

THE RESERVE BANK BOARD AND GOVERNANCE

THE ROLE OF THE RESERVE BANK BOARD

The *Reserve Bank Act* provides the core source of the RBA's governance mandate with Sections 8A and 10 giving the Reserve Bank Board clear responsibility for the Bank's "monetary and banking policy". The relationship of the Board with the government-of-the-day is set out in Section 11. Routinely, the "Government is to be informed, from time to time, of the Bank's monetary and banking policy". In practice this is done in the regular monthly meetings which the Governor and Deputy Governor have with the Treasurer shortly after each Board meeting.

While the Act itself has not been changed with respect to the mandate for monetary policy, procedures and practices have augmented this over time, in order to keep the RBA's policy-making process relevant to the evolving environment, and in parallel with developments overseas. When the current Government came to power in 1996, the responsible Minister, the Treasurer, and the Governor jointly signed the "Statement on the Conduct of Monetary Policy", which confirmed the RBA's independence in making monetary policy, and endorsed the Bank's inflation target. The higher profile of the RBA's regular appearances before the House of Representatives Standing Committee on Economics, Finance and Public Administration, and the *Semi-Annual Statements on Monetary Policy*, have reinforced this process.

When the Australian Prudential Regulation Authority was established, the RBA's role as prudential supervisor passed to it. The RBA

retained responsibility for overall financial system stability - the Treasurer's statement in Parliament of 2 September 1997 confirmed that the RBA, in addition to monetary policy, was responsible for overall financial system stability and regulation of the payments system.

The main focus of discussions at the Board's meetings each month is on monetary policy. This discussion occurs against the background of papers prepared by RBA staff about developments in the domestic and foreign economies, and in financial markets. These papers are supplemented by staff presentations at each Board meeting. During the past year the Board did not have a need to consider major policy issues relating to overall financial system stability, though it was briefed on the RBA's planning for Y2K; see reference in "Governor's Foreword".

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

COMPOSITION OF THE RESERVE BANK BOARD

The Board comprises the Governor, who is Chairman, the Deputy Governor, the Secretary to the Treasury and six external members, appointed by the Governor-General - a total of nine. Five members form a quorum for a meeting of the Board.

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

**MEETINGS OF THE RESERVE BANK BOARD**

The Board meets eleven times each year, on the first Tuesday of each month, except January. The number of meetings attended by each member in 1999/2000 was:

IJ Macfarlane	11
SA Grenville	10
EA Evans	11
JR Broadbent	10
AR Jackson	11
FP Lowy	9
HM Morgan	9
AR Pagan	11
RFE Warburton	10

AUDIT COMMITTEE

The primary objectives of the Audit Committee are to:

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

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

The Audit Committee is made up of Stephen Grenville, Deputy Governor (Chairman), a non-executive member of the Board, Jillian Broadbent, and an external appointed member, George Bennett, company director and former

National Executive Chairman, KPMG Peat Marwick. During 1999/2000, the Committee met on four occasions; all members attended each of these meetings. In addition, the Committee visited NPA where it was briefed on NPA's Risk Management Plan.

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

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

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

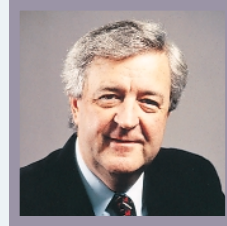
The RBA is a Commonwealth authority for the purposes of the *CAC Act* and, for these purposes, the members of the Reserve Bank Board are the directors of the RBA. As such, they are responsible for the preparation of the RBA's Annual Report and, at the meeting of the Board on 1 August 2000, they resolved that the Chairman sign the Report, and the Financial Statements as at 30 June 2000, transmit them in accordance with the requirements of the *CAC Act* and arrange publication.

The House of Representatives Standing Committee on Economics, Finance and Public Administration has, in its Standing Orders, an obligation to review the Annual Report of the RBA. On 13 March 2000, the Committee tabled in the Parliament its interim report on the Annual Report for 1998/99, and on the 29 November 1999 public hearing with the RBA and the associated November 1999 *Semi-Annual Statement on Monetary Policy*. On 26 June 2000, the Committee tabled its final report on the RBA's Annual Report for 1998/99, the first Annual Report of the Payments System Board, the May 2000 *Semi-Annual Statement on Monetary Policy*, and on the Committee's discussion of these reports at the public hearing with the RBA on 22 May 2000.

INDEMNITIES

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

RESERVE BANK BOARD



CHAIRMAN : I J MACFARLANE

Governor since 18 September 1996

PRESENT TERM EXPIRES 17 SEPTEMBER 2003

Chairman – Payments System Board

Board member – Australian Prudential Regulation Authority



S A GRENVILLE

Deputy Governor since 1 December 1996

PRESENT TERM EXPIRES 30 NOVEMBER 2001



E A EVANS, AC

Secretary to the Treasury

Member since 10 May 1993



J R BROADBENT

Member since 7 May 1998
PRESENT TERM EXPIRES 6 MAY 2003

Director – Coca Cola Amatil Limited
Director – Woodside Petroleum Limited



H M MORGAN, AO

Member since 14 August 1996
PRESENT TERM EXPIRES 28 JULY 2002

Managing Director and Chief Executive – WMC Limited
Director – Alcoa Inc



A R JACKSON, AO

Member since 29 January 1991
PRESENT TERM EXPIRES 28 JANUARY 2001

Chairman and Chief Executive – Austrim Nylex Limited
Chairman – Australian Trade Commission (Austrade)
Director – St Frances Xavier Cabrini Hospital
Director – Seven Network Limited
Director – Titan Petrochemicals and Polymers Berhad - Malaysia



A R PAGAN

Member since 29 November 1995
PRESENT TERM EXPIRES 28 NOVEMBER 2000

Professor of Economics – Research School of Social Sciences,
Australian National University



F P LOWY, AC

Member since 27 June 1995
PRESENT TERM EXPIRES 26 JUNE 2003

Chairman – Westfield Holdings Limited
Director – Daily Mail and General Trust PLC (UK)



R F E WARBURTON

Member since 22 December 1992
PRESENT TERM EXPIRES 21 DECEMBER 2002

Chairman – David Jones Limited
Chairman – Goldfields Limited
Director – Caltex Australia Limited
Director – IAMA Limited
Director – Note Printing Australia Limited
Director – Nufarm Limited
Director – Southcorp Limited
Director – Tabcorp Holdings Limited