1 |
| | | 1 930 | 1 994 |
| **Dividend revenue** | | | |
| Earnings on shares in Bank for International Settlements | 1(b) | 4 | 11 |
| **Fees and commissions** | | | |
| Banking services fees received | | 20 | 20 |
| **Other revenue** | | | |
| Reimbursement by Australian Government for loan management and registry expenses | | 1 | 1 |
| Rental of Bank premises | | 9 | 9 |
| Sales of note and security products | | 63 | 35 |
| Other | | 25 | 24 |
| | | 98 | 69 |
| **Total** | | 2 052 | 2 094 |
| *Less*: | | | |
| **Interest expense** | | | |
| Deposit liabilities | 1(b), 4 | 643 | 801 |
| Currency note holdings of banks | 1(b), 4 | 133 | 104 |
| Repurchase agreements | 1(b), 4 | 22 | 13 |
| | | 798 | 918 |
| **Net losses on securities and foreign exchange** | | | |
| Overseas investments | 1(b) | 94 | (416) |
| Australian dollar securities | 1(b) | 26 | (75) |
| Foreign currency | 1(b) | 5 666 | 4 273 |
| | | 5 786 | 3 782 |
| **General administrative expenses** | | | |
| Staff costs | | 141 | 148 |
| Superannuation costs | 1(h), 14 | 45 | 33 |
| Special redundancy/retirement payments | | 2 | 2 |
| Depreciation of property | 1(d), 8 | 8 | 9 |
| Depreciation of plant and equipment | 1(d), 8 | 18 | 17 |
| Premises and equipment | 1(d) | 39 | 37 |
| Materials used in note and security products | | 36 | 23 |
| Travel | | 3 | 3 |
| Consultants' fees, legal fees and payments to contractors | | 5 | 2 |
| Other | | 6 | 8 |
| | | 303 | 282 |

## Note 2 – Net Profits (Continued)

| | Note | 2011 $M | 2010 $M |
|---|---|---|---|
| **Other expenses** | | | |
| Agency business reimbursement | | 3 | 3 |
| Subsidiary income tax | | 2 | 2 |
| Cash distribution expenses | | 5 | 6 |
| Other | | 44 | 29 |
| | | 54 | 40 |
| **Total** | | 6 941 | 5 022 |
| | | | |
| **Net Profit** | | (4 889) | (2 928) |

Staff costs in 2010/11 include income of $4.6 million associated with the decrease in the balance of the provision for post-employment benefits (in 2009/10 there was an expense of $10.5 million) (refer Note 10). Post-employment health care costs of $4.5 million are included in Staff costs ($10.3 million in 2009/10).

The RBA's aggregate research and development expenditure recognised as an expense in 2010/11 was $0.6 million ($0.7 million in 2009/10); this is included in Other Expenses.

## Note 3 – Distribution Payable to Australian Government

Section 30 of the *Reserve Bank Act 1959* requires that the net profits of the Reserve Bank of Australia, less amounts set aside for contingencies or placed to the credit of the RBRF as determined by the Treasurer after consultation with the Board, shall be paid to the Australian Government (see Note 1(f)). Also under section 30, unrealised profits are not available for distribution and are transferred to the Unrealised Profits Reserve where they remain available to absorb future valuation losses or are realised when relevant assets are sold. Unrealised losses are, in the first instance, absorbed within the Unrealised Profits Reserve; if such losses exceed the balance in this reserve, the amount by which the losses exceed this balance are initially charged against other sources of income and then taken to the RBRF.

In 2010/11, the Bank recorded an accounting loss of $4 889 million. As no unrealised gains from earlier years were retained in the unrealised profits reserve for Investments, the Board resolved to transfer $4 866 million from the RBRF to offset the accounting loss. No dividend will be payable from earnings in 2010/11. Similarly, no dividend was payable from earnings in 2009/10, as the accounting loss for that year was absorbed by a transfer of $2 248 million from the Unrealised Profits Reserve and a transfer of $680 million from the RBRF. A sum of $750 million, which had been deferred from the dividend payable in 2009, was distributed to the Australian Government as intended in August 2010.

| | 2011 $M | 2010 $M |
|---|---|---|
| Opening balance | 750 | 5 977 |
| Distribution to Australian Government | (750) | (5 227) |
| Transfer from Statement of Distribution | – | – |
| As at 30 June | – | 750 |

## Note 4 – Interest Revenue and Interest Expense

Analysis for the year ended 30 June 2011

| | Average balance $M | Interest $M | Average annual interest rate % |
|---|---|---|---|
| **Interest revenue** | | | |
| Overseas investments | 40 168 | 391 | 1.0 |
| Australian dollar securities | 30 471 | 1 497 | 4.9 |
| Overnight settlements | 934 | 41 | 4.4 |
| Gold loans | 60 | – | 0.2 |
| Loans, advances and other | 17 | 1 | 4.2 |
| | 71 650 | 1 930 | 2.7 |
| **Interest expense** | | | |
| Banks' Exchange Settlement balances | 1 424 | 63 | 4.4 |
| Deposits from governments | 12 119 | 559 | 4.6 |
| Deposits from overseas institutions | 539 | 19 | 3.5 |
| Currency note holdings of banks | 2 827 | 133 | 4.7 |
| Overseas repurchase agreements | 3 602 | 5 | 0.2 |
| Domestic repurchase agreements | 355 | 17 | 4.6 |
| Other deposits | 50 | 2 | 3.7 |
| | 20 916 | 798 | 3.8 |
| **Analysis for the year ended 30 June 2010** | | | |
| Interest revenue total | 83 576 | 1 994 | 2.4 |
| Interest expense total | 29 407 | 918 | 3.1 |

Interest revenue for 2010/11 includes $1 214 million calculated using the effective interest method for financial assets not at fair value through profit and loss ($1 317 million in 2009/10). Interest expense for 2010/11 includes $798 million calculated using the effective interest method for financial liabilities not at fair value through profit and loss ($918 million in 2009/10).

## Note 5 – Capital and Reserves

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

| | 2011 $M | 2010 $M |
|---|---|---|
| **Asset revaluation reserves** | | |
| **Gold** (Note 1(c)) | | |
| Opening balance | 3 620 | 2 830 |
| Net revaluation adjustments | (147) | 790 |
| As at 30 June | 3 473 | 3 620 |
| **Shares in international and other institutions** (Notes 1(b), 7) | | |
| Opening balance | 285 | 275 |
| Net revaluation adjustments | (26) | 10 |
| As at 30 June | 259 | 285 |
| **Bank properties, plant and equipment** (Notes 1(d), 8) | | |
| Opening balance | 182 | 203 |
| Net revaluation adjustments | 7 | (21) |
| As at 30 June | 189 | 182 |
| **Total asset revaluation reserves** (Note 1(e)) | | |
| Opening balance | 4 087 | 3 308 |
| Net revaluation adjustments | (166) | 779 |
| As at 30 June | 3 921 | 4 087 |
| | | |
| **Unrealised profits reserves** | | |
| **Reserve for unrealised profits on investments** (Note 1(e)) | | |
| Opening balance | – | 2 237 |
| Net transfers (to)/from Statement of Distribution | – | (2 237) |
| As at 30 June | – | – |
| **Reserve for unrealised profits on superannuation** (Note 1(h)) | | |
| Opening balance | 84 | 95 |
| Net transfers (to)/from Statement of Distribution | (23) | (11) |
| As at 30 June | 61 | 84 |
| **Total unrealised profits reserves** | | |
| Opening balance | 84 | 2 332 |
| Net transfers (to)/from Statement of Distribution | (23) | (2 248) |
| As at 30 June | 61 | 84 |
| | | |
| **Reserve Bank Reserve Fund** (Note 1(e)) | | |
| Opening balance | 6 183 | 6 863 |
| Transfers (to)/from Statement of Distribution | (4 866) | (680) |
| As at 30 June | 1 317 | 6 183 |
| | | |
| **Capital** | | |
| Opening and closing balance | 40 | 40 |

## Note 6 – Cash and Cash Equivalents

This includes net amounts of $1 187 million owed to the RBA for overnight clearances of financial transactions through the clearing houses; an amount of $844 million was owed to the RBA at 30 June 2010. Other cash and cash equivalents includes NPA's bank deposits.

## Note 7 – Loans, Advances and Other Assets

| | Note | 2011 $M | 2010 $M |
|---|---|---|---|
| Shareholding in Bank for International Settlements | 1(b) | 302 | 328 |
| Superannuation asset | 1(h),14 | 61 | 84 |
| Officers' Home Advances | | 6 | 7 |
| Investment in Securency | 1(a) | 54 | 49 |
| Computer software and intangibles | 1(d) | 14 | 12 |
| Other | | 53 | 56 |
| As at 30 June | | 490 | 536 |

The Reserve Bank of Australia holds a share of 50 per cent in Securency International Pty Ltd (formerly Securency Pty Ltd), which is incorporated in Victoria, Australia, and whose principal activity is the marketing and manufacture of polymer substrate. The Bank jointly controls Securency with a joint-venture partner. The capital of Securency International (Securency) as at 30 June 2011 was $36.5 million. The carrying value of the RBA's investment in Securency as at 30 June 2011 was $53.9 million ($49.4 million at 30 June 2010). Securency has a 31 December balance date.

The RBA's share of Securency's profit before income tax in 2010/11 was $9.5 million ($9.5 million in 2009/10); its share of Securency's income tax expense in 2010/11 was $3.4 million ($2.7 million in 2009/10); and its share of the movement in Securency's reserves was –$0.8 million (–$0.5 million in 2009/10). Securency's current and non-current assets as at 30 June 2011 were $97.4 million and $74.2 million respectively ($69.4 million and $95.2 million as at 30 June 2010). Current and non-current liabilities on 30 June 2011 were $40.7 million and $19.1 million ($39.3 million and $24.0 million on 30 June 2010). Securency's revenue and expenses for 2010/11 were $154.0 million and $135.0 million ($137.5 million and $118.4 million in 2009/10). The RBA provides facilities to Securency under operating leases.

In 2005/06, the RBA provided a finance lease to Securency for $5.6 million in relation to the construction of a new building on the Bank's land at Craigieburn. The finance lease was fully drawn down during 2006/07. The lease was provided on commercial terms and at arm's length; it has a term of 10 years. The balance of the lease receivable as at 30 June 2011 was $2.9 million ($3.4 million as at 30 June 2010).

The RBA has announced that it has begun a process to pursue a joint sale with its partner, Innovia Films, to divest its interest in Securency International Pty Ltd (see Note 1(a)).

During 2010/11, the RBA acquired $4.8 million of computer software and intangibles ($1.0 million in 2009/10) and amortised $2.2 million ($1.8 million in 2009/10). At 30 June 2011 the gross book value of the RBA's computer software and intangibles amounted to $23.2 million and accumulated amortisation on these assets was $9.6 million ($20.4 million and $8.6 million respectively at 30 June 2010). The RBA had contractual commitments of $0.6 million as at 30 June 2011 for the acquisition of computer software and intangibles (no contractual commitments at 30 June 2010).

As at 30 June 2011, other assets included receivables of $33.3 million, all of which are current (at 30 June 2010 other assets included receivables of $29.5 million, all of which were current).

## Note 8 – Property, Plant and Equipment

| | Land<br>$M | Buildings<br>$M | Plant and Equipment<br>$M | Total<br>$M |
|---|---|---|---|---|
| **Gross Book Value as at 30 June 2010** | 117 | 210 | 158 | 485 |
| Accumulated depreciation | – | – | (36) | (36) |
| **Net Book Value** | 117 | 210 | 122 | 449 |
| | | | | |
| Additions | – | 8 | 18 | 26 |
| Depreciation expense | – | (8) | (18) | (26) |
| Net revaluation increment/(decrement) | 15 | (11) | 2 | 6 |
| Disposals | – | – | (1) | (1) |
| Net additions to net book value | 15 | (11) | 1 | 5 |
| | | | | |
| **Gross Book Value as at 30 June 2011** | 132 | 199 | 138 | 469 |
| Accumulated depreciation | – | – | (15) | (15) |
| **Net Book Value** | 132 | 199 | 123 | 454 |

The net book value of buildings as at 30 June 2011 includes expenditure of $1.0 million on work in progress which has been capitalised in the carrying amount of these assets ($3.5 million as at 30 June 2010). Additions include expenditure of $8.4 million on work in progress that was capitalised during 2010/11 ($11.4 million in 2009/10).

As at 30 June 2011, the RBA had contractual commitments of $3.3 million to acquire buildings, plant and equipment ($2.5 million at 30 June 2010); contractual commitments of $3.3 million are due within 1 year ($2.5 million in 2009/10).

## Note 9 – Deposits

| | 2011<br>$M | 2010<br>$M |
|---|---|---|
| Banks' Exchange Settlement balances | 2 413 | 3 584 |
| Australian Government | 14 247 | 16 663 |
| State Governments | 2 | 2 |
| Foreign Governments, foreign institutions and international organisations | 779 | 724 |
| Other depositors | 63 | 14 |
| As at 30 June | 17 504 | 20 987 |

## Note 10 – Other Liabilities

| | 2011 $M | 2010 $M |
|---|---|---|
| **Provisions** (Note 1(g)) | | |
| Provision for accrued annual leave | 15 | 14 |
| Provision for long service leave | 31 | 30 |
| Provision for post-employment benefits | 83 | 89 |
| Provision for workers' compensation | – | – |
| | 129 | 133 |
| **Other** | | |
| Amounts outstanding under repurchase agreements (contract price) (Note 1(b)) | 1 666 | 4 167 |
| Interest accrued on deposits | 37 | 23 |
| Other | 579 | 439 |
| | 2 282 | 4 629 |
| As at 30 June | 2 411 | 4 762 |

The provision for workers' compensation at 30 June 2011 was $323 000 ($375 000 at 30 June 2010).

During 2010/11, annual leave of $8.9 million was accrued by staff, while $7.3 million of accrued leave was used. Staff accrued and used long service leave of $3.4 million and $2.5 million, respectively, in 2010/11.

The RBA provided an additional $0.3 million for post-retirement benefits in 2010/11; an increase in the discount rate decreased the provision by $4.0 million, while benefits of $0.9 million were paid out of the provision. The balance of the provision for post-employment benefits will change if assumptions regarding the length of staff service, the longevity of retired staff, future movements in medical costs or the discount rate vary.

At 30 June 2011, $6.8 million of the provision for accrued annual leave was due within 12 months ($6.7 million at 30 June 2010); $3.0 million of the provision for long service was due within 12 months ($2.9 million at 30 June 2010); and $2.7 million of the provision for post-employment benefits was due within 12 months ($1.9 million at 30 June 2010).

## Note 11 – Contingent Liabilities and Other Items Not Included in the Balance Sheet

The RBA has a contingent liability, amounting to $53.5 million at 30 June 2011 ($62.3 million at 30 June 2010), in respect of the uncalled portion of its shares held in the Bank for International Settlements.

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.

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

As outlined in Note 16, the Bank has made certain provisions in relation to the charges laid against NPA and Securency on 1 July 2011 and against Securency on 10 August 2011. However, in light of uncertainties associated with these allegations it is not possible to make a reliable estimate of all of the potential costs associated with this matter as at the date of preparing these accounts.

## Note 12 – Key Management Personnel

The key management personnel of the Reserve Bank are members of the Reserve Bank Board, members of the Payments System Board, and senior staff who have responsibility for planning, directing and controlling the activities of the Bank. This group comprised 23 in total in 2010/11, compared with 20 in 2009/10. The group includes the Governor and Deputy Governor, nine non-executive members of the Reserve Bank Board, five non-executive members of the Payments System Board and seven Assistant Governors. No new positions were added to the group of key management personnel in 2010/11. The increase of three in the number in this group reflected two members of the Board completing their terms and being replaced and turnover among the Bank's Assistant Governors. Consequently, four non-executive members of the RBA Board, and two Assistant Governors occupied their respective positions for only part of the year.

Fees of non-executive members of the Reserve Bank Board and the Payments System Board are determined by the Remuneration Tribunal. The terms and conditions on which the Governor and Deputy Governor held office in 2010/11 were determined by the Reserve Bank Board, in accordance with section 24A of the *Reserve Bank Act 1959*. As has become practice, the Board's Remuneration Committee (comprising three non-executive directors) reviewed these terms and conditions and, consistent with the Act, made a recommendation to the Board. The Governor and Deputy Governor did not participate in these deliberations. The 2010 review of remuneration for the Governor and Deputy Governor resulted in an increase in annual salary of 4 per cent; the increase in total remuneration was 3.2 per cent for the Governor and 2.5 per cent for the Deputy Governor.

The Governor, in consultation with the Remuneration Committee, determines the remuneration of Assistant Governors. For staff generally, remuneration is market competitive and designed to attract and retain appropriately skilled people. Remuneration levels for employees are externally benchmarked. Consistent with section 67 of the *Reserve Bank Act 1959*, the level of remuneration is not tied with Australian Public Service classification bands.

The RBA discloses remuneration of key management personnel under AIFRS on the basis of AASB 124 – *Related Party Disclosures*. The disclosures are on an accruals basis and cost to the Bank, including, in addition to compensation and benefits, all leave and all fringe benefit tax charges. The aggregate remuneration of the RBA's key management personnel on this basis was:

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Short-term employee benefits | 4 930 190 | 4 757 156 |
| Post-employment benefits | 931 105 | 899 960 |
| Other long-term benefits | 219 587 | 240 286 |
| Share based payments | – | – |
| Termination benefits | – | – |
| **Total Compensation** | 6 080 882 | 5 897 402 |

Short-term benefits include cash salary and, where relevant for executives, annual leave, motor vehicle benefits, car parking, 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. Members of the RBA's staff may salary sacrifice in exchange for certain benefits.

As at 30 June 2011 and 30 June 2010 there were no loans by the RBA to 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 conducted on terms no more favourable than similar transactions with other employees or customers; such transactions were incidental and for small amounts. As the Board of NPA comprised executives of the RBA in 2010/11 and 2009/10, no directors' fees were paid in these years.

The information contained in the following table shows details of the salary and total remuneration of directors and management. The figures on which the table is based comply with AASB 124, the usual commercial standard. Total remuneration is cash salary plus the other components of remuneration in accordance with disclosures under AASB 124, as defined in the table on the previous page.

**Remuneration of Key Management Personnel**

| Salary Band | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Number | Salary | Total Remuneration | Number | Salary | Total Remuneration |
| $ | | $ | $ | | $ | $ |
| 0 – 99 999* | 14 | 49 953 | 54 448 | 12 | 53 815 | 58 659 |
| 150 000 – 249 999 | 2 | 201 411 | 306 804 | | | |
| 350 000 – 449 999 | 3 | 421 027 | 567 882 | 6 | 415 253 | 576 552 |
| 450 000 – 549 999 | 2 | 457 743 | 629 729 | | | |
| 550 000 – 649 999 | 1 | 629 963 | 822 221 | 1 | 607 663 | 802 202 |
| 750 000 – 849 999 | 1 | 834 186 | 1 083 017 | 1 | 804 657 | 1 049 296 |
| | 23 | | | 20 | | |

*The averages of salary and total remuneration for individuals in this salary band are calculated by excluding the ex officio members of the Reserve Bank Board and Payments System Board as these members receive no fees as members of these boards.

Average figures are shown for salary and total remuneration in remuneration bands in which there is more than one individual.

## Note 13 – Remuneration of Auditor

Fees paid or payable to the statutory auditor (Auditor-General of the Commonwealth of Australia) for audit services (excluding GST) totalled $396 100 in 2010/11 ($435 000 in 2009/10); this includes audit services in relation to the RBA's subsidiary Note Printing Australia Limited. These fees are included in Consultants' Fees, Legal Fees and Payments to Contractors in Note 2.

## Note 14 – Superannuation Funds

Two superannuation funds are operated pursuant to the *Reserve Bank Act 1959*: the Reserve Bank of Australia Officers' Superannuation Fund (OSF) and the Reserve Bank of Australia UK Pension Scheme. A small part of the assets of the OSF is held by the RBA as nominee for the trustees of the OSF; such assets are not included in the RBA's financial statements. Payment of these superannuation funds' current and future benefits is funded by member and RBA contributions and the funds' existing asset bases. The RBA's superannuation expenses in relation to the OSF and the UK Pension Scheme are included in accounting profits and shown in Note 2. Administration and other operational costs (e.g. salaries, overheads, legal costs and valuation fees) incurred by the RBA for superannuation arrangements are also included in Note 2. There were no other related-party transactions between the RBA and the funds during 2010/11.

The OSF is a hybrid fund. Most members receive a Bank-funded defined benefit in accordance with the rules of the fund; other member benefits include unitised defined contribution accumulation balances, which comprise the RBA's productivity and superannuation guarantee contributions and members' personal contributions, plus earnings on these contributions. The OSF is classified as a single-employer plan for the purposes of AASB 119 – *Employee Benefits*. The UK Pension Scheme is a defined benefit scheme.

**Funding Valuation**

Full independent actuarial valuations of the OSF and UK Pension Scheme are conducted every three years to determine funding for these schemes. The most recent funding valuation of the OSF was at 30 June 2008 and for the UK Pension Scheme at 30 June 2010. At the most recent valuations, the actuaries indicated that, on the basis of accrued benefits, both funds were in surplus and that the funds were in a satisfactory financial position. The next triennial funding valuation for the OSF for 30 June 2011 will be undertaken early in 2011/12.

The OSF triennial funding valuation as at 30 June 2008 was based on the Attained Age Funding method, consistent with the accounting standard for superannuation funds, AAS 25 – *Financial Reporting by Superannuation Plans*. Under this standard, the accrued benefits of the OSF were determined as the value of the future benefits payable to members (allowing for future salary increases), discounted using the expected rate of return on the assets held to fund these benefits. At the time of the triennial review, the surplus of the OSF on this measure was $175 million, as the assets of the OSF of $897 million exceeded the accrued benefits of $722 million. The main financial assumptions in the triennial valuation were that the annual post-tax rate of return on assets for benefits of active members was 7.0 per cent, that for assets for current pensions was 7.5 per cent (pre-tax), with annual salary increases of 4.0 per cent and annual pension increases of 3.5 per cent. Subsequent to the triennial review, the OSF surplus measured on the basis of AAS 25 as at 30 June 2011 amounted to $39 million (assets of $730 million less accrued benefits of $691 million).

Consistent with the Actuary's funding recommendation, the RBA maintained its contribution rate to the OSF at 18.3 per cent of salaries in 2010/11.

The triennial funding valuation for the UK Pension Scheme was based on the Attained Age method. The surplus of the UK Pension Scheme as at 30 June 2011, measured in accordance with AAS 25, was $1.2 million (assets of $16.4 million compared with accrued benefits of $15.2 million).

## Accounting Valuation

For financial statement purposes, the financial positions of the superannuation schemes are valued in accordance with AASB 119. Under AASB 119, accrued benefits are determined by discounting future benefits payable to current fund members at the yield on government bonds of similar maturity on the reporting date. The approach under AASB 119, in contrast with the results of the actuaries' triennial valuations noted above, does not take into account that the assets held by the superannuation schemes to fund future benefits have generally earned a higher rate of return on average than government bonds.

The principal actuarial assumptions for the AASB 119 valuation used in the case of the OSF were a discount rate of 5.38 per cent (5.27 per cent in 2009/10), future salary increases of 3.5 per cent (3.5 per cent in 2009/10), future pension increases of 3.5 per cent (3.5 per cent in 2009/10) and an assumed return on plan assets of 8.5 per cent (8.5 per cent in 2009/10). The actual return on plan assets of the OSF for 2010/11 was 8.1 per cent (10.6 per cent in 2009/10). The assumptions used for the UK Pension Scheme were a discount rate of 5.4 per cent (5.3 per cent in 2009/10), future salary increases of 5.65 per cent (5.25 per cent in 2009/10), future pension increases of 3.65 per cent (3.25 per cent in 2009/10) and an assumed return on plan assets of 4.1 per cent (4.4 per cent in 2009/10). The actual return on plan assets of the UK Pension Scheme for 2010/11 was 10.0 per cent (6.1 per cent in 2009/10). The expected overall rates of return are based on the actuaries' models of returns for major asset classes and reflect the historic rates of return and volatility for each class and correlations across asset classes.

Details of the funds are as shown on the following pages. In the case of the OSF, these details relate only to the defined benefit component of the fund; defined contribution accumulation balances, on which the Bank has no actuarial risk, are excluded. This has no effect on the measurement of the surpluses in the OSF. At 30 June 2011 accumulation balances in the OSF totalled $165.4 million ($150.5 million as at 30 June 2010).

### Asset Distribution as at 30 June

| | % of fund assets | | | |
|---|---|---|---|---|
| | OSF | | UK Pension Scheme | |
| | 2011 | 2010 | 2011 | 2010 |
| Cash and short-term securities | 6.3 | 4.5 | 1.6 | – |
| Fixed interest securities | 7.2 | 7.0 | – | – |
| Indexed securities | 1.5 | 2.2 | 91.9 | 94.3 |
| Domestic shares | 42.7 | 40.2 | 6.5 | 5.7 |
| Foreign shares | 3.8 | 4.1 | – | – |
| Property | | | | |
| Direct | 4.3 | 4.6 | – | – |
| Indirect | 15.9 | 16.6 | – | – |
| Private equity and alternative investments | 18.3 | 20.8 | – | – |
| Total | 100 | 100 | 100 | 100 |

## Note 14 – Superannuation Funds (Continued)

| | OSF | | UK Scheme | | Total | |
|---|---|---|---|---|---|---|
| | 2011 $M | 2010 $M | 2011 $M | 2010 $M | 2011 $M | 2010 $M |
| *Opening balances:* | | | | | | |
| Net market value of assets | 691 | 652 | 18 | 20 | 710 | 672 |
| Accrued benefits | (928) | (829) | (14) | (14) | (942) | (843) |
| Surplus/(deficit) | (236) | (177) | 4 | 7 | (232) | (170) |
| Effect of asset cap | – | – | (3) | (3) | (3) | (3) |
| Actuarial (gains)/losses not included in balance sheet under Corridor | 320 | 272 | (3) | (4) | 317 | 268 |
| Exchange rate (gains)/losses | – | – | 1 | – | 1 | – |
| **Opening superannuation asset** | 84 | 95 | – | – | 83 | 95 |
| Change in net market value of assets | 39 | 39 | (2) | (2) | 37 | 37 |
| Change in accrued benefits | (49) | (99) | 1 | – | (48) | (99) |
| Change in asset cap | – | – | – | – | – | – |
| Change in actuarial (gains)/losses not included in balance sheet under Corridor | (12) | 48 | – | 1 | (12) | 49 |
| Exchange rate (gains)/losses | – | – | 1 | 1 | 1 | 1 |
| **Total change in superannuation asset** | (22) | (12) | – | – | (22) | (12) |
| *Closing balances:* | | | | | | |
| Net market value of assets | 730 | 691 | 17 | 18 | 747 | 710 |
| Accrued benefits | (976) | (928) | (13) | (14) | (989) | (942) |
| Surplus/(deficit) | (246) | (236) | 4 | 4 | (242) | (232) |
| Effect of asset cap | – | – | (3) | (3) | (3) | (3) |
| Actuarial (gains)/losses not included in balance sheet under Corridor | 307 | 320 | (3) | (3) | 304 | 317 |
| Exchange rate (gains)/losses | – | – | 2 | 1 | 2 | 1 |
| **Closing superannuation asset** | 61 | 84 | – | – | 61 | 83 |
| Actuarially assumed return on plan assets | 54 | 52 | 1 | 1 | 55 | 53 |
| Benefit payments | (33) | (31) | (1) | (1) | (34) | (32) |
| Actuarial gains/(losses) on assets | 1 | 2 | 1 | 1 | 2 | 3 |
| Contributions from RBA to defined benefit schemes | 20 | 19 | – | – | 20 | 19 |
| Contributions tax | (3) | (3) | – | – | (3) | (3) |
| Exchange rate gains/(losses) | – | – | (3) | (3) | (3) | (3) |
| **Change in net market value of assets** | 39 | 39 | (2) | (2) | 37 | 37 |

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

## Note 14 – Superannuation Funds (Continued)

| | OSF | | UK Scheme | | Total | |
|---|---|---|---|---|---|---|
| | 2011 $M | 2010 $M | 2011 $M | 2010 $M | 2011 $M | 2010 $M |
| Current service cost | (33) | (27) | – | – | (33) | (27) |
| Interest cost | (43) | (39) | (1) | (1) | (44) | (40) |
| Benefit payments | 33 | 31 | 1 | 1 | 34 | 31 |
| Contributions tax | 3 | 3 | – | – | 3 | 3 |
| Experience adjustments on benefits | (31) | 3 | – | – | (31) | 3 |
| Effects of changes in benefit actuarial assumptions | 22 | (69) | (1) | (2) | 21 | (71) |
| Exchange rate gains/(losses) | – | – | 2 | 2 | 2 | 2 |
| **Change in accrued benefits** | (49) | (99) | 1 | – | (48) | (99) |
| | | | | | | |
| Actuarial (gains)/losses on assets | (1) | (2) | (1) | (1) | (3) | (3) |
| Experience adjustments on benefits | 31 | (3) | – | – | 31 | (3) |
| Effects of changes in benefit actuarial assumptions | (22) | 69 | 1 | 2 | (21) | 71 |
| Amortisation of actuarial gains/(losses) | (20) | (16) | – | – | (19) | (16) |
| **Change in actuarial losses not included in balance sheet under Corridor** | (12) | 48 | – | 1 | (12) | 49 |
| | | | | | | |
| **Superannuation expense/(income) included in Statement of Comprehensive Income** | | | | | | |
| Current service cost | 33 | 27 | – | – | 33 | 27 |
| Interest cost | 44 | 39 | 1 | 1 | 44 | 40 |
| Assumed return on plan assets | (54) | (52) | (1) | (1) | (55) | (53) |
| Amortisation of actuarial (gains)/losses under Corridor | 20 | 16 | – | – | 19 | 16 |
| Effect of asset cap | – | – | – | – | – | – |
| Productivity and superannuation guarantee contributions | 4 | 4 | – | – | 4 | 4 |
| **Total superannuation expense/(income)** | 46 | 35 | – | – | 46 | 35 |

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

The position of the funds and experience adjustments on plan assets and accrued benefits (under AASB 119) as at 30 June for the current reporting period and previous four reporting periods are:

| | 2011 $M | 2010 $M | 2009 $M | 2008 $M | 2007 $M |
|---|---|---|---|---|---|
| **OSF** | | | | | |
| *Closing balances:* | | | | | |
| Net market value of assets | 730 | 691 | 652 | 755 | 796 |
| Accrued benefits | (976) | (928) | (829) | (679) | (631) |
| Surplus/(deficit) | (246) | (236) | (177) | 76 | 165 |
| Experience adjustments on assets | 1 | 2 | (150) | (90) | 95 |
| Experience adjustments on benefits | (31) | (3) | (54) | (20) | 7 |
| **UK Scheme** | | | | | |
| *Closing balances:* | | | | | |
| Net market value of assets | 17 | 18 | 20 | 22 | 23 |
| Accrued benefits | (13) | (14) | (14) | (16) | (17) |
| Surplus | 4 | 4 | 7 | 6 | 5 |
| Experience adjustments on assets | 1 | 1 | (1) | 2 | – |
| Experience adjustments on benefits | – | – | – | – | – |

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

## Note 15 – Financial Instruments and Risk

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

AASB 7 – *Financial Instruments: Disclosures* 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 reflecting its policy and operational responsibilities. These risks include market risk, credit risk and liquidity risk. The chapters in the Annual Report on the Reserve Bank's '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 foreign currency assets and liabilities will fluctuate because of movements in exchange rates. Foreign exchange risk arises from the RBA's foreign currency assets, which are held to support its operations in the foreign exchange market. The value of these assets, measured in Australian dollars, varies with movements in the value of the Australian dollar exchange rate against the currencies in which the assets are invested. 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 and cannot otherwise be managed to reduce foreign exchange risk. The RBA's net foreign currency exposure as at 30 June 2011 was $35.8 billion ($41.8 billion as at 30 June 2010). Within the overall exposure and to a limited extent, foreign currency risk can be reduced by holding assets across a diversified portfolio of currencies. The RBA holds foreign reserves in four currencies – the US dollar, the euro, the Canadian dollar and the yen – because the markets for these currencies are typically liquid and suitable for investing foreign exchange reserves. Canadian dollars were introduced following a review of the RBA's benchmark for the portfolio in July 2010; the RBA switched 5 percentage points of the portfolio into Canadian dollars from Japanese Yen (which had had a weight of 10 per cent); weights of the other currencies were unchanged (see 'Concentration of foreign exchange' below).

The RBA also undertakes foreign currency swaps to assist its daily domestic market operations. These instruments carry no foreign exchange risk since the exchange rates at which both legs of the transaction are settled are agreed at the time the swap is undertaken.

#### Concentration of foreign exchange

The RBA's net holdings of foreign exchange (excluding its holding of Special Drawing Rights) were distributed as follows as at 30 June:

| | % of foreign exchange | |
|---|---|---|
| | **2011** | **2010** |
| US dollar | 45 | 45 |
| Euro | 45 | 45 |
| Canadian dollars | 5 | – |
| Japanese yen | 5 | 10 |
| 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.

| | 2011 $M | 2010 $M |
|---|---|---|
| Change in profit/equity due to a 10 per cent appreciation in the reserves-weighted value of the A$ | –3 258 | –3 804 |
| Change in profit/equity due to a 10 per cent depreciation in the reserves-weighted value of the A$ | 3 982 | 4 650 |

### *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 considerable interest rate risk because most of its assets are financial assets, such as domestic and foreign securities, which have a fixed income stream. The price of such securities increases when market interest rates decline, while the price of a security will fall if market rates rise. Interest rate risk increases with the maturity of a security because the associated income stream is fixed for a longer period.

#### 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. The valuation effects shown are generally reflective of the RBA's exposure over the financial year.

| | 2011 $M | 2010 $M |
|---|---|---|
| Change in profit/equity due to movements of +/–1 percentage point across yield curves: | | |
| Foreign currency securities | –/+456 | –/+568 |
| Australian dollar securities | –/+169 | –/+158 |

A rise in interest rates would be associated with a valuation loss; a fall in interest rates would be associated with a valuation gain.

### *Other price risk*

The RBA holds shares as a member of the Bank for International Settlements. This membership is mainly to maintain and develop strong relationships with other central banks which are 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 BIS shares as 'available for sale' and the fair value of these shares is estimated on the basis of the BIS' net asset value, less a discount of 30 per cent. 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 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 exposure 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 the 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; banks with which it deposits funds; and counterparties which are yet to settle transactions. The RBA's credit exposure is low compared with that of most commercial financial institutions, as it manages such risks within a highly risk-averse framework. In particular, credit risk is managed by: holding securities issued by a limited number of highly rated governments, government-guaranteed agencies and supranational organisations; holding government-guaranteed issues of certain commercial banks; and holding collateral only of low credit risk against buy repurchase agreements and gold loans.

Cash invested under 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 domestic buy repurchase agreements is secured by securities issued by Australian governments, Australian banks and various corporate and asset-backed securities (see Note 1(b)). The RBA holds collateral to a value of between 102 and 110 per cent of the amount invested according to the risk profile of the collateral held. If the current value of collateral offered by a counterparty to a repo transaction falls by more than a pre-determined 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. Gold loans are secured by Australian dollar securities to 110 per cent of the market value of the gold loaned.

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

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

The RBA's maximum credit risk exposure in relation to off-balance sheet items is:

1. *Foreign exchange swaps* – As at 30 June 2011, the RBA was under contract to purchase $0.2 billion of foreign currency ($4.9 billion at 30 June 2010) and sell $0.3 billion of foreign currency ($1.9 billion at 30 June 2010). As of that date there was a net unrealised gain of $4 million on these swap positions included in net profit ($26 million unrealised gain at 30 June 2010). The exposure of these contracts to credit risk is the cost of re-establishing the contract in the market if a counterparty fails to fulfill its obligations.
2. *Interest rate futures* – As at 30 June 2011, the amount of credit risk on interest rate futures contracts was approximately $1.4 million ($1.4 million at 30 June 2010). As at 30 June 2011 there was an unrealised loss brought to account on those contracts of $0.6 million ($0.5 million unrealised loss at 30 June 2010).

#### 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.

The RBA held no past due or impaired assets at 30 June 2011 or 30 June 2010.

| | Risk rating of security/issuer[1] | Risk rating of counterparties[1] | % of total assets | |
|---|---|---|---|---|
| | | | 2011 | 2010 |
| **Australian Dollar Securities** | | | | |
| Holdings – Commonwealth Government securities | AAA | n/a | 0.6 | 0.9 |
| Holdings – Semi Government securities | AAA | n/a | 4.3 | 3.8 |
| | AA | n/a | 5.9 | 1.0 |
| Securities sold under repurchase agreements | AAA | AA | 0.2 | 0.1 |
| | AAA | A | 0.2 | 0.2 |
| | AA | AA | 0.1 | – |
| Securities held under repurchase agreements | AAA | AA | 11.9 | 9.8 |
| | AAA | A | 7.4 | 10.0 |
| | AAA | BBB | 0.1 | 1.2 |
| | AAA | Other[3] | 0.3 | 0.8 |
| | AA | AA | 6.1 | 9.7 |
| | AA | A | 2.6 | 2.0 |
| | AA | BBB | – | 0.1 |
| | AA | Other[3] | 0.1 | 0.1 |
| | A | AA | 1.8 | 2.3 |
| | A | A | 0.5 | 0.1 |
| | A | BBB | 0.1 | – |
| | Other[2] | AA | – | 0.9 |
| **Foreign Investments** | | | | |
| Holdings of securities | AAA | n/a | 29.9 | 29.2 |
| | AA | n/a | 1.5 | 4.7 |
| | A | n/a | 0.5 | 0.5 |
| Securities sold under repurchase agreements | AAA | AA | 0.9 | 3.6 |
| | AAA | A | 0.8 | 0.9 |
| | AA | A | – | 0.1 |
| Securities held under repurchase agreements | AAA | AAA | 0.4 | – |
| | AAA | AA | 8.3 | 6.8 |
| | AAA | A | 5.5 | 2.8 |
| | AA | AA | – | 0.1 |
| | AA | A | 0.5 | 0.1 |
| Deposits | n/a | AAA | 1.7 | 0.4 |
| | n/a | AA | – | 1.2 |
| **Gold Loans** | n/a | AAA | 0.1 | 0.2 |
| **Other** | | | 7.7 | 6.4 |
| | | | 100 | 100 |

1 Standard & Poor's equivalent ratings.
2 This category includes Asset Backed Commercial Paper (ABCP), which does not have a long-term credit rating.
3 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 has the powers and operational wherewithal to 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 sale 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 which is less than its fair value. The RBA manages this risk by holding a diversified portfolio of highly liquid domestic and foreign assets.

The maturity analysis table (over page) is based on the RBA's contracted portfolio as reported in the RBA's balance sheet. All financial instruments are shown at their remaining term to maturity, which is equivalent to the repricing period. Other liabilities include amounts outstanding under sale 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 2011

| | Balance sheet total $M | Contracted maturity $M | | | | | No Specified Maturity $M | Weighted average coupon rate % | Weighted average effective rate % |
|---|---|---|---|---|---|---|---|---|---|
| | | On Demand | 0 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | | | |
| **Assets** | | | | | | | | | |
| **Gold** | | | | | | | | | |
| Gold loans | 46 | – | – | 46 | – | – | – | 0.30 | 0.30 |
| Gold holdings | 3 553 | – | – | – | – | – | 3 553 | n/a | n/a |
| | 3 599 | | | | | | | | |
| **Foreign exchange** | | | | | | | | | |
| Balances with central banks | 305 | 7 | 298 | – | – | – | – | 0.12 | 0.12 |
| Securities sold under repurchase agreements | 1 234 | – | – | 186 | 467 | 581 | – | 2.14 | 2.14 |
| Securities purchased under repurchase agreements | 10 797 | – | 10 797 | – | – | – | – | 0.45 | 0.45 |
| Other securities | 24 011 | – | 3 275 | 7 653 | 5 275 | 2 824 | 4 984 | 1.60 | 1.22 |
| Deposits with BIS | 1 261 | 2 | 1 258 | – | – | – | 1 | 0.06 | 0.06 |
| Accrued interest | 119 | – | 67 | 50 | 2 | – | – | n/a | n/a |
| | 37 727 | | | | | | | | |
| **Australian dollar securities** | | | | | | | | | |
| Securities sold under repurchase agreements | 404 | – | 41 | – | 156 | 207 | – | 6.55 | 5.29 |
| Securities purchased under repurchase agreements | 23 203 | – | 23 078 | 125 | – | – | – | 4.82 | 4.82 |
| Other securities | 8 111 | – | 3 247 | 1 721 | 1 961 | 1 182 | – | 5.47 | 4.99 |
| Accrued interest | 116 | – | 78 | 38 | – | – | – | n/a | n/a |
| | 31 834 | | | | | | | | |
| Property, plant & equipment | 454 | – | – | – | – | – | 454 | n/a | n/a |
| Cash and cash equivalents | 1 209 | – | 1 187 | – | – | – | 22 | 4.50 | 4.50 |
| Loans and advances | 6 | – | – | – | – | 6 | – | 3.91 | 3.91 |
| Other | 484 | – | 33 | – | – | – | 451 | n/a | n/a |
| **Total assets** | 75 313 | 9 | 43 359 | 9 819 | 7 861 | 4 800 | 9 465 | 2.79 | 2.61 |
| **Liabilities** | | | | | | | | | |
| Australian notes on issue | 50 059 | – | – | – | – | – | 50 059 | 0.23 | 0.23 |
| Deposits | 17 504 | 6 854 | 10 650 | – | – | – | – | 4.53 | 4.53 |
| Distribution payable to Australian Government | – | – | – | – | – | – | – | n/a | n/a |
| Other | 2 411 | – | 2 273 | – | – | – | 138 | 1.12 | 1.12 |
| **Total liabilities** | 69 974 | 6 854 | 12 923 | – | – | – | 50 197 | 1.34 | 1.34 |
| Capital and reserves | 5 339 | | | | | | | | |
| **Total balance sheet** | 75 313 | | | | | | | | |
| **Local Currency** | | | | | | | | | |
| Swaps | | | | | | | | | |
| Contractual outflow | (7) | – | (7) | – | – | – | – | n/a | n/a |
| Contractual inflow | 163 | – | 163 | – | – | – | – | n/a | n/a |
| | 156 | – | 156 | – | – | – | – | | |
| **Foreign Currency** | | | | | | | | | |
| Swaps | | | | | | | | | |
| Contractual outflow | (340) | – | (340) | – | – | – | – | n/a | n/a |
| Contractual inflow | 184 | – | 184 | – | – | – | – | n/a | n/a |
| | (156) | – | (156) | – | – | – | – | | |

## Maturity Analysis – As at 30 June 2010

| | Balance sheet total $M | Contracted maturity $M | | | | | No Specified Maturity $M | Weighted average coupon rate % | Weighted average effective rate % |
|---|---|---|---|---|---|---|---|---|---|
| | | On Demand | 0 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | | | |
| **Assets** | | | | | | | | | |
| **Gold** | | | | | | | | | |
| Gold loans | 141 | – | 47 | 47 | 47 | – | – | 0.27 | 0.28 |
| Gold holdings | 3 606 | – | – | – | – | – | 3 606 | n/a | n/a |
| | 3 747 | | | | | | | | |
| **Foreign exchange** | | | | | | | | | |
| Balances with central banks | 376 | 2 | 374 | – | – | – | – | 0.03 | 0.03 |
| Securities sold under repurchase agreements | 3 142 | – | 409 | 1 026 | 678 | 1 029 | – | 1.57 | 1.33 |
| Securities purchased under repurchase agreements | 8 348 | – | 8 348 | – | – | – | – | 0.19 | 0.19 |
| Other securities | 30 092 | – | 6 320 | 7 548 | 7 867 | 2 551 | 5 806 | 1.32 | 0.73 |
| Deposits | 997 | 3 | 993 | – | – | – | 1 | 0.31 | 0.31 |
| Accrued interest | 141 | – | 79 | 62 | – | – | – | n/a | n/a |
| | 43 096 | | | | | | | | |
| **Australian dollar securities** | | | | | | | | | |
| Securities sold under repurchase agreements | 248 | – | – | – | 130 | 118 | – | 6.52 | 5.27 |
| Securities purchased under repurchase agreements | 31 634 | – | 29 252 | 2 382 | – | – | – | 4.63 | 4.63 |
| Other securities | 4 889 | – | 1 245 | 866 | 1 198 | 1 580 | – | 5.57 | 4.96 |
| Accrued interest | 201 | – | 116 | 85 | – | – | – | n/a | n/a |
| | 36 972 | | | | | | | | |
| Property, plant & equipment | 449 | – | – | – | – | – | 449 | n/a | n/a |
| Cash and cash equivalents | 852 | – | 845 | – | – | – | 7 | 4.25 | 4.25 |
| Loans and advances | 7 | – | – | – | – | 7 | – | 3.68 | 3.68 |
| Other | 529 | – | 30 | – | – | – | 499 | n/a | n/a |
| **Total assets** | 85 652 | 5 | 48 058 | 12 016 | 9 920 | 5 285 | 10 368 | 2.63 | 2.38 |
| **Liabilities** | | | | | | | | | |
| Australian notes on issue | 48 759 | – | – | – | – | – | 48 759 | 0.23 | 0.23 |
| Deposits | 20 987 | 5 967 | 15 020 | – | – | – | – | 4.44 | 4.44 |
| Distribution payable to Australian Government | 750 | – | 750 | – | – | – | – | n/a | n/a |
| Other | 4 762 | – | 4 615 | – | – | – | 147 | 0.53 | 0.53 |
| **Total liabilities** | 75 258 | 5 967 | 20 385 | – | – | – | 48 906 | 1.42 | 1.42 |
| Capital and reserves | 10 394 | | | | | | | | |
| **Total balance sheet** | 85 652 | | | | | | | | |
| **Local Currency** | | | | | | | | | |
| Swaps | | | | | | | | | |
| Contractual outflow | (4 172) | – | (4 172) | – | – | – | – | n/a | n/a |
| Contractual inflow | 1 231 | – | 1 231 | – | – | – | – | n/a | n/a |
| | (2 941) | – | (2 941) | – | – | – | – | | |
| **Foreign Currency** | | | | | | | | | |
| Swaps | | | | | | | | | |
| Contractual outflow | (1 916) | | (1 916) | – | – | – | – | n/a | n/a |
| Contractual inflow | 4 857 | | 4 857 | – | – | – | – | n/a | n/a |
| | 2 941 | – | 2 941 | – | – | – | – | | |

## Fair Value of Financial Instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms' length transaction, and is usually determined by the quoted market price. The RBA's Australian dollar securities, foreign government securities, interest rate futures, foreign currency swap contracts and its shareholding in the Bank for International Settlements are carried in the balance sheet (and shown in this note) at fair value. The RBA's repurchase agreements, BIS deposits, cash and cash equivalents, notes on issue and deposit liabilities are carried in the balance sheet (and shown in this note) at face value, which is equivalent to their amortised cost using the effective interest method; this approximates fair value.

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

| | **2011 $M** | **2010 $M** |
|---|---|---|
| Assets accounted for under AASB 139 | | |
| At fair value through Profit or Loss | 33 366 | 38 071 |
| Loans and receivables | 37 487 | 43 025 |
| Available-for-sale | 302 | 328 |
| Assets accounted for under other standards | 4 158 | 4 228 |
| Total assets as at 30 June | 75 313 | 85 652 |
| Liabilities accounted for under AASB 139 | | |
| At fair value through Profit or Loss | 1 | 7 |
| Not at fair value through Profit or Loss | 69 842 | 75 104 |
| Liabilities accounted for under other standards | 131 | 147 |
| Total liabilities as at 30 June | 69 974 | 75 258 |

AASB 7 also requires that financial assets and liabilities measured at fair value be disclosed according to their position in the fair value hierarchy. This hierarchy has three levels for financial instruments valued at fair value: Level 1 is based on quoted prices in active markets for identical assets; Level 2 is based on quoted prices or other observable market data not included in Level 1; while Level 3 valuations are based on inputs other than observable market data.

| | Level One $M | Level Two $M | Level Three $M | Total $M |
|---|---|---|---|---|
| **As at 30 June 2011** | | | | |
| Assets at fair value through Profit or Loss | | | | |
| Domestic government securities | 4 927 | 3 587 | – | 8 514 |
| Foreign government securities | 22 370 | 2 477 | – | 24 847 |
| Foreign currency swap gains | – | 5 | – | 5 |
| Available for sale | | | | |
| Shares in international and other institutions | – | – | 302 | 302 |
| | 27 297 | 6 069 | 302 | 33 668 |
| Liabilities at fair value through Profit or Loss | | | | |
| Foreign currency swap losses | – | 1 | – | 1 |
| | – | 1 | – | 1 |
| **As at 30 June 2010** | | | | |
| Assets at fair value through Profit or Loss | | | | |
| Domestic government securities | 4 077 | 1 091 | – | 5 168 |
| Foreign government securities | 28 966 | 3 903 | – | 32 869 |
| Foreign currency swap gains | – | 34 | – | 34 |
| Available for sale | | | | |
| Shares in international and other institutions | – | – | 328 | 328 |
| | 33 043 | 5 028 | 328 | 38 399 |
| Liabilities at fair value through Profit or Loss | | | | |
| Foreign currency swap losses | – | 7 | – | 7 |
| | – | 7 | – | 7 |

## Note 16 – Subsequent Events

On 1 July 2011, charges were laid against Note Printing Australia Limited, a wholly owned subsidiary of the RBA, and Securency International Pty Ltd, in which the RBA holds a 50 per cent share. The charges, in summary, allege that between 1999 and 2003 the two companies and a number of individuals engaged in conspiracy to bribe foreign officials in Indonesia and Malaysia. In August 2011, a further two charges were laid against Securency for similar alleged conduct relating to Vietnam in the period between 2001 and 2004. A number of former employees of the companies, including two former chief executives, were also charged. The Australian Federal Police stated on 1 July 2011 that the charges against the companies are a result of alleged actions of former senior managers of the companies. In terms of AASB 137 – *Provisions, Contingent Liabilities and Contingent Assets*, the Bank has set aside certain provisions for the possible financial impact of the charges against NPA and Securency, based on information available at the time of preparing these accounts. Specific information relating to the charges and their financial consequences have not been disclosed in these accounts as the matters have not yet been finalised and are before the courts.

The Bank's foreign exchange holdings are invested mainly in securities issued by the governments of the United States, Germany, France, the Netherlands, Japan and Canada (see Note 15). In August 2011, Standard & Poor's lowered the long-term sovereign credit rating of the United States Government and related agencies' debt obligations from AAA to AA+. The value of these securities amounted to around 19 per cent of the Bank's foreign exchange holdings as at 30 June 2011. However, based on information currently available the credit downgrade has not had a material impact on the Bank's financial position.

There have been no other events since 30 June 2011 relevant to the financial statements.

Auditor-General for Australia

Australian National
Audit Office

**INDEPENDENT AUDITOR'S REPORT**

**To the Treasurer**

**Report on the Financial Statements**

I have audited the accompanying financial statements of the Reserve Bank of Australia and the controlled entities for the year ended 30 June 2011, which comprise: a Directors' Statement; Balance Sheet; Statement of Comprehensive Income; Statement of Distribution; Statements 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.

***Directors' Responsibility for the Financial Statements***

The directors of the Reserve Bank of Australia are responsible for the preparation of the financial statements that give a true and fair view in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997,* including the Australian Accounting Standards, and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error. In Note 1, the directors also state that the financial statements comply with *International Financial Reporting Standards.*

***Auditor's Responsibility***

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate 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.

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 of the financial statements that give a true and fair view 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 Reserve Bank of Australia's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

GPO Box 707 CANBERRA ACT 2601
19 National Circuit BARTON ACT
Phone (02) 6203 7500 Fax (02) 6273 5355
Email ian.mcphee@anao.gov.au

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 and the controlled entities:

(a) have been prepared in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997,* including the Australian Accounting Standards;

(b) give a true and fair view of the matters required by the Finance Minister's Orders including the Reserve Bank of Australia's and the controlled entities financial position as at 30 June 2011 and of their financial performance and cash flows for the year then ended; and

(c) comply with *International Financial Reporting Standards* as disclosed in Note 1.

Australian National Audit Office

Ian McPhee
Auditor-General

Canberra
25 August 2011

# Pro Forma Business Accounts

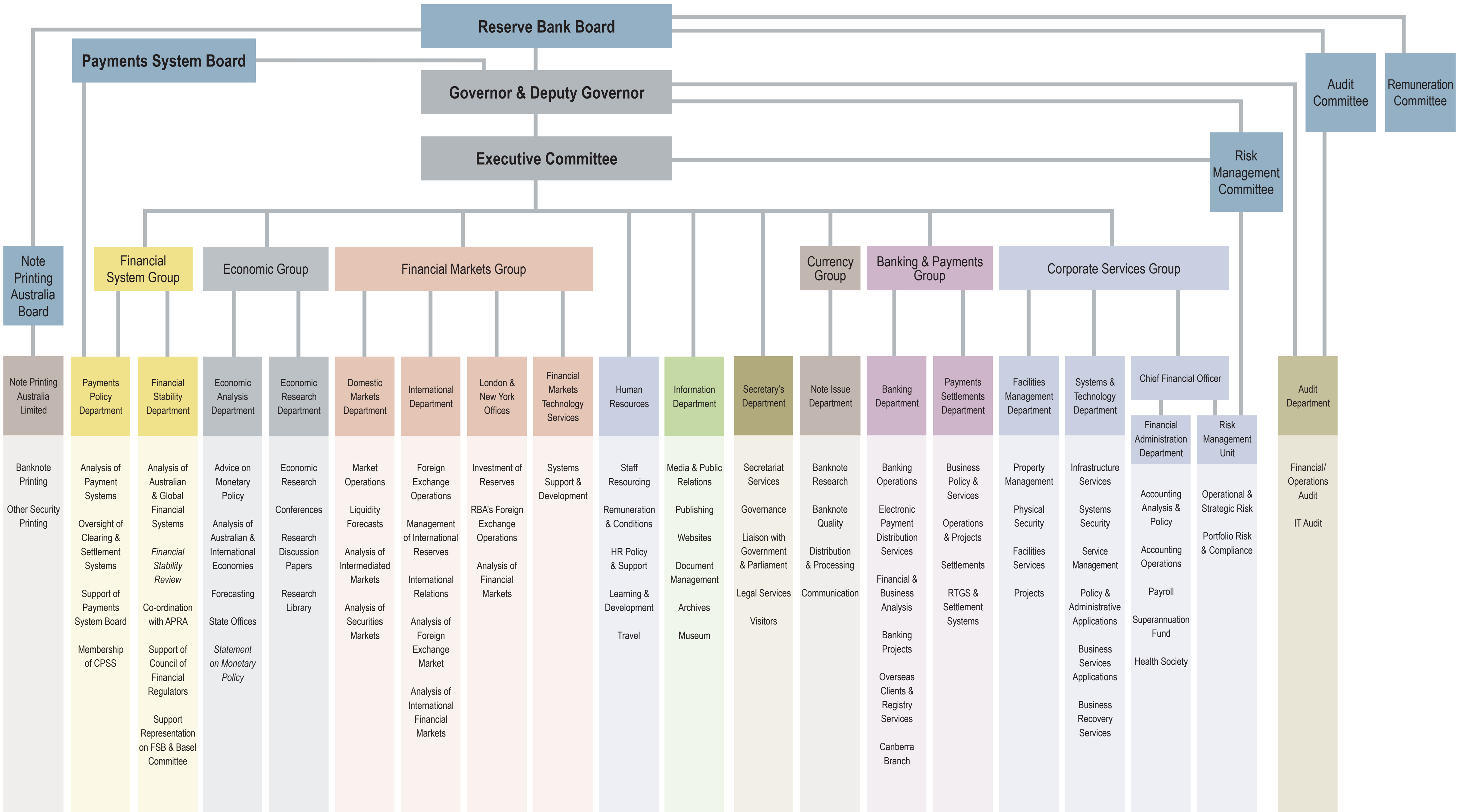
The following sets of accounts for each of the Reserve Bank's contestable businesses have been prepared in accordance with competitive neutrality guidelines. These accounts do not form part of the audited financial statements.

| | Transactional Banking | | Registry | |
|---|---|---|---|---|
| | 2009/10<br>$ million | 2010/11<br>$ million | 2009/10<br>$ million | 2010/11<br>$ million |
| Revenue | | | | |
| – Service fees | 17.8 | 18.0 | 0.5 | 0.5 |
| – Other revenue | 4.2 | 5.8 | 0.1 | 0.1 |
| Total | 22.0 | 23.8 | 0.6 | 0.6 |
| | | | | |
| Expenditure | | | | |
| – Direct costs | 14.1 | 14.5 | 0.3 | 0.3 |
| – Indirect costs | 2.4 | 2.3 | 0.1 | 0.1 |
| Total | 16.5 | 16.8 | 0.4 | 0.4 |
| | | | | |
| Net profit/(loss) | 5.5 | 7.0 | 0.2 | 0.2 |
| Net profit/(loss) after taxes[a] | 3.8 | 4.8 | 0.1 | 0.2 |
| | | | | |
| Assets[b] | | | | |
| – Domestic markets investments | 508.8 | 743.4 | 1.3 | 1.2 |
| – Other assets | 8.9 | 10.0 | 0.1 | 0.1 |
| Total | 517.7 | 753.4 | 1.4 | 1.3 |
| | | | | |
| Liabilities[b] | | | | |
| – Capital & reserves | 25.0 | 25.0 | 1.0 | 1.0 |
| – Deposits | 485.4 | 721.5 | | |
| – Other liabilities | 7.3 | 6.9 | 0.4 | 0.3 |
| Total | 517.7 | 753.4 | 1.4 | 1.3 |

(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.

# Organisational Chart

## August 2011



# Executives of the Reserve Bank

## August 2011

| | |
|---|---|
| Governor: | Glenn Stevens |
| Deputy Governor: | Ric Battellino |

## Economic Group

| | |
|---|---|
| Assistant Governor: | Philip Lowe |

### Economic Analysis Department

| | |
|---|---|
| Head: | Tony Richards |
| Deputy Heads: | Ellis Connolly |
| | Marion Kohler |
| Head of Regional and Industry Analysis: | David Orsmond |

### Economic Research Department

| | |
|---|---|
| Head: | Jonathan Kearns |
| Deputy Head: | Michael Plumb |

## Financial Markets Group

| | |
|---|---|
| Assistant Governor: | Guy Debelle |

### Domestic Markets Department

| | |
|---|---|
| Head: | Chris Aylmer |
| Deputy Head: | Alexandra Heath |

### International Department

| | |
|---|---|
| Head: | Chris Ryan |
| Deputy Heads: | James Holloway |
| | James Whitelaw |

## Financial System Group

| | |
|---|---|
| Assistant Governor: | Malcolm Edey |

### Financial Stability Department

| | |
|---|---|
| Head: | Luci Ellis |
| Deputy Head: | Christopher Thompson |

### Payments Policy Department

| | |
|---|---|
| Head: | Christopher Kent |
| Deputy Head: | Darren Flood |

## Banking and Payments Group

| | |
|---|---|
| Assistant Governor: | Keith Hall |

### Banking Department

| | |
|---|---|
| Head: | Lindsay Boulton |
| Deputy Head: | Stephanie Connors |

### Payments Settlements Department

| | |
|---|---|
| Head: | Nola McMillan |
| Deputy Head: | Peter Gallagher |

## Currency Group

| | |
|---|---|
| Assistant Governor: | Michele Bullock |

### Note Issue Department

| | |
|---|---|
| Head: | Michael Andersen |
| Deputy Head: | Keith Drayton |

## Corporate Services Group

| | |
|---|---|
| Assistant Governor: | Frank Campbell |

### Financial Administration Department

| | |
|---|---|
| Chief Financial Officer: | Darryl Ross |
| Chief Manager: | Michael Davies |

### Facilities Management Department

| | |
|---|---|
| Head: | Richard Mayes |

### Systems & Technology Department

| | |
|---|---|
| Chief Information Officer: | Michael Hogan |
| Chief Manager: | Peter Speranza |

### Risk Management Unit

| | |
|---|---|
| Head: | Michelle McPhee |

## Secretary's Department

| | |
|---|---|
| Secretary: | Anthony Dickman |
| Deputy Secretary: | Peter Stebbing |
| General Counsel: | Catherine Parr |

## Audit Department

| | |
|---|---|
| Head: | John Veale |

## Information Department

| | |
|---|---|
| Head: | Jacqui Dwyer |

## Human Resources

| | |
|---|---|
| Head: | Melissa Hope |

# Contact Details

## Head Office

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Internet: www.rba.gov.au
Email: rbainfo@rba.gov.au

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Fax: (02) 6201 4875

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Fax: (07) 3002 6110

### South Australia

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Adelaide SA 5000
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Fax: (08) 8113 3510

### Victoria

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Melbourne VIC 3000
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Fax: (03) 9270 8610

### Western Australia

Senior Representative: Virginia Christie
Level 2, 45 St Georges Terrace
Perth WA 6000
Telephone: (08) 9323 3200
Fax: (08) 9323 3210

## Overseas Offices

### Europe

Chief Representative: Bob Rankin
Deputy Chief Representative: Jon Cheshire
7 Moorgate
London EC2R 6AQ
Telephone: 44 20 7600 2244
Fax: 44 20 7710 3500

### New York

Chief Representative: Greg Johnston
Deputy Chief Representative: Sam Tomaras
505 Fifth Avenue
New York NY 10017
Telephone: 1 212 566 8466
Fax: 1 212 566 8501

## Note Printing Australia Limited

Chief Executive Officer: Bernhard Imbach
1–9 Potter Street
Craigieburn VIC 3064
Telephone: (03) 9303 0444
Fax: (03) 9303 0491

# Glossary

| | |
|---|---|
| ACC | Asian Consultative Council |
| ADI | authorised deposit-taking institution |
| AIFRS | Australian equivalents to International Financial Reporting Standards |
| AOFM | Australian Office of Financial Management |
| APRA | Australian Prudential Regulation Authority |
| ATSI | Aboriginal and Torres Strait Islander |
| BCBS | Basel Committee on Banking Supervision |
| BI | Bank Indonesia |
| BIS | Bank for International Settlements |
| CAC Act | *Commonwealth Authorities and Companies Act 1997* |
| CGFS | Committee on the Global Financial System (of the BIS) |
| CGS | Commonwealth Government securities |
| CLS | continuous linked settlement |
| COIN | Community of Interest Network |
| CPSS | Committee on Payment and Settlement Systems (of the BIS) |
| EMEAP | Executives' Meeting of East Asia-Pacific Central Banks |
| EMS | Environmental Management System |
| ES | exchange settlement |
| ESA | Exchange Settlement Account |
| FOI | Freedom of Information |
| FSB | Financial Stability Board |
| G-20 | Group of Twenty |
| G-SIFI | global SIFI |
| GHOS | Group of Governors and Heads of Supervision |
| GPF | Government Partnership Fund (with Indonesia) |
| IMF | International Monetary Fund |
| IOSCO | International Organization of Securities Commissions |
| IPS | Information Publication Scheme |
| LVCS | Low Value Clearing Service |
| LVF | Low Value Feeder |
| LVSS | Low Value Settlement Service |
| MFSC | Monetary and Financial Stability Committee (of EMEAP) |
| NAB | New Arrangements to Borrow |
| NNPDC | National Note Processing and Distribution Centre |
| NPA | Note Printing Australia Limited |
| OECD | Organisation for Economic Co-operation and Development |
| OPA | Official Public Accounts |
| OTC | over-the-counter (derivatives) |
| PAIF | Pan Asian Index Bond Fund |
| PFTAC | Pacific Financial Technical Assistance Centre |
| RBA | Reserve Bank of Australia |
| RBRF | Reserve Bank Reserve Fund |
| RDP | Research Discussion Paper |
| repo | repurchase agreement |
| RITS | Reserve Bank Information and Transfer System |
| RMBS | residential mortgage-backed securities |
| RMU | Risk Management Unit |
| RSS | Really Simple Syndication |
| RTGS | real-time gross settlement |
| SDR | Special Drawing Right |
| SIFI | systemically important financial institution |
| SWIFT | Society for Worldwide Interbank Financial Telecommunication |

RESERVE BANK OF AUSTRALIA